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New Scholars

BUT CAN S/HE LEAD? MARKET ASSESSMENTS OF BLACK LEADERSHIP IN CORPORATE AMERICA*

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ABSTRACT

This study analyzes how the appointment of Black leaders to top corporate positions impacts share price in comparison to the appointment of White leaders. Our findings are consistent with the glass cliff theory of corporate appointments. Specifically we find that the appointment of Black leaders has a significantly negative impact on share price in comparison to the appointment of White leaders to comparable positions for the 10-day period following the announcement. We also find that markets assess Black leaders appointed from outside the firm more positively than Black leaders promoted from within. Given these findings, corporate decision makers committed to promoting leadership diversity should focus on formalizing internal promotional processes and adopting preferential recruitment practices for outside candidates.

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In recent years, corporate leaders have touted workplace diversity as imperative to successfully competing in today's market. However, despite a rhetorical commitment to diversity, little progress has been made to fully incorporate racial minorities into the top ranks of the corporate hierarchy (Acker, 2006; Elliott & Smith, 2001; Smith, 1997, 1999, 2001). Indeed, signaling a commitment to workplace diversity is only the first step in achieving full incorporation of racial minorities in the American corporate structure (Alex-Assensoh, 2003; McKinely & Brayboy, 2003). To fully incorporate people of color, corporations must be committed to promoting racial minorities into top leadership positions where they can contribute in meaningful ways to the decision-making process (Alex-Assensoh, 2003).

Scholars have identified several mechanisms that limit or impede the upward mobility of racial minorities in work organizations. These barriers include discrimination and bias by those in authority (Acker, 1990; Baron & Bielby, 1986; Kanter, 1977; Reskin, 2000); lack of mentoring (Blake-Beard, 2001; Essien, 2003; Martin, 1994); exclusion from social and informational networks (Essien, 2003; McGuire, 2002; Smith-Lovin & McPherson, 1993); and uneven distribution of low-status assignments (Essien, 2003).

To date, most research on the barriers to promotion for people of color has focused on firm-level mechanisms, such as those listed above (see Smith, 2002, for a review of this literature). However, recent research has identified the difficulty of achieving integration if stakeholders and decision makers outside of the organization are not committed to racial integration. For instance, in their work on academic organizations, Weems (2003) and McKinely and Brayboy (2003) identify the ways in which the efforts of individual departments to integrate faculty ranks have been impeded by a lack of commitment from the overall institution and/or the university administrators.

In the corporate world, firm-level decision makers have increasingly adopted an approach to firm governance that places share value above other concerns, including meeting the needs of employees (Davis, 2005; Fligstein & Shin, 2005; Zorn et al., 2005; Zuckerman, 1999, 2000, 2004). Thus, decision makers' concerns about shareholder interests may impede internal commitment to the racial integration of leadership positions. The process by which executive positions are filled is highly secretive and subject to the priorities of boards of directors (Khurana, 2002). The net outcome of these decisions across the landscape of corporate America continues to be biased on the basis of race (Acker, 2006; Elliott & Smith, 2001). Despite these trends, few analyses to date have attempted to measure the short-term market impact of the appointment of racial minorities to top executive positions. The market reaction to the appointment of minority leaders serves as a barometer showing how the market assesses the leadership capabilities of racial minorities. Furthermore, by analyzing market processes external to the firm that may significantly impact firm behavior, we hope to contribute a more comprehensive understanding of existing constraints on the promotion of people of color into top leadership positions in contemporary work organizations.

In the next section we review the relevant literature in order to derive testable hypotheses regarding the likely impact of race on market reactions to the appointment of top executives. We then test these hypotheses with a unique data set that includes the short-term share price fluctuations following the appointment of leaders by race in Fortune 1000 companies from 1996 to 2006. We conclude by discussing the implications of our findings for corporations, individuals, and regulatory agencies aiming to promote the integration of corporate hierarchies and ultimately break the glass ceiling for racial minorities.

LITERATURE REVIEW

How might market reaction vary according to the race of the appointee to a top leadership position? To frame this question theoretically, we draw on three bodies of work: (1) research on the impact of cognitive biases on racial inequality; (2) the "glass cliff" theory regarding the conditions under which minorities are appointed to leadership positions; and (3) the existing literature on contextual factors that impact stock market reactions to new leadership. Taken together, these bodies of literature suggest that while the market response to the appointment of new leaders is generally positive, a variety of structural and cognitive factors are likely to produce negative market responses to the appointment of racial minorities in comparison to the appointment of Whites. However, we argue that this effect will be mediated by whether Black leaders are appointed from within or from outside the firm.

Cognitive Bias and Racial Inequality

Scholars of organizational diversity have shown increasing interest in identifying microlevel cognitive mechanisms that reproduce ascriptive inequalities within work organizations (Cook, 2000; Reskin, 1999, 2000). Social identity or social categorization 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 categorization is based on dominant schemas rooted in salient cultural distinctions (Valian, 1998). Ascriptive categories such as race often serve as cultural "superschemas," which may lead members of a dominant group to develop implicit attitudes or stereotypes regarding the capabilities and qualifications of members of racial minority groups (Fiske, 1993). Such stereotypes are often reinforced by observable status differences between racial minorities and Whites in the workplace.

A great deal of research has identified a number of contexts in which such cognitive biases are likely to be triggered (Hewstone, 1990; Ibarra, 1993; Kanter, 1977; McPherson, Smith-Lovin, & Cook, 2001). For instance, in-group biases are more likely to become salient when one's ability to perform a job successfully cannot be measured directly (Gorman, 2006; Valian, 1998). Out-group biases are more likely to be triggered when decision makers face time pressure or otherwise fail to invest sufficient time in accumulating accurate and complete information on an individual's credentials or qualifications (Greenwald & Banaji, 1995). Finally, distorted evaluations of candidates are more likely to influence decision makers' assessments when decision makers are not held accountable for their reasoning (Tetlock, 1992; Tetlock & Lerner, 1999). All of these factors are likely to impact the market's assessment of newly appointed leaders. Market actors typically have access to only limited information on new leaders, cannot measure directly their ability to lead the firm, and are able to make their assessments anonymously. All of these factors suggest that racial bias will play a significant role in the market's assessment of new corporate leaders.

Recent research on voters' assessments of Black candidates reinforces this expectation. A recent study by Mcllwain (2007) found that White voters tend to evaluate Black candidates less favorably than they do White candidates. Mcllwain's work is consistent with previous research that suggests Black political candidates are significantly less likely to be perceived by White voters as strong leaders (Terkildsen, 1993; Williams, 1990).

As in the case of workplace bias, certain contexts are more likely to trigger voters' negative assessment of Black candidates' capabilities. In particular, when leadership competence is the most salient issue in an election, voters are more likely to assess Black candidates negatively (Mcllwain, 2007). Obviously in the case of market reactions to the appointment of Black executives, the issue of leadership is paramount. Thus, we expect that in the context of corporate promotions, market reaction will be particularly negative toward Black appointees.

Glass Cliffs and Racial Inequality

Recent work by Ryan and Haslam (2005, 2007) suggests an additional mechanism by which Black leaders are likely to be negatively evaluated by market actors. Drawing on a wide variety of data sources, Ryan and Haslam (2005, 2007) argue that women and racial/ethnic minorities are more likely to be appointed to a top leadership position in poorly performing firms and/or firms in crisis—a phenomenon the authors term "the glass cliff" (Ryan & Haslam, 2005, 2007). The authors attribute this tendency to a range of structural and cognitive factors, including implicit assumptions about women's suitability for crisis, overt and so-called benevolent forms of discrimination, and in-group favoritism and evaluation bias.

Given the greater probability for women and minorities to be placed in charge of risky firms, the failure or declining success of these firms is likely to reinforce gender and racial stereotypes and lead observers to blame women and minority leaders for firm decline (Emrich, 1999; Meindl, 1993). Over time these tendencies are likely to reinforce and sustain doubts regarding the suitability of minorities for leadership positions (Haslam et al., 2001; Ryan & Haslam, 2007). Indeed, Ryan and Haslam cite the reaction of one observer who noted the correlation between female leadership and firm decline and concluded that corporations "may well be better off without women on the board" (Judge, 2003: 21, cited in Ryan & Haslam, 2007: 556).

While Ryan and Haslam primarily consider the impact of the appointment of women leaders, their findings likely parallel the processes by which Black leaders are appointed to top executive positions. Thus, because of the structural position and characteristics of firms under the leadership of newly appointed Black executives, the market is likely to evaluate their leadership in negative terms.

> *Hypothesis 1: The appointment of Black candidates to top leadership positions will negatively impact share price.*

Stock Market Reaction to New Leadership

The literature reviewed above considers the likely market reaction to newly appointed Black executives in comparison to White executives. However, there are also factors that may mediate the negative impact of shareholder reaction to the naming of minority leaders. Existing research finds a strong positive relationship between announcements of new incumbents to top management positions and shareholder reaction (Beatty & Zajac, 1987; Davidson, Worrell, & Dutia, 1993; Furtado & Rozeff, 1987; Huson, Malatesta, & Parrino, 2004; Keys et al., 2003; Lubatkin et al., 1989; Mahajan & Lummer, 1993). These findings suggest that, generally speaking, shareholders interpret such announcements as indicators of future improvement of firm performance.

Recent scholarship has attempted to determine whether leadership assessment of new executives varies depending on a variety of contextual factors (Haslam, 2001; Oakes, Haslam, & Turner, 1994). Among these analyses, substantial attention has been paid to the insider or outsider status of the appointee (Beatty & Zajac, 1987; Davidson, Worrell, & Cheng, 1990; Furtado & Roseff, 1987; Lubatkin et al., 1989). The research findings on whether and how insider/outsider status impacts share value are mixed. For instance, Lubatkin et al. (1989) found that market response to the appointment of a new leader is more positive when the leader is appointed from outside and when the firm is performing strongly. However, other scholarship has found no clear impact based on appointee status (Beatty & Zajac, 1987), while still other studies have observed positive reactions to the appointment of insiders (Furtado & Roseff, 1987). Taken together, these findings suggest that under certain conditions, the insider or outsider status of new leaders may mediate shareholder reaction. For instance, appointing a leader from outside the firm seems to indicate to shareholders that the firm is pursuing a bold new direction in firm leadership. On the other hand, promoting a new leader internally may signal to shareholders that the firm is healthy and sound.

Importantly, none of the studies in this area have considered the interaction of the race of the appointee with insider/outsider status. As noted above, the appointment of a member of a minority group to a top management position is a rare event (Microquest, 2007; Powell & Butterfield, 1997). The exceptionalism of the event, therefore, may be interpreted by market actors as signaling particular characteristics of the firm. For instance, investors may consider the naming of an external minority candidate as a bold move, a sign that the firm is doing well and can afford to take calculated risks with regard to the racial composition of senior management. Likewise, the external appointment may be interpreted as a sign of a firm's willingness to innovate and experiment with new management styles or directions (Khurana, 2002).

Drawing on and extending existing research, therefore, we predict that the promotion of Black leaders from outside the firm rather than an internal promotion is likely to signal that the firm is willing to take a calculated risk on a nontraditional choice. On the other hand, and as noted above, Black leaders promoted from within are likely to signal negative firm performance and are therefore more likely to provoke the cognitive and evaluative biases outlined above.

> *Hypothesis 2: The appointment of Black leaders external to the firm will have a less negative impact on share price than the appointment of Black leaders promoted from within.*

METHODS

Sample

Dates of announcements of executive appointments were collected through searches of the Lexis-Nexis and *Wall Street Journal* databases, and Fortune 1000 Web pages. To obtain the appropriate racial designation, the executive announcements were cross-referenced with Web sites such as Forbes.com and NNDB.com, which provide biographical information including information on race. From this information, two datasets were constructed, a sample of Black executive announcements and a sample of White executive announcements. Given the sheer number of White executive announcements relative to Black executive announcements, a matched sample of White executive announcements was constructed out of the larger random sample that had been collected. The exhaustive search for Black executive announcements yielded only 93 total appointments, including announcements within non-publicly traded firms (which were later removed, given the basis of this analysis), whereas the random search for White executive announcements was halted at 350 appointments.

Since Black executives may hold lower organizational positions and be better represented in smaller organizations than White executives, it is important to offer a matched sample for the examined comparison. First, we matched the gender of the executive to help reduce the potential effect that gender may have on the proposed relationship; second, we matched the firm value to better equate the organization's prominence in the stock market; third, we matched the position of the announcement, specifically focusing on CEO announcements as against other top executive announcements; and last, we matched the year of the announcement, so the overall timing of the market would not be a factor. The matching process, though, is always imperfect. There is a risk that the results may also reflect factors that were not statistically controlled, such as the industrial sector in which the firm operates. And, given the rarity of our examined event, additional challenges were present in perfectly matching the above-mentioned factors. Great care, however, was taken to align the samples as closely as possible.

We defined the date of announcement of the position (the event date) as 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-level positions such as chief operating officer, chief marketing officer, and chief financial officer. The consistency of positions present within both samples and the matching process performed helped to assure that the analysis represents a net-difference effect between investors' reactions to the appointment of White executives and investors' reactions to the appointment of Black executives. The announcement dates fell within the time period 1996–2006, and only announcements within publicly traded firms with verifiable announcement dates were included. This resulted in a sample size of 70 for each dataset.

For the second part of this study, which examined whether the appointee was a candidate who was internal or external to the firm, all executives' biographies were researched to determine when they joined their respective organizations. The samples were then split by insider or outsider status, and the corresponding event study analyses were conducted. The matched samples produced rather comparable distributions of internal and external hires. For the Black executives, 43 were promoted from within the firm and 27 were external hires; and for the White executives, 41 were promoted from within the firm and 29 were external hires. For all aspects of this study, the shareholder returns were collected from the Center for Research in Security Prices (CRSP).

Method of Analysis

Using a standard event study analysis, we examined the abnormal stock market return for the day of the event, and we examined the cumulative abnormal stock market return for the 2-day window (the day of the event and the day following the event) and the 11-day window (from the day of the event to the 10th day following the event). The basis of an event study is that investors will react to new information based on their adjusted perceptions of the organization's future cash flow or risks. In event study research, it has been suggested that a slightly larger window than merely the announcement date is preferable, to account for lag times in responding to the information (MacKinlay, 1997), but longer timeframes should be used with caution given the likelihood of confounding events also taking place in that period (McWilliams & Siegel, 1997). Thus, our maximum examined window is 11 days, in order to limit the likelihood that events other than the executive announcement are affecting the stock price.

Event studies involve three primary steps: estimate the expected return, estimate the unexpected (or abnormal) return, and analyze the unexpected return (MacKinlay, 1997). A firm's abnormal return has a predicted mean of zero for the event timeframe. If an abnormal return occurs during that time, it is recognized as an adjustment by the market given the new information available. To estimate the expected return, the analysis statistically models the relation between a firm's shareholder return over the previous year to the shareholder return for the same time period based on an equally weighted portfolio from the American Stock Exchange, the New York Stock Exchange, and the NASDAQ. Estimating the relationship between each firm and the diversified portfolio of stocks means that external movements in the stock market are largely controlled.

RESULTS

Our research questions were tested by calculating the abnormal returns for the day of the announcement, the cumulative abnormal returns for the 2-day timeframe of the day of the event and the day following the event, and the 11-day timeframe of the day of the event to 10 days following the event. Comparative analyses are presented in Table 1, and the insider/outsider comparative analyses for Black and White executive announcements are presented in Table 2.

Table 1. Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR)

	White (n = 70)	Black (n = 70)
Market Adjusted Returns $AR_{t=0}$	–.03	.16
Market Adjusted Returns $CAR_{t=0,+1}$	.19	.24
Market Adjusted Returns $CAR_{t=0 \text{ to } +10}$	.95	–1.89***

Note: All coefficients are expressed as percentages
*p < .10, **p < .05, ***p < .01

Table 2. Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR)

	White Insider (n = 41)	White Outsider (n = 29)	Black Insider (n = 43)	Black Outsider (n = 27)
Market Adjusted Returns $AR_{t = 0}$	.10	–.22	–.09	.57*
Market Adjusted Returns $CAR_{t = 0, +1}$	.45	–.18	.12	.42
Market Adjusted Returns $CAR_{t = 0 \text{ to } +10}$	1.52	.14	–1.96**	–1.78**

Note: All coefficients are expressed as percentages
*p < .10, **p < .05, ***p < .01

Our first hypothesis suggests that the announcement of Black executives will have a weaker impact on share price than comparable White executive announcements. For the examined windows, the results are mixed. In fact, for the day of the announcement, Black executive announcements show a positive response (16%) and White executive announcements are slightly negative (–.03%). For the 2-day window of the day of the announcement and the day following the announcement, the announcement responses are both positive, at .19% for the White executive announcements and .24% for the Black executive announcements. By the 10th day following the announcement, the White executive announcements show a positive cumulative abnormal return of .95% and the Black executive announcements show a significant negative cumulative abnormal return of –1.89% (p < .01).

The second hypothesis suggests that announcements of Black executives from outside the firm will yield a more positive share price reaction than announcements of Black executives from within the firm. This holds true for all examined event windows. On the day of the announcement, share price for firms announcing Black leader appointments from outside the organization significantly (p<.10) increased by .57%, and share price for firms announcing Black leader appointments from within the firm decreased, showing a return of -.09%. In the 2-day window, the positive trend continued for Black leader appointments from outside the firm; however, in the longer 11-day window, the trend shifted, resulting in a significant (p < .05) decrease, with share price showing a return of –1.78%. For internal announcements, share price reactions were negative, with the exception of a slight positive return of .12% for the timeframe of the day of the event and the day following the event. The share price reaction significantly (p < .01) decreased, showing a return of –1.96%, in the 11-day window. White executive announcements internal to the firm yielded consistent positive returns, whereas White executive announcements from outside the firm yielded mixed results.

DISCUSSION

Scholarship on the leadership mobility of racial minorities within firms has devoted a great deal of attention to the processes internal to work organizations. Relatively little attention has been paid to market processes external to the firm that may impact the racial integration of corporate hierarchies. Relying on a unique data set of share price responses to the appointment of White and Black leaders to Fortune 1000 companies, our analysis examined how the stock market reacts to the appointment of minority leaders. We drew on a range of theoretical traditions to predict how the appointment of Black corporate leaders was likely to impact firm share price. Specifically, we predicted that due to cognitive and structural factors, stock markets were likely to react negatively to Black leaders in comparison to White leaders. We also predicted that this negative reaction would be mediated by whether Black leaders were promoted from within the firm or appointed from outside.

Overall we find that market reactions to the appointment of Black leaders, though initially positive, become significantly negative in the longer term. We also predicted that the negative share price effect following the appointment of minority leaders would be mediated by whether the appointee was promoted from within or hired from outside the firm. This hypothesis was supported, though with conditions. As we predicted, share prices go up when Black leaders are hired from outside. As we suggested above, this may signal to investors that the firm is embarking on a brave new strategy for firm leadership. However, as with the comparative analysis of White and Black appointees examined above, we find that the market reaction becomes increasingly negative over time. Again it seems the more market actors learn about the firms to which Black executives have been appointed, the more negatively they evaluate share value.

These findings, while consistent with our hypotheses, provide stronger support for glass cliff theory than for cognitive bias theory. If the mechanism that produces negative reactions among investors is nonconscious bias, then we should observe strong and stable negative reactions toward Black leaders. Instead, investors' immediate reaction toward Black leaders was slightly more favorable to Blacks. The temporal pattern of share price reaction is more consistent with glass cliff theory. Specifically, as market actors learn more about the firms that have appointed Black executives, the less favorably they evaluate the financial prospects of the companies overall. This pattern is consistent, therefore, with the glass cliff theory put forward by Ryan and Haslam (2007), which predicts that minority executives are more likely than White executives to be appointed to poorly performing firms.

CONCLUSION

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 intrafirm managers and corporate boards (Davis, 2005; Fligstein & Shin, 2005; Khurana, 2002; Zorn et al., 2005; Zuckerman, 1999, 2000, 2004). Several scholars have suggested ways in which the promotion of diverse leadership among private firms can enhance firm productivity, increase firm profitability, and assist the firm in appealing to a diverse client and customer base. Increasing firm diversity increases capacity and performance in a variety of ways, including increasing profitability and managerial effectiveness (Fairfax, 2005; O'Connor, 2003; Ramirez, 2000), motivating innovative problem solving (Jackson, 1992), increasing decision quality (Cox, 1993; McLeod et al., 1996), increasing competitive advantage (Barney & Wright, 1998; Russo & Fouts, 1997), and expanding access to diverse markets (Cox, 1993).

Despite the observed and expected benefits of diverse leadership throughout corporate America, however, our findings suggest that Black corporate leaders are faced with promotional opportunities inferior to the opportunities given to their White counterparts. More specifically, Black executives—whether they are promoted from within or recruited from outside—are more likely to be promoted during periods of financial stress, while White executives are more likely to be offered leadership positions in firms that are performing well. The results of this phenomenon are twofold. First, share price declines as investors learn more about the financial state of the company. The financial state of the firm combined with negative share price fluctuations will likely result in a greater struggle for Black leaders to effectively lead the firm. As a result, they are more likely to be singled out as unfit leaders rather than as capable individuals appointed to struggling firms (Ryan & Haslam, 2007).

What can be done regarding the apparently discriminatory timing of promotional opportunities for Black executives? Traditional approaches to affirmative action are unlikely to be effective. After all, all the firms in the study were likely in full compliance with their affirmative action policies throughout the study period. Instead, we identify two possible means by which companies may more effectively pursue leadership diversity without pushing Black executives over the so-called "glass cliff."

First, in the case of internal promotions, corporate promotional practices might be formalized in a way that provides potential leaders with more discretion over the timing of their promotions. For example, an internal job posting system for top jobs would provide potential appointees with the opportunity to decide when and under what financial conditions they will compete for appointments to top positions. Of course, promotional practices—particularly those that impact the composition of the very top executive positions—are notoriously informal. However, attempts to formalize even these appointments may go far in addressing the discriminatory timing aspects of Black appointments.

Second, firms must also address timing discrimination in the case of leaders recruited from outside the firm. To do so, perhaps, firms committed to leadership diversity could adopt preferential hiring and recruitment policies and practices for potential minority leaders during periods in which the firm is performing strongly. Such policies might encourage firms to avoid placing minority leaders in precarious leadership positions while also promoting the appointment of minority leaders to good firms.

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