

Strength in Diversity: How Board Heterogeneity Influences Investment, R&D, and Product Differentiation

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Abstract

An exhaustive literature has analyzed the function of corporate board directors as monitors, yet analyses of the advising role of corporate directors have been rare. This study fills this gap by constructing director-specific industry expertise measures for all directors of S&P 1,500 firms from 2003-2013. I analyze both the determinants of the demand for directors with diverse industry expertise as well as the impacts of director diversity on investment and firm performance. Exploiting exogenous variation on director deaths, I show that increased diversity of the board's industry expertises systematically impacts capital expenditures and R&D intensity. This expanded form of board heterogeneity is also shown to allow firms to better position their product by differentiating away from their primary competitors.

Keywords: Corporate Finance Policy Decisions, Capital Investments, R&D, Product Differentiation

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