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Examining investor reactions to appointments of Black top management executives and CEOs

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Abstract

Research summary: The authors investigated investor reactions to the appointment of Black executives. The results indicate that investors respond: (1) more negatively to the announcement of Black CEO appointments than to White CEO appointments, (2) more negatively to the announcement of the Black top management team (TMT) appointments than to White TMT appointments, (3) more negatively to the announcement of Black CEO appointments than to Black TMT appointments, and (4) more negatively to the announcement of Black CEO appointments who are promoted from outside the firm than to the announcement of Black CEO appointments who are promoted from inside the firm. Moreover, the post-hoc analysis revealed that investors react more negatively to the TMT appointment of Black executives than to the TMT appointment of Latino or Asian executives. Our results show the negative association between the appointment of Black executives and investors'

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A previous version of this article was posted on April 17, 2021. In response to specific concerns expressed by readers, the authors (in consultation with the journal editors) decided to make changes to the accepted version, prior to the upcoming copyediting, typesetting, proofing, and correction stages that precede an article being published as a final Version of Record per Wiley's article production policy. The updated version includes a more detailed description of the data, notably the construction of the cumulative abnormal return measure and the coding method used to infer the race of executives. It also contains an appendix that presents robustness results. In addition, it focuses on mechanisms that are directly tested in the motivation of hypotheses and the discussion of results. Finally, words and phrases were updated to reflect current use. The hypotheses, data set, empirical results, and direct interpretation of the results are unchanged. The authors and editors would like to thank the readers who expressed the concerns.

reactions, and we hope it sparks future research examining causal factors and their potential solutions.

Managerial summary: Investors react more negatively to the announcement of Black CEO appointments than to White CEO appointments, and more negatively to the announcement of Black CEO appointments who are promoted from outside the firm than to the announcement of Black CEO appointments who are promoted from inside the firm. Moreover, investors react more negatively to TMT appointments of Black executives than to TMT appointments of White, Latino, or Asian executives.

KEYWORDS

announcement, Black, CEO, executive, race

1 | INTRODUCTION

The announcements of top executive appointments, particularly those of CEOs, have significantly impacted investors' evaluation of firms (Gangloff, Connelly, & Shook, 2016). Studies have shown that investors react to these appointments either positively or negatively, depending on specific characteristics of the newly appointed CEOs (Pastore, Tommaso, & Ricciardi, 2017; Rose, 2019). Several studies found evidence that investors react more negatively to a minority-status CEO's appointments, such as female CEOs (Gaughan & Smith, 2016; Lee & James, 2007). These appointments are rare, as only 37 of the Fortune 500 companies are led by female CEOs (Hinchliffe, 2020). While 7.4% of these firms have female CEOs, the situation is even worse for Black CEOs as Black CEOs lead only 0.8% (four executives) of these firms. In fact, there have only been 18 Black CEOs appointed in Fortune 500 companies in the last 20 years (Wahba, 2020).

Despite evidence that the appointment of minority-status CEOs can be met with adverse investor reactions (Cook & Glass, 2009a; Lee & James, 2007), there is limited information on how investors might react to the appointment of Black CEOs (e.g., Cook & Glass, 2009a, 2009b). This is a significant limitation in the literature, considering that investors can react more negatively to certain minorities, such as female CEOs, and that the number of Black CEOs is significantly lower than that of female CEOs (Wahba, 2020). This limitation is further supported by studies indicating that Black people can experience discriminatory treatment (Gligor, Newman, & Kashmiri, 2021). Public opinion polls published recently reflect this sentiment. More than 52% of the U.S. Black adults believe that being Black negatively impacts their ability to "get ahead." In addition, 84% of those Black adults consider racial discrimination to be a major obstacle in their professional development (Pew Research Center, 2019). Furthermore, about six out of 10 Americans (58%) consider race relations in the U.S. to be "generally bad" (Pew Research Center, 2019). Thus, it is plausible that investors might react more negatively to the announcement of Black top executive appointments than they would to the

announcement of White top executive appointments. Such a possibility is also consistent with the findings of Cook and Glass (2009a) who uncovered similar effects for an earlier time period.

We investigate the possibility that the stock market might have a discriminatory reaction to Black executives' appointments by examining stock market reactions to the announcement of Black top executive appointments during the years 2001–2020. Specifically, we compare these reactions to the reactions to the announcement of White top executive appointments (CEO and top management team). We focus on our comparisons on White executives because they account for most of the top management team (TMT) and CEO appointments in the U.S. (Barron, 2020; Charlton, 2019). To gain further insights into this phenomenon, we also evaluate and compare stock market reactions to Black CEO appointments to stock market reactions to Black TMT appointments (e.g., CFOs, COOs, Executive Vice Presidents). In addition, we investigate and contrast stock market reactions to the announcements of Black CEO appointments who are promoted from within the firm to those of Black CEO appointments who are promoted from outside the firm. Moreover, to offer a more comprehensive perspective on the phenomenon of interest, in a post-hoc investigation, we also explore the role of gender and further compare investors' reactions to the announcements of Black TMT appointments to those of Latino and Asian TMT appointments.

Overall, our findings indicate that stock market reactions are more negative to the announcements of Black CEO appointments than to announcements of White CEO appointments. Similarly, stock market reactions are more negative to the announcements of Black TMT appointments than to announcements of White TMT appointments. In addition, stock market reactions are less negative to the announcements of Black TMT appointments than to announcements of Black CEO appointments. In addition, stock market reactions to the announcements of Black CEO appointments are more positive to Black executives who are promoted from within the firm than to Black executives promoted from outside the firm. Moreover, the post-hoc analysis revealed that, when disaggregating executives by race, gender does not influence investors' reactions. Also, while investors react more negatively to the TMT appointment of Black executives than to the appointment of executives belonging to other races (e.g., White, Latino, Asian), no differences are observed between investors' reactions to TMT appointments of White, Latino, and Asian executives. Importantly, as a limitation of the method used, the results indicate an association between the appointment of Black executives and investors' reactions, not a causal relationship. As detailed in the latter part of the manuscript, our findings allow us to make several noteworthy contributions to the scarce literature examining investors' reactions to the appointment of racial minority executives (e.g., Cook & Glass, 2009a, 2009b).

2 | THEORETICAL DEVELOPMENT

2.1 | Black people in management

Despite state and federal efforts to promote diversity, there are still relatively few Black executives in top management positions (Bouie, 2018; Carter & Peters, 2016; Greene, 2019; Higgins, 2017). Although some progress has been made "according to both quantitative and qualitative data, working African-Americans-from those laboring in factories and on shop floors to those setting C-suite strategy-still face obstacles to advancement" (Roberts & Mayo, 2019). For example, in their experiment Eaton, Saunders, Jacobson, and West (2020) changed the

name on the CV to manipulate race, and found that employers had a less favorable perception of Black job candidates than White or Asian job candidates, although they had the same qualifications.

The lack of diversity in the corporate world, primarily at the C-suite level, is clearly illustrated by the fact that only four Fortune 500 firms have a Black chief executive (i.e., Lowe's, Tapestry, TIAA, and Merck & Co). A recent report exploring workplace diversity, *Being Black in Corporate America*, published by nonprofit group Center for Talent Innovation, has concluded that today's inclusion and diversity efforts are failing Black professionals (Charlton, 2019). The report revealed that only 8 % of white-collar professionals are Black people, that the majority of Black professionals reported experiencing racial prejudice at work (i.e., 58%), and that Black professionals experience more microaggressions (i.e., insensitive or offensive comments) than any other racial group. Furthermore, Black managers account for only 3.2% of the senior leadership positions at large U.S. firms (Brooks, 2019). As such, the study concludes that "despite being ambitious, having strong professional networks and being career driven, Black professionals face slower career advancement, which makes them more likely to leave" (Charlton, 2019). Moreover, the percentage of Black people in management is on decline (Greenwald, 2015). As such, it has been suggested that "Black professionals face prejudice, a lack of support from managers, and a cycle of exclusion that keeps them from the C-suite" (Center for Talent Innovation, 2019).

2.2 | Stereotypes and racial discrimination

Stereotypes can influence how the stock market will react to announcements of Black executive appointments. Stereotypes can be described as social judgments of single group members that cause persons to perceive and evaluate group members in a manner that is consistent with group expectations (Biernat & Kobrynowicz, 1997). Stereotypes are most salient when pertaining to surface-level characteristics, such as race (Gligor, 2020).

Racial discrimination has been investigated within multiple domains and studies found empirical evidence that it is still a salient problem. It is argued that "whether it is being passed over for a job, followed in a store, or assumed to be 'the help', acts of subtle racial bias are a common feature of life in America for racial and ethnic minorities" (Ozier, Taylor, & Murphy, 2019, p. 1088). Racial discrimination can be blatant or subtle. On the one hand, blatant discrimination is expressed through actions such as denying service, resorting to racial slurs or physical violence aimed at racial minorities. On the other hand, subtle racial discrimination is expressed through negative nonverbal behavior, while also expressing favorable opinions toward racial minorities when surveyed (Dovidio, Kawakami, Johnson, Johnson, & Howard, 1997). Blatant discrimination is less frequent today, while that is not the case for subtle discrimination (King & Jones, 2016; Ozier et al., 2019). One such example would be investors reacting more negatively to the naming of Black executives than to the naming of White executives. This type of subtle discrimination is more difficult to deter as it does not carry the stigma and consequences associated with blatant forms of discrimination.

Subtle discrimination seems to permeate public life. Studies show that, when shopping, Black people are offered worse deals than White people (Ayres & Siegelman, 1995). A recent survey of Black people indicated that 56% of the respondents stated that they've experienced difficulty in being considered for jobs and 57% in earning equal pay (Bleich et al., 2019). In addition, 51% indicated that they have been the target of racial slurs while 52% reported being

subjected to micro aggressions. To further amplify the issue, research shows that discrimination against Black people surges during times of economic recession (Bianchi, Hall, & Lee, 2018). These studies further indicate the possibility of unconscious and conscious investor racial discrimination toward Black people.

2.3 | Token status and glass cliff

Theoretical perspectives from the token status and glass cliff literature streams provide further support for the relationships proposed in our study. Kanter's token status theory posits that an organization's demographics can have intense, negative consequences for the organization's token members and the organization as a whole (Brinkhuis & Scholtens, 2018; Kanter, 1977; Reskin, McBrier, & Kmec, 1999). In essence, token members can be described as underrepresented social group members (Kanter, 1977). According to the tenets of this theory "the extent to which a social identity group member is a token dramatically shapes that person's experiences within a work group or organization, and this tends to be negative" (Watkins, Simmons, & Umphress, 2019, p. 335).

Kanter (1977) identified three perceptual phenomena experienced by token members: visibility, contrast, and assimilation. Individuals utilize physical features, such as race, to categorize themselves and others and predict behavior (Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). Considering that individuals seek a positive social identity, they are more inclined to be positively biased toward those who are similar to them and negatively biased toward those who are different (e.g., question their competence). As compared to majority individuals, token members experience increased visibility as observers are more aware of their presence. The heightened visibility can cause token members to believe that their performance is intensely scrutinized, and thus cause them to experience increased performance pressure as they might be more afraid of making mistakes and underperforming (Watkins et al, 2019). Contrast arises due to amplification of differences between majority and token members, which can cause the isolation and exclusion of token members. Finally, assimilation arises when, due to categorization, token members feel pressured to behave consistent with stereotypes ascribed to them by majority individuals. Kanter (1977, p. 231) indicates that "tokens become encapsulated in limited roles that give them the security of a 'place' but constrain their areas of permissible or rewarded action". That is, rather than behaving freely, token members might experience pressure to behave in a way that is consistent with the expectations ascribed to them.

Our motivation for exploring investors' reactions to appointments of Black executives is also consistent with the literature on leadership categorization which indicates that "an enhanced fit between a target individual's characteristics and the perceiver's implicit ideas about a typical leader (i.e., leadership prototypes) leads to positive leadership evaluations and effective leadership perceptions" (Gündemir, Homan, De Dreu, & Van Vugt, 2014, p. 1). This process of assessing fit can result in the observer's attribution to the target of unobserved stereotypical traits associated with the target's ascribed category, and ultimately, in the observer's decision to classify the target as a leader or non leader (Lord & Maher, 2002).

Interestingly, studies on token status indicate that individuals experiencing this status are negatively affected in terms of how they are perceived by other individuals, irrespective of any other possible discriminatory treatment (Lee & James, 2007). There is evidence that, today, Black people are still used as token members, and even solos, for various professional positions (Sherrer, 2018). As such, they are likely to experience negative consequences due to detrimental

stereotypes and perceptual biases (Gligor, 2020). As it pertains to the hypotheses of interest to this study, it is plausible that investors may distort the image of Black executives in a manner that conforms to the stereotypes associated with Black individuals and thus view the appointment less favorably than they would the appointment of a White executive.

Ryan and Haslam (2005) point to an additional mechanism, labeled the "glass cliff", that might explain investors' negative reaction to the appointment of Black executives. These authors indicate that certain minorities, such as Black executives, are more likely to be appointed in top executive positions in firms that perform poorly or firms in crisis. In particular, Ryan and Haslam (2005) argue that the glass cliff effect occurs due to a variety of factors, such as benevolent discrimination, evaluation bias, and in-group favoritism.

Considering the probability for Black executives to be appointed in leadership positions of firms underperforming or experiencing a crisis, the ensuing performance decline or failure of these risky firms could further reinforce racial stereotypes and lead investors to associate Black leadership with firm decline (Cook & Glass, 2009a). If Black executives are consistently appointed to such precarious leadership positions, and their respective firms continue on the downward trajectory, over time such investor stereotypes are likely to be cemented, thus reinforcing the perception that Black appointments will hurt firm performance.

In sum, considering the above arguments, it is plausible for Black executive leadership to be linked to a more negative expected future firm performance than White executive leadership. This effect is likely to occur for both, Black CEO appointments and Black TMT appointments.

Hypothesis 1. (H1)*: Stock market reactions will be more negative to the announcements of Black CEO appointments than to announcements of White CEO appointments.*

Hypothesis 2. (H2)*: Stock market reactions will be more negative to the announcements of Black TMT appointments than to announcements of White TMT appointments.*

The token status theory argues that as the proportion of minority to majority becomes less imbalanced, minority leaders would experience reduced negative consequences (Kanter, 1977). The number of Black CEOs is extremely rare, while the number of Black executives in TMT positions (e.g., CFOs, COOs, Executive Vice Presidents) is slowly increasing relative to the number of Black CEOs (Center for Talent Innovation, 2019). Considering that we have more Black TMT executives than Black CEOs, it is expected that the former group will experience reduced performance pressure and lower perceived performance risk as compared to the latter one.

Further, as TMT executives are less influential than CEOs, investors are likely to consider their appointments as less impactful on the firms' future performance. As such, we expect that the announcement of the appointment of a Black individual to a firm's TMT team will generate a less negative investor reaction than the announcement of the appointment of a Black individual to the CEO position. Formally stated:

Hypothesis 3. (H3)*: Stock market reactions will be less negative to the announcements of Black TMT appointments than to announcements of Black CEO appointments.*

Uncertainties surrounding newly appointed CEOs can cause a significant level of anxiety for the stakeholders of the firm (Berns & Klarner, 2017; Bilgili, Tochman Campbell, Ellstrand, & Johnson, 2017). Studies show that poorly managed CEO successions, unexpected ones, or the appointment of minority CEOs, such as female CEOs, can negatively affect the value of the firm

(Lee & James, 2007; Minichilli, Nordqvist, Corbetta, & Amore, 2014; Shen & Cannella Jr, 2003). Consistent with our earlier arguments presented above, we posit that the anxiety and negative implications surrounding CEO succession are amplified when the successor is a Black individual. However, we also posit that these effects can be attenuated under certain conditions.

Past research has identified the insider/outsider distinction as a noteworthy variable to be considered when investigating CEO succession (Georgakakis & Ruigrok, 2017; Ramachandran, 2018). Although studies found mixed effects when exploring the impact of insider/outsider status on investor reactions (Rose, 2019), there are theoretical reasons to consider its role. We build on Shen and Cannella Jr's (2003) finding that insider CEO successors are viewed more favorably than external ones. They argued that insiders possess more firm-specific knowledge and are more likely to receive support from their executive teams. In their study comparing investors' reactions to male and female CEO appointments, Lee and James (2007) found that investors have more favorable reactions to insider female CEOs than to outsider female CEOs. These authors argue that "insider status provides additional information upon which to assess the incumbents' competence and qualifications. Moreover, it presumes the incumbent's familiarity and expertise in the organization or industry" (Lee & James, 2007, p. 231). It is plausible that investors would also have similar perspectives on insider and outsider Black CEO appointments. Further, consistent with the token status perspective, investors may react more negatively to the appointment of Black CEOs because they might consider that they were chosen because of their minority status, not because they were the most qualified. However, such perception could be less relevant for insider promotions. Therefore, we explore the following:

Hypothesis 4. (H4)*: Stock market reactions to the announcements of Black CEO appointments will be more positive for Black executives who are promoted from within the firm than for Black outsiders.*

3 | METHODOLOGY

3.1 | Sample

We gathered a sample of announcements of top executive appointments (CEO, COO, CFO, President, Executive Vice President) using LexisNexis (i.e., PR Newswire and Business Wire), Factiva (e.g., Wall Street Journal, Business Week, The Economist), and press releases from January 1, 2001 to December 31, 2020. The sampling procedure yielded 9,028 announcements. However, because we sought to examine investors' reactions to these announcements, private companies and those not public at the time of the new executives' appointments were not retained in the sample, resulting in a sample of 6,532 events. In addition, 784 events were deleted because their IPOs were within 1 year of the announcement date, thus lacking the returns to evaluate the market model parameters (i.e., shares had to be traded every day in the −240 to −20- day window to compute a beta). Moreover, 1,062 events were announcements of firms on Nasdaq's "pink sheet" which are usually quite small. Further, 398 observations constitute appointments of executives to positions within the same firm (subsidiaries or divisions). Following this procedure, the final sample consisted of 4,288 unique announcements, of which 1,662 were of CEO appointments and 2,626 TMT appointments. Within this sample we identified 83 Black CEOs and 291 Black TMTs.

Consistent with the recommendations by Cook & Glass, (2009a, 2009b), we sought to obtain a matched sample for the comparisons of interest to this research. First, we matched the executives' gender to mitigate the impact that gender could have on the examined relationships. Second, in order to ensure that the timing of the market would not bias the results we matched the year of the announcement (the event date). Third, in order to equate the organization's prominence in the stock market we matched the firms' value using coarsened exact matching. Fourth, we ensured the executives held comparable positions (Cook & Glass, 2009a, 2009b). Following this process, we identified 83 corresponding White CEOs and 291 White TMTs.

3.2 | Sources and variables

We accessed information related to stock returns using the tapes offered by University of Chicago's Center for Research in Securities Prices. Compustat was utilized to access firm measures (e.g., assets). The 13F fillings contained in the Spectrum Database were used to assess stock ownership. In addition, Factiva searches, the Execucomp database, press releases, and media articles were utilized to identify information regarding the executives along with the reasons for their appointments. Moreover, in order to better assess the executives' race, we also consulted additional sources, such as the executives' LinkedIn profile, Facebook or Twitter account, NNDB.com, media sources (e.g., Bloomberg/businessweek.com, Forbes.com, Economist.com), and company websites. Our coding procedure is consistent with the approaches utilized in the literature to examine similar phenomena (Lee & James, 2007). Specifically, researchers have coded *race* based on observers' perception of the executives' race, rather than self-identification (Cook & Glass, 2009a, 2009b; Cook & Glass, 2014). This is done because the phenomenon of interest is examined from the perspective of external observers (i.e., investors' perception). As such, similar to investors, we used all publicly available information and photos of the executives to code the *race* variable.

Importantly, we employed due diligence and consulted these multiple sources for each executive. For the initial step, using the resources discussed above, two analysts (who also collected the data) independently coded the race of the executives. That is, the analysts considered all the information (e.g., photos, self-reported information, third-party reported information) found in the referenced sources. The cases of self-reported race (i.e., executives disclosing their race on a publicly available source) were 74% for Black executives and 21% for White executives. For the second step, the analysts compared the codes. The analysts' comparison of the codes yielded an initial inter-coder reliability score of 98%. For the third step, to address the 2% discrepancy, the authors sought additional sources (e.g., all sources available on Google and other search engines) and subsequently met to discuss these observations. The process resulted in a final inter-coder reliability score of 100%.

3.2.1 | Independent variables

The independent variables for this study are *race* and *firm insider*. As such, *race* was coded as 1 for Black executives and 0 for White executives. Likewise, *firm insider* was coded as 1 if the executive was promoted from within the company and 0 if the executive is not promoted from within the company. We used several sources to determine if the executive was promoted from within the company, such as the firm's announcement of the appointment, the firm's

website, the executive's LinkedIn profile, and the executive's vita. We also created an interaction variable labeled *Black insider*, coded as 1 if the individual is a Black insider and 0 otherwise. Importantly, non-White executives and non-Black executives were excluded from this sample.

3.2.2 | Control variables

We controlled for several variables that might impact the results. First, the context of the appointment can impact how the stock market will react to the announcement (Lee & James, 2007). Possible contexts include, poor performance, natural succession, restructuring, forced resignation, and acquisitions. Research suggests that investors display different reactions to natural succession as compared to successions that occur under other circumstances (Friedman & Singh, 1989). We coded *reason for appointment* as 1 if the circumstances were unusual (poor performance, previous CEO being forced to resign, external threat, the firm was acquired, or management restructuring) and 0 if the circumstances were not unusual (vacant position or natural succession). We also controlled for the firm's performance the year prior to the new CEO announcement as it might impact the context for the new CEO's entrance. As such, *previous performance* was operationalized as net income divided by sales for the year before the announcement. In addition, we controlled for *firm size* measured as logarithm of total assets. Further, consistent with extant literature, we controlled for technical influences such as the market model root mean square error (RMSE), the cumulative abnormal return over [−10,-1], firm beta (BETA), and market-to-book ratio (MTB) (Durand, Paugam, & Stolowy, 2019; Ross, 2010).

We also controlled for the presence of institutional investors. We measured institutional holdings as a percent of shares owned by institutions.

Moreover, additional background characteristics of the newly appointed executive could impact investor reactions. For example, *previous experience* and *industry insider*. The construct *previous experience* was coded as 1 if the executive had previous CEO experience and 0 if the executive did not have prior experience. Similarly, *industry insider* was coded as 1 if the individual appointed comes from the same industry and 0 if the executives comes from a different industry. Lastly, we controlled for CEO's age and gender. Male was coded as 1 and female as 0.

3.3 | Event study method

Event study is an appropriate methodology for studying abnormal returns (Fama, Fisher, Jensen, & Roll, 1969; He, Sun, Zhang, & Li, 2020). We followed step-by-step the procedure utilized by Lee and James (2007) to examine a similar phenomenon (i.e., difference in investor reactions between male and female executive appointments). Considering that our subsample of Black CEOs is small, standard approaches for evaluating statistical significance might not be accurate due to possible small sample distribution assumptions violations. As such, bootstrapping standard error yield more robust standard errors (McWilliams & Siegel, 1997). In essence, the sample consists of N firms with each firm displaying T returns ($T = -240 + 1$ returns for $N \times T$ observations). Every draw entails taking N observations with replacement. For each iteration, certain observations can occur once, more than once, or not at all. Following this procedure, we compute cumulative abnormal returns (CARs) and obtain standard errors from the distribution across 500 iterations (Lee & James, 2007).

3.4 | Results

Table 1 summarizes descriptive statistics for the variables of interest and CARs over the −1, +1 window for Black and White CEO appointments as well as the results for hypotheses 1–3. Interestingly, for both, Black and White appointments, over half of the appointments resulted from promotions from within the firm. Further, over three fourths of the appointments are executives from the same industry.

Hypothesis 1 posits that the announcements of Black CEO appointments will lead to more negative stock market reaction than the announcements of White CEO appointments. Table 1 indicates substantive differences in the 3-day cumulative returns for White CEO appointments (0.58%) and Black CEO appointments (−4.31%). Moreover, the t-statistic comparing the two subsamples is $t = 3.57$ ($p = .001$) offering support for H1.

Table 1 shows the 3-day cumulative returns are substantively different for White TMT appointments (0.45%) and Black TMT appointments (−3.02%). Further, the *t*-statistic comparing

TABLE 1 CAR (−1, +1) of CEO and TMT appointments and descriptive statistics for 2001–2020

Variable	Black CEOs ($N = 83$)	White CEOs ($N = 83$)	Black TMTs ($N = 291$)	White TMTs ($N = 291$)
	Mean (*SD*)			
Previous performance	−0.48 (3.10)	−0.85 (2.47)	−0.91 (1.75)	−0.72 (1.64)
RMSE	0.045 (0.021)	0.061 (0.035)	0.058 (0.013)	0.072 (0.049)
BETA	0.894 (0.652)	0.914 (0.597)	1.104 (0.710)	0.714 (0.411)
MTB	1.71 (0.85)	1.48 (0.63)	1.97 (0.98)	1.53 (0.70)
Age	52.12 (5.86)	50.44 (6.17)	46.86 (5.53)	49.42 (5.21)
Gender	0.87	0.89	0.69	0.76
Assets (log)	6.07 (2.34)	6.21 (2.08)	6.53 (1.85)	7.34 (1.83)
Institutional holdings	32.75 (17.43)	38.57 (21.52)	43.45 (16.07)	41.85 (19.39)
Reason for appointment	0.28 (0.31)	0.21 (0.17)	0.19 (0.28)	0.23 (0.16)
Previous experience	0.14 (0.11)	0.17 (0.06)	0.12 (0.05)	0.14 (0.09)
Firm insider	0.85 (0.17)	0.81 (0.21)	0.63 (0.38)	0.52 (0.30)
Industry insider	0.93 (0.34)	0.89 (0.27)	0.69 (0.28)	0.75 (0.41)
	Mean *t*-stat (*p* value)			
CAR (−1, +1)	−4.31% 3.41 ($p = .010$)	0.58% 2.26 ($p = .037$)	−3.02% 2.70 ($p = .021$)	0.45% 2.06 ($p = .048$)
Positive/negative	0.74	0.52	0.80	0.41
t-statistics				
Comparing Black and White CEO appointments			3.57 ($p = .001$)	
Comparing Black and White TMT appointments			3.14 ($p = .017$)	
Comparing Black CEO and TMT appointments			2.95 ($p = .025$)	

the two subsamples is $t = 3.14$ ($p = .017$) offering support for H2. As such, stock market reactions were more negative to the announcements of Black TMT appointments than to announcements of White TMT appointments.

In addition, Hypothesis 3 proposes that stock market reactions will be less negative to the announcements of Black TMT appointments than to announcements of Black CEO appointments. (H3). As results in Table 1 indicate, the 3-day cumulative returns for Black TMT appointments (−3.02%) and for Black CEO appointments (−4.31%). The t-statistic comparing the two subsamples was $t = 2.95$ ($p = .025$) offering support for H3.

3.5 | Multivariate regression

Since it is plausible for investors' reactions to be influenced by characteristics of the firm and those of the appointed CEO, we further explored these relationships in a multivariate setting. That is, we estimated multivariate regressions using characteristics of the CEO and the firm as independent variables, and cumulative abnormal returns as the dependent variable. Moreover, because regressions with CARs as the dependent variables are systematically heteroskedastic, we weight these by the standard error of the market model regression used to calculate them (Ross, 2010). Firm characteristics contain firm size (log of assets), the reason for the appointment (financial distress vs. natural succession), previous performance (net income divided by sales in the year preceding the appointment), and the percent of institutional holdings. As the percent of institutional holdings is not available for some observations, we estimated two sets of models: one that includes institutional holdings (Models 1 and 2) and one that does not (Models 3 and 4). Multicollinearity was not a threat as the variance inflation factors range from 1 to 2. The weighted least squares regression results are presented in Table 2.

Results in Table 2 provide further support for Hypothesis 1 as indicated by the coefficients for race in both regression models (−5.24 and − 5.92). In addition, Hypothesis 4 proposes that stock market reactions to the announcements of Black CEO appointments will be more positive for Black executives who are promoted from within the firm than for Black outsiders. We tested this hypothesis by creating and incorporating into the regression models an interaction variable for Black insider. Results in Table 2 indicate that the stock markets react to Black CEO appointments more negatively than to White counterparts. Further, the interaction term was positive. The reaction to Black insiders in Models 2 and 4 is the sum of the race and firm insider coefficients. For Model 2 it was $-15.85 + 14.79 = -1.06$, and for Model 4 it was $-17.32 + 15.04 = -2.28$. Thus, we can conclude that, although investors' reactions to Black CEO insiders are still negative, they are less negative than those to Black CEO outsiders. Combined, the results offer support for Hypothesis 4.

3.6 | Robustness checks

We performed several robustness checks on the regression models to confirm the results' validity. Initially, we investigated the threat of collinearity among the independent variables. Table 3 depicts a correlation matrix for the CEO and TMT appointments subsamples. As the results indicate, the majority of the correlations are insignificant except, as expected, the correlations between race and the interaction of race and firm insider, firm insider and the interaction of race and firm insider, and age and previous CEO experience.

TABLE 2 Multivariate regression results depicting the impact on cumulative abnormal returns of 2001–2020 CEO appointments

Variable	Model 1	Model 2	Model 3	Model 4
Intercept	3.24	3.51	1.97	2.25
RMSE	−0.02	−0.02	−0.1	−0.1
BETA	−0.01	−0.01	−0.02	−0.01
MTB	1.48	1.43	1.68	1.62
Age	−0.06	−0.05	−0.09	−0.07
Gender	−1.32	−1.28	−1.11	−0.98
Industry insider	−1.18	−1.17	−1.46	−1.38
Previous experience	−0.93	−0.89	−1.04	−1.01
Reason for appointment	0.26	0.28	0.35	0.34
Firm size	0.02	0.01	0.01	0.01
Institutional holdings	0.05	0.03		
Previous performance	1.27	1.19	1.36	1.32
Race	−5.24 ($p = .005$)	−15.85 ($p = .000$)	−5.92 ($p = .008$)	−17.32 ($p = .000$)
Firm insider	1.38	1.38	1.49	1.39
Black insider (interaction of race and firm insider)		14.79 ($p = .000$)		15.04 ($p = .000$)
F	3.74 ($p = .024$)	4.21 ($p = .031$)	3.14 ($p = .017$)	4.03 ($p = .0015$)
R^2	0.11	0.15	0.08	0.12

We also tested whether previous CEO experience impacts cumulative abnormal returns (Table 2) but found no such evidence. We do acknowledge the possibility that between 2001 and 2020 a firm might have announced multiple CEO appointments. Our data indicates that <0.05% of the firms appeared more than once in the sample. As such, it is not likely that the standard error terms were affected by independence issues. However, we also generated a fixed-effects model (i.e., where companies appear more than one time), and did not find a difference in results.

Importantly, we also performed counterfactual analysis and sought to account for possible coding errors. Specifically, we recoded 10% of the Black observations as White and 10% of the White observations as Black. The analysis of the recoded data provided further support for the hypotheses (Table A1). As Table A1 indicates, the results are less strong with the intentionally introduced errors, as one would expect.

4 | POST HOC ANALYSIS

4.1 | Motivation for post hoc analysis

The main objective of this manuscript was to examine whether investors react more negatively to the announcement of Black top executive appointments than to the announcement of White top executive appointments. However, in order to provide further insights into investors'

TABLE 3 Independent variables' correlation matrices for subsamples of CEO and TMT appointments

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Race		−0.07	0.08	0.04	0.02	−0.01	*0.20*	−0.02	0.01	*0.55*	0.02	0.01	0.03
2. Gender	0.13		0.06	0.02	−0.01	0.05	0.03	0.02	0.02	0.01	0.03	0.01	0.02
3. Age	0.03	0.09		0.01	0.07	0.01	*0.36*	0.01	0.01	0.02	0.01	0.02	0.02
4. Firm ins./out.	0.01	0.13	*0.18*		0.02	−0.02	0.02	0.03	0.05	*0.47*	0.05	0.02	0.04
5. Industry ins./out.	0.03	0.05	*0.17*	0.01		0.01	0.04	−0.01	0.02	0.02	0.02	0.03	0.01
6. Reason for apt.	0.02	−0.02	0.01	0.03	0.03		0.02	0.02	0.03	−0.01	0.01	0.01	0.01
7. Prev. CEO exp.	−0.06	0.03	*0.43*	0.02	0.02	0.02		0.02	0.02	0.01	0.03	0.02	0.06
8. Firm size	0.02	0.01	0.02	−0.02	0.02	0.02	0.01		0.02	0.09	−0.10	*0.21*	0.04
9. Previous perf.	0.01	0.03	0.02	0.01	0.01	0.01	0.02	0.02		−0.12	0.11	−0.13	−0.03
10. RMSE	0.02	0.01	0.01	0.03	0.01	0.03	0.01	0.01	0.13		0.06	0.07	0.02
11.Beta	0.03	0.01	0.02	0.01	0.01	0.02	0.01	0.02	−0.12	0.07		−0.07	0.03
12.MTB	0.04	0.03	0.01	0.02	0.02	0.02	0.04	0.03	0.16	−0.08	−0.06		0.06
13. Race × firm ins.	*0.46*	0.01	0.03	*0.43*	0.02	0.02	0.01	0.05	0.03	−0.02	−0.01	0.04	

Note: The correlations for the independent variables for the CEO appointments sample are shown in the upper right corner while the correlations for the independent variables for the TMT appointments are indicated in the lower left. Italicized correlations are statistically significant at $p < .05$.

reactions to the announcement of Black top executive appointments we considered that novel insights could emerge from considering additional minority groups. According to most recent estimates, the major racial/ethnic groups in the U.S. are White non-Latino (60.1%), Latino (18.5%), Black (13.4%), and Asian (5.9; United States Census Bureau, 2019). These groups account for nearly 98% of the U.S. population. As such, we also compared investors' reactions to the announcement of Black top executives to reactions to the announcement of other minority-status executives, such as Latino and Asian people.

Past studies have compared investors' reactions to the announcement of White top executives to reactions to the announcement of other minority-status executives, but aggregated all minority racial groups into the same "minorities" category (Cook & Glass, 2009a, 2009b). However, not distinguishing between minorities can offer incomplete insights as studies show that different minority groups are subject to different stereotypes (Gündemir, Carton, & Homan, 2019; Rosette, Leonardelli, & Phillips, 2008). Thus, investors' reactions might not be the same for all minority executives.

Conducting the post hoc analysis also has implications for the theoretical lenses employed in hypothesis development. That is, the token status and the glass cliff theories would arguably also apply to Latino and Asian executives. However, if we find no evidence that investors react negatively to the appointment of Latino and Asian executives, then there might be additional factors that negatively bias investors' reactions to appointments of Black executives.

Moreover, some studies have suggested that investors might react differently to the announcement of male executives than they do the announcement of female executives (Ding & Charoenwong, 2013; Lee & James, 2007). However, the findings of these studies are not consistent. While some suggest that investors react more favorable to the appointment of male executives (i.e., Lee & James, 2007), others suggest the opposite (Ding & Charoenwong, 2013). Therefore, in order to address these inconsistencies, we also consider the possible role of the executives' gender in the post-hoc exploratory investigation. Disaggregating executives by race and gender in the post hoc analysis should offer a more in-depth perspective on these contradictions in extant literature.

Because of the small number of female CEOs in our sample, we focus on TMT appointments. Our sample of TMT appointments consists of 202 Black males, 89 Black females, 1,612 White males, 502 White females, 92 Latino males, 24 Latino females, 68 Asian males, and 37 Asian females. In order to offer a detailed and comprehensive perspective, we considered all possible gender/race combinations.

4.2 | Post hoc analysis results

First, our findings indicate no difference between investors' reactions to the TMT appointment of Black males and Black females ($t = 0.98$; $p = .307$). Second, the results showed that investors reacted more negatively to the TMT appointment of Black male executives than they did to the appointment of While males ($t = 3.21$; $p = .001$), White females ($t = 3.09$; $p = .002$), Latino males ($t = 2.98$; $p = .024$), Latino females ($t = 2.75$; $p = .019$), Asian males ($t = 3.02$; $p = .003$), and Asian females ($t = 2.53$; $p = .031$). Third, the results showed that investors reacted more negatively to the TMT appointment of Black female executives than they did to the appointment of While males ($t = 3.48$; $p = .001$), White females ($t = 3.20$; $p = .003$), Latino males ($t = 3.11$; $p = .007$), Latino females ($t = 2.64$; $p = .029$), Asian males ($t = 3.13$; $p = .004$), and Asian females ($t = 2.21$; $p = .038$). We offer a summary of the results in Table 4.

TABLE 4 CAR (−1, +1) TMT appointments and descriptive statistics for 2001–2020 for Black, White, Latino, and Asian executives

Variable	Black males ($N = 202$)	Black females ($N = 89$)	White males ($N = 1{,}612$)	White females ($N = 502$)	Latino males ($N = 92$)	Latino females ($N = 24$)	Asian males ($N = 68$)	Asian females ($N = 37$)
	Mean (*SD*)							
Previous perf.	−0.98 (1.64)	−0.86 (1.55)	−0.59 (1.21)	−0.79 (1.45)	−0.74 (2.98)	−0.61 (2.31)	−0.86 (2.31)	−0.72 (2.03)
RMSE	0.049 (0.011)	0.051 (0.009)	0.081 (0.013)	0.074 (0.031)	0.059 (0.035)	0.068 (0.045)	0.093 (0.041)	0.074 (0.062)
BETA	1.212 (0.392)	1.175 (0.827)	0.831 (0.356)	0.693 (0.384)	0.714 (0.394)	0.825 (0.490)	0.922 (0.611)	0.987 (0.488)
MTB	1.90 (0.87)	2.04 (0.63)	1.41 (0.52)	1.58 (0.79)	1.20 (0.43)	1.03 (0.73)	1.28 (0.39)	1.37 (0.48)
Age	44.23 (4.78)	47.91 (5.20)	48.11 (6.32)	49.71 (4.30)	56.21 (8.35)	48.14 (9.20)	50.82 (5.21)	54.41 (9.10)
Gender	1.00	0.00	1.00	0.00	1.00	0.00	1.00	0.00
Assets (log)	6.24 (1.64)	6.12 (1.76)	7.11 (1.30)	6.22 (1.69)	5.01 (2.04)	6.76 (2.41)	5.43 (1.43)	6.44 (2.36)
Institutional hold.	41.23 (15.41)	43.97 (14.12)	42.61 (14.11)	44.41 (13.92)	38.33 (14.53)	40.57 (12.24)	39.42 (13.31)	39.54 (11.44)
Reason for apt.	0.17 (0.13)	0.14 (0.21)	0.20 (0.11)	0.25 (0.19)	0.20 (0.19)	0.17 (0.29)	0.44 (0.21)	0.32 (0.16)
Previous exp.	0.14 (0.12)	0.11 (0.07)	0.13 (0.12)	0.15 (0.18)	0.14 (0.18)	0.16 (0.09)	0.16 (0.12)	0.14 (0.32)
Firm insider	0.53 (0.29)	0.60 (0.23)	0.59 (0.28)	0.48 (0.25)	0.60 (0.10)	0.57 (0.41)	0.52 (0.24)	0.58 (0.21)
Industry insider	0.62 (0.21)	0.65 (0.19)	0.79 (0.52)	0.76 (0.48)	0.80 (0.45)	0.75 (0.30)	0.80 (0.25)	0.87 (0.31)
	Mean *t*-stat (*p*-value)							
CAR (−1, +1)	−2.98% 2.72 ($p = .019$)	−3.03% 2.94 ($p = .016$)	0.46% 1.25 ($p = .121$)	0.44% 1.12 ($p = .139$)	0.43% 1.04 ($p = .098$)	0.47% 1.22 ($p = .110$)	0.54% 1.47 ($p = .075$)	0.58% 1.34 ($p = .092$)
Positive/negative	0.61	0.73	0.52	0.58	0.49	0.57	0.69	0.51
t statistics (*p* value)								
Comparing to Black males	–	0.98 ($p = .307$)	3.21 ($p = .001$)	3.09 ($p = .002$)	2.98 ($p = .024$)	2.75 ($p = .019$)	3.02 ($p = .003$)	2.53 ($p = .031$)
Comparing to Black females	0.98 ($p = .307$)	–	3.48 ($p = .001$)	3.20 ($p = .003$)	3.11 ($p = .007$)	2.64 ($p = .029$)	3.13 ($p = .004$)	2.21 ($p = .038$)

5 | DISCUSSION

5.1 | Study implications

Our findings provide evidence that investors might be sensitive to the race of executives appointed to leadership positions within firms. Specifically, the results indicate that shareholders can develop biased performance expectations for firms, depending on the race of their newly appointed executives. Namely, investors respond: (a) more negatively to the announcement of Black CEO appointments than to White CEO appointments, (b) more negatively to the announcement of Black TMT appointments than to White TMT appointments, (c) more negatively to the announcement of Black CEO appointments than to Black TMT appointments, and (d) more negatively to the announcement of Black CEO appointments who are promoted from outside the firm than to the announcement of Black CEO appointments who are promoted from inside the firm.

Our findings offer several contributions to strategic management research. We augment the succession literature exploring the impact of the newly appointed executives' characteristics' on shareholders' reactions. Past studies indicate that CEO characteristics, such as gender (Brinkhuis & Scholtens, 2018; Lee & James, 2007), age (Leitch & Sherif, 2017) education (Malmendier & Tate, 2008), facial features (Gomulya, Wong, Ormiston, & Boeker, 2017), background (Zhang & Wiersema, 2009), origin (Rhim, Peluchette, & Song, 2006) and modesty (Ridge & Ingram, 2017) impact investors' reactions to the announcement of CEO appointments. We make a noteworthy contribution to this stream of research by offering insights into the impact of race. Despite the growing evidence that Black people can experience discrimination in various aspects of their social and professional lives, there is a scarcity of research examining potential investor racial bias associated with the appointment of Black executives (e.g., Cook & Glass, 2009a, 2009b). We contribute to this body of literature in several ways.

First, our study builds on Cook and Glass' (2009a) research who investigated how the appointment of Black leaders to executive positions impacts investors' reactions in comparison to the appointment of White counterparts. Notably, Cook and Glass (2009a) examined the impact of announcements released during the 1996–2006 period. However, studies show that racial attitudes are dynamic and change over time (Krysan & Moberg, 2016). As such, by examining investors' reactions to announcements released during the 2001–2020 period our study reveals more current investor attitudes toward the appointment of Black executives.

Second, Cook and Glass (2009a) used a sample of 70 Black executives and did not distinguish between the titles (ranks) of the executives. Our study utilizes a more comprehensive sample and seeks to offer a more in-depth perspective by examining investors' reaction to the appointment of 83 Black CEOs and 291 Black TMT members. Thus, we further expand on Cook and Glass' (2009a) study by revealing that stock market reactions will be less negative to the announcements of Black TMT appointments than to announcements of Black CEO appointments.

Third, contrary to our findings for CEO appointments, Cook and Glass (2009a) found that investors react more positively to Black leaders appointed outside than to those appointed from the inside. The difference in results could be explained by the fact that, while our study separated CEOs from other leaders (i.e., TMT members), Cook and Glass (2009a) did not distinguish between the Black leaders' ranks. As such, our study provides a more in-depth perspective on this relationship.

Fourth, we contribute to the stream of literature exploring the effects of newly appointed CEOs insider/outsider status on investors' reactions. Some studies found evidence that insider CEO successors were viewed more favorably than external ones (Shen & Cannella Jr, 2003) while other found mixed effects (Rose, 2019). We found evidence that investors react more favorably to the

announcement of internal Black CEO appointments than to the announcement of external Black CEO appointments.

Fifth, with our study we broaden the stream of management research examining diversity (Nielsen, 2010; Sanchez & Brock, 1996; Shore et al., 2011). Past management studies examined the drivers and antecedents leading to TMT team diversity (Ali & Konrad, 2017; Nielsen, 2010), as well as positive outcomes associated with diversity (Boone, Lokshin, Guenter, & Belderbos, 2019; Díaz-Fernández, González-Rodríguez, & Simonetti, 2020; Nielsen & Nielsen, 2013). We complement this literature stream by uncovering negative abnormal returns to Black TMT appointees.

Sixth, our post-hoc investigation revealed that investors reacted more negatively to the TMT appointment of Black executives than to the appointment of executives belonging to two other minority racial groups (e.g., Latino, Asian). Further, the gender of the executives did not impact investors' reactions. As such, we contribute to the literature examining the impact of the appointed executives' gender on investor reactions (Ding & Charoenwong, 2013; Lee & James, 2007). The findings of the past studies examining this phenomenon are not consistent. While some suggest that investors react more favorably to the appointment of male executives (i.e., Lee & James, 2007), others suggest the opposite (Ding & Charoenwong, 2013). In order to add a more detailed perspective on this dialog, our study is the first to also consider the impact of race and compare possible racial and gender combinations (e.g., Black Male, Black Female, White Male, White Female, Asian Male, Asian Female, Latino Male, Latino Female). Our findings reveal the importance of simultaneously considering the race and the gender of the appointed executives when examining investors' reactions. As such, our insights offer a plausible explanation for the conflicting findings of these past studies. Ultimately, our findings serve to raise further awareness regarding the undesirable consequences associated with racial discrimination.

6 | LIMITATIONS AND ADDITIONAL FUTURE RESEARCH OPPORTUNITIES

One limitation of our study is the focus on U.S. investors' reactions. This allowed us to evaluate the bias that this group of investors might exhibit toward Black executives, however, the findings cannot be generalized to other countries. Future studies should attempt to replicate this study in other majority White countries, such as Germany, the U.K., or France.

Black executives are a minority in the context of our study. Future studies should attempt to examine whether a similar bias might exist in African countries (e.g., South Africa, Nigeria) where Black executives are a majority and other races, including White executives, represent minority groups. In addition, it would be motivating for similar studies to be conducted in Asian countries to examine whether bias might exist toward Black executives, White executives, and other country-specific minorities. Furthermore, we focused on investors' reactions to the announcement of Black top executive appointments. It would be noteworthy for future studies to investigate investors' response to the announcement of Black top executive departures.

The sample used in our study is rather small due to the limited number of available observations. As more Black executives are appointed to leadership positions, future studies should attempt to replicate our results using a larger sample. Further, although we employed due diligence to match the samples as closely as possible, some other differences could exist as it is simply not possible to design a perfect match across all possible criteria. Moreover, it is important to highlight that, although we strictly followed the processes indicated by past studies

(e.g., Cook & Glass, 2014), it is difficult to claim 100% coding accuracy when assessing race membership—this is a study limitation that we wish to emphasize. Also, we only examined the 3-day reaction to these appointments and are not making inferences about the durability of these effects and whether they persist in the long term. This is a noteworthy limitation and opportunity for future research. It is also important to reiterate that our study indicates an association between the appointment of Black executives and investors' reactions, and does not identify causal mechanisms.

These limitations notwithstanding, we believe that this study identifies an important association. We hope that future research can use this as a springboard to carefully delve into the underlying causal mechanisms that may explain these facts, to explore their boundary conditions (e.g., how quickly the short-term investor reaction dissipates), and to develop potential solutions to address the underlying factors at play.

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APPENDIX

TABLE A1 Results with 10% of the Black observations recoded as White and 10% of the White observations recoded as Black

	Black CEOs	White CEOs	Black TMTs	White TMTs
	Mean *t*-stat (*p* value)			
CAR (−1, +1)	−3.97% 3.20 ($p = .012$)	0.49% 2.18 ($p = .035$)	−2.86% 2.57 ($p = .025$)	0.41% 1.89 ($p = .042$)
Positive/negative *t*-statistics	0.66	0.47	0.75	0.37
Comparing Black and White CEO appointments			3.38 ($p = .001$)	
Comparing Black and White TMT appointments			2.92 ($p = .021$)	
Comparing Black CEO and TMT appointments			3.22 ($p = .019$)	

Note: We performed similar regression analyses to those presented in Table 1, but used randomly recoded data (10% of the Black observations recoded as White and 10% of the White observations recoded as Black). The full regression results are available from the authors upon request.