

The implication of board diversity on the ‘S’ of ESG: insight from the Italian Listed companies

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ABSTRACT: The study aims to examine the influence of cultural and gender diversity within the Board of Directors (BoD) on the social performance of ESG disclosure, with a particular focus on a selected sample of Italian listed companies. The study aims to fill the gap in the literature on the role of BoD diversity on environmental, social and governance (ESG) performance in the Italian corporate governance context. Drawing on resource dependence theory and human capital theory, the research examines whether gender and cultural diversity within the board positively affect the social dimension of ESG disclosure. This social dimension includes employee relations, human rights and community responsibility. The study uses a quantitative methodology, analysing data from Italian listed companies from 2021 to 2023. Secondary data was collected from annual reports and the Thomson Reuters Eikon™ database, focusing on gender diversity (measured by the percentage of female directors) and cultural diversity (measured by the percentage of foreign directors). The social aspect of ESG performance, which serves as the dependent variable, is assessed using social scores provided by the same database. The study uses regression analysis to examine the relationship between board diversity and social ESG performance, controlling for company size, leverage and profitability. The results show that board gender diversity has a positive effect on social performance, supporting the hypothesis that female directors contribute to improved corporate social responsibility. Conversely, the study reveals no notable correlation between cultural diversity and social performance. This indicates that the mere presence of foreign directors does not inherently enhance a firm's social outcomes. Moreover, larger firms tend to exhibit superior performance in the social domain, whereas leverage and profitability do not demonstrate a significant impact on ESG performance. This research corroborates the positive impact of gender diversity on social performance, thereby reinforcing the importance of gender quotas and diversity initiatives in corporate governance. However, the study prompts further investigation into the direct impact of cultural diversity, suggesting that additional research is necessary to ascertain the circumstances under which cultural diversity may positively influence social performance. The originality of this contribution lies in its focus on the Italian context, which has hitherto been the subject of limited academic exploration regarding the relationship between BoD diversity and ESG performance. The findings offer valuable insights for policymakers and companies seeking to enhance their social responsibility through board composition.

KEYWORDS: Board diversity; ESG disclosure; Corporate Social Responsibility; Gender diversity; Cultural diversity; Social performance
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1. Introduction

Firms and investors are increasingly recognizing the importance of responsible business practices, sustainable economic development, and long-term value creation through corporate social initiatives. Consequently, companies strive to uphold health and safety standards, respect human rights, ensure fair labour practices, promote workplace diversity, provide fair compensation, support community welfare, engage in fair trade, and prioritize product sustainability. These elements of Corporate Social Responsibility (CSR) are crucial for the overall growth and well-being of firms, leading to higher job satisfaction, productivity, reduced turnover, competitive advantage, improved reputation, financial returns, greater creativity, regulatory compliance, customer trust, and minimized free rider problems.

One approach to assessing a company's behaviour in this area is through the social dimension of Environmental, Social, and Governance (ESG) disclosure. The Social score measures the following four main categories: workforce, human rights, community, and product responsibility (THOMSON REUTERS EIKON, 2017). In particular, in this study, we

use as metrics the data available in Eikon related to how firms are addressing their social responsibilities in terms of workforce relations and engagement, fair wages, human rights, philanthropic activities, consumer safety, employee training and development initiatives, diversity policies, health and safety practices, and ethical trading standards (GALBREATH, 2012). This comprehensive set of ESG disclosures allows firms to showcase their contributions to employment relationships, workforce policies, processes, outputs, and outcomes (WORLD ECONOMIC FORUM, 2020; UNPRI, 2022).

Corporate governance significantly influences CSR activities (DE VILLIERS ET AL., 2011; KOCK ET AL., 2012; MICHELON AND PARBONETTI, 2012; DWEKAT ET AL., 2022), through a strategic "inside-out" approach (DIENES ET AL., 2016; CAMBREA ET AL., 2023). In particular, the presence of diversity in corporate governance may play a pivotal role in shaping policies on social and sustainable issues (GLASS ET AL., 2016; NADEEM ET AL., 2017; ORAZALIN, 2020; TIBILETTI ET AL., 2021). Given this context, a significant body of literature has emerged to identify factors influencing the social aspects of ESG reporting, often focusing on the relationship between corporate financial performance and social scores (WANG AND SARKIS, 2017; DUQUE-GRISALES AND AGUILERA-CARACUEL, 2021; CONCA ET AL., 2021). Academic research supports the argument that disclosure of human capital and ESG factors can lead to enhanced corporate performance and long-term value creation (GAMERSCHLAG, 2013; LAGASIO AND CUCARI, 2019; TENUTA AND CAMBREA, 2023). Contextually, existing empirical research indicates that Board of Directors (BoD) diversity enhances governance (POST AND BYRON, 2015; REGUERA-ALVARADO ET AL., 2017) and ESG disclosure levels (MACCHIONI ET AL., 2017; QURESHI ET AL., 2020; NICOLÒ ET AL., 2021; ALKHAWAJA ET AL., 2023). However, studies on the impact of BoD diversity on social performance yield mixed results (RAO AND TILT, 2016), with some studies highlighting a positive correlation and others indicating little, no association, or even a negative impact (CUCARI ET AL., 2018; MANITA ET AL., 2018). According to Resource Dependence Theory (RDT) and Human Capital Theory (HCT), firms with more diverse boards are likely to have higher Corporate Social Performance (CSP), safeguarding good corporate governance and reputation (HAYNES AND HILLMAN, 2010; BOOTH-BELL, 2018). Contextually, Social Identity Theory (SIT) provides a complementary psychological and behavioural explanation for the relationship between board diversity and CSP, underscoring the dual opportunities and challenges of leveraging board diversity for effective governance.

Drawing on these theories, this research aims to investigate whether BoD gender and cultural diversity influence the social components of ESG disclosure focusing on a selected sample of Italian listed companies, included in the FTSE MIB index.

Regarding board gender diversity, the percentage of women employed is used as a measure. Similarly, in the context of cultural diversity, the percentage of foreigners on the board is used as the indicator. About the latter, the literature frequently refers to this variable as nationality diversity (ESTÉLYI AND NISAR, 2016; RUIGROK ET AL., 2007). In our work, however, it is defined as cultural diversity.

Examining the effects of BoD diversity on firms' ESG performance is particularly relevant in Italy due to the limited academic and empirical literature on the topic. Furthermore, the Italian corporate governance context is particularly interesting in testing the effects of the existing BoD diversity rationales since various policies have been adopted in this area. Hence, this study aims to fill this gap and explore board compositions that could enhance CSP by examining the effects of BoD gender and cultural diversity on the social aspects of ESG performance.

Specifically, this research aims to provide the answers to the following questions:

- Does BoD gender diversity impact social aspects of ESG performance?
- Does BoD cultural diversity impact social aspects of ESG performance?

The results of this research provide insight into the grey area of the literature strand on the relationship between BoD diversity and ESG and bring incentives for tightening regulations for firms' social activities. The study contributes to the literature and the policy debate on BoD diversity. Our results show that BoD gender diversity positively impacts social performance among Italian firms, supporting the literature that highlights the benefits of female directors for CSR (ADAMS ET AL., 2011; MATSA AND MILLER, 2013). Furthermore, this study reinforces the regulatory efforts, affirming the effectiveness of gender diversity initiatives and quotas (TERJESEN ET AL., 2015). However, the study does not find a significant link between BoD cultural diversity and social performance, suggesting that simply having foreign directors does not necessarily enhance CSR outcomes (KATMON ET AL., 2017; MARTÍNEZ-FERRERO ET AL., 2021). The research also confirms that larger firms tend to perform better socially, and it highlights potential trade-offs between profitability and social responsibility (CHERUIYOT AND MARU, 2014; SANAD ET AL., 2022). Overall, the study reinforces the value of gender diversity in improving social performance while questioning the direct impact of cultural diversity, indicating areas for future research on integrating diverse perspectives effectively.

The study will be organized as follows. Section 2 analyses the corporate governance issues in the Italian context. Section 3 reviews the theoretical and empirical literature on BoD diversity and ESG social performance to form the study hypotheses. Section 4 outlines the research design and methodology, including sample construction and regression analysis. The paper, currently a work in progress, concludes with a summary of the main expected contributions and limitations.

2. Corporate governance issues in the Italian context

In the Italian corporate governance context, diversity is increasingly being recognized as a crucial element for effective board composition and corporate performance. The Italian Corporate Governance Code (Codice di Autodisciplina) provides guidelines and recommendations for listed companies to ensure transparency, accountability, and fairness in their corporate governance practices (COMITATO PER LA CORPORATE GOVERNANCE, 2020).

Since its release, the Code has placed greater emphasis on the importance of diversity within corporate boards as a mechanism for enhancing board effectiveness and decision-making processes (CUCARI ET AL., 2018; TIBILETTI ET AL., 2021).

The most recent edition of the Code (Comitato per la Corporate Governance, 2020) promotes even greater transparency and accountability in corporate governance, requiring companies to disclose information about the composition of their workforce, including data on gender diversity, as well as any initiatives aimed at promoting diversity and inclusion within the organization. Specifically, the new Code sets 'sustainable success' as the primary goal of the governance board, formalizing and securing the incorporation of sustainability issues in strategy, remuneration policy and risk and control system (ASSONIME, 2023).

By encouraging a top-down sustainable commitment, these provisions aim not only to enhance the ability of investors and stakeholders to assess the company's performance but

also encourage the adoption of more inclusive and diverse human capital-related practices, which have been shown to contribute to improved corporate performance and long-term sustainability (BIANCHI ET AL., 2011; D'ONZA ET AL., 2014). The adherence to the Code by Italian companies is to be evaluated positively overall. As of the end of 2022, 95% of Italian companies with shares in the EXM have declared formally to adhere to the new Corporate Governance Code (COMITATO PER LA CORPORATE GOVERNANCE, 2023).

Furthermore, Italy was one of the first EU countries that introduced mandatory gender quotas for the BoD of listed firms (SEIERSTAD ET AL., 2017; SLOMKA-GOLEBIEWSKA ET AL., 2023), anticipating the regulation on corporate gender equality in Europe (Directive EU 2022/2381). As a result of the application of the one-thirds gender quota of the body envisaged by Law 120/2011, known as the Golfo-Mosca Law, most Italian listed companies are above the EU average for female presence on BoD (DELOITTE, 2022). Even more profound changes are expected with the entry into force of Law No. 160/2019, which proposed to increase the quota reserved for the less represented gender from 1/3 to 2/5.

In addition to diversity-related provisions, there is a growing trend among Italian listed companies to disclose information on ESG factors (MIO ET AL., 2015; SANTAMARIA ET AL., 2021). Such disclosures enable companies to showcase their commitment to responsible business practices and their contributions to society and the environment.

Certainly, the introduction of Directive 2014/95/EU has been an opportunity for Italian companies to improve both quantitative and qualitative characteristics of non-financial information (KORCA ET AL., 2021; PIEDEPALUMBO ET AL., 2024). The mandatory disclosure requirements introduced by the EU Directive fostered major convergence on diverse sustainability matters and helped to overcome the criticisms of the voluntary nature of Corporate Social Disclosure (CSD). The Directive required listed companies to disclose specific information on environmental and social themes, including employee engagement, working conditions, human rights, active and passive corruption, and diversity policies. Considering the new European Corporate Sustainability Reporting Directive (CSRD), the societal aspect of sustainability will play a pivotal role in ESG disclosures. As part of the CSRD, companies are now required to showcase their commitments to diversity, equity and inclusion as well as measure their social performance (BARTOLINI, 2023). The diversity policy refers to the representation of the company's management or supervisory bodies in terms of gender, age, or education and includes an indication of the objectives, the manner of implementation, and the results achieved by the diversity policy during the reporting period. Inclusion goes beyond diversity indicators, fostering a corporate culture that embraces and respects everyone's unique perspectives and experiences. In this regard, the CSRD framework represents a significant advancement in the realm of corporate social reporting, as it adopts a more comprehensive approach to the promotion of diversity and inclusion within business organisations.

Overall, these trends aim to foster a culture of ethical and inclusive corporate governance that benefits both companies and society. Nevertheless, rules and stakeholders' pressures may not be enough to remove blocking or distortive factors in organisational ladders and promote meaningful diversity in corporate governance (DE VITA AND MAGLIOCCO, 2018; GHIO ET AL., 2024). Some studies have investigated the effects of the compulsory introduction of gender diversity in the BoD of listed companies in Italy, with the results demonstrating a lack of consensus (RUBINO ET AL., 2016; TENUTA ET AL., 2018).

In general, as Paoloni et al. (2020) have observed, an analysis of the Italian context is a worthwhile pursuit. This is because the financial and CSR performance of a company is

contingent upon the strategy that is defined by its top management. Consequently, in a context such as the Italian one, which presents a substantial coincidence between ownership and BoD, it is beneficial to examine the mechanisms of BoD to ascertain how and to what extent board members influence company performance, particularly in the context of social performance.

3. Literature review and Hypotheses development

Firms are increasingly focusing on implementing socially responsible policies to strengthen relationships with people and the community, including workplace safety, fair wages, non-discrimination, the right to unionize, and protection from exploitative labour practices (EQUALITY AND HUMAN RIGHTS COMMISSION, 2014). CSP plays a significant role in firms' success and the environment and people are key to corporate success (PFEFFER AND VEIGA 1999). CSP is defined as context-specific organizational actions and policies that consider stakeholders' expectations and the triple bottom line of economic, social, and environmental performance (AGUINIS 2011). Agolla and Ongori (2007) illustrated the benefits of managing diversity for marketing and economic opportunities. Addressing legal concerns regarding equality and human rights is essential to avoid non-compliance and maintain reputation (CHERUIYOT AND MARU, 2014). Rane (2011) highlighted that a pleasant work environment and effective occupational health and safety programs can enhance employee satisfaction and productivity. Ballot et al. (2006) and De Grip and Sauermann (2012) suggested that investing in employee training increases competencies and innovation. Varma (2017) emphasized competitive employee policies to avoid adverse effects like job dissatisfaction and mediocre performance. Robert and Mori (2024), for the status of employee skills, identify three skill variables – interpersonal communication, technical and work ethics – believing that only technical skills fully mediated the training effect on firm performance. Sustainability-oriented business models attract investors and customers by expanding the scope of value propositions and considering the long-term impact on stakeholders, leading to increased revenues and profitability (KIRON ET AL., 2013; DEMBEK AND YORK, 2019). ESG reporting helps reduce information asymmetries, enhance profitability, and minimize market risks (ALBITAR ET AL., 2020; RAIMO ET AL., 2021; REBER ET AL., 2021). A high ESG rating enhances employee satisfaction, strengthens brand reputation, and attracts investors (VITALIANO, 2010; OPOKU-DAKWA ET AL., 2018). Consequently, companies focus on establishing corporate social goals and maintaining social governance in all activities (LIN-HI AND MULLER, 2013). Management must communicate these principles in public reports and undergo audits to support ongoing improvements (KHAN ET AL., 2020).

3.1. Theoretical framework of BoD gender and cultural diversity

In the literature, some studies analyse the interaction between gender diversity on the BoD, cultural factors and results related to accounting, such as risk-taking, corporate performance and CSD. Lewellyn and Muller-Kahle (2020) provide a comprehensive study on how national cultural forces interact with female economic and political empowerment to influence gender diversity on corporate boards. Cultural factors, such as BoD diversity in terms of age, tenure, educational level, professional membership, and functional background, have been shown to influence corporate outcomes. Peng et al. (2021) support the

positive effect of BoD gender diversity on CSR disclosure, particularly in multinational corporations, and emphasize the role of BoD diversity in stakeholder management and CSR decision-making effectiveness. Mohsni et al. (2021) further examine the moderating effects of culture on the relationship between BoD gender diversity and corporate risk-taking, as well as firm performance, emphasising the influence of cultural dimensions such as masculinity, individualism, and long-term orientation. Beji et al. (2021) explore how the characteristics of a board can impact CSR performance, with a focus on different dimensions. The results show that diversity in BoD, including gender, age, and nationality, can have a positive influence on CSR performance in various areas in French companies. The studies of Yilmaz et al. (2021; 2023) shed light on the positive influence of BoD cultural and gender diversity on CSP of companies from emerging economies. Authors suggest that BoD cultural diversity plays a significant role in enhancing workforce engagement. Colakoglu et al. (2021) explore the relationship between BoD diversity and CSR performance, with a focus on the impact of gender diversity and the education level of female board members in Turkish companies. Boukattaya et al. (2022) examine the mediating effect of corporate social practices on the relationship between BoD gender diversity and financial performance. This is a topic of interest to accounting literature, as it relates to firm performance. Gavana et al. (2023) provide several key results regarding the relationship between BoD diversity and CSP in family firms, it underscored the complex interplay between board composition, institutional factors, and business environment characteristics in influencing CSP in family firms. Bussoli et al. (2023) explore the relationship between banks' board diversity, specifically age and gender characteristics, and their social performance. The findings suggest that a diverse board can positively impact a bank's social performance, leading to more sustainable business practices.

Considering this brief review, considering a gap in the literature on Italian companies and the regulatory changes noted in the previous section, our study aims to explore the relationship between BoD diversity and CSP in Italian-listed firms, focusing on RDT, HCTs and SIT. RDT emphasizes the role of boards in providing access to essential resources for company growth (PFEFFER AND SALANCIK, 2015). Diverse boards, comprising members with varied expertise, are believed to optimize board functioning and enhance decision-making (DAILY ET AL., 1999; HILLMAN ET AL., 2009). Research suggests that cultural and gender diversity leads to a broader pool of information and better decision-making (CARTER ET AL., 2010). Women and foreign-born directors bring unique perspectives, contributing to better social and environmental performance (HILLMAN ET AL., 2002; FURLOTTI ET AL., 2019; ARORA, 2022).

HCT focuses on how individual directors' knowledge and skills contribute to the entity. Boards with diverse compositions are more likely to engage in fruitful discussions and produce better recommendations, improving efficiency (CARTER ET AL., 2010). Female directors, for example, tend to bring different perspectives on risk and sustainable investments, leading to better governance and social performance (MATSU AND MILLER, 2013). Similarly, foreign-born directors offer valuable insights into international markets, enhancing performance and reputation (OXELHEIM AND RANDØY, 2003). Overall, findings suggest that BoD diversity positively impacts CSP and value. While RDT and HCT emphasize the material benefits of diversity (resources and skills), SIT helps to explain the psychological and social mechanisms through which diversity may foster better governance and decision-making. SIT posits that individuals' values are formed in part by the groups to which the individuals perceive themselves as belonging (TAJFEL, 1978; LAU AND MURNIGHAN, 1998).

Therefore, a board's collective view of business ethics and social responsibility is formed by integrating the diverse personal values and beliefs of its members. Consistent with SIT, cultural and gender diversity boards broaden the group's social perspective but are also likely to create in-groups and outgroups (BROWN AND TURNER 1981). For example, in-group and out-group separation makes directors with diverse cultural perspectives more difficult to interact with share their values and expectations (MELKUMOV ET AL., 2015). Foreign directors may not feel a strong group identity with the local board, hindering collaboration and diminishing the board's capacity for unified decisions that enhance CSP.

Contextually, female directors, informed by different social experiences and roles, may emphasize inclusivity, equity, and social responsibility, contributing significantly to board-level decision-making (CHEN ET AL., 2016). However, female directors are less likely to fully participate in male-dominated board meetings (TUGGLE ET AL. 2011; ALI ET AL., 2014). These dynamics underscore the importance of cultivating a superordinate identity, such as shared goals or values, to mitigate the negative effects of increased diversity on board performance. By integrating diverse perspectives and expertise, boards can better address social and environmental challenges, improve decision-making processes, and enhance stakeholder relationships. Therefore, fostering diversity within boards is essential for promoting sustainable business practices and achieving long-term success in Italian-listed firms.

3.2. BoD diversity and social dimension of ESG performance

Social capital can be viewed as the resources embedded within an individual's social network (LIN ET AL., 1981), it is the goodwill available to individuals or groups from their social relations (ADLER AND KWON, 2002) and serves a role in governance in multiple ways. Diversity is the core concept of social capital and refers to a range of human characteristics within individuals or groups (GHIO ET AL., 2023). Board social capital is a useful resource for firms as the breadth of knowledge, experiences and social ties of directors may enhance firms' strategy and performance (HAYNES AND HILLMAN, 2010). BoD diversity's significance to corporations' social performance has drawn the attention of numerous stakeholders and the public. According to Van der Walt and Ingley (2003), BoD diversity can positively impact areas like organizational and BoD performance, dynamics, and stakeholder relationships.

Previous studies have examined the connection between BoD gender, cultural diversity, and ESG performance. While some claim there are beneficial impacts (BOOTH-BELL, 2018) and a positive relationship between BGD and CSR performance, particularly the effect is stronger for social performance (WU ET AL., 2022). Others suggest adverse or no associations (CUCARI ET AL., 2018; GALLETTA ET AL., 2022), lacking consensus on the effects of gender and cultural diversity on promoting ESG social performance (ROSE, 2007; CARTER ET AL., 2010). The major findings of studies suggest that gender diversity, board size, and the presence of CSR committees are crucial factors to consider when examining the social outcomes of ESG performance. However, the relationship between BoD diversity and social performance may vary depending on the industry and the balance of gender representation on the board. Menicucci and Paolucci (2022) provide an empirical analysis of Italian banks, highlighting that board size, independence, and the presence of a CSR/sustainability committee positively influence a bank's ESG performance, which includes the social dimension. Radu et al. (2022) also support the notion that BoD gender diversity positively affects the social dimension of CSP, particularly in industries that are

not environmentally sensitive. Amara and Ahmadi (2024) found a strongly meaningful relationship between women on the board and ESG performance, which encompasses the social dimension. Birindelli et al. (2018), however, suggest that the relationship between female directors and ESG performance, including the social aspect, is non-linear and that gender-balanced boards have a positive impact. Cucari et al. (2018) also investigate the association between ESG disclosure and BoD diversity in Italian listed companies, noting the role of independent directors and CSR committees in enhancing ESG disclosure. Interestingly, while Cucari et al. (2018) find a negative correlation between women on BoDs and ESG disclosure, Romano et al. (2020) suggest that greater gender diversity on BoDs has a positive influence on ESG performance, although this relationship is moderated by CEO duality.

3.3. BoD gender diversity and Hypothesis 1

Research indicates a positive correlation between female directors (BoD gender diversity) and firms' social performance. Mumu et al. (2021) identify a focus on the financial implications of gender diversity, it also notes that the relationship between BoD gender diversity and CSR is under-researched, indicating a potential gap in the literature. Sánchez-Teba et al. (2020) provide a comprehensive analysis of scientific articles on the presence of women in BoD, highlighting the evolution of the concept and its association with sustainability and CSR. Studies have shown that female board members are more benevolent and less profit-oriented compared to males (EAGLY ET AL., 2003; NALIKKA, 2009; HARJOTO ET AL., 2015). Barako and Brown (2008) observed that boards including women tend to enhance cognitive variety and bring social-related perspectives. Adams et al. (2011) discovered that female directors show deeper concerns for welfare programs. Centinaio's (2024) research has shown a positive relationship between BoD gender diversity and the level of corporate disclosure, suggesting that gender-balanced boards can enhance corporate communication and transparency. Sanad et al. (2022) analyse the impact of gender diversity on earnings management practices, it has been critically reviewed, although findings in this area remain inconclusive, highlighting the need for further investigation. While some studies have found a positive association between BoD gender diversity and social performance, others have reported no significant impact or have identified specific conditions under which gender diversity is beneficial. For instance, the presence of female independent directors has been associated with improved firm performance, suggesting that independence may be a key factor in realizing the benefits of gender diversity (WANG, 2020). Handajani et al. (2014) and Hafsi and Turgut (2013) found that women directors decrease the quality and disclosure of firms' social performance. Cucari et al. (2018) suggested that fewer women directors achieve higher ESG scores. Fernandez-Feijoo et al. (2013) noted a negative effect of appointing women directors on social sustainability. The literature presents a nuanced view of the impact of BoD gender diversity, with positive implications for corporate governance, ethical behaviour, and transparency. The studies collectively underscore the importance of gender diversity for enhancing decision-making, corporate governance, and potentially firm value. However, there are indications of under-researched areas, such as the link between gender diversity and corporate social responsibility, which could be explored further. However, the evidence is not uniformly conclusive, and the effectiveness of gender diversity may depend on factors such as the independence of female directors and the presence of a critical mass. Further research is needed to deepen

our understanding of these dynamics and to explore under-researched areas such as the link between gender diversity and CSR (MUMU ET AL., 2021; LEFLEY AND JANEČEK, 2023).

This research aims to examine the potential positive influence of BoD gender diversity on the social dimension of ESG disclosure, integrating RDT and HCT. The first hypothesis posits a positive association between BoD gender diversity and firms' social performance.

H1: BoD gender diversity positively impacts social aspects of ESG performance (Social Score).

3.4. BoD Cultural Diversity and Hypothesis 2

Research on board diversity extends to include cultural diversity (BoD cultural diversity). Studies have indicated that diverse nationalities among BoD enhance social performance and strategies (AYUSO AND ARGANDOÑA, 2007; IBRAHIM AND HANEFAH, 2016; NACIJI, 2019). For instance, Hsu et al. (2013) found that Taiwanese companies with directors from different nationalities have higher competitive strength and better corporate social contribution. Similarly, Zainal et al. (2013) observed that multinational directors show more concern for stakeholders, adding unique value to the board and the company. Moreover, Muttakin et al. (2015) discovered that cultural diversity enhances international expertise, contributing to social sustainability and improving social performance. Estélyi and Nisar (2016) noted that board members of different nationalities possess specific knowledge of social affairs, enhancing responsibility and performance. Dodd et al. (2022) explore in Australian firms the relationship between BoD cultural diversity, based on directors' ancestry, and a firm's CSR performance. It highlights that cultural diversity is positively related to CSR performance. Martínez-Ferrero et al. (2021) suggest that BoD cultural diversity promotes a firm's commitment to sustainability issues and leads to higher social and environmental performance.

However, some studies show mixed results. Katmon et al. (2017) found that more multinational directors associate with a drop in CSR reporting quality. Similarly, Kang et al. (2019) found varying effects of different nationalities on corporate social investment in Korean companies. Despite conflicting findings, RDT and HCT support the benefits of BoD diversity on social sustainability. National culture diversity enriches boards with diverse perspectives, enabling them to better address social challenges. Fostering BoD diversity remains crucial for sustainable business practices and enhancing corporate social responsibility.

H2: BoD cultural diversity positively impacts social aspects of ESG performance (Social Score).

4. Research design and methodology

The research questions in this study are answered using a quantitative methodology that is grounded in the Hypothetico-Deductive (H-D) paradigm (SAUNDERS ET AL., 2019). This study uses panel data from the top Italian companies listed on the Italian Stock Exchange, chosen based on their market capitalization. The research focuses on the first 150 high-capitalized companies on Borsa Italiana and within this sample, we have the FTSE MIB index, which tracks 40 leading and most liquid companies, representing more than 80% of the total Italian market capitalization (VELTRI ET AL., 2021). Using a larger sample of companies, this research considers the companies under more pressure to establish diverse board compositions, including gender and cultural diversity. Companies belonging to the banking, finance, and insurance sectors were excluded from the sample as these

entities are not comparable with firms of other industries (LA PORTA ET AL., 2002). Our investigation timeframe spans three consecutive years, from 2021 to 2023, aligning the starting year with the effects of the entry into force of Law No. 160/2019.

Secondary data on cultural diversity (weighted by the percentage of foreign directors on the board) and gender diversity (weighted by the percentage of female directors on the board) from 2021 to 2023 will be compiled from annual reports available on company websites and Thomson Reuters Eikon™ DataStream. This database is widely used for ESG disclosure data in prestigious publications (GARCIA ET AL., 2017; DREMPETIC ET AL., 2019; DUQUE-GRISALES AND AGUILERA-CARACUEL, 2021; NICOLÒ AND ANDRADES-PEÑA, 2024).

The social aspects of ESG pertain to how companies manage their workforce, business networks, and community impacts (MATOS, 2020). This 'S' of ESG focuses on corporate strategies and performance across four key social domains: workforce, human rights, community, and product responsibility. The 'S', ranking from 0 to 100, serves as the dependent variable, with higher scores indicating greater adherence to socially responsible practices.

The effects of BoD gender and cultural diversity on the social dimension of ESG performance are estimated using the ratio of women and foreign directors to all board members (MAJEEED ET AL., 2015; MAHMOOD ET AL., 2018; AZAM ET AL., 2019). This ratio varies from 0% to 100%, where 0% represents a homogeneous board, and 50% is perfectly heterogeneous.

Gender-diverse BoD diversity is measured by the percentage of women on the board.

$$\text{BoD Gender Diversity (BGD)} = \frac{(\text{number of women on the board})}{(\text{total number of board members})} * 100$$

BoD cultural diversity is measured as the ratio of directors with a nationality different from the firm's head office location (Italy).

$$\text{BoD Cultural Diversity (BCD)} = \frac{(\text{number of foreigners on the board})}{(\text{total number of board members})} * 100$$

Control variables will be included to address potential omitted-variable bias, ensuring robustness. Factors such as size, leverage, and profitability are controlled for, as they may influence ESG social scores (GHAZALI, 2007; HSU ET AL., 2013). Size is quantified by total assets (BARNEA AND RUBIN, 2010), with larger firms often possessing greater assets and visibility, leading them to invest in social initiatives (ARX AND ZIEGLER, 2014). Leverage is the ratio of debt to total assets, providing insight into firms' debt levels relative to their overall assets. Leverage can influence social investments and disclosure practices, with mixed findings in the literature (ROSSI AND HARJOTO, 2020; KATMON ET AL., 2017). Profitability is measured by Return on Assets (ROA), indicating net operating income relative to total assets. Profitable firms are expected to allocate more towards sustainability and social initiatives (MCWILLIAMS ET AL., 2006; LEE, 2008).

Regression analysis will be applied using STATA. The first hypothesis examines whether BoD gender diversity positively influences social elements of ESG disclosure:

$$ESG (\text{Social score})_{i,t} = \alpha + \beta_1 BGD_{i,t} + \beta_2 Leverage_{i,t} + \beta_3 Size_{i,t} + \beta_4 Profitability_{i,t} + \varepsilon_{i,t}$$

The second hypothesis investigates whether BoD cultural diversity positively influences the social pillar of ESG disclosure:

$$ESG (\text{Social score})_{i,t} = \alpha + \beta_1 BCD_{i,t} + \beta_2 Leverage_{i,t} + \beta_3 Size_{i,t} + \beta_4 Profitability_{i,t} + \varepsilon_{i,t}$$

In these models, the ESG (Social score) i, t is the ESG social score for each year, $BGD_{i, t}$ is the ratio of women directors for the current year, and $BCD_{i, t}$ is the ratio of foreign directors for the current year. Besides, the following controllable variables are firm size, leverage, and profitability.

We excluded from our dataset all companies with a Social Score of 0. In practice, a Social Score should be greater than 0; a score of 0 indicates that the company was not ranked on the Social Pillar for that year, rendering the data unusable for our analysis (NEWMAN, 2014). After cleaning the dataset, our final sample comprises 97 companies with 201 observations spanning from 2021 to 2023. Within this sample, 34 of the companies are among the top 40 listed on the FTSE MIB, as six of the top 40 companies lacked a Social Score. This selection ensures that our analysis includes the most liquid companies, representing over 80% of the total Italian market capitalization (VELTRI ET AL., 2021).

Table 1 – Research design and variables

	<i>Description</i>
RIC	Identified RIC of companies
Years	2021 – 2023
Social Score	Social Pillar Score in Eikon
BGD	(%) in Eikon
D Gender	Dummy Variable, equals 0 if BGD = 0, and 1 otherwise
BCD	(%) as given in Eikon
D Culture	Dummy Variable, equals 0 if BCD = 0, and 1 otherwise
Company Total Assets	(million EUR) in Eikon
Size	log (Company Total Assets)
Leverage	Total Debt/Total Equity
Profitability	ROA (Return on Assets)

5. Results and discussion

Table 2 – Variables statistics

<i>Variables</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
<i>Social Score</i>	201	63.75584	19.09035	6.493024	96.31072
<i>BGD</i>	201	36.72263	9.736103	0	62.5
<i>D Gender</i>	201	0.985075	0.121557	0	1
<i>BCD</i>	201	8.701472	21.11389	0	100
<i>D Culture</i>	201	0.338309	0.474315	0	1
<i>Size</i>	201	3.293057	0.698202	1.321133	5.147526
<i>Leverage</i>	201	1.350656	1.708381	0	13.86579
<i>Profitability</i>	201	3.555689	7.372769	- 51.4549	18.99947

The statistics reveal that the Social Score, with an average of 63.75, reflects a moderate level of social responsibility among Italian firms, with an elevated level of variability considering the range from 6.49 to 96.31. This suggests that while some Italian companies highly engage in social initiatives, others lag significantly. According to recent literature,

such variation in Social Scores is common and can be attributed to differences in industry focus, company size, and stakeholder pressures (ECCLES ET AL., 2014; DEL BOSCO AND MISANI, 2016). Firms with higher social scores are often those that have integrated CSR into their core strategies, which is increasingly linked to enhanced financial performance and reputational capital (FRIEDE ET AL., 2015). The finding that 98.5% of Italian firms have female directors on their boards, with an average of 36.72% female representation, underlines the impact of gender diversity initiatives, such as the mandatory gender quotas introduced in Italy in 2011 (BIANCO ET AL., 2015). These quotas have been instrumental in increasing female representation on boards, reflecting broader European efforts to promote gender equality in corporate governance (TERJESEN ET AL., 2015). However, while the presence of women on boards is near-universal, the average percentage still falls short of parity, indicating room for further progress. In contrast, the cultural diversity of Italian boards is notably low, with only 33.83% of firms having foreign directors and an average of just 8.7% foreign representation. This suggests that Italian firms remain localized in their governance structures, which could limit their global strategic perspectives and innovation (GREENE ET AL., 2020). Research has shown that BoD diversity, including cultural diversity, can enhance decision-making processes and company performance by introducing varied perspectives and reducing group thinking (CARTER ET AL., 2010; NIELSEN AND HUSE, 2010). The low levels of cultural diversity on Italian boards may therefore represent a missed opportunity for these firms to leverage the benefits associated with a more globally diverse governance structure.

Table 3 – Variables correlation

	<i>Social score</i>	<i>BGD</i>	<i>D Gender</i>	<i>BCD</i>	<i>D Culture</i>	<i>Size</i>	<i>Leverage</i>	<i>Profitability</i>
<i>Social Score</i>	1							
<i>BGD</i>	0.1974	1						
<i>D Gender</i>	0.3342	0.4654	1					
<i>BCD</i>	0.0916	-0.0103	0.0184	1				
<i>D Culture</i>	0.2376	-0.0186	0.0013	0.5778	1			
<i>Size</i>	0.4373	0.0145	0.1754	0.3734	0.3752	1		
<i>Leverage</i>	0.0383	-0.0655	-0.2553	-0.0293	0.1591	0.0099	1	
<i>Profitability</i>	0.1167	0.1145	0.2936	0.0689	-0.1526	0.3418	-0.4103	1

The statistics show the relationship between social scores, BoD diversity, and corporate characteristics. The positive correlation between Social Score and both BGD (0.3342) and Firm Size (0.4373) underscores the idea that larger firms with more gender-diverse boards tend to perform better in the social dimension of ESG. This finding is consistent with the arguments presented by Matsa and Miller (2013), who highlight that female directors often bring unique perspectives on risk management and sustainable investments, leading to enhanced social performance. Similarly, Pfeffer and Salancik (2015) suggest that larger firms, equipped with more resources, are better positioned to implement effective corporate social performance (CSP) initiatives, which could explain the significant correlation between firm size and Social Score. The negative correlation between BGD and BCD (-0.0103) and D Culture (-0.0186) is noteworthy, as it suggests that firms with more female directors tend

to have fewer foreign directors. This could reflect a prioritization within firms, where achieving gender diversity might come at the expense of cultural diversity. As Lewellyn and Muller-Kahle (2020) discuss, national cultural forces and gender schema theories often drive firms to focus on gender diversity, particularly in environments where gender representation is under regulatory scrutiny. The findings could indicate that while gender diversity is being actively pursued, cultural diversity might still be under-emphasized, due to a lack of regulatory pressure or because firms view it as a secondary concern. This trade-off could also be influenced by institutional factors, where cultural homogeneity might be seen as more beneficial for cohesion in certain corporate environments.

The negative correlations of BGD (-0.0655) and BCD (-0.0293) with Leverage suggest that firms with higher leverage tend to have less diversity on their boards. This relationship can be interpreted considering that firms with higher debt levels, which are inherently more financially constrained, might prefer more homogeneous boards to maintain stability and reduce decision-making conflicts. This is in line with the observations of Kang et al. (2019), who found that diverse boards might pose challenges in consensus-building, especially in financially precarious situations. Moreover, firms with high leverage might be more focused on short-term financial performance and risk mitigation, leading them to deprioritize investments in diversity initiatives that are seen as long-term strategies, as suggested by Estélyi and Nisar (2016).

The observed negative correlation between BGD and Leverage aligns with findings in the literature on gender differences in risk appetite. Research suggests that female directors generally exhibit more conservative financial decision-making tendencies, which could explain the lower leverage ratios in firms with higher gender diversity (ADAMS AND FUNK, 2012; SILA ET AL., 2016). This conservatism likely reflects a cautious approach to debt management, prioritising long-term sustainability over short-term gains. Similarly, the relationship between BCD and Leverage can be interpreted considering existing literature. Directors from diverse cultural backgrounds may introduce varying risk preferences shaped by their experiences and values (NIELSEN AND HUSE, 2010; ESTÉLYI AND NISAR, 2016). While cultural diversity is associated with broader perspectives and innovative decision-making, it may also lead to differing risk appetites within the boardroom, potentially moderating the firm's overall approach to leverage. However, the absence of a significant correlation in this study suggests that cultural diversity alone may not strongly influence financial risk-taking unless accompanied by effective integration and alignment of diverse perspectives.

These findings suggest that while diversity is beneficial for social performance, achieving a balance between different forms of diversity and managing financial constraints are critical challenges that firms face.

5.1. H1 testing: BoD gender diversity impacts on Social score

Regression model 1: BoD Gender diversity

$$ESG \text{ (Social score)}_{i,t} = \alpha + \beta_1 BGD_{i,t} + \beta_2 Leverage_{i,t} + \beta_3 Size_{i,t} + \beta_4 Profitability_{i,t} + \varepsilon_{i,t}$$

In model 1, the results from both OLS and Fixed Effect models robustly support H1 (Table 4), indicating that BGD positively impacts the Social Score. This finding aligns with existing research that underscores the beneficial effects of gender diversity on corporate social performance. For example, Matsa and Miller (2013) and Adams et al. (2011) have demonstrated that female directors often bring diverse perspectives on social issues, which

can enhance CSR and overall social performance. This positive correlation is consistent with the broader literature that emphasizes the role of gender-diverse boards in improving social governance and addressing stakeholder expectations (EAGLY ET AL., 2003; NALIKKA, 2009). Consistently, the work of Centinaio (2024) supports the view that gender-balanced boards can improve corporate transparency and disclosure, which is often linked to better social performance. The positive impact of gender diversity on the Social Score suggests that female directors may indeed drive initiatives that enhance a firm's social responsibility. In line with our theoretical background, female directors often bring diverse perspectives that challenge the status quo and are especially sensitive to ethical and social issues, enhancing creativity and stakeholder-oriented decision-making. Furthermore, gender quotas mitigate internal biases and foster an environment where women can contribute meaningfully, leading to improved social scores.

The analysis also reveals that firm size has a positive impact on the Social Score, which is significant in the OLS estimation but not in the Fixed Effect model. This suggests that larger firms are more likely to focus on social issues, potentially due to their greater resources and heightened public scrutiny. This result supports the findings of Pfeffer and Salancik (2015), who argue that larger firms are better positioned to invest in socially responsible practices due to their larger resource base. Additionally, Kiron et al. (2013) highlight that sustainability-oriented business models, often characteristic of larger firms, attract investors and enhance profitability, which may further incentivize these firms to improve their social performance.

The negative relationship between ROA and the Social Score, though not statistically significant, suggests a potential trade-off between profitability and social performance. This observation is consistent with the literature suggesting that firms may face challenges in balancing financial performance with social responsibilities. For instance, Sanad et al. (2022) indicate that while focusing on social issues may involve short-term profitability trade-offs, the long-term benefits, including enhanced reputation and stakeholder trust, can outweigh these costs. Additionally, the findings from Cheruiyot and Maru (2014) suggest that addressing social and legal concerns is crucial for maintaining reputation, which could mitigate the potential negative impacts on profitability. In summary, the results confirm that BGD significantly enhances social performance, in line with the literature emphasizing the positive impact of diverse perspectives on social governance (MATSA AND MILLER, 2013; ADAMS ET AL., 2011). Larger firms are also more likely to excel in social performance, reflecting their greater capacity and resources. H1 was tested considering only the continuous variable related to BCD, the D Gender was not considered in the regression due to lack of variability as it was found that 98.5% of companies with women were on the BoD. Only one regression model has been carried out.

5.2. H2 testing: BoD cultural diversity impacts on Social score

The results of testing the second hypothesis using two different regression models offer nuanced insights into the relationship between BCD and social performance, specifically the Social Score. Both models-whether considering the presence of foreign directors (D Culture) or the broader measure of BoD Cultural Diversity-indicate that cultural diversity in BoD does not have a statistically significant impact on a firm's social performance as measured by the Social Score.

Regression model 2: D culture

$$ESG \text{ (Social score)}_{i,t} = \alpha + \beta_1(D \text{ Culture})_{i,t} + \beta_2Leverage_{i,t} + \beta_3Size_{i,t} + \beta_4Profitability_{i,t} + \varepsilon_{i,t}$$

In this model, the D Culture is a Dummy variable, equal to 1 if firms have foreigners on the board, and 0 otherwise (Table 4).

In model 2, where D Culture is used as a dummy variable to denote the presence of foreign directors on the board, the results from both OLS and Fixed Effect models show that having foreign directors does not significantly influence the Social Score. This finding is consistent with some of the literature that suggests the mere presence of foreign directors may not automatically translate into better social performance. For instance, Katmon et al. (2017) found that multinational directors could be associated with a drop in CSR reporting quality, highlighting the complexity of translating cultural diversity into tangible social outcomes.

However, it is important to note that cultural diversity has been associated with enhanced decision-making and broader perspectives, which can positively influence social and environmental performance (ESTÉLYI AND NISAR, 2016; MARTÍNEZ-FERRERO ET AL., 2021), others, on the other hand, detect a negative influence, the ratio of foreigners on the board is correlated with generally firm performance (TUCH ET AL., 2019).

The lack of significance in this study may be due to industry-specific factors or the context of Italian firms, where cultural homogeneity might still prevail despite the presence of foreign directors.

Regression model 3: BoD cultural diversity

$$ESG \text{ (Social score)}_{i,t} = \alpha + \beta_1BCD_{i,t} + \beta_2Leverage_{i,t} + \beta_3Size_{i,t} + \beta_4Profitability_{i,t} + \varepsilon_{i,t}$$

Model 3, which uses BCD as a continuous variable, further supports the findings of the first model. The results indicate that there is no significant impact of BCD on Social Score. This outcome might suggest that merely having a diverse board in terms of nationality does not automatically enhance social performance. This aligns with the findings of Kang et al. (2019), who noted varying effects of different nationalities on corporate social investment, indicating that cultural diversity's impact on social outcomes might be more complex and context-dependent than previously thought.

One interpretation of these findings is that while cultural diversity has the potential to enhance a firm's social performance, it may require additional factors, such as the effective integration of diverse perspectives or a critical mass of diverse members, to translate into significant improvements. The RDT and HCT suggest that diverse boards can provide access to varied resources and knowledge, but these benefits might not be fully realized unless the board effectively harnesses this diversity in decision-making processes (PFEFFER AND SALANCIK, 2015; CARTER ET AL., 2010). The findings underline the significance of gender diversity in enabling access to diverse resources, as posited by RDT. Female directors enhance firms' ability to meet stakeholder expectations by introducing perspectives that align with social responsibility goals. From an HCT perspective, the positive impact of gender diversity suggests that the unique skill sets and perspectives brought by female directors significantly contribute to firm capabilities in managing social dimensions of ESG. However, the lack of a significant relationship for cultural diversity raises questions about the integration and use of diverse cultural skills in decision-making processes. Furthermore, SIT suggests that increased cultural diversity might initially lead to interpersonal tensions or slower decision-making due to differing social identities. Cultural differences may create a lack of cohesion or shared identity, particularly if foreign directors face integration challenges. The absence of a statistically significant effect of BCD could indicate

that the potential benefits of cultural diversity require a deeper level of integration and collaboration to overcome in-group/out-group dynamics within the boardroom. Without a critical mass or effective mechanisms to harmonize perspectives, cultural diversity might not translate into impactful social outcomes. Only developing a superordinate identity board can effectively overcome initial barriers and achieve higher social performance.

In both models, firm size positively impacts the Social Score, particularly in the OLS estimation, which is consistent with previous literature. Larger firms often have more resources and are under greater public scrutiny, which might drive them to improve their social performance (KIRON ET AL., 2013; PFEFFER AND SALANCIK, 2015). The insignificant impact of leverage and ROA on Social Score in these models further suggests that financial factors may not directly influence social performance, or that firms may face trade-offs when balancing profitability with social objectives (SANAD ET AL., 2022).

In summary, the results indicate that neither the presence of foreign directors nor the broader cultural diversity of the board has a significant impact on the Social Score of Italian firms. While this might initially appear to contradict some of the theoretical expectations, it highlights the complexity of translating board diversity into social performance. These findings suggest that additional factors, such as the effective integration of diverse perspectives and the presence of a critical mass, may be necessary to realize the potential benefits of cultural diversity in corporate governance. Further research could explore these dynamics more deeply, considering the role of industry, firm-specific factors, and the broader cultural context in shaping the relationship between BoD diversity and social performance.

Table 4 – Regression results

	OLS			Fixed Effect		
	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
BGD	0.3887 (0.0020) **			0.2615307 (0.066) *		
Size	12.3327 (0.0000) **	11.13342 (0.000) **	13.14851 (0.000) **	5.007644 (0.408)	4.059282 (0.508)	4.277346 (0.490)
Leverage	0.2977 (0.7030)	0.231386 (0.772)	0.187078 (0.815)	0.4060103 (0.698)	0.5021499 (0.634)	0.5117082 (0.630)
ROA	-0.1276 (0.5090)	-0.00422 (0.984)	-0.09061 (0.646)	-0.4918659 (0.215)	-0.4422951 (0.270)	-0.4416887 (0.276)
_cons	8.9216 (0.2380)	25.68834 (0.000) **	21.19548 (0.001) **	38.86183 (0.049) **	49.43531 (0.011) **	49.75986 (0.011) **
R-Square	0.2317	0.198	0.1991			
F Statistics				F (96, 100) = 4.77	F (96, 100) = 4.93	F (96, 98) = 4.89
D Culture		3.272146 (0.266)			5.461049 (0.174)	
BCD			-0.07688 (0.221)			0.0907664 (0.384)
Significance (p-value)	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001

***, **, and * denote a statistical significance at the 1%, 5%, and 10% levels, respectively

6. Conclusion

This study aimed to analyse the impact of BoD gender and cultural diversity on the social dimension of ESG performance among companies listed in the Italian market. Using a quantitative methodology, the research examined panel data from the top 150 Italian companies listed on the Borsa Italiana, focusing on high-capitalized companies and the FTSE MIB index. The primary objective was to determine whether gender and cultural diversity on boards positively influence social performance, as measured by the Social Score while controlling for firm size, leverage, and profitability.

The findings reveal that BGD significantly enhances social performance. This result aligns with recent literature emphasizing the positive impact of gender-diverse boards on CSR and social performance. Studies such as Matsa and Miller (2013) and Adams et al. (2011) demonstrate that female directors bring varied perspectives that often lead to improved social outcomes.

Centinaio (2024) further supports this view, noting that gender-balanced boards are associated with enhanced transparency and social responsibility. This research reinforces the effectiveness of gender quotas and diversity initiatives in fostering socially responsible practices, consistent with conclusions by Terjesen et al. (2015) and Bianco et al. (2015). In contrast, the study found no significant impact of BCD on social performance. Neither the presence of foreign directors nor the broader measure of BCD showed a statistically significant effect on the Social Score.

This result is consistent with recent studies, such as those by Katmon et al. (2017) and Martínez-Ferrero et al. (2021), which suggest that cultural diversity on boards does not automatically enhance CSR reporting quality or social performance. These findings indicate that while cultural diversity holds potential benefits, its impact on social performance may require a more nuanced integration and a critical mass of diverse perspectives to be fully realized (KANG ET AL., 2019).

The analysis also confirmed that larger firms achieve higher social performance, aligning with existing literature suggesting that larger firms are better positioned to invest in socially responsible practices due to their resources and visibility (KIRON ET AL., 2013; PFEFFER AND SALANCIK, 2015). Additionally, the observed negative relationship between profitability and social performance highlights the potential trade-offs firms may encounter between financial performance and social responsibilities. This observation is supported by recent research indicating that balancing these dimensions can be challenging (CHERUIYOT AND MARU, 2014; SANAD ET AL., 2022).

The findings underscore the strategic importance of gender diversity on corporate boards as a driver of enhanced social performance. In line with Wu et al. (2022), fostering gender diversity can significantly strengthen CSR outcomes, particularly in regions with high gender parity. Additionally, as highlighted by Yilmaz et al. (2023), targeted policies promoting board diversity—both in terms of gender and culture—are crucial for strengthening governance practices in regions with nascent institutional frameworks. This perspective emphasizes the need for organizations and policymakers to prioritize the inclusion of diverse board members, leveraging their perspectives to meet evolving stakeholder expectations, enhance corporate governance, and improve sustainability efforts globally.

Policymakers should reinforce initiatives encouraging gender diversity on boards of directors, as evidenced by the positive correlation between female representation and social performance. This could entail extending gender quotas and incentivizing the adoption of

broader diversity policies. Gender diversity enhances sustainability outcomes, supporting policies like the Golfo-Mosca Law. However, excessive gender concentration might lead to inefficiencies, emphasizing the need for balanced diversity (PROVASI AND HARASHEH, 2021).

For corporate practitioners, the results highlight the importance of cultivating an inclusive culture that champions gender diversity and effectively integrates diverse cultural perspectives into strategic decision-making. Training programs for board members to address biases and optimize the potential of diverse teams could prove beneficial.

In conclusion, this study significantly contributes to the existing body of knowledge by affirming the positive role of gender diversity in improving social performance and questioning the direct impact of cultural diversity.

Notwithstanding the pertinent findings, the study has several limitations. First, the sample comprises highly capitalized Italian listed companies, which may limit the generalizability of the findings to smaller firms or organizations in different institutional contexts. Expanding the scope to include diverse geographical or sectoral samples could provide broader insights (DREMPETIC ET AL., 2019; DUQUE-GRISALES AND AGUILERA-CARACUEL, 2021).

Second, reliance on secondary data from annual reports and databases, though robust, might not capture the full complexity of companies' internal sustainability practices (ECCLES ET AL., 2014). Future studies could incorporate qualitative methods, such as interviews with board members, to provide richer insights.

Third, cultural diversity is measured solely by the presence of foreign directors, overlooking other dimensions such as educational background, professional experience, or cognitive diversity (ESTÉLYI AND NISAR, 2016). A more nuanced approach to diversity metrics could enhance understanding of its effects. Finally, the three-year timeframe (2021–2023) might not fully capture the long-term impacts of board diversity on social performance. Longitudinal studies could yield more comprehensive and temporally stable findings (FRIEDE ET AL., 2015).

Considering these limitations and the findings of the study, avenues for future research can be identified. The present study found no link between cultural diversity in boards of directors (BoDs) and social performance. Consequently, further research could examine how cultural diversity can improve social performance, investigate how different forms of integration of foreign members of BoDs influence social performance, and examine how companies can make the most of foreign members and use their cultural views to improve the decision-making process and social performance.

A more in-depth investigation of cultural diversity, including additional factors to measure it, might be appropriate.

The findings of our study indicated a negative correlation between profitability and social performance, although this was not statistically significant. Further research could examine the strategies employed by companies to balance short-term profits with long-term social investments.

Further research could examine the relationship between boardroom diversity and social performance in Italian companies in comparison to those in other countries, considering the potential influence of cultural and regulatory factors. Further research could investigate the impact of cultural and gender diversity on the social performance of smaller companies. Longitudinal studies could demonstrate the impact of diversity policies on social performance over time. Future research could explore how fostering a shared identity among culturally diverse directors can overcome barriers to collaboration and enhance social performance.

Furthermore, studies exploring additional forms of diversity, such as professional background, age, or cognitive diversity, could elucidate the influence of diverse perspectives on BoDs on social performance.

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