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When Markets Blink: Stock Price Responses to the Appointment of Minority Leaders

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WHEN MARKETS BLINK:
US STOCK PRICE RESPONSES TO THE APPOINTMENT OF MINORITY LEADERS

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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 members of the racial/ethnic majority into equivalent positions. Our dependent variable is the degree of change in share price following the announcement of minority and majority men into senior management positions. Market reaction to the naming of minorities into corporate leadership positions is significant and negative while the market's reaction to the naming of members of the racial/ethnic majority is significant and positive. Our findings suggest that racial/ethnic integration of corporate hierarchies may be impeded as investor reaction increasingly drives firm-level governance decisions.

Keywords*: discrimination; diversity; leadership; investor reaction; event study methodology; corporations*

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**Both authors contributed equally to this paper. For convenience, they are listed in alphabetical order.*

INTRODUCTION

This study examines how the appointment of racial/ethnic minorities into top management positions in the US impacts share price compared to the appointment of racial/ethnic majorities into equivalent positions. 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 American 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/ethnic minority for top positions.

People of color are significantly underrepresented in top management positions in American corporations. In 1990, less than 1 per cent of top management positions in US companies were held by minorities (Powell & Butterfield 1990). By 2000, this proportion had risen to just below 10 per cent (Mircoquest 2007). What these finding make clear is that the glass ceiling for people of color remains intact; access to positions of authority in American work organizations continues to be limited by race and ethnicity (Smith 1997; 1999; 2001; Acker 2006). Ceteris paribus, blacks and Latinos are significantly less likely than whites to hold positions of authority in work organizations (McGuire & Reskin 1993; Smith 1999; Smith & Elliott 2002).

Scholars have identified a number of mechanisms that reproduce the glass ceiling effect for people of color. These include exclusion of minorities from within job-specific and professional networks (Ibarra 1993; 1995; Smith-Lovin & McPherson 1993; McGuire 2002); lack of effective mentorship and/or sponsoring relationships (Kanter 1977; Thomas &

Alderfer 1989; Martin 1994; Blake 1999; Blake-Beard 2001); taste and statistical discrimination by those in authority (Baron & Bielby 1986; Acker 1990); homosocial reproduction (Kanter 1977; see also Baron & Pfeffer 1994; Brewer & Brown 1998); as well as non-conscious biases that contaminate employment decisions with stereotypes and prejudices (Fiske 1998; Reskin 2000a; 2000b). In addition to these factors, corporate boards of directors may face significant risks to appointing minority leaders, including organizational cultures averse to diversity, the racial/ethnic composition of the workforce and/or corporate management structure, and the cultural and political biases of customers.

Most scholarship on the limits to upward mobility for people of color—the so-called glass ceiling effect—has focused on actors, processes and structures internal to work organizations. Less attention has focused on mechanisms external to the firm that may advance or hinder the promotion of racial/ethnic minorities into top management positions. Yet a growing body of scholarship suggests that corporate decision makers are increasingly concerned about corporate stock price. Recent evidence suggests that managers and boards of directors increasingly place share value above other concerns, including meeting the needs and preferences of employees and peers (Zuckerman 1999; 2000; Davis 2005; Fligstein & Shin 2005; Zorn, Dobbin, Dierkes & Kwok 2005). According to this logic of firm governance, 'the firm should be oriented not to long-term growth but to increasing value for shareholders' (Zorn et al. 2005, p. 2). Thus, this business model identifies the primary influence on firm decisions outside the boundaries of the firm, specifically in the hands of market actors, such as large fund managers.

These recent trends in firm governance suggest that anticipated stock market reaction may increasingly impact decisions about firm leadership. However, 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 mobility chances of racial/ethnic minorities into top leadership positions. This analysis adds an important element to the scholarship on leadership diversity by examining how the market reacts to the promotion of racial/ethnic minorities into senior management positions. By analyzing market processes external to the firm that may impact firm behavior, we hope to contribute a more comprehensive understanding of mechanisms that limit or promote the mobility of people of color in contemporary work organizations.

THEORETICAL DEVELOPMENT AND HYPOTHESES

Investor Reaction as Interpretive Processes

Scholars have increasingly focused on the ways in which corporate decisions regarding financial reorganization, mergers, stock buyback plans, and firm downsizing have positively affected share value by demonstrating to investors that firm management seeks to maximize shareholder value (Unseem 1993; Davis, Diekmann, & Tinsley 1994; Zuckerman 1999; 2000; Fligstein 2001; Westphal & Zajac 2001; Fligstein & Shin 2005). The prevalence of such restructuring efforts has been interpreted as evidence that managers are increasingly attentive to market reactions to firm-level decisions. But how might investor reaction vary according to the race or ethnicity of the appointment of corporate leaders?

Departing from classical economic theory, new institutionalists argue that market processes are embedded in social processes (DiMaggio & Powell 1983; Granovetter 1985; Fligstein 1990). In some instances, social factors may affect investment behavior to such a degree that market efficiency is hindered or reduced (Zajac & Westphal 2004). We extend this body of work to consider how investors' assessments of particular individuals' ability to

successfully lead business organizations will shape their reactions and thereby affect stock prices positively or negatively. Building on Zuckerman (2004), we argue that rather than objective responses to financial criteria, market reactions reflect complex interpretive processes. The naming of a person of color to a senior management position presents a unique type of information because the short and long-term effects of this event are difficult to evaluate in any objective manner. Indeed, the initial market reaction to the naming of a new leader does not reflect the actual performance of the candidate, which at the time of the appointment is unknown. Rather, the initial stock price fluctuation reflects market actors' 'blink' response[1]—their immediate, perhaps automatic, attitude toward the incumbent leader.

Existing research finds a strong positive relationship between announcements of new incumbents to top management positions and stock price (Beatty & Zajac 1987; Davidson et al. 1993; Huson et al. 2004). These findings suggest that investors tend to interpret these announcements as indicators of future improvement of firm performance. While the naming of any new corporate leader is likely to lead to an increase in stock price, no previous study has considered the effect of the race or ethnicity of the appointee. Below we review the literature on workforce diversity to consider specific mechanisms that may impact how the market responds to these announcements.

Impediments to Leadership Diversity

As noted above, the literature on diversity in organizations has identified several mechanisms that impede workforce diversity. According to DiTomaso et al. (2007), workforce diversity refers to 'the composition of work units…in terms of the cultural or demographic characteristics that are salient and symbolically meaningful in the relationships among group members' (p. 474). While the broad literature on workforce diversity has focused primarily

on processes within organizations, we situate our work in this tradition and attempt to extrapolate from this firm-based literature to understand market processes external to the firm. Specifically, we draw on the theoretical contributions of this literature to identify social-cognitive mechanisms likely to produce negative market reactions to the appointment of minorities into top leadership positions.

Scholars of organizational diversity have shown increasing interest in identifying micro-level cognitive mechanisms that reproduce ascriptive inequalities within work organizations (Cook 2000; Reskin 2003). Social identity or social categorization theory suggests that individuals tend to identify themselves and others as belonging to distinct social groups or categories (Tajfel & Turner 1986; Ashforth & Mael 1989; Haslam 2001; Hogg 2001). Such categorization is based on dominant schemas rooted in salient cultural distinctions (Valian 1998). Ascriptive categories such as gender, race and ethnicity often serve as cultural 'superschema', which may lead members of a dominant group to develop implicit attitudes or stereotypes regarding the capabilities and qualifications of members of minority groups (Fiske 1992). Such stereotypes are often reinforced by observable status differences between racial/ethnic minorities and whites and between men and women in the workplace.

The similarity attraction model builds on social identity theory to suggest that in-group preferences often lead to evaluation bias (Byrne 1971; Biernat & Kobrynowicz 1997). 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). Furthermore, irrespective of individual identity, members of the organization will assess members of high status groups more positively in terms of competence and capability for leadership positions (Shenhav 1992; Fiske et al. 2002). Because similarity attraction preferences are automatic, they need not reflect the conscious preferences or values of the decision-maker. Indeed, evidence suggests that such assessments are often made independent of assessors' conscious desires, motives, beliefs or values (Kreiger 1995, cited in Reskin 2000a).

While the 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. There are several reasons to expect that social identity and similarity attraction processes will impact how the market assesses minority leaders. First, when particular jobs or occupations have traditionally been dominated by members of a majority racial/ethnic group, decision makers often assume a direct relationship between one's race or ethnicity and one's ability to perform the job successfully (Conway et al. 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). On the other hand, appointees from the racial/ethnic majority are likely to receive 'the benefit of the doubt' with regard to their capabilities or performance (DiTomaso 2007, p. 498).

Such inferences about outgroup capabilities will be particularly salient when one's ability to perform the job successfully cannot be measured directly, when judgment of one's qualifications is ambiguous, or when information about an individual is limited (Valian 1998; Gorman 2006). While 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), they are less likely than their white peers to have held leadership positions elsewhere. Because racial/ethnic minorities are 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 that racial/ethnic minorities—like women—are more likely to be promoted to top leadership positions in firms that are failing (Ryan & Haslam 2007),[2] thus contributing to the market's negative assessment of their potential.

In-group preferences 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). Market assessments of stock value happen quickly following the ascension of new corporate leaders. 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 promotion of a racial/ethnic minority man into a top leadership position will negatively and significantly impact share price.*
>
> *Hypothesis 2: The promotion of a racial/ethnic majority man into a top leadership position will positively and significantly impact share price.*

DATA AND METHODS

Sample

Two datasets were constructed to test the proposed hypotheses. Only men were included in the sample in order to provide a clearer understanding of the effects of race on investor reaction without the added factor of gender clouding the relationship.[3] To construct our two datasets, one of racial/ethnic majority males and one of racial/ethnic minority males, we searched the Lexis-Nexis database, the Wall Street Journal index, and the websites of the Fortune 1000 corporations. We defined the announcement date of the position (the event date) to be the date of the issued press release. Included in our two samples are the top management positions of Chairperson, Chief Executive Officer, President, and all other C-suite positions such as Chief Financial Officer, Chief Operations Officer, and Chief Information Officer, among others. The collection efforts acquiring the data and the inclusion of the stated positions remained constant throughout the searches. Given the sheer number of racial/ethnic majority males appointed to top management positions relative to the appointments of those similar positions for racial/ethnic minority males, our datasets represent a random sample of racial/ethnic majority males and a 100 per cent sample of racial/ethnic minority males.

The consistency present within both samples helps mitigate the potential that some positions may not affect market reaction to as great an extent as other positions. For example, one may argue that the appointment of a Chief Information Officer will likely not prompt the same response from investors as the appointment of a Chief Financial Officer. The varying level of reactions for these positions is not the primary concern for this study. All positions are present in both datasets; thus, the analysis that remains is a net-difference effect between investors' reaction to the appointment of ethnic majority males and investors' reaction to the appointment of ethnic minority males.

The foundation of event study methodology is to determine the market response to the analyzed event. It is likely that during the studied time frame (a 2-day event window), other announcements pertaining to these firms were also released. These other announcements, or confounding events, make the determination of the market reaction to the examined event less precise. As a result, we conducted further searches of these firms for the examined time frame to ascertain if any other events were announced. Our next step was the determination of a significant confounding event. Based on work by MacKinlay (1997), certain announcements were deemed significant in their potential to affect stock price; and as such, that firm's corresponding announcement of a top management position was removed from the analyzed data. Representative announcements that were categorized 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 1989-2006. Only executives of publicly traded firms with a verifiable announcement date were included in the samples. This resulted in a sample size of 128 for racial and ethnic minority males, and a sample size of

345 for ethnic majority males. With the removal of significant confounding events, the sample sizes were reduced to 105 and 284, respectively. 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. This resulted in a final sample size of 94 for racial and ethnic minority males and 245 for ethnic majority males. 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.

Methods 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), 'using financial market data, an event study measures the impact of a specific event on the value of a firm' (p.13). The foundation of an event study is that once new information is provided to the public, shareholders and institutional investors react given their adjusted perceptions of the organization's future cash flow or reduced risk (Fama 1970). Institutional investors, being entities with large amounts to invest such as insurance companies, mutual funds, pension funds, investment companies, and investment banks, now account for the majority of the overall volume in market trading. These institutional investments tend to be managed by professionals who are very knowledgeable. This knowledge of the professional managers fits well within the event study methodology. It may be that individual investors are unaware of the changes within the management of the

corporations whose stock they own; however, professional managers are indeed aware of the changes and happenings within the firms where they are invested.

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. Although we provide both the returns for the event day and the 2-day window in our results, our primary focus is on the returns for the 2-day window since this timeframe is most likely to provide the clearest understanding of the effect of our studied event.

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, analyse 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 recognized 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 per cent the examined firm's share price will increase 1.2 per cent. 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 per cent. The expectation is 1.2 per cent, but if the actual share price increased

by 2.2 per cent, then the abnormal return would be calculated as 1 per cent (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 analyse the abnormal or unexpected returns, two significance tests of the coefficients are presented, a standard parametric test and a generalized 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 generalized sign test determines the significance of the returns as they differ from the estimation period.

To further test our hypotheses, we conducted ANOVAs (analysis of variance) and OLS regressions. For the ANOVAs, we analyzed the mean differences between the two samples for the abnormal returns during the event windows examined. We also analyzed the mean differences between the two samples for the proportion of returns that were negative in order to control for large reactions. Negative returns were coded as a 1 and positive returns were coded as a 0. For the regression analyses, control variables were entered in order to account for their potential effect on the hypothesized relationships. Using the *Computstat* database, information pertaining to each organization for the year of the announcement was determined. Specifically, the number of employees in the organization, the previous performance of the firm (measured as the percentage change in operating income from the year prior to the announcement to the year of the announcement), and the value of the firm as derived by the price of the stock times the shares outstanding. The level of position of the

announcement was also controlled. CEOs were coded as a 1, and all other announcements were coded as a 0. Additionally, we controlled for the location of the organization. Using Key's (1949) typology of conservative Southern domains, culturally conservative locations were coded as 1 and all other locations were coded as 0. Company locations were collected from the *Compustat* database.

RESULTS

Descriptive statistics are presented in Table 1. Our hypotheses were tested with event study, ANOVA, and OLS regression analyses. For the event studies, we calculated 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). The analysis of variance (ANOVA) was conducted to test for significant differences between the two samples for both the abnormal returns and the proportion of negative and positive returns. And the OLS regression analyses were conducted to examine minority status as a predictor of the abnormal returns and cumulative abnormal returns while controlling for additional variables. Comparative analyses of the market adjusted returns for ethnic minority and majority men are presented in Table 2, the ANOVA results for the two samples are presented in Table 3, and the regression analyses of the main effect relationships for the two examined time periods are presented in Table 4.

-- Insert Table 1 about here --

Hypothesis 1 suggests that the announcement of racial/ethnic minority men will have a significant negative impact on share price, while Hypothesis 2 suggests that the announcement of ethnic majority men into equivalent positions will produce a strong and positive market reaction. We tested these hypotheses by the methods described above. The results indicate strong support for Hypotheses 1 and 2. For the event study, within the

examined 2-day window, share price significantly increases .47 per cent for the appointment of ethnic majority males ($p<.05$), and share price significantly decreases -.89 per cent for the appointment of minority males ($p<.05$). This trend follows on the day of the event in that ethnic majority males have a positive return and minority males have a negative return, though neither return reaches the level of significance (refer to Table 2).

The ANOVA results support these findings (refer to Table 3) with significant mean differences for both the abnormal return ($p<.10$) and the cumulative abnormal return ($p<.05$). Additionally, the proportion of negative returns for minority males was significantly greater than the proportion of negative returns for ethnic majority males ($p<.05$). And last, the significant relationship between race and share price change is also supported through regression analyses. We regressed the abnormal return and the cumulative abnormal return on the main effect of race while controlling for management position, region of company location, number of employees, firm value, and previous performance of the firm. Findings affirm that race is a significant predictor of investor reaction for both the day of the announcement ($p<.10$) and the 2-day window ($p<.05$) including the day of the announcement and the day following the announcement (refer to Table 4).

-- Insert Table 2, Table 3, and Table 4 about here --

DISCUSSION

A great deal of scholarship to date has identified several mechanisms internal to work organizations that reproduce barriers to the upward mobility of people of color—often referred to as the glass ceiling effect. Our research analyzes processes external to the firm—specifically, stock price fluctuations—that may also reproduce the glass ceiling. Fluctuations in stock price following the appointment of racial/ethnic minorities into top management

positions reflect the market's assessment of the corporation's future performance under new leadership. As such, stock price reactions represent an indirect barometer of racial attitudes and bias within society generally and among market actors specifically. By comparing the rise or fall of stock price following the appointment of ethnic minorities and majorities into senior management positions, we learn something about how market actors assess minorities' capabilities as business leaders.

Recent interdisciplinary advances in social psychology have identified several cognitive mechanisms that reproduce ascriptive inequalities in the work organizations. Within this growing field, scholars have demonstrated the importance of implicit and automatic stereotypes in shaping our evaluation of others' capabilities. In particular, similarity attraction model posits that evaluation bias will be stronger when one racial/ethnic group has traditionally dominated a position, when one cannot measure another's ability directly, when one is under time pressure and when one is not held accountable for one's evaluation. These circumstances effectively describe the conditions under which short-term market reactions are made toward people of color who break through the corporate glass ceiling. Thus, this theoretical model would predict that share prices would be negatively and significantly impacted by the appointment of racial/ethnic minorities into top leadership positions in American corporations.

Consistent with this theoretical prediction, we found that the market's reaction to the appointment of racial/ethnic minorities into top leadership positions was significant and negative. These findings are consistent with our hypothesis that investors would be skeptical of minorities' ability to successfully lead firms. Also consistent with our theoretical predictions regarding implicit bias toward racial/ethnic minorities but not toward appointees

who belong to the ethnic majority, the market reaction is significant and positive following the naming of a member of the ethnic majority into a top leadership position. Taken together, these findings suggest that investors may retain deeply racialized notions of leadership fitness, precluding their acceptance of minority candidates in leadership positions.

A primary objective of any publicly traded firm is to increase share price. Scholars have argued that we have entered a 'shareholder society' in which the profit-maximizing imperatives of shareholders have become the chief priorities of intra-firm managers and corporate boards (Zuckerman 1999; 2000; Khurana 2002; Davis 2005; Fligstein & Shin 2005; Zorn et al. 2005). Given the increasing influence of market reactions on corporate governance decisions, our findings present a pessimistic view with regard to the possibilities for continued integration of people of color into upper management positions.

Reinforcing this pessimistic interpretation of our results, recent scholarship suggests that CEOs and boards of directors increasingly consider anticipated market reaction when making decisions about firm governance (Unseem 1993; Davis, Diekmann, & Tinsley 1994; Zuckerman 1999; 2000; Westphal & Zajac 2001; Fligstein 2001; Fligstein & Shin 2005). Khurana's (2002) systematic study of the process of CEO succession in contemporary corporations suggests that boards carefully consider how investors will interpret and react to new appointees. Indeed, Khurana (2002) 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. He suggests that this trend represents 'the purely defensive, legitimacy-seeking mentality that characterizes many business decisions today' (p. 189). If this is indeed the case, our findings suggest that corporate decision makers are likely to be discouraged by investor reprisal following the

naming a minority into a top management position, and may avoid such appointments in the future.

Despite the pessimism suggested by our empirical findings, recent scholarship has identified several ways in which leadership diversity may improve corporate performance in the long term. For instance, Burt's (1997) structural holes perspective suggests that increased diversity within organizations increases the range of available information, skills, abilities and knowledge in the firm (see di Tomaso 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 (Ramirez 2000; O'Connor 2003; Fairfax 2005), motivating innovative problem solving (Jackson 1992), increasing decision quality (Cox 1994; McLeod et al. 1996) and increasing competitive advantage (Russo & Fouts 1997; Barnery & Wright 1998) and expanding access to diverse markets (Cox 1994).

If corporate boards of directors are serious about integrating senior management in American firms and avoiding negative market reactions, perhaps they must attempt to educate shareholders about the potential financial returns to promoting racial/ethnic minorities into top positions. Perhaps by highlighting the potential benefits to long-term performance, boards might assuage market actors concerns and reduce negative stock price reactions following appointments of people of color.

CONCLUSION

The current study serves as an important analysis of how markets respond when people of color break through the class ceiling and obtain positions at the top of corporate America. While we have identified important trends in the market assessment of racial/ethnic minorities as corporate leaders in the US, the current analysis is limited by its inability to specify the underlying processes that lead to stock price fluctuations following any changes in corporate leadership. Therefore, we envision at least two fertile areas of research to extend and build upon the current analysis.

First, in-depth case studies of large institutional investors could provide significant insight into how these individuals evaluate particular individuals' leadership capabilities and reach judgments about leadership capability. Though our quantitative findings are suggestive, we do not directly measure how large investors assess the leadership capabilities of minorities, nor how these assessments translate into market behavior. What kinds of information do large 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 mediate 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.

Second, our findings also suggest the need for qualitative analysis of the context in which boards of directors of American corporations make appointments to top positions. In-depth case studies of the process by which boards of directors make such decisions would

provide important insights into how and when anticipated market reactions impact these decisions. Indeed, such an analysis would illustrate to what extent anticipated or past market reactions affect board decisions about corporate leadership. What role does anticipated market reaction, the demographics of the customer base and industry labor force, and/or the national or regional political context 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 qualitative 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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Notes

1. Thus our reliance on the term 'blink' in our title to describe the market's reaction. In the recent bestseller *Blink,* Malcolm Gladwell highlights a variety of ways implicit cognitive processes reproduce inequality. The term 'blink' captures the automatic nature of nonconscious bias.

2. Ryan and Haslam (2007) only look at the 'glass cliffs' faced by women in leadership positions. The authors posit several factors that may contribute to this outcome, including the greater propensity for female leaders to accept such positions compared to while males. Female leaders perceive these appointments as an opportunity to prove themselves, while white males turn down such offers for fear the position will hurt their long term reputations. Women may be more likely to be appointed to these positions due to a 'sink or swim' mentality by boards of directors and/or due to the need to identify a scapegoat for the firm's failures. There may be parallels to the ascension of racial/ethnic minorities to similar positions however this has not been demonstrated empirically to date.

3. Approximately 13 per cent of the racial and ethnic minority sample was female.

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Table 1

Descriptive Statistics

	Racial and Ethnic Minority Males	Ethnic Majority Males
Variable	Mean (s.d.)	Mean (s.d.)
Average stock price	46.35 (25.33)	39.32 (31.06)
Volume of stock traded	3,900,022 (7,796,279)	6,266,850 (15,259,940)
Number of shares outstanding	535,194 (703,372)	752,291 (1,311,158)
Per cent change in income	.27 (.98)	.23 (.90)
Number of employees (in thousands)	51.42 (61.02)	69.36 (96.09)
Position (CEO 1 Others 0)	.32 (.47)	.40 (.49)
Region (Conservative 1)	.17 (.38)	.35 (.48)
Proportion of negative cumulative abnormal returns	.63 (.49)	.50 (.50)

Table 2

Event Study Results for Hypotheses 1 and 2

Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR) [a,b]

	Market Adjusted Returns $AR_{t=0}$	Market Adjusted Returns $CAR_{t=0,+1}$
Minorities in Top Management Positions (n=94)	-.45	-.89** <<
Ethnic Majorities in Top Management Positions (n=245)	.15	.47**

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

[b] All coefficients are expressed as percentages.

* $p < .10$ ** $p < .05$

Table 3

ANOVA results for Hypotheses 1 and 2

	Minority Males		Majority Males		
Variables	Mean	s.d.	Mean	s.d.	*F*
Abnormal Return	-.45	3.00	.15	2.75	2.74*
Cumulative Abnormal Return	-.89	3.79	.47	4.48	5.53**
Proportion Negative (AR)	.52	.50	.50	.50	.05
Proportion Negative (CAR)	.63	.48	.50	.50	4.18**

n=339 (245 Ethnic Majority Males, 94 Minority Males)

* p<.10 ** p<.05

Table 4

Regression results for Hypotheses 1 and 2

DV = Abnormal Return and 2-Day Cumulative Abnormal Return

	Abnormal Return			Cumulative Abnormal Return		
IVs	β	R^2	N	β	R^2	N
Position	.14**			.12**		
Region	.00			-.03		
Employees	.11*			.08		
Firm Value	-.04			-.06		
Previous Performance	-.10*			-.06		
Race	-.10*	.05	296	-.12**	.04	296

NOTE: Betas are for the last step reported.

* p<.10 ** p<.05