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Between a Rock and a Hard Place: Managing Diversity in a Shareholder Society

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Between a Rock and a Hard Place:
Managing Diversity in a Shareholder Society

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ABSTRACT

This study examines whether the appointment of racial/ethnic minorities into top management positions has a different impact on share price than the appointment of Caucasians into equivalent positions. Our dependent variable is the degree of change in share price following the announcement of racial/ethnic minority and Caucasian men into senior management positions. Market reaction to the naming of racial/ethnic minorities into corporate leadership positions is significant and negative while the market's reaction to the naming of Caucasians is significant and positive. However, the negative market reaction to the appointment of racial/ethnic minorities into top management positions is mitigated in those firms that have explicitly incorporated diversity into their strategic growth plan. Our findings suggest that to successfully introduce diversity into upper management, firm decision-makers must first signal the importance of diversity to market actors.

Between a Rock and a Hard Place: Managing Diversity in a Shareholder Society

Beginning in the 1980s a shareholder-value model of firm behavior emerged whereby stock price became the primary measure of a firm's economic health (Zorn, Dobbin, Dierkes, & Kwok, 2005). According to this new logic of firm governance, "the firm should be oriented not to long-term growth but to increasing value for shareholders" (p. 2). Scholars have since documented a variety of ways corporate leaders signal to shareholders their priority in increasing share value, including financial reorganization, mergers, stock buyback plans, and firm downsizing (Davis, Diekmann, & Tinsley, 1994; Fligstein, 2001; Fligstein & Shin, 2005; Useem, 1993; Westphal & Zajac, 2001; Zuckerman, 1999, 2000). Indeed, recent evidence suggests that corporate managers and boards of directors increasingly place share value above other concerns, including meeting the needs and preferences of employees and peers (Davis, 2005; Fligstein & Shin, 2005; Zorn et al., 2005; Zuckerman, 1999, 2000).

In this context, managers face growing imperatives from clients and customers, industry consultants, human resource managers, employees, scholars and the public to diversify the ranks of corporate leadership (Edelman, Fuller, & Mara-Drita, 2001; Hardy-Fanta & Stewartson, 2007; Kelly & Dobbin, 2001). Although there have been significant improvements in the mobility of minorities in recent years, the percentage represented within senior management and corporate boardroom positions in America remains low. In 1990, less than 1% of top management positions in U.S. companies were held by minorities (Powell & Butterfield, 1990). By 2000, this proportion had risen to just below 10% (Mircoquest, 2007).

And according to a study by *Fortune* magazine, minorities held 11% of board seats in 2001, 19% in 2002 and 21% in 2003 (Daniels, 2004).

As pressure has mounted to intensify diversity efforts, managers find they are stuck between the proverbial rock and a hard place: they must attend to the dual pressures of meeting shareholder needs and promoting diversity within the firm. Whether these dual goals are compatible or competing is an empirical question that centers on the market's reaction to the naming of racial/ethnic minorities to top leadership positions.

To date, few empirical analyses have attempted to understand how the specific transformation of the role of stock price in firm-level decision-making has affected the promotion of racial/ethnic minorities into top leadership positions. The current analysis attempts to bridge scholarship on mobility within work organizations with scholarship on the rise of the role of shareholders in firm governance. To do so we probe a relatively neglected path of inquiry: does the market reaction to the promotion of racial/ethnic minorities into senior management positions vary and, if so, by how much, from the market reaction to the promotion of Caucasians into comparable positions? By analyzing market processes external to the firm that may significantly impact firm behavior, we hope to open up a new path of research that will contribute a more comprehensive understanding of existing constraints on the promotion of people of color into top leadership positions in contemporary work organizations.

Stock price reflects the market's assessment of a corporation's future performance. The reaction of the stock market to firm appointments serves as a barometer of how members of racial and ethnic minorities are viewed as leaders of business organizations and, in particular, whether they are viewed by investors as capable of guiding firms successfully. We

argue that as corporate directors seek to increase stock price, anticipated stock market reaction could affect the likelihood of selecting a member of a racial or ethnic minority for top positions and could, therefore, impede efforts to diversity leadership personnel.

How might investor reaction vary according to the race or ethnicity of the appointment of new corporate leaders? Below we review existing literature and identify three hypotheses regarding why the market may react positively or negatively to the naming of racial/ethnic minorities into leadership positions. We then test these hypotheses with a data set that includes the change in stock price following the naming of a new incumbent into a senior leadership position.

LITERATURE REVIEW

Negative Returns to Upper Management Diversity

Scholars of organizational diversity have shown increasing interest in identifying micro-level cognitive mechanisms that reproduce ascriptive inequalities within work organizations (Cook, 2000; Reskin, 2000b). Social identity or social categorisation theory suggests that individuals tend to identify themselves and others as belonging to distinct social groups or categories (Ashforth & Mael, 1989; Haslam, 2001; Hogg, 2001; Tajfel & Turner, 1986). Such categorisation is based on dominant schemas rooted in salient cultural distinctions (Valian, 1998). Ascriptive categories such as race and ethnicity often serve as cultural ‘superschema’, which may lead individuals to develop implicit attitudes or stereotypes regarding the capabilities and qualifications of members of minority groups (Fiske, 1998).

The similarity attraction model builds on social identity theory to suggest that in-group preferences often lead to evaluation bias (Biernat & Kobrynowicz, 1997; Byrne,

1971). Individuals are more attracted to and evaluate more favorably the capabilities and competencies of members of their own in-group, irrespective of individual qualifications or characteristics (Hewstone, 1990). In work organizations, implicit preferences often leads to homophily—or what Kanter (1977) terms ‘homosocial reproduction’—in which individuals promote those most similar to themselves in terms of demographic characteristics and cultural and social background (Byrne, 1971; Ibarra, 1995; McPherson et al., 2001). Because similarity attraction preferences are automatic, they need not reflect the conscious preferences or values of the decision-maker (Bargh & Chartrand, 1999; Meyerson et al., 1996) and may indeed conflict with assessors’ conscious desires, motives, beliefs or values (Bodenhausen et al., 1998; Kreiger, 1998, cited in Reskin 2000a).

While the broad literature on workforce diversity has focused primarily on processes within organizations, we argue that parallel processes will impact how market actors assess the leadership capabilities of racial/ethnic minorities. When particular jobs or occupations have traditionally been dominated by members of a majority racial/ethnic group, individuals—irrespective of their own racial/ethnic characteristics—often assume a direct relationship between one’s race or ethnicity and one’s ability to perform the job successfully (Conway, Pizzamiglio, & Mount, 1996; Gorman, 2006). When a member of a racial/ethnic minority is appointed into a top leadership position, stereotypical beliefs are likely to be triggered in decision-makers minds, resulting in greater reliance on distorted and stereotyped evaluations of group-level abilities (Brewer & Brown, 1998). Thus, while white shareholders are likely to respond particularly negatively to the appointment of members of their racial “outgroup” due to in-group biases, all shareholders, regardless of race or ethnicity, are likely

to react negatively to the appointment of racial/ethnic minorities due to generalized social stereotypes and role expectations.

Such stereotypes are particularly likely to be triggered under certain conditions. For instance, negative stereotypes become more salient when one's ability to perform the job successfully cannot be measured directly, when one's qualifications are ambiguous, or when information about an individual is limited (Gorman, 2006; Valian, 1998). Because racial/ethnic minorities are often less well-known, market actors are likely to rely on limited and often indirect information when assessing minority candidates' leadership capabilities. Furthermore, it is likely that racial/ethnic minorities—like women—are more likely to be promoted to top leadership positions in firms that are failing (Ryan & Haslam, 2007), thus contributing to the market's negative assessment of their potential.

Group biases and generalized stereotypes are also likely to be triggered when decision-makers face time pressure and are therefore less likely to invest time accumulating accurate and complete information on an individual's credentials or qualifications (Greenwald & Banaji, 1995). Under time pressures decision-makers are more likely to rely on cognitive shortcuts when assessing the capabilities of a candidate or appointee (Bodenhausen et al., 1998; Tetlock & Lerner, 1999). Finally, distorted evaluations of candidates are more likely to influence behavior when decision-makers are not held accountable for their reasoning (Tetlock, 1992; Tetlock & Lerner, 1999). As outsiders to the firm, market actors are not accountable to internal actors regarding their assessments of particular candidates' capabilities. This anonymity protects them from scrutiny with regard to attitudes and preferences. Borrowing from and extending existing literature on workplace

diversity to processes external to the organization, we expect our analysis to support the following hypotheses:

Hypothesis 1: The announcement of ethnic/racial minorities will have a weaker impact on share price than the announcement of white men into equivalent positions.

Positive Returns to Upper Management Diversity

Contrary to the hypothesis above, investors may react positively to the naming of minorities into top leadership positions because they view such appointments as signaling firm health and innovation and/or because they expect financial returns to follow from such appointments. First, existing research finds a strong positive relationship between announcements of new incumbents to top management positions and stock price (Beatty & Zajac, 1987; Davidson, Worrell, & Dutia, 1993; Huson, Malatesta, & Parrino, 2004). Thus, irrespective of race, the market is likely to interpret the naming of a new corporate leader as an indicator of future improvement of the firm's performance. Second, racial/ethnic minority candidates are typically exceptional with regard to human capital and credentials compared to their white counterparts (McWilliams, Van Fleet, & Wright, 2001; Smith & Elliott, 2002). Thus market actors may rationally evaluate these candidates as more qualified relative to their white counterparts.

In addition, investors may anticipate financial returns to increasing diversity of upper management. There is some evidence to suggest that firms can maximise competitive advantage by amassing "highly valuable, efficient, and differentiated human, organizational, technological, and physical resources" (Keys, Ellis, Newsome, & Friday, 2003: 6). In some instances intra-firm diversity has been shown to improve management effectiveness, strengthen corporate governance and increase firm profitability (Burt, 1997; DiTomaso et al.,

2007; Gruenfeld et al., 1996; van Knippenberg et al., 2004; Richard, 2000). Furthermore, integration at the top of the firm hierarchy may contribute even more of a competitive advantage than integration at lower levels (Carter, Simkins, & Simpson, 2003) because racial/ethnic minority incumbents of upper level positions, where most strategic decisions are made, are better able to contribute critical and creative problem solving solutions and promote innovation (Athey, Avery, & Zemesky, 2000; O'Connor, 2003). Managerial diversity can also improve profitability by strengthening the firm's ability to appeal to an increasingly broad and diverse customer and client base (Dallas, 2002; Ramirez, 2000). Finally, investors may also perceive leadership diversity efforts as limiting the firm's liability with regard to employment discrimination claims (Cox & Blake, 1991; Wright, Ferris, Hiller, & Kroll, 1995).

Given these factors, investors may perceive that racial/ethnic minority candidates bring a unique set of resources to the firm. Not only might such candidates be viewed as evidence of firm vitality, but their minority status may also be perceived as granting the firm a significant competitive advantage. Investors may therefore react positively to the naming of racial/ethnic minority candidates in top management positions, viewing such individuals as "valuable, rare, non-substitutable, and difficult to imitate" (Keys et al., 2003: 6).

Hypothesis 2: The announcement of ethnic/racial minority men will have a stronger positive impact on share price than the announcement of white men into equivalent positions.

Firm-Level Context

In addition to responding to the actual or perceived merits of individual candidates, market reaction may vary according to the specific business strategy of the firm. In recent years, many firms and industries have begun investing more heavily in marketing to

racial/ethnic minority clients and consumers (Wagner, 2003). Firms increasingly recognise the growing buying power of racial and ethnic minorities, and are developing business strategies to accommodate this new consumer base (Humphries, 2006). Holzer and Ihlanfeldt (1998) have shown that the racial composition of customers has a significant impact on hiring priorities of firms. Further research suggests that firms with a largely racial/ethnic minority workforce are more likely to promote racial/ethnic minority leaders and managers (Cantor, Miles, Baker, & Barker, 1996; Elliott & Smith, 2001). Thus, the same kind of “ethnic matching” that contributes to homosocial reproduction of white males can also operate in firms with a diverse workforce or largely racial/ethnic minority clientele, a process Smith and Elliott (2002: 260) term “coethnic reproduction”.

Furthermore, there is growing evidence that a strategic vision devoted to increasing firm-level diversity improves firm performance. For instance, Burt’s structural holes perspective suggests that increased diversity within organizations increases the range of available information, skills, abilities and knowledge in the firm (Burt, 1997; see DiTomaso et al., 2007 for a review). Similarly, Richard’s resource based analysis of firm performance (2000) finds that increased diversity coupled with compatible business strategies also improves firm performance. Others have argued that increasing firm diversity increases capacity and performance in a variety of ways including increasing profitability and managerial effectiveness (Dallas, 2002; O’Connor, 2003; Ramirez, 2000; Sarra, 2002), motivating innovative problem solving (Jackson et al., 1991), increasing decision quality (Cox, 1994; McLeod et al., 1996), increasing competitive advantage (Barney & Wright, 1998; Russo & Fouts, 1997), and expanding access to diverse markets (Cox, 1994). Given the potential of firm-level diversity to improve performance, investors are likely to react

positively to the promotion of racial/ethnic minority candidates into top management positions when the firm has explicitly included firm diversity in its long term growth plan.

Hypothesis 3: The naming of racial/ethnic minorities into top management will have a positive market impact in firms that integrate diversity into their strategic vision.

DATA AND METHODS

Sample

To provide a clear understanding of the effects of race, without the potential of gender effects, only men were included in the sample. The samples were constructed through searches of the Lexis-Nexis and Wall Street Journal databases, resulting in the representation of largely U.S. firms. A sample of racial and ethnic minority male announcements and a sample of Caucasian male announcements were collected. The minority male sample included all non-Caucasians such as Asians, Blacks, Hispanics, Indians, and Middle Easterners. Given the sheer number of Caucasian male appointments relative to racial and ethnic minority male appointments, a matched sample of Caucasian male announcements was constructed out of the larger random sample that had been collected. Since minority males tend to hold lower organizational positions than Caucasian males, it is important to offer a matched sample for the examined comparison. First, we matched the announcements by the industry in which the organization operates, then by the position of the announcement, and then by the year of the announcement. Not all announcements were able to be matched exactly; however, care was taken to match each announcement as closely as possible. Moreover, since CEO positions likely reap the greatest investor response, the representation of CEOs was identical for each sample.

We defined the announcement date of the position (the event date) to be the date of the issued press release. Included in our samples are the top management positions of Chief

Executive Officer, Chairperson, President, and all other C-suite positions such as Chief Financial Officer, Chief Operations Officer, and Chief Marketing Officer, among others. The consistency of positions present within both samples and the matching of industry and year helps to assure that the analysis represents a net-difference effect between investors' reaction to the appointment of Caucasian males and investors' reaction to the appointment of racial and ethnic minority males.

The foundation of event study methodology is to determine the market response to the analyzed event. It may be that during our studied time frame of a 2-day event window that other announcements pertaining to these firms were released. If other events occurred during the examined timeframe, the determination of the market reaction to the executive announcements would likely be less precise. As a result, we conducted further searches of these firms to determine if any other events were announced. Based on work by MacKinlay (1997), we deemed certain announcements as significant in their potential to affect stock price and removed that firm's corresponding announcement of a top management position from the dataset. Representative announcements that were categorised as significant are "a settlement was determined," "announced record earnings," "new contract awarded," "debt ratings announced," and "FDA approved."

The announcement dates fell within the time period of 1996-2007. Only announcements within publicly traded firms with verifiable announcement dates were included, and certain firms were dropped during the event analysis because of insufficient data. For example, it may have been that not enough prior trading days were available in order to accurately estimate the expected return, or that the company was not publicly traded at the time of the announcement. With the removal of announcements as a result of

insufficient stock and/or organizational data, and the removal of announcements due to significant confounding events, the resulting sample sizes are 72 for ethnic/racial minority males and 72 for Caucasian males.

For the second part of this study which examined the diversity fit of racial and ethnic male appointments to top management positions, annual shareholder letters were collected for the year of the announcement and coded for specific criteria that indicated a strategic integration of diversity with the firm's objectives. For example, one letter stated "substantial progress was made in 2000 in further diversifying GE's leadership. 26% of the Company's top 3,900 executives are now women and minorities, and over \$30 billion of our 2000 revenues were generated by business operations led by female and minority operating managers." As shown, this statement not only indicates a commitment to diversity, but more importantly it indicates how diversity benefits the organization and fits within its strategic plan. Given the limited information relayed in shareholder letters (typically only a few pages distributed to stockholders once per year with the annual financial report), they were selected as an accurate and concise measure of the importance the firm places on diversity and the firm's integration of diversity with its strategic goals. Of the 72 shareholder letters collected, the resulting sample sizes were 20 that represented a diversity fit and 52 that did not represent a diversity fit. For all aspects of this study, the stock market returns were collected from the Center for Research in Security Prices (CRSP) at the University of Chicago.

Method of Analysis

Using a standard event study analysis, we examined the abnormal stock market return for the day of the announcement and the cumulative effect of the abnormal stock market returns for the day of the announcement and the day following the announcement. As noted

by MacKinlay (1997: 13), “using financial market data, an event study measures the impact of a specific event on the value of a firm”. The foundation of an event study is that once new information is provided to the public, shareholders react given their adjusted perceptions of the organization’s future cash flow or reduced risk (Fama, 1970).

In order to provide the clearest picture of the event, we chose to examine the day of the event and a 2-day window comprising the day of the event and the day following the event. The 2-day window timeframe has been suggested in event study research in order to best capture the effect of the event (MacKinlay, 1997). MacKinlay (1997) suggests that it is typical to define the event window slightly larger than the specific event day. Further, he suggests that a 2-day window is optimal in order to account for the events that occur after the market closes (which would impact the following trading day). Given our announcement dates are the day the press release was issued, it is likely that some or potentially many of those announcements were made after the close of the market.

Event studies involve three primary steps following the identification of the event (MacKinlay, 1997). Estimate the normal, or expected shareholder returns; estimate the abnormal, or unexpected shareholder returns; and last, analyze the abnormal returns. Accurate identification of the event date is essential. A firm’s unexpected or abnormal return has a predicted mean of zero for the event timeframe. If an abnormal or unexpected return occurs during that time, it is recognised as an adjustment by the market given the new information available. Next, to ascertain whether an abnormal return is present, we estimate the expected or normal shareholder returns for the firm for the event day and for the 2-day window. This estimation statistically models the relation between a firm’s shareholder return over the past year (255 trading days with an end date of 46 days prior to the event) to

shareholder return for the same time period based on a CRSP benchmark index that is comprised of an equally-weighted portfolio from the American Stock Exchange, the New York Stock Exchange, and the NASDAQ. By estimating the relationship between each firm and the diversified portfolio of stocks, external shocks or movements in the stock market are, to a large extent, controlled. Also, by excluding the 46 days prior to the event in determining the normal or expected return, the chance of the event itself influencing the expected return is greatly reduced. And, given the inclusion of the prior 255 trading days, a fair representation is offered of the relationship between the firm and the CRSP benchmark index.

In order to accurately appraise the event's impact, a measure of the abnormal or unexpected return is required. To determine the abnormal return, calculations (see equation below) are made for the expected share price of the firm with regard to the CRSP benchmark portfolio and the actual share price within the timeframe examined. (R_{it}) represents the firm's return and (R_{mt}) represents the market portfolio where (i) represents the firm and (t) represents time in trading days.

$$AR_{it} = R_{it} - (\hat{\alpha}_i - \hat{\beta}_i R_{mt})$$

As an example of the expectations of market return, if the $\hat{\beta}$ is 1.2, we would expect that if the market increases 1 percent the examined firm's share price will increase 1.2 percent. We would expect this relationship to hold on the days examined with the event. So, the example suggests that if an abnormal return exists, the share price would differ from the expected 1.2 percent. The expectation is 1.2 percent, but if the actual share price increased by 2.2 percent, then the abnormal return would be calculated as 1 percent (2.2%-1.2%=1%). This unexpected return could then be attributed to the event being examined.

The abnormal returns (AR) and cumulative abnormal returns (CAR) were computed for the examined hypotheses. The abnormal return is the unexpected return for the day of the announcement. The cumulative abnormal return is the unexpected return for the day of the announcement and the unexpected return for the day following the announcement. To analyze the abnormal or unexpected returns, two significance tests of the coefficients are presented, a standard parametric test and a generalised sign test. The parametric test determines significance of the abnormal return and cumulative abnormal return as they differ from zero (the null hypothesis), and the generalised sign test determines the significance of the returns as they differ from the estimation period.

RESULTS

Descriptive statistics are presented in Table 1 for minority and Caucasian males. Our hypotheses were tested by calculating the abnormal returns for the day of the event and the cumulative abnormal returns for the 2-day timeframe (day of the event and day following the event). Comparative analyses of the market adjusted returns for minority men and Caucasian men are presented in Table 2, and the within sample comparative analyses of the market adjusted returns for minority men in organizations with diversity fit and minority men in organizations lacking diversity fit are presented in Table 3.

-- Insert Table 1 about here --

Hypothesis 1 suggests that the announcement of racial and ethnic minority men will have a weaker impact on share price than the announcement of Caucasian men into equivalent positions. And hypothesis 2, as a competing hypothesis, suggests that the announcement of racial and ethnic minority men will have a stronger positive impact on share price than the announcement of Caucasian men into equivalent positions. We tested

these hypotheses by calculating the abnormal and cumulative abnormal returns described above. The results indicate support for hypothesis 1. Within the examined 2-day window, share price increases .25 percent for the appointment of Caucasian males, and share price significantly decreases -.88 percent for the appointment of minority males ($p < .05$). This trend follows on the day of the event in that Caucasian males have a significant positive return of .06 percent ($p < .10$) and minority males have a negative return of -.41 percent (refer to Table 2).

-- Insert Table 2 about here --

Hypothesis 3 suggests that the announcements of minorities into top management positions in organizations that integrate diversity within their strategic objectives will have a more positive impact on share price than the equivalent position announcements of minorities into organizations without that evident diversity fit. This hypothesis was tested by splitting the minority male dataset into two groups and conducting an event study analysis for the subsamples. The first group was comprised of minority announcements of top management positions within firms that were categorised as not having a diversity fit with minority candidates. The second group was comprised of minority announcements of top management positions within firms that were categorised as having an evident diversity fit with minority candidates.

Findings support hypothesis 3. Within the examined 2-day window, share price increases .15 percent for the appointment of minority males within firms that integrate diversity into their strategic goals, and share price significantly decreases -1.28 percent ($p < .05$) for the appointment of minority males within firms that do not demonstrate an evident diversity fit. This trend follows on the day of the event in that minority appointments

in firms without an evident diversity fit have a negative share price return of -.57 percent, and minority announcements within firms demonstrating a diversity fit have a return of .01 percent (refer to Table 3).

-- Insert Table 3 about here --

To better understand our findings, we conducted several post-hoc regression analyses to explore the impact of firm size, previous firm performance, and the leadership position on share price fluctuations following the appointment of racial/ethnic minorities. The small sample size, which is a limitation of the examined population, limits the potential significance with multivariate regression; however, the trend of the data may be useful in providing additional insights into the mechanisms occurring (refer to the provided Tables and Figures in the Appendix). Table A1 examines the interaction effects of race with firm size, previous performance, and leadership position. And Table A2 examines the interaction effects of diversity fit with firm size, previous performance, and leadership position. The suggestive trends and possible interpretations are discussed below.

DISCUSSION

Recent scholarship suggests that CEOs and boards of directors increasingly consider anticipated market reaction when making decisions about firm governance (Davis, Diekmann, & Tinsley, 1994; Fligstein, 2001; Fligstein & Shin, 2005; Useem, 1993; Westphal & Zajac, 2001; Zuckerman, 1999, 2000). Indeed, Khurana's (2002) systematic study of CEO succession processes suggests that board members carefully consider how investors will interpret and react to new appointees. Khurana (2002) further suggests that increasingly board members ignore issues regarding the firm's needs and position in the market, and focus instead on how investors and other actors external to the firm will react. In this so-called

shareholder society, corporate decision-makers are also facing growing pressure to integrate people of color into upper management positions. This analysis, which empirically examines the market's reaction to the appointment of people of color into senior management positions, seeks to assess whether these goals are competing or compatible.

Contrary to the prediction that investors would positively assess the potential leadership capabilities of minority candidates, our findings suggest that market reaction is more negative following the appointment of minority managers compared to Caucasian managers. These findings are more consistent with the prediction that investors are likely to be skeptical of racial/ethnic minorities' ability to successfully lead firms. Indeed, while market reaction is significant and negative following the naming of a minority into a top leadership position, market reaction is significant and positive following the naming of a Caucasian into an equivalent position.

However, our findings are suggestive of some important contextual factors that may mitigate negative stock price fluctuations following the appointment of a racial/ethnic minority into a senior management position. First, we tested the prediction that investors would react more positively to the naming of racial/ethnic minorities in firms that explicitly include diversity initiatives in their strategic plans and that communicate these plans to stockholders. Based on event study analysis of share price fluctuation, we find that the naming of racial/ethnic minorities in such firms results in a positive though non-significant spike in stock price. However, our regression analysis suggests that net of other factors, the impact of diversity fit on share price following the naming of a minority leader is positive and significant. This finding may temper some of the pessimism inspired by the initial empirical findings. Indeed, this finding suggests that in order to promote diversity within

firms without risking market reprisal, firm leaders should consider signaling to shareholders their commitment to diversity and the importance of leadership diversity to firm performance.

Additional contextual factors that were explored in the analyses (refer to the Appendix) suggest that prior firm performance, firm size, and the position of the leadership appointment may influence investor reactions to minority leaders. In terms of previous firm performance, we find that when a firm's recent financial performance has been strong, investors tend to be more skeptical of the appointment of racial/ethnic minority leaders. However, when recent firm performance has been weak, market actors evaluate the potential of racial/ethnic minorities in more neutral terms (refer to Table A1 and Figure A1 in the Appendix). Of course, appointing racial/ethnic minority leaders in failing firms risk setting these leaders up for failure (Ryan & Haslam, 2007). However, conditions of poor performance at the firm level may create a window of opportunity for integrating firm leadership by race and ethnicity. When we compare the impact of firm performance on firms that emphasize diversity in their strategic plan for the minority sample only, we find comparable results (refer to Table A2 and Figure A2 in the Appendix). Minorities promoted in poorly performing firms that emphasize diversity in the strategic plan motivate a positive though non-significant share price reaction.

Firm size also influences the market reaction to the appointment of racial/ethnic minority leaders. In larger firms, market actors appear to prefer white leaders. In smaller firms, however, the market reaction to minority and white leaders is more similar and neutral. This finding, though not significant, suggests that boards of directors of smaller firms may be

better positioned to appoint minority leaders than boards of larger firms (refer to Table A1 and Figure A3 in the Appendix).

Finally, we find that investors react more positively to racial/ethnic minority leaders appointed to top positions, like CEO, than they do when minority leaders are appointed to lower positions. In fact, while investors react positively to the appointment of white leaders to any position, they are much less favorable of minority announcements in lower positions. While this interaction is not statistically significant, it may be suggestive of interesting trends. Boards of directors may attempt to limit negative market reactions by appointing minority leaders to lower positions. However, this strategy may not produce the desired outcomes. Instead, these findings suggest that boards of directors serious about integrating firm leadership by race and ethnicity may be better rewarded by appointing minority leaders to positions at the very top of the hierarchy (refer to Table A1 and Figure A4 in the Appendix). Future research using larger samples will enable scholars and practitioners to fully understand the implications of these tentative conclusions.

While our findings suggest that the market assessments of ethnic/racial minority leaders are negative compared to the market assessments of Caucasian leaders, our findings also suggest that several contextual factors may moderate this effect. Thus, our analysis is suggestive of a range of strategies that managers, practitioners and other corporate leaders might employ to mitigate negative market reaction to the appointment of ethnic/racial minority leaders, as well as the conditions under which ethnic/racial leaders can be appointed to top positions without producing negative share reactions. First, managers devoted to pursuing diversity among corporate leaders should actively communicate their commitment to diversity to shareholders. Second, poor performance at the firm-level may create a window

of opportunity for promoting minority leaders. Of course, in practice decision makers should interpret this implication with caution as this strategy holds the potential to set minority leaders up for failure in the long term. Finally, decision makers should avoid a strategy of appointing minority leaders to lower executive positions as there is no evidence that this moderates negative market reaction to these appointments.

CONCLUSION

The current study serves as an initial analysis of how markets respond to ethnic/racial integration of corporate hierarchies. By analyzing processes external to the firm that may impact firm-level processes, we hope to forge a new path of research that will contribute a more complete view of constraints facing decision makers with respect to integrating leadership ranks. While suggestive of important trends in the market's assessment of minorities as corporate leaders, we call on scholars of organizational diversity to devote greater attention to this topic in order to more fully specify the mechanisms that lead to stock price fluctuations following any changes in corporate leadership and to better equip managers and practitioners to make strategic decisions to further goals of corporate diversity. To this end, we suggest scholars pursue the following areas of research in order to extend and build upon the findings from the current analysis.

First, interviews with institutional investors could provide a more direct measure of how these individuals evaluate particular individuals' leadership capabilities. Though our findings are suggestive, we do not directly measure how investors assess the leadership capabilities of racial/ethnic minorities, nor how these assessments translate into their market assessments. What kinds of information do investors rely upon when buying, selling or

holding stocks in a company following the announcement of new leaders? How do investors interpret information regarding the race or ethnicity of an appointee as opposed to the credentials or job history of a candidate? What kinds of firm-level data (e.g., size, age, and overall health) may influence investors' reactions to minority leaders? Of course such analyses would have to guard against social desirability bias, which would potentially underestimate the degree of conscious bias against minority leaders. Ideally such analysis would supplement more indirect measures that could compare what investors say versus what they do. Additionally, organizational analysis of appointment decisions would illustrate the extent to which anticipated or past market reactions affect board decisions about corporate leadership. What role does anticipated market reaction play when a board of directors is considering possible candidates for executive positions? How closely do corporate board members follow stock price reactions following these appointments, and how do these reactions impact future decisions? These kinds of analyses would complement the current analysis by more fully illuminating how market actors external to the firm affect the racial and ethnic integration of corporate hierarchies.

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TABLE 1
Descriptive Statistics

Variable	Minority Males	Caucasian Males
	Mean (s.d.)	Mean (s.d.)
Average stock price	47.82 (27.36)	39.33 (26.89)
Number of shares outstanding	636,092 (759,143)	929,913 (1,442,477)
Firm Value	29,580,469 (38,159,171)	36,174,841 (60,039,934)
Percent change in income	.17 (.72)	.15 (.41)
Number of employees (in thousands)	63.04 (68.87)	75.87 (95.57)
Position (CEO 1 Others 0)	.32 (.47)	.32 (.47)

TABLE 2
Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR) for
Hypotheses 1 and 2^{a,b}

	Market Adjusted Returns AR _{t=0}	Market Adjusted Returns CAR _{t=0,+1}
Minorities in Top Management Positions (n=72)	-.41	-.88** <
Caucasians in Top Management Positions (n=72)	.06*	.25

^a Significance for the generalised sign hypothesis test is denoted by <, <<, <<< at the .10, .05, and .01 levels, respectively.

^b All coefficients are expressed as percentages.

* $p < .10$

** $p < .05$

*** $p < .01$

TABLE 3
 Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR) for
 Hypothesis 3^{a,b}

	Market Adjusted Returns AR _{t=0}	Market Adjusted Returns CAR _{t=0,+1}
Minorities in Organizations without Evident Diversity Fit (n=52)	-.57	-1.28** <
Minorities in Organizations with Evident Diversity Fit (n=20)	.01	.15

^a Significance for the generalised sign hypothesis test is denoted by <, <<, <<< at the .10, .05, and .01 levels, respectively.

^b All coefficients are expressed as percentages.

* $p < .10$

** $p < .05$

*** $p < .01$

APPENDIX

TABLE A1

Regression Analysis for Race—Caucasians and Ethnic/Racial Minorities Included

Return	Abnormal Return			Cumulative Abnormal			
	IVs	β	R ²	N	β	R ²	N
Position		.19*			.01		
Organization Size		.37*			.13		
Firm Value		-.06			-.04		
Previous Performance		-.13			.24		
Race		-.02			-.15		
Size X Race Interaction		-.31 (p=.16)			-.10		
Position X Race Interaction		.07			.17 (p=.19)		
Performance X Race Interaction		-.17			-.41*		
R ²			.16	139		.09	139

NOTE: Betas are for the last step reported. * p<.10 ** p<.05

TABLE A2

Regression Analysis for Fit—Ethnic/Racial Minorities Included

Return	Abnormal Return			Cumulative Abnormal			
	IVs	β	R ²	N	β	R ²	N
Position		.24*			.31**		
Organization Size		.68			.53		
Firm Value		.00			-.10		
Previous Performance		-.33***			-.26**		
Diversity Fit		.18			.31*		
Size X Fit Interaction		-.71 (p=.12)			-.51		
Position X Fit Interaction		-.05			-.23 (p=.20)		
Performance X Fit Interaction		-.17 (p=.19)			-.02		
R ²			.22	69		.15	69

NOTE: Betas are for the last step reported. * p<.10 ** p<.05 *** p<.01

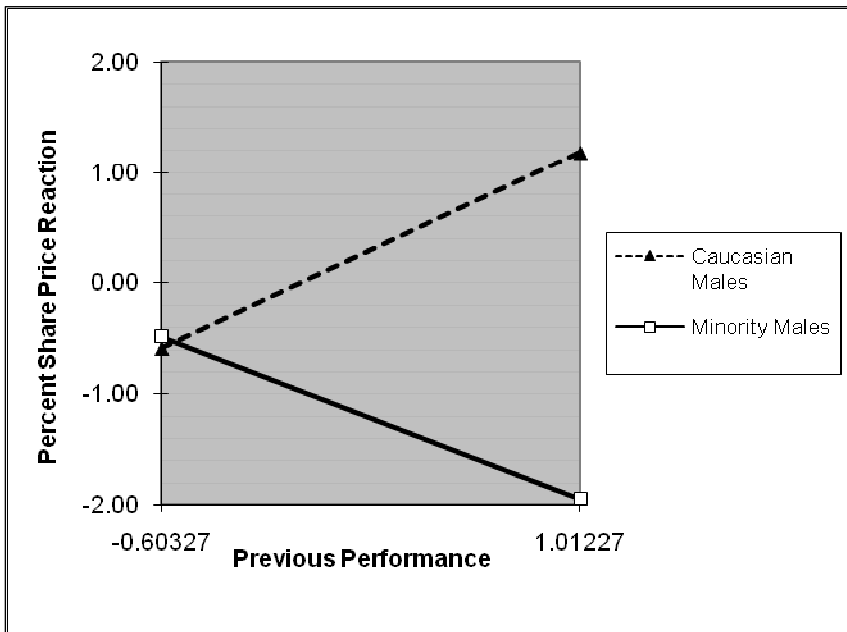


FIGURE A1

Race X Previous Performance Interaction

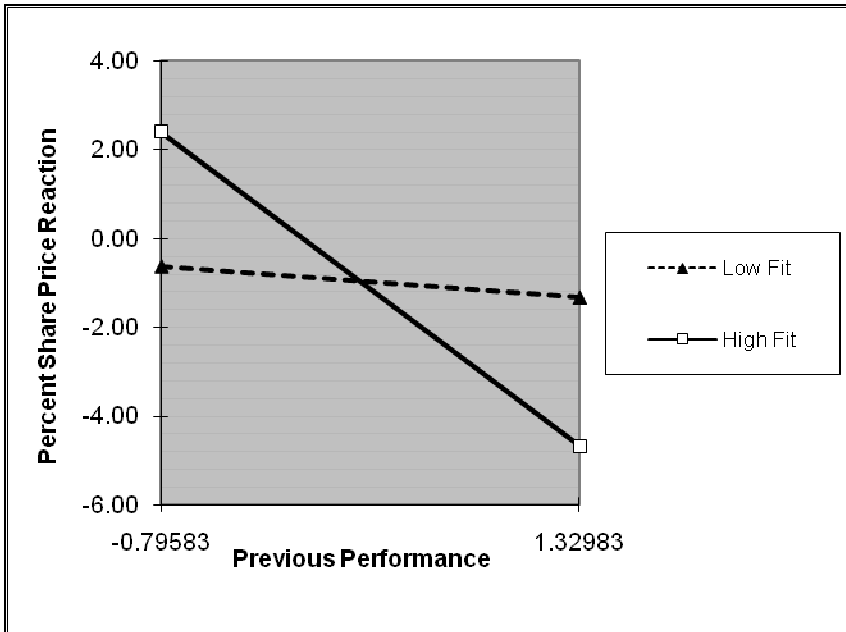


FIGURE A2
Fit X Previous Performance Interaction

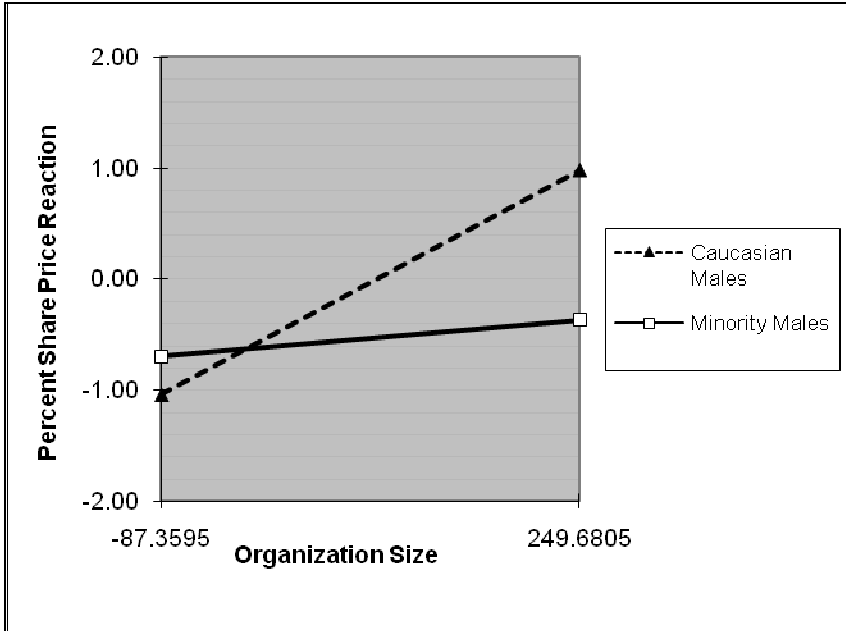


FIGURE A3

Race X Organization Size Interaction

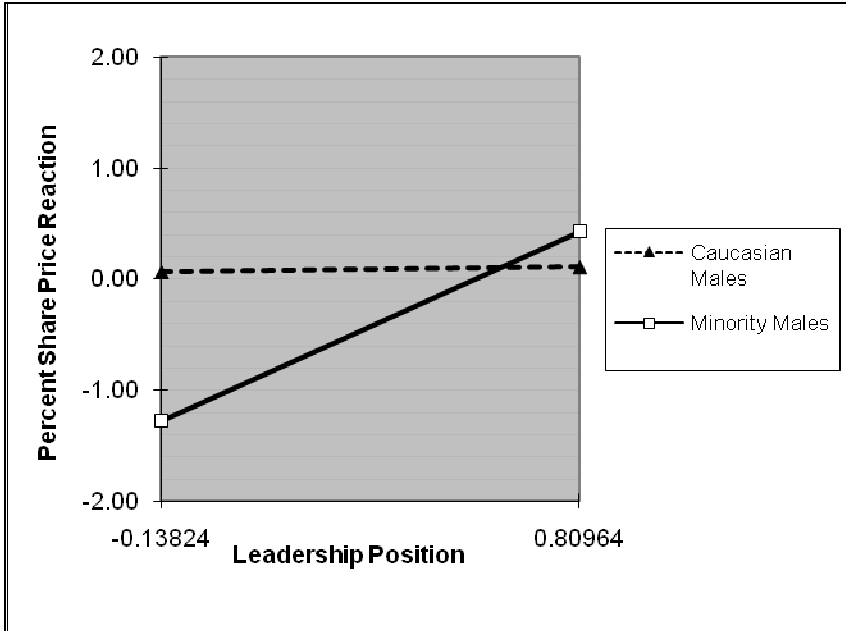


FIGURE A4

Race X Leadership Position Interaction