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Minorities in leadership and financial performance of their Fortune 500 companies

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TABLE OF CONTENTS

Page

Page

LIST OF TABLES

Page

DEDICATION

To my loving husband, Frank.

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ABSTRACT

While the minority population of the U.S. is on the rise, minority leaders of Fortune 500 companies, especially in the CEO position, remain underrepresented. Notably, in 2010, fewer than 4% of Fortune 500 CEO positions were filled by minorities.

The research on the relationship between diversity in leadership and organizational performance has yielded equivocal findings. To further our understanding of the impact of minorities in leadership ranks, this study was conducted to (a) determine whether there is a relationship between minority leadership and financial performance of the firm; and (b) identify commonalities among career strategies of minority CEOs. Such research is important as it provides a foundation for the organizational focus on human capital management.

The financial performance of minority-led Fortune 500 companies was determined through four commonly used financial metrics: return on assets, return on equity, earnings per share, and earnings before interest tax depreciation and amortization multiple. These data were gathered from a sample of ten minority-led companies. Additionally, the researcher determined whether three common career success strategies, as identified in the literature, were applicable to the minority CEOs. These strategies are (a) attaining higher educational levels, which encompasses the quality or prestige of the school attended and the degree type earned; (b) gaining international/global experiences; and (c) becoming members of boards.

The findings of this study revealed no statistically significant performance differences between Fortune 500 companies led by minorities versus those led by non-minorities. In other words, the presence of a minority CEO does not improve or diminish

financial performance, on average. Additionally, the results of this study indicated that both minority CEOs and non-minority CEOs shared similar levels of education. Finally, minority-CEOs had several international assignments and diverse board memberships.

This study contributes to the literature by linking minority leadership to the financial performance of their firms. Most importantly, this study demonstrated that race or ethnicity has no bearing on a company's financial performance.

Chapter One: Introduction

This chapter provides an introduction to and overview of the dissertation. The chapter begins with the background of the problem, followed by the statement of the problem, purpose of the study, research questions, significance of the study, and definition of terms. The chapter concludes with an overview of the remainder of the dissertation.

Background of the Problem

More than a century ago, one of the most influential African American scholars of his time, W. E. B. Du Bois, spoke of the racial divide that existed within U.S. society. Subsequently, historian and scholar John Hope Franklin (1993) stated:

> By the middle of the twentieth century, the color line was as well defined and as firmly entrenched as any institution in the land. After all, it was older than most institutions, including the federal government itself. More important, it informed the content and shaped the lives of those institutions and the people who lived under them. (p. 36)

Despite considerable progress toward racial equality of opportunity, numerous studies continue to identify race as "a salient predictor of difference in experience, political affiliation, lifestyle preferences, health status, and economic well-being" (Thomas & Gabarro, 1999, p. 1).

Throughout history, major political, social, and economic efforts have attempted to reduce the racial divide. In this regard, one area of focus is the presence (or lack thereof) of minorities in key leadership positions. According to the U.S. Census Bureau (2011b), minorities are defined as individuals of the following racial or ethnic descent:

Hispanic or Latino, African American, Asian, Native Hawaiian and other Pacific Islanders, American Indian, and Alaskan Native.

Currently, minorities make up more than one-third of the U.S. population and are expected to become the majority by 2050 (U.S. Census Bureau, 2011b). Despite the fact that the minority population is on the rise in the U.S., the gap between the number and their presence in the leadership ranks of organizations appears to be increasing (U.S. Equal Employment Opportunity Commission [EEOC] 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009). This gap is especially noticeable in the CEO role of Fortune 500 companies, for which, in 2010, fewer than 4 percent of these companies were led by a minority CEO (Diversity Inc., 2011). The CEO position was chosen as a focus because it "represents the epitome of leadership," and it is considered to be one of the most influential and powerful leadership roles in society (Porter & Nohria, 2010, p. 433).

There is an increasing amount of literature on minorities in the corporate world. These studies have linked race to professional development, while highlighting challenges and opportunities that minorities face as they climb the corporate ladder (Cobbs & Turnock, 2003; Kao, 2003; U.S. Department of Labor, 1995a, 1995b; Wyche & Alleyne, 2009). The underrepresentation of minorities beyond middle management creates a perception that U.S. corporations have a "glass ceiling" in regard to the promotion of minorities (U.S. Department of Labor, 1995a). While the presence of Fortune 500 minority CEOs such as Ken Chenault, Andrea Jung, Kevin Murai, and others indicates that the glass ceiling may be shattering, evidence demonstrates that a major gap still exists (Bobo & Dawson, 2009). Despite the development of corporate diversity programs, increasing social pressures that promote diversity, and a rising minority population within the workforce, fewer than one in 20 CEO positions are held by a minority individual (Diversity Inc., 2011). For example, in 2010, only 18 out of the Fortune 500 companies were led by a minority CEO (Diversity Inc., 2011). Overall, the literature shows that the composition of Fortune 500 CEOs does not reflect the racial makeup of U.S. society.

Such underrepresentation is seen even more strongly in the case of minority women leaders. Catalyst (2006), a nonprofit research and advisory organization that focuses on women in business, found that:

> Women of color held just 1.7 percent of corporate officer positions and represented only 1.0 percent of Fortune 500 top earners in 2005, suggesting that little has been done to remove the multiple and intersecting barriers that hinder the advancement of women of color. Similarly, men of color fared only slightly better, holding 6.4 percent of corporate officer positions. (para. 5)

This is in comparison to women of color being 15 percent of the employed population (U.S. Census Bureau, 2011a). A follow-up study showed that "women of color held 3 percent of all board seats and represented about one-fifth of all women directors" (Catalyst, 2010, para. 4). Such a slow progress in minority women's advancement into leadership may be an indicator of failed diversity incorporation within our organizations.

Reasons for the underrepresentation of minority leaders. Researchers suggest that there are three main barriers that minorities face as they move up the ranks of organizations: (a) prevalence of prejudice, (b) issues of comfort and risk taking in regard to career decisions, and (c) companies' difficulty with identifying high-potential minorities for promotions and leadership positions (Bell & Nkomo, 2003; Braddock & McPartland, 1987; Pettigrew & Martin, 1987; Thomas & Gabarro, 1999). Stereotypes and prejudice that exist in a systematic/institutionalized form create barriers for minorities to excel and rise to the top. Further, the natural tendency to gravitate toward people similar to oneself also can reduce the career opportunities of minorities. Minorities tend to feel at ease within their own subgroups and, thus, tend to take fewer risks that would result in their being with others outside of their subgroup. As a result, it is difficult for management to notice and promote minorities for leadership positions. Overall, this limited visibility and risk-taking result in minorities' being passed over for promotions that lead to management or leadership positions within organizations. Finally, the combination of systematic prejudice and issues of comfort and risk makes it difficult for organizations to identify minorities while considering promotions (Thomas & Gabarro, 1999).

Importance of incorporating minorities into organizations. Successful leadership demands a paradigm shift toward the inclusion of minorities. The positive impacts of diversity, such as creativity, innovation, and problem-solving; globalization; and the ever-changing demographics of the U.S. make it increasingly important to strive for the inclusion of minorities in executive leadership (Chin, 2010; Kanter, 1983; Leung, Maddux, Galinsky, & Chiu, 2008; Molinsky, 2007; Robins & Judge, 2008). The incorporation of minorities within the leadership ranks of corporate America is a human capital management challenge for firms. In the 1990s, corporate competitive advantage was primarily driven by economies of scale and strategic access to resources; today, the talent and leadership within the corporation, or human capital, is viewed as the major driver of a firm's competitive advantage because people are seen as the source of innovation and growth. Both Schultz (1961) and Romer (1990) noted that, in the modern economy, human capital is one of the most important factors for economic growth, if not the most essential source of economic productivity. Further, Richard (2000) asserted that the strategic use of human capital offers a competitive advantage. The incorporation of diversity within the leadership ranks of companies contributes to a firm's competitive advantage, as it fuels innovation and promotes an understanding of multiple viewpoints (Kochan et al., 2003).

Some studies have shown the connection between diversity and the bottom line of a corporation (Boxenbaum, 2006; Kelly & Dobbin, 1998; Robinson & Dechant, 1997; Ryan, Haslam, & Kulich 2010; Wheeler, 1995). Ryan et al. found that corporation that lacked diversity were more likely to incur financial risk through lawsuits, negative publicity, employee turnover, low morale, and reduced productivity. Moreover, Cox (1991) found that organizations that encourage diversity create opportunities for minorities to grow and develop into leaders. This, in turn, fosters creativity, higher morale, reduced turnover, and better positioning in the global market place, all of which positively affect the bottom line (Boxenbaum, 2006; Kelly & Dobbin, 1998; Robinson & Dechant, 1997; Wheeler, 1995). While these studies have provided some evidence regarding the financial impact of diversity, more research is needed to quantify the financial impacts of incorporating diversity within an organization and, more specifically, the leadership ranks of a firm.

The CEO position and firm's performance. Numerous studies have shown a strong relationship between the leadership capabilities of a CEO and the overall performance of a firm (Guerra, 2009; Knotes, 2011; Shaw & Zhang, 2010; Zhang & Rajagopalan, 2009). Knotes stated, "The ability to make the right strategic management choices is based on two governing principles, one relating to the purpose of strategy itself and the second relating to the role of the CEO" (p. 2). In their study of CEOs, Zhang and

Rajagopalan found that the CEO's ability to "formulate and implement strategic changes . . . [influenced] the relationship between the level of strategic change and firm performance" (p. 335).

Joyce, Nohria, and Roberson (2004) noted that the choice of a CEO is as important to the bottom line as a company's decision to remain in its current industry or move to another one. Moreover, Hambrik and Mason (1984) stated that organizations often become a reflection of their top managers. As seen in these studies, the CEO is instrumental in strategic management and, ultimately, for economic impacts.

Statement of the Problem

According to the EEOC (1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009), there is an increasing gap between the number of minorities in the U.S. population and the number of minority leaders in executive-level positions of U.S. corporations. Minority underrepresentation at the executive level may have a detrimental impact on a firm's financial performance.

Purpose of the Study

The purpose of this study was twofold: (a) to determine whether there was a relationship between minority leadership and the financial performance of a firm, and (b) to identify commonalities among career strategies of minority CEOs.

Research Questions

The proposed study was guided by the following research questions:

1. How does the financial performance of minority-led companies, as measured by Return on Assets (ROA), compare with industry averages, when all other variables are held constant?

2. How does the financial performance of minority-led companies, as measured by Return on Equity (ROE), compare with industry averages, when all other variables are held constant?
3. How does the financial performance of minority-led companies, as measured by Earnings Per Share (EPS), compare with industry averages, when all other variables are held constant?
4. How does the financial performance of minority-led companies, as measured by the Enterprise Value/Earnings Before Interest, Tax, Depreciation, and Amortization (EV/EBITDA) multiple and Market Cap/EBT for the banking industry, compare with industry averages, when all other variables are held constant?
5. What common career strategies are present among minority Fortune 500 CEOs?

Significance of the Study

With the minority population on the rise, minorities will continue to comprise a large portion of the prospective employee pool into which corporations tap for talent. In a global economy, where competition is keen and profit maximization determines firm survival, finding the right leader is crucial to ensure the future success of the firm. The issue of minority representation becomes of even greater concern if financial performance is shown to be negatively correlated with the homogeneity of a corporation. Based on these factors, the results of this study may have an impact on decision making in regard to recruitment, training, and talent management. Further, the results also may be useful to minority individuals interested in pursuing top leadership positions.

Definition of Terms

Balance sheet. Part of the financial statement of a firm that provides a listing of the firm's assets, liabilities, and owner's equity (Assets = Liabilities + Owner's Equity). It provides a snapshot of the financial position of a firm at a point in time (Berk & DeMarzo, 2011).

C-level executives. This refers to executives in the highest rank of the organizational management level. These include the chief executive officer, chief financial officer, chief operations officer, and chief marketing officer.

Chief executive officer (CEO). The highest ranking member within an organization. This individual is responsible for the strategic alignment of the firm, in response to internal and external forces, and for ensuring the firm's profitability.

Earnings per share (EPS). This metric is also called "the bottom line." EPS is considered to be the most beneficial to stockholders as it is an indicator of a firm's profitability. Of all the items on the income statement, EPS is generally the most important in determining a share's price and a firm's effectiveness (Brigham & Houston, 2007).

Electronic data gathering, analysis, and retrieval (EDGAR). A system utilized by the U.S. Securities and Exchange Commission (SEC) to:

> Perform automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the SEC. Its primary purpose is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency. (SEC, 2010b, para. 1)

Enterprise value/earnings before interest, tax, depreciation, and amortization (*EV/EBITDA).* This valuation multiple is used to measure the value of a company. EV "represents the amount that one would pay in buying a company," while EBITDA are considered to be "a truer measure of the operating capability of the firm by eliminating the impact of the financial structure of the firm on earnings by deleting interest and taxes from the calculation" (Block, 2010, p. 8).

Form 10-K. Annually, under federal securities law, all publicly traded companies are required to disclose their financial statement in a standard format. These comprehensive filings are submitted to the SEC and provide an overview of the companies' business and financial condition as well as the audited financial statements (Berk & DeMarzo, 2011; SEC, 2009).

Fortune 500 company. On an annual basis, *Fortune* magazine publishes a list of the top 500 largest companies in the United States based on revenue. The following four criteria must be met for a company to make the listing (Carty & Blank, 2003):

- A stock must be publicly traded on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market. While private companies are also included in the listing, they must provide revenue data and other financial records publically in order to be considered within the Fortune 500 listing.
- It must have a minimum average daily trading volume of 100,000 shares during the 25 consecutive trading days preceding initial inclusion.
- It must have a minimum reported price equal to or in excess of $5 per share during that period.

- The company must have a minimum market capitalization equal to or in excess of $100 million during that period. (para. 5)

Generally accepted accounting principles (GAAP). A set of standardized rules and regulations that public corporations must obey while preparing their financial statements. Such standards are necessary and important "to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, and understandable financial information" (Financial Accounting Standards Board, n.d, para. 1).

Human capital. Scholars have defined human capital as the amalgam of factors such as education, knowledge, training, skill sets, competencies, trustworthiness, intelligence, and experience that results in personal, social, and economic output (Frank & Bernanke, 2007; Rodriguez & Loomis, 2007; Sheffrin, 2003).

Minority CEO. A CEO is considered a minority if he or she belongs to one of the minority categories defined by Census 2010: Hispanic or Latino, African American, Asian, Native Hawaiian and other Pacific Islanders, American Indian, and Alaskan Native (U.S. Census Bureau, 2011b).

Public company. These are companies that offer secuties such as stocks/shares or bonds in the stock market or exchange, which provides shareholders with the ability to convert investments into cash. A public company can sell capital in the equity markets and raise money, yet all publicly held companies are subject to SEC regulations, which include disclosure of their financial statements through their 10-K reports (Berk & DeMarzo, 2011).

Return on assets (ROA). This ratio is used in assessing the effectiveness of the strategies implemented by management. ROA is a measure of the profitability of a company based on its assets use. Assets of a company include cash, accounts receivable, property/plant and equipment, and inventory (Brigham & Houston, 2007).

Return on equity (ROE). This is an important indicator of the financial health of a company. In publicly traded companies, "[s]tockholders expect to earn a return on their money, and this ratio tells [investors] how well the company is doing in an accounting sense" (Brigham & Houston, 2007, p. 115).

S&P 500. A widely used and well regarded index for assessing large-cap U.S. equities. "The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities" (Standard & Poor's Financial Services [S&P 500], 2012, para. 1).

Securities and Exchange Commission (SEC). The primary federal agency responsible for protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Publicly traded companies are required by the SEC to disclose meaningful financial information to the public. The information available to the public provides a common pool of knowledge for all investors to use to judge when investing. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds (SEC, 2011).

Stakeholders. Anyone with a vested interest in an organization, for instance, management, employees, shareholders.

Organization of the Remainder of the Dissertation

Chapter 1 presented the problem to be addressed and included the purpose of the study, the research questions, and the study's significance. Also included was a definition of key terms that are used throughout the study. Chapter 2 presents a review of the literature on leadership theories, diversity in leadership, barriers to diversity within organizations, the glass ceiling and cliff, the double outsider, prototyping and tokenism, and common career strategies used by executives to progress in their career.

Chapter 3 presents the quantitative and qualitative methodology that was utilized in this study. Data analysis was performed using Pearson product-moment correlation and repeated-measures analysis of covariance. Methodological limitations also are discussed. Chapter 4 presents the results of the study, and Chapter 5 provides a summary and discussion of the findings as well as recommendations for future research.

Chapter Two: Literature Review

This chapter presents a review of the relevant literature. The chapter begins with the literature on the dominant theories of leadership, followed by diversity in the context of leadership, particularly the impact of diversity on organizations and the barriers to diversity. The concepts presented include tokenism, glass ceiling, glass cliff, bamboo ceiling, and double outsiders. Finally, the research on common career strategies used by executives to progress in their career is presented. The chapter concludes with a summary.

Leadership Theories

Leadership is an art and, for some, a lifelong journey (De Pree, 2004). Business is increasingly competitive and global in nature, and, thus, organizations have a heightened need for true leaders. Corporations spend extraordinary sums of money to recruit, retain, and train leaders, and there is a large compendium of research on leadership theories.

The database of research on the attributes of leadership has evolved over time. The earliest research on leadership focused on trait and behavioral attributes of a leader. Later, more contemporary leadership models began to encompass behaviorist theory, situational leadership theory, contingency theory, and transformational theory. Yet, the concept of diversity within leadership is generally overlooked in such research.

There are many ways of defining leadership, and many theories are based around these definitions. Indeed, there are as many definitions of leadership as there are scholars who have attempted to describe it (Stogdill, 1974). Most concisely, leadership is "a process whereby an individual influences a group of individuals to achieve a common goal" (Northouse, 2007, p. 3). More nuanced definitions encompass four primary elements: process, influence, groups, and goals. In other words, leadership always involves a process whereby a collective group of individuals or followers are influenced in striving to attain a goal. While early leadership theories focused on the individual's power, more recent leadership theories focus on the collective power of leaders when combined with their followers. The evolution of leadership theories began more than 2,500 years ago, and these theories can be divided into five remaining types: trait, behaviorist, situational, contingency, and, most recently, transformational theory.

The classical Greek philosopher Plato helped lay the foundation for leadership theory around 500 B.C. In *The Republic and Statesman,* Plato discussed several key themes relating to organizational leadership. These themes include "debates on charisma in leadership, heroism and leadership, the nature of managerial work, management versus leadership [as a social process], organizational theory [as a harmony-seeking entity], and truth-manipulating and totalitarian aspects of leadership" (Takala, 1998, pp. 794, 797). These are some of the core concepts behind modern leadership theory today.

Over two millennia later, in the late 19th century, historian Thomas Carlyle introduced one of the first mainstream theories on leadership, the "great man" theory. Carlyle (1869) believed that "the history of the world is but the biography of great men" (p. 34). As the name implies, this leadership theory focuses on the innate qualities and characteristics with which a leader is born. These great leaders possess a special power above others, their followers, which makes them capable of accomplishing their goals (for better or worse) against all odds. Dr. Warren Bennis (as cited in Hunter, 2004), a widely known leadership scholar, directly counters the great man theory, stating:

> The most dangerous leadership myth is that leaders are born—that there is a genetic factor to leadership. This myth asserts that people simply either have

> certain charismatic qualities or not. That's nonsense; in fact, the opposite is true. Leaders are made rather than born. (p. 42)

This debate about what makes a great leader gave rise to more in-depth studies of leadership thereafter.

Trait theory. An outgrowth of the great man theory, trait theory posits that a leader encompasses “unique and exceptional features and qualities that [distinguish] him from his followers” (Jogulu & Wood, 2006, p. 237). Similarly, trait theory suggests that leaders are born with certain biological traits and, thus, possess superior behavioral attributes that enable them to become leaders. This theory, which focuses on the personal characteristics of the leader, was one of the earliest leadership models of the 20th century. The emphasis is on the critical role that intelligence, insight, persistence, initiative and other traits have in enabling one to become an effective leader.

Trait theory has been criticized for focusing too exclusively on the leader, with disregard to both (a) the role that followers play throughout the process, and (b) the situation in which the leader finds him or herself. Moreover, as Chin (2010) stated, “The study of leadership traits and behaviors exhibited by traditional holders of power is limiting in that it does not identify the potential for what diverse leaders might bring to the table or the barriers they may face” (p. 154). Others criticize trait theory for its inability to assess leadership outcomes. Because the primary focus of trait theory is on the leader, the outcomes of leaders’ actions on the team are generally ignored. Moreover, diversity is not addressed. Trait theory provides us only with benchmarks of what traits separate leaders from followers.

Behaviorist theory. Numerous leadership scholars have discounted trait theory because it fails to present a holistic model of leadership (Bennis & Nanus, 1985). To overcome some of trait theory's presumed shortcomings, Blake and Mouton (1964, 1978, 1985) and Blake and McCanse (1991) developed the behaviorist theory as applied to leadership, which focuses on the role of a leader in relation to concerns for production and for people. Unlike trait theory, the behaviorist (or style) approach takes into account leaders, followers, and different situations. In the late 1950s to early 1960s, The Ohio State University and the University of Michigan conducted extensive research on this theory, the results of which validate the basic tenets of this leadership model. These studies break down leadership into two approaches: task behaviors (or production orientation) and relationship behaviors (or employee orientation). Task behaviors focus on achieving organizational goals, while relationship behaviors focus on followers and their comfort level with the tasks. Depending on the situation, the leader will combine aspects of both task or relationship approaches to encourage their followers to achieve a goal.

The behaviorist theory is heuristic, that is, self-educating because, "Leaders can learn a lot about themselves and how they come across to others by trying to see their behaviors in light of the task and relationship dimensions" (Northouse, 2007, p. 69). However, Bryman (1992) and Yukl (1994) have criticized this model for its inability to show how leaders' styles affect performance outcomes. Moreover, a high-high (high concern for results and high concern for people) style, which is considered the most effective, may not be applicable in most situations. Finally, the theory does not address diversity.

Situational leadership theory. Hersey and Blanchard (1969) developed the situational leadership theory, which takes into consideration, as the name implies, situations as well as followers. Unlike trait theory, situational leadership suggests that, for any leader to be effective, his or her leadership style must be able to adapt to the situation at hand. The situational leadership approach encompasses both directive (task-orientated) and supportive (relationship-orientated) dimensions. In other words, the adept situational-style leader will adapt his or her skills according to her followers' commitment and competence.

Directing, coaching, supporting, and delegating are all roles within the situational leadership model that are utilized depending on the level of directive or supportive behavior present in the leader. For instance, a high-directive/low-supportive style leader is mainly goal driven and spends less time building and nurturing relationships with the staff. Alternatively, the coaching style implies a high-directive/high-supportive style. Within the coaching style, the leader provides an approximately equal amount of directive and supportive behavior and acts as a coach by encouraging and engaging the team. A third approach within situational leadership is the supporting style, in which the leader combines limited directive behavior with highly supportive behavior. The supporting style leader pays less attention to accomplishing goals and more attention to listening, asking for inputs, developing followers, and building relationships with them. Finally, the fourth leadership style is delegating leadership. As implied by its name, a delegating approach is one in which the leader takes a low-directive /low-supportive style in day-to-day dealings with the team. Even though the leader pays less attention to details and provides less support to his or her followers, this style can be useful in highly regular environments in which followers are experienced and tend to step up and assume responsibility autonomously. All four leadership styles must be applied with the appropriate situation in mind. Situational leadership provides the flexibility that other models might have lacked in the past (Hersey & Blanchard, 1969).

Despite the strengths of the situational leadership model, this model has its own limitations, which include a lack of empirical evidence to support its reliability and validity. The lack of empirical data results in limited model depth, especially in the area of follower development. The model is ambiguous in regard to the level of commitment and competence that followers bring to the team and does not address diversity within members of a team or within corporate leadership (Hersey & Blanchard, 1969).

Contingency theory. Given the deficiencies of the situational leadership model, Fiedler (1964) introduced the contingency theory. This theory is analogous to the situational theory in that it tries to match the leader's style to the appropriate situation. Contingency theory "suggests that a leader's effectiveness depends on how well the leader's style fits the context" (Northouse, 2007, p. 133). This theory provides a measurement of situations using three variables: leader-member relations, task structure, and position power. The first variable concerns the relationship that the leader has with his or her team members. The leader-member relationship tends to be positively correlated with the atmosphere in which followers thrive. The task structure variable concerns whether there is high structure or low structure involved with each task. In addition to the complexity involved with task structure, the clarity and level of instructions given to the followers when expected to accomplish a task is important. Finally, the position of power that a leader exudes determines the response of the followers. For example, the authority and influence a leader has over rewards and punishment gives him more power than someone without such authority. Overall, contingency theory suggests that, by considering these three variables, an optimal leadership style can be determined (Northouse, 2007).

There is a large amount of research that supports the contingency theory (Fiedler, 1964; Fiedler & Chemers, 1974; Peters, Hartke, & Pohlman, 1985; Strube & Garcia, 1981), and the theory has made substantial contributions to the field of leadership. At the same time, however, contingency theory has been criticized for not adequately explaining the link between style and situation. Addressing this ambiguity within this theory will require more research.

Transformational leadership theory. Transformational leadership theory has received a great deal of attention in the past three decades. Bryman (1992) stated that transformational leadership is considered to be the *New Leadership* paradigm, as it gives rise to a more charismatic and affective leadership style. Burns (1978) drew an association between the roles of leadership and followership. Burns noted that successful leaders are able to tap the motives of their followers to better achieve their common goal. This leadership model incorporates the importance of charisma and vision as well as the need to build commitment and to empower followers to accomplish their mission. Because transformational leaders focus on the highest individual needs of followers, these leaders enable followers to achieve goals beyond what is expected of them. According to many researchers (Bass & Riggio, 2006; Bass & Steidlmeier, 1999; Bennis & Nanus, 1985; House, 1976; Lowe & Gardner, 2001), transformational leaders possess four key characteristics: (a) charisma, (b) the ability to inspire, (c) the ability to intellectually stimulate others, and (d) the ability to be considerate of others.

A charismatic leader is held accountable to the highest moral and ethical values and serves as a strong role model. A good example of a charismatic transformational leader is Nelson Mandela. He is a visionary who had a strongly positive influence on his followers and provided them with a sense of mission to change the way that South Africa was governed. Transformational leaders act with integrity and set precedence for others to follow. Bennis and Nanus (1985) point out that transformational leaders must act as social architects to create an environment of trust and openness. Transformational leaders, through their charisma, sculpt and model their existing organizational settings to ensure effectiveness and mobility toward achieving their ultimate vision.

In addition to charisma, a transformational leader must be inspirational to get followers involved and motivated. Upon setting high expectations for followers, a transformational leader will encourage and influence followers to achieve and, in many cases, exceed the organizational mission. The first and most crucial of these strategies is setting a clear and understandable vision. According to Bennis and Nanus (1985), a clear vision gives followers an attractive, realistic, and believable image of where they are headed. Consequently, followers will identify more closely with the vision and assist in achieving it.

Another key element is intellectual stimulation. When a transformational leader sets high expectations, it is through intellectual stimulation that he or she increases creativity and innovation within the group. Further, having a leader with strong intellectual capabilities will allow followers to seek help, if needed. Transformational leaders are viewed as role models who encourage and motivate their followers to work collaboratively in resolving complex issues. In many circumstances, a transformational leader's role will stimulate followers to create and innovate better solutions to their organizational issues.

The last factor is respect and consideration for each individual. A true transformational leader listens attentively to each of his or her followers and tries to assist them in any manner possible. Transformational leaders set high expectations for their followers and focus on their followers' strengths and unique abilities to achieve the end goal and vision for the group/organization. As Buckingham (2005) stated, great managers, or, in this case, great transformational leaders, get to know their followers and discover their followers' unique abilities before capitalizing on their strengths. Moreover, transformational leaders exude self-confidence, which has a positive effect on their followers, giving them the confidence to act and to exceed expectations.

There are many examples of transformational leaders among historical figures, including Mohandas Gandhi, Martin Luther King, and President Lincoln. These individuals transformed millions of followers into agents for achieving their vision of freedom, equality, and justice for all. More recent business-oriented transformational leaders include the late Steve Jobs of Apple, Lee Iacocca of Chrysler Corporation, and Lou Gerstner of IBM, all top Fortune 500 CEOs. These individuals transformed their companies into successful competitive organizations during tough economic times. Transformational leaders such as Martin Luther King, Rosa Parks, and Nelson Mandela also can be credited with taking their leadership role further by incorporating inclusion and acceptance of diversity into their transformational leadership. These leaders had the charisma, intellectual capability, and the vision to inspire and include all followers without exception (Buckingham, 2005).

It is important to note that there is always the potential to abuse transformational power, as seen in the cases of Charles Manson, Adolf Hitler, and Saddam Hussein. Thus, the term pseudo-transformational is used to describe leaders who utilize their leadership powers in immoral ways (Bass, 1998). Many scholars, however, do not believe that such dictators and immoral leaders are truly transformational because they lack virtue.

The transformational leadership model is well-researched and widely used. It considers leaders, followers, and the situation at hand. Despite all the positive characteristics of a transformational leader, we have to be cautious about the "heroic leadership" label that some transformational leaders may be given (Yukl, 1999). Further, followers and organizations must identify moral/ethical behavior prior to allowing a transformational leader to assist them in achieving their vision (Northouse, 2007).

Over the years, the leadership styles discussed above have been tested, adapted, and utilized by leaders throughout Fortune 500 companies. Yet, despite the evolution of theory described above, all theories remain silent on the issue of diversity and equity. Importantly, Chin (2010) believes that leadership theories can benefit immensely by considering and evaluating leaders who are not Caucasian, Western, or upper-class men.

Diversity in Business

In the most general sense, the term diversity refers to "any attribute that another person may use to detect individual differences" (Williams & O'Reilly, 1998, p. 81). Individual differences are often classified by age, gender, ethnicity, race, religion, culture, and educational background. Workforce diversity is subtly different from the concept of individual differences, as it encompasses the ability to work effectively with the expanding heterogeneity of the organization (Lämsä & Sintonen, 2006).

Most studies that praise diversity speak of its impact in a theoretical sense, while critics of diversity demand concrete performance-based studies to support the advantages of diversity within organizations. Theoretical studies indicate that diversity within teams produce higher levels of creativity, innovation, productivity, and quality (Bantel & Jackson, 1989; Davidson & James, 2006; Kanter, 1983; McCuiston, Wooldridge, & Pierce, 2004; Milliken & Martins, 1996; Smith et al., 1994). Kanter (1977), one of the original proponents of diversity, believes that creativity feeds on diversity and that innovative project teams often seek to draw on every aspect of individuals' diverse backgrounds to be successful.

Moreover, encouraging diversity helps prevent homogeneous organizations that lend themselves to groupthink, negative group cohesion, lack of innovation, and limited creativity (Earley & Mosakowski, 2000; Polzer, Milton, & Swann, 2002; Swann, Kwan, Polzer, & Milton, 2003; Thomas & Ely, 1996). This is not to say that the groupthink phenomenon does not happen in diverse groups but, rather, that groupthink is less likely to occur in diverse teams that bring different worldviews and solutions to the table. Individuals from racial and ethnic minority groups generally have distinctive experiences that can result in higher creativity, effectiveness, and the ability to problem solve (Chin, 2010). Further, Robins and Judge (2008) argue that the proper management of diversity will lead to innovation, improved decision making, and creativity. However, if diversity is not managed properly, the consequences can include higher turnover, conflict, and miscommunication.

Some believe that diversity within organizations increases conflict, decreases social integration, and inhibits decision-making and change processes, which ultimately leads to a loss of productivity and organizational effectiveness (Hambrick, Cho, & Chen, 1996; Jehn, Neale, & Northcraft, 1999; Mannix & Neale, 2005; Morrison & Milliken, 2000; Stevens, Plaut, & Sanchez-Burks, 2008). Additionally, some critics claim that studies in support of diversity and its positive impact on organization are not based on real organizational cases and that even fewer assess their hypotheses using objective measures (Kochan et. al., 2003). Lack of empirical data within this field may be explained by the fact that diversity is a sensitive topic, and not many organizations volunteer to share their human capital management practices for studies due to legal ramifications.

However, there are several quantitative studies that link diversity to firm performance. For instance, the relationship between "cultural (racial) diversity, business strategy, and firm performance in the banking industry" was tested, and the results showed that "cultural diversity does in fact add value and, within the proper context, contributes to firm competitive advantage" (Richard, 2000, p. 164). Similarly, a more comprehensive longitudinal analysis on the relationship of racial diversity and performance revealed that:

> When considering short-term performance outcomes, [researchers] predicted a curvilinear relationship between diversity and performance (i.e., firm productivity). Although evidence of a U-shaped relationship between racial diversity and productivity [exists], the relationship is stronger in service-oriented relative to manufacturing-oriented industries and in more stable vs. volatile environments. For longer-term profitability, [researchers] propose and find support for more of a positive linear relationship between diversity and performance than a nonlinear one. This linear effect is stronger and more positive in munificent compared to resource-scare environments. (Richard, Murthi, & Ismail, 2007, p. 1213)

In another example of a quantitative study, researchers compared corporations with exemplary diversity-management practices to those companies that had paid legal fees for discrimination lawsuits. The results indicated that companies with exemplary diversity-management practices had better financial performance, as measured by their stock price, in comparison to the ones with discrimination lawsuits (Wright, Ferris, Hiller, & Kroll, 1995). Corporations with exemplary diversity-management practices are a good example of proper integration of diversity within an organization.

While the stock price valuation study indicated a positive relationship between a firm's performance and its diversity, other studies found no correlation between strong diversity-management and firm performance. Business Opportunities for Leadership Diversity (BOLD), a nonprofit organization comprised of industry chief executives and human resource professionals, commissioned a group of university researchers to conduct a five-year study on the relationship between racial and gender diversity and business performance. The results indicated that:

> Racial and gender diversity do not have the positive effect on performance proposed by those with a more optimistic view of the role diversity can play in organizations—at least not consistently or under all conditions—but neither does it necessarily have the negative effect on group processes warned by those with a more pessimistic view. Conditions that exacerbated racial diversity's negative effects on performance included a highly competitive context among teams. Finally, there was some promising evidence to suggest that, under certain conditions, racial diversity may even enhance performance, namely when organizations foster an environment that promotes learning from diversity. (Kochan et al., 2003, p. 17)

The correlation between diversity and performance appears to be a function of the organizational context in which work takes place (Kochan et al., 2003). Heterogeneous teams can become as effective as and even superior to homogeneous teams in decision-making and efficiency if members and leaders are trained to deal with miscommunication and conflict (Watson, Kumar, & Michaelsen, 1993). However, if teams are diverse but unskilled in diversity management, the result could be disruptive conflict, increased turnover, or an overall negative impact on performance (Kochan et al., 2003). To take these factors into account, Kochan et al. proposed a more nuanced view, which focuses on the conditions that can leverage the benefits of diversity or, at the very least, mitigate its negative effects.

Managing diversity: Three paradigms. Effectively managing diversity is an issue with which business leaders have had to deal increasingly over the past four decades. Sucher (2009) noted the struggles of many business leaders who assumed that economic benefits of diversity would simply present themselves once they hired traditionally underrepresented minorities. Successful inclusive diversity policies can take years of careful management to implement correctly. Thomas and Ely (2001) emphasize this point by presenting three paradigms used by leaders to incorporate diversity. Thomas and Ely stated that it is crucial for leaders to clearly define their intentions for incorporating diversity within their organizations. Accordingly, each of these proposed paradigms takes into account the intentions of leaders for incorporating diversity and the subsequent impact that diversity will have on business performance.

***Discrimination-and-fairness paradigm*.** This paradigm concerns the legal and ethical aspects of diversity within organizations. Under this paradigm, an organization's main objective in increasing diversity is to comply with equal opportunity, fair treatment, and various other legal requirements. As Thomas and Ely (1996) stated, leaders with this paradigm in mind believe that organizations' processes need to be in line with federal mandates to ensure that all employees are treated fairly and equally. Additionally, it is important for organizations to ensure that the demographics of their workforce reflect that of the society.

While activities under this paradigm protect management from certain legal issues, it is the least effective at enhancing organizational performance. Research shows that, when this paradigm is the only reason for increasing diversity, firm performance can actually decrease with increased diversity (Thomas & Ely, 1996). The major flaw associated with this paradigm is its inability to fully and properly manage diversity once incorporated. This approach *checks the box* on fairness and legal mandates for equal opportunity without creating the proper context to benefit from diversity (Kochan et al., 2003). Thomas and Ely stated that, even though actions under this paradigm help meet the goal of recruiting and retaining minorities in an organization, they fail to create a learning organization in which teammates share and exchange knowledge. Therefore, further steps must be taken for diversity to help business performance.

***Access-and-legitimacy paradigm*.** This paradigm focuses on the profits that can result from incorporating diversity within organizations. This paradigm is the perspective that we live in a globalized, multicultural world and note that minorities are quickly gaining majority status. As a result, a diverse workforce can help the firm gain access to the minority markets. Specifically, employees with diverse backgrounds will provide the firm with an understanding of the customer base, including their needs, buying power, and price sensitivity. Therefore, this paradigm takes diversity for the purpose of fairness a step further and argues that diversity supports the bottom line and is good for business (Thomas & Ely, 1996).

As was the case with the discrimination-and-fairness paradigm, adhering to the access-and-legitimacy paradigm does not necessarily result in increased firm performance (Thomas & Ely, 1996). Under the former paradigm, organizations tend to ignore differences and exist in a false state of harmony. Under the latter paradigm, there is recognition of differences, and women and minority individuals are assigned to positions in which they would be most beneficial to the organization.

Related to the access and legitimacy paradigm, resource dependence theory (Pfeffer & Salancik, 1978) posits that firms respond to socioeconomic pressures as well as environmental factors by incorporating diversity into their firms and often place women and minorities on their board as opposed to in executive positions (Hillman, Cannella, & Paetzold, 2000). While firms may benefit from this, organizations need to be cautious of the negative implications of this approach (Carter, Simpkins, & Simpson, 2003; Erhardt, Werbel, & Shrader, 2003). Both the discrimination-and-fairness and the access-and-legitimacy paradigms, as well as resource dependence theory, are largely profit driven. However, failure to create the proper context for incorporating diversity, especially in a globalized world, results in generally poor firm performance (Sucher, 2009).

***Integration-and-learning paradigm*.** Adherence to this paradigm generally results in the strongest correlation between diversity and firm performance. Under this paradigm, benefits of diversity are internalized among employees, and different perspectives and experiences are shared, which ultimately leads to understanding, respect, and growth within an organization. According to Thomas and Ely (2001), various members of cultural groups bring forth insights, skills, and unique experiences that enables organizations to redefine markets, products, and strategies in a way that helps advance its mission. This paradigm links diversity to work process based on individuals' unique backgrounds and promotes a learning and adaptive environment in which diversity is a resource.

This paradigm is what leaders must strive for when cultivating a learning organization. The use of a clear strategy, sense of purpose, and implementation process will enable leadership to take advantage of what diversity can bring to an organization.

Diversity within leadership. According to Erhardt et al. (2003), it is important to consider diversity within the leadership ranks of an organization, with a focus on boards and executive teams. Notably, the board of directors elects the CEO. Further, boards play a significant role in strategy formation, proper use of organization's resources, and hiring and compensating top executives. All of these decisions have an impact on the CEO's performance and, subsequently, the firm's performance. Additionally, the executive team provides assistance with the day-to-day operations of the firm as well as advises the CEO on some of the most crucial business decisions, including strategy. For these reasons, it is important to consider diversity within the boards and the executive teams as it relates to the hiring of the CEO and performance of a firm.

Barriers to diversity. Barriers to diversity still exist in corporate America, despite legal and legislative rules and regulations that have attempted to remove such barriers. For instance, starting with the Title VII Civil Rights Act of 1964 made discrimination on the basis of race, color, religion, sex, or national origin illegal (EEOC, n.d). Additionally, President Kennedy's Executive Order No. 10925 instituted affirmative action, which was later reaffirmed by Presidents Johnson's Executive Order No. 11246 (U.S. Department of Labor, 2011), which prohibited discrimination in federal and government agencies/contracts. At its core, any kind of discrimination violates the "consensual American value of equality of opportunity" (Eagly & Chin Lau, 2010, p.

217). Regardless of such legislature, minorities are still underrepresented within the leadership ranks of corporate America.

Individual barriers to diversity. According to Thomas and Gabarro (1999), minority professionals face the following three individual barriers: (a) the prevalence of prejudice, (b) issues of comfort and risk, and (c) the difficulty of identifying high-potential minorities. Thomas and Gabarro defined prejudice as either individual or systemic. Individual prejudice can be understood as a cluster of negative preconceptions, attitudes, and expectations that people of one group hold about members of other groups. On a systemic level, prejudice is institutionalized through assumptions, attitudes, and practices observed in a subtle way or "an invisible-hand" effect (p. 25). Due to such prejudice, minority professionals may face an uphill battle of having to work harder to prove themselves worthy of career advancement. Perhaps more troubling, minorities who do prove themselves worthy and are promoted may be viewed by others to have benefited from tokenism (Kanter, 1977), discussed later in this chapter.

The second individual barrier concerns the level of comfort and risk a minority individual is willing to take throughout his or her career. Research shows that minorities often seek comfort within their own groups (Thomas & Gabarro, 1999). People tend to gravitate toward groups that are similar to themselves in terms of race, gender, and ethnicity. Such gravitations can hinder the interpersonal relationship building between majority and minority professionals within organizations and become another barrier to the career progress of minority professionals. Ibarra (1995), in a study of networking strategies for minority managers, found that *fast-track* minorities developed networks that included both minority and non-minority informal circles. Accordingly, these minority leaders broadened their network of supporters, regardless of their rank or title. Ibarra's study suggests that, for minority individuals to succeed and move into leadership, they must break away from their comfort zone and value their diversity within professional networks.

In fact, it is generally detrimental when minority individuals attempt to conceal or disguise their ethnic and cultural differences to fit in with the norms of the majority (Ellemers, Spears, & Doosje, 2002; Ely & Thomas, 2001; Morgan-Roberts, 2005). There are two main strategies that minorities use to distance themselves from their minority group: decategorization and assimilation. According to Gurin, Biren, and Nagda (2006), in decategorization, minorities attempt to ensure that the in-group perceives them as individuals rather than members of the out-group to avoid negative stereotypes associated with that minority group. Thomas (1993) found that Black professionals may choose to suppress their racial identity by avoiding race-related discussions in their interactions with their Caucasian colleagues and supervisors. Related to this, Sinclair and Kunda (1999) found that Black professionals who have used decategorization are deemed more professional and are less likely to fall victim to the negative racial stereotypes associated with their minority group. Nevertheless, the decategorization process can have a negative impact on teams because these professionals lose a part of their authentic self and may be less likely to draw attention to differences in a number of ways, such as contributing novel or innovative ideas within their work group (Dickens & Dickens, 1991; Swann et. al., 2003).

Assimilation is a strategy that minorities use to distance themselves from their minority group. Through this process, minority individuals attempt “to reduce the salience of their own social identity by emphasizing distinctiveness from one’s own social identity group and similarities with member of more positively regarded social identity groups" (Morgan-Roberts, 2005, p. 698). Similarly, Thomas and Gabarro (1999) have found that, through the assimilation process, minorities tend to downplay those aspects of their background that may be deemed undesirable or unfit for the ideal organizational leader position. For instance, a female attorney in a traditionally male-dominated field will attempt to adopt masculine characteristics (Ely, 1995). Similar to decategorization, assimilation can also be deemed harmful as minorities slowly lose their authentic self. It should be noted, however, that some degree of cultural assimilation is beneficial for group cohesion.

The third barrier that leaders face is difficulty with identifying high-potential minorities. Managing the difficulties with identifying high-potential individuals is especially important because, as Kotter (1982) stated, those who ultimately make it to executive levels are usually identified early in their careers. Once companies are able to discover young talent, they will invest in the development of such individuals; however, because minorities have to battle systemic prejudice as well as their own internal barriers of comfort and risk taking, it can be more difficult to identify high-potential minority individuals (Thomas & Gabarro, 1999). As a result, minorities may spend more time climbing the corporate ladder than may non-minorities.

Systematic barriers to diversity: A historical perspective. Over the past five decades, legislation has taken down systematic barriers. Since the Civil Rights Act of 1964, a wide array of diversity training programs, mentoring programs, affinity group networks, and diversity councils have been introduced to help organizations promote diversity (Kalev, Dobbin, & Kelly, 2006). A historical perspective of milestones related to minority inclusion is presented below.

Civil rights and the workplace: 1960s. The 1960s brought about major change to corporate America. The federal government and the military spearheaded anti-discrimination measures in the early 1960s. The Civil Rights Act of 1964 enforced:

> The constitutional right to vote, to confer jurisdiction upon the district courts of the United States to provide injunctive relief against discrimination in public accommodations, to authorize the attorney General to institute suits to protect constitutional rights in public facilities and public education, to extend the Commission on Civil Rights, to prevent discrimination in federally assisted programs, to establish a Commission on Equal Employment Opportunity, and for other purposes. (EEOC, n.d., para. 2)

During the 1960s, the U.S. experienced an economic boom that resulted in the country's being the largest consumer of goods and services in the world. The exponential growth in the economy fueled the need for an available and willing labor force, which resulted in equality measures' being applied to the workplace (Thomas & Gabarro, 1999). By the end of the decade, President Lyndon B. Johnson's vision for America, "to achieve the 'Great Society' in which racism and poverty would be eradicated," was closer to fruition (Thomas & Gabarro, 1999, p. 45). As more minorities entered corporate America and began climbing the ladder to leadership roles, the wheels were put in motion for incorporating diversity into organizations.

Affirmative action and the pursuit of equal opportunity: 1970s. By the 1970s, the energy and momentum from the civil rights movement encouraged many minorities to pursue higher education and, consequently, enter corporate America in greater numbers. This decade also brought about affirmative action. The term *affirmative action* originated from President John F. Kennedy's Executive Order 10925, which prohibited discrimination against certain groups within governmental organizations (Office of Federal Contract Compliance Programs [OFCCP], n.d.). This order, which was later reaffirmed by President Johnson, was an attempt to promote equal opportunity. Affirmative action operated like an "invisible hand" by ensuring that individuals were given a fair chance, regardless of their race, religion, and national origin (OFCCP, n.d.; Thomas & Gabarro, 1999). Over the next several years, the EEOC received strong backing from Congress and the courts in ensuring the enforcement of this legislation (Gamson & Modigliani, 1994). Affirmative action brought significant changes to corporate America by allowing minorities access to jobs to which they did not have access in the past. These actions laid the groundwork for today's minority-led Fortune 500 companies.

The Reagan Era: 1980s. During the 1980s, a time known for relaxed governmental regulations and a president who vowed "to take the government off the backs of the American people," affirmative action within American corporations also was relaxed (Manning, n.d. para. 1). From the beginning, affirmative action was a controversial issue. Detractors of this policy considered affirmative action to be a worldwide disaster, while the proponents of this policy believed it to be essential for establishing equitable employment practices (Clayton & Crosby, 1992; Crosby, 1994; Sowell, 1989). Supreme Court Justice Clarence Thomas is one of the noteworthy opponents of affirmative action. He believes that affirmative action simply undermines the ability and real achievements of minorities (Onwuachi-Willig, 2005). On a personal level, he believes that affirmative action made others undermine his achievements as a minority and assume that his selection into one of the top law programs was largely due to his minority or *token* status (Loomis, 2008). During the Reagan era, many companies decreased their focus on diversity in keeping with the easing of government regulations (Smith, 1993). Other organizations continued to maintain a few positions open for what was referred to the *token* minority (Kanter, 1977).

Tokenism. By creating an illusion of equality, organizations are able to "maintain group-based inequalities while effectively reducing (or even preventing) disruptive collective action" (Richard & Wright, 2010, p. 561). In this regard, tokenism is defined as the appointment of individuals to positions within an organization that have high visibility, who belong to a social category that constitutes less than 15% of the entire group composition (Fairhurst & Snavely, 1983; Kanter, 1977), and tokens become representatives of the minority groups to which they belong. Other researchers (Lalonde & Silverman, 1994; Reynolds, Oakes, Haslam, Nolan, & Dolnik, 2000; Richard & Wright, 2010; Vanbeselaere, Boen, & Smeesters, 2003; Wright, 1997; Wright & Taylor, 1998) argue that an even smaller percentage (usually 2%) of minority individuals are selected as *token minorities* to reduce collective protest.

Being a token minority presents its own challenges for the individual because token minorities are often reminded of their outsider status within the professional population (Spangler, Gordon, & Pipkin, 1978). Individuals in the token minority position are highly visible, which can foster unbalanced performance demands, causing them to be forced to overachieve or underachieve (Spangler et al., 1978). Higher performance expectations, social isolation, and social stereotypes are all potential negative outcomes of tokenism (Kanter, 1977; Jackson, Thoits, & Taylor, 1995).

The most serious outcome of tokenism is the career obstacle that it creates for minorities who want to rise to leadership positions. As Branson (2007) stated:

> Further down in corporate organization this phenomenon, [tokenism], causes women and minorities to rise no higher than an intermediate management level. The result is a disproportionately small presence for women [and minorities] in the senior executive ranks from which nominating committees and full boards are likely to choose from. (p. 110)

Finally, it is important to note that the negative impacts of a token minority are, in fact, contingent upon the token individual and his or her acceptance of role expectation by the dominant majority (Katz & Kahn, 1978). Fairhurst and Snavely (1983) further argue that "individual responses to the token role and the majority member's role can vary when other sources of status and power are considered" (p. 298). While Kanter's (1977) theory has brought attention to some of the negative implications of tokenism, other scholars point to the fact that the context and individual's compliance with possible stereotypes of minorities also are important to consider.

Glass Ceiling and glass cliff. The term glass ceiling refers to the "artificial barriers to advancement of women and minorities to management and decision making positions in business" (Glass Ceiling Commission, 1995, p. 21). In 1991, the U.S. Department of Labor (as cited in Glass Ceiling Commission, 1995) acknowledged the existence of the glass ceiling and issued the following statement:

> The glass ceiling is not only an egregious denial of social justice that affects two-thirds of the population, but a serious economic problem that takes a huge financial toll on American business. Equity demands that we destroy the glass ceiling. Smart business demands it as well. (p. 4)

Under Title II of the Civil Rights Act of 1991, a 21-member, bipartisan federal Glass Ceiling Commission was created to address the barriers in advancement of minorities and women into management and decision-making roles within corporate America. The report finding reaffirmed the existence of a glass ceiling and divided the commission's mission into two complementary parts: (a) eliminate artificial barriers to the advancement of women and minorities; and (b) increase the opportunities and development experiences of women and minorities to foster advancement of women and minorities to management and decision-making positions in business (Glass Ceiling Commission, 1995). As stated in this report, having such subtle barriers to advancement is a financial cost to the bottom line of corporations and the economy.

In practice, the presence of the glass ceiling may be the reason that research has shown that minorities are more likely to be hired by lower-status firms and by less-desirable firms or industries and to have fewer career advancement opportunities (Reskin & Roos, 1990; Smith, 2002; Tomaskovic-Devey & Stainback, 2007; Wallace & Chang, 1990). Even within organizations, high-status jobs are often closed to minorities (Tomaskovic-Devey, 1993). The status closure theory posits that minorities are most likely to get hired into lower-status jobs with less visibility and potential for advancement (Tomaskovic-Devey, 1993). Nevertheless, minorities are slowly shattering the glass ceilings but are faced with a new challenge: the glass cliff.

The notion of the "glass cliff" is that minorities are more likely to be appointed to high-level decision-making positions, for instance that of a CEO, when an organization is in crisis. Ryan et al. (2010) believe that the glass cliff is "a pervasive workplace barrier that is experienced by many members of marginalized and disadvantaged groups" (p. 35). Ryan et al. further argued that the positions available to minorities are viewed as high risk because minorities often lack information, resources, and sufficient support necessary to perform their jobs. While such promotions to high-level positions give an illusion that minorities are rising to the top, organizations may, in fact, be setting such individuals up for failure (Bruckmüller & Branscombe, 2010).

Critics argue that Ryan et al.'s (2010) notion of the glass cliff fails to consider that marginalized groups such as women and minorities tend to accept these positions in a greater propensity than do their Caucasian male counterparts. For instance, while Caucasian males may view risky positions as harmful to their long-term reputation, minority leaders may perceive such appointments as an opportunity to prove themselves (Cook & Glass, 2009).

Similar terms have been used to describe other challenges faced by minority groups face as they move up within the organization. These terms include the bamboo ceiling and the double outsider.

Bamboo ceiling. Hyun (2006) uses the term bamboo ceiling to describe the cultural stereotypes and barriers that Asian professionals have to overcome to reach top management positions. Hyun stated that it is surprising to see such low numbers of Asian managers: "Even in Silicon Valley, where about 30% of tech professionals or their forebears hail from Pacific Rim countries, Asian Americans account for only 12.5% of managers; 80% of tech bosses are Caucasian" (p. xviii).

Double outsiders. The experiences and challenges that women have faced within corporate America are analogous to those of minorities. As a subset of both groups, minority women often find career barriers even more formidable than do other minorities as they climb up the corporate ladder (Morrison & von Glinow, 1990). Researchers have used the terms double whammy, and double outsider to explain the challenges that black women face by being a female and a minority (Davidson, 1997; Ladner, 1971; Nkomo & Cox, 1989).

While some claim that minority women have significantly higher barriers to overcome professionally, others disagree. In fact, two-fer or double advantage theory is used to describe the career advantage that some minority woman may have as the sum effect of race and gender (Ladner, 1971). Despite what the critics say, the double-outsider phenomenon does exist and, in some cases, has created barriers to the career progression of minority women.

Common Career Strategies for Advancement

Despite numerous barriers that impede minority progress within corporate America, several proven career strategies, common to minority and non-minority leaders, have helped many rise to the upper echelons of corporate America. While career success is required for attainment of top corporate positions, the reverse is not necessarily true. Arthur, Khapova, and Wilderom (2005) provide a broad definition of career success: “the accomplishment of desirable work-related outcomes at any point in a person’s work experiences over time” (p. 179). Using this definition, career success can be measured using objective and subjective variables (Judge, Cable, Boudrea, & Bretz, 1995). For instance, objective measures of success include pay and the number or frequency of promotions (two measures on which chief executives perform very well). Other measures are more subjective, based on job satisfaction or healthy work-life balance (Seibert, Kraimer, & Liden, 2001).

Of immediate concern is the observation that “variables [leading] to *objective* career success are often quite different from those that lead to subjectively defined success” (Judge, et al., 1995, p. 485). Further, researchers believe that career success is an evaluative concept, one that is contingent upon who is doing the judging (Jaskolka, Beyer, & Trice, 1985). Nevertheless, “there is [still] a link between objective success and subjective appraisals in that individuals define their success based, in part, on their objective accomplishments" (Judge et al., 1995, p. 487). With this in mind, career success, for this study, is defined as the attainment of the CEO position at a Fortune 500 firm, and successful career strategies are those actions taken by leaders throughout their career that were deemed to have contributed to their becoming CEOs.

Education. Some researchers have found a strong relationship between the career success of executives and educational level, quality/prestige of the school, and degree type (Jaskolka et al., 1985; Judge et al., 1995; Whitely, Doughetry, & Dreher, 1991). Educational level or attainment has been shown to correlate with the knowledge base and intellectual capability of the CEO (Gottesman & Morey, 2006). According to a recent *U.S. News* study (as cited in Burnsed, 2011), a disproportionate number of executives and corporate leaders are graduates of Ivy League (i.e., quality/prestigious) universities. It has been posited that, by attending an Ivy League school or a top university, individuals are more likely to have access to the capital and social networks requisite to rising within the leadership ranks of corporate America (Useem & Karabel, 1986). Cappelli and Hamori (2005), however, found that those with CEO potential are more likely to attend a high-prestige university, and, thus, the relationship is not causal (Cappelli & Hamori, 2005). Other researchers have noted that, over the long haul, a CEO's education does not have an impact on a firm's performance; however, education is a key component during the hiring process of a CEO (Bhagat, Bolton, & Subramanian, 2010).

Majors such as business, law, and engineering traditionally have been overrepresented within the executive ranks (Swinyard & Bond, 1989, Useem & Karbel, 1986). According to SpencerStuart (2006) "62% of all S&P 500 CEOs have earned some type of advanced degree (M.B.A., law degree, doctorate, etc.)" (p. 9). Additionally, the undergraduate fields of study pursued by CEOs of S&P 500 companies are as follows: engineering at 20%, business administration at 15%, economics at 11%, liberal arts at 9%, and accounting at 7% (SpencerStuart, 2006).

Judge et al. (1995) noted that CEOs generally have earned MBAs or law degrees, which relate to their career success. However, other researchers claim that "firms managed by CEOs with MBAs or law degrees perform no better than firms with CEOs that do not have graduate degrees, suggesting that the impact of a graduate business or law degree is minimal on CEO performance" (Gottesman & Morey, 2006, p. 14). Further, Bhagat et al. (2010) stated, "Hiring a new CEO with an MBA leads to short-term improvements in operating performance following cases of disciplinary turnover, while bringing in a new CEO with a non-MBA master degree leads to short-term declines in operating performance" (p. 3).

International experience. In the current global economy, organizations demand and consequently reward individuals who have international experience (Cava & Mayer, 1993; Kets de Vries & Mead, 1992). Magnusson and Boggs (2006) identified "international experience as an important construct associated with ascension into the CEO position of large corporations [U.S. Fortune 200 companies]" (p. 107). Research shows that there is a relationship between career success, measured by number of promotions, and executives' international experience (Judge et al., 1995; Ng, Eby, Sorensen, & Feldman, 2005). In fact, "A global mindset is argued to be critical for managers to develop their firms' current and future international success" (Lovvorn & Chen, 2011, p. 275). As such, international assignments will assist executives in developing the cultural competence and global mindset necessary to lead corporations in this global economy. Additionally, Martin (2004) stated that international assignments tend to prepare leaders for the unexpected and what he calls foreign-ness, which is very similar to what a leader faces as a CEO.

The percentage of CEOs with international experience has doubled in the past decade (SpencerStuart, 2006). While, in the past, having had international assignments was recommended for the CEO position, in today's global marketplace, international experience in business is a prerequisite for the attainment of a CEO position (Martin, 2004). Having had international experience is assumed to make an executive "vastly more marketable" in the competition for a CEO position (Martin, 2004, para. 20). In 2005, nearly 40% of S&P 500 CEOs had international experience, and this percentage was even greater within the S&P 100 (SpencerStuart, 2006).

While some researchers have shown the importance of international experience, others argue that international assignments may halt or impede one's career progress (Hamori & Koyuncu, 2011). Hamori and Koyuncu found that executives with international assignment experience take longer to reach the top echelon. In fact, the more assignments they have and the longer they spend outside their home organizations, the slower they reach the CEO position. Assignments that start at a later career stage and assignments at an organization other than the CEO's current employer are particularly detrimental to the speed of ascent to the top. Nevertheless, Hamori and Koyuncu acknowledge that their methodology may have led to their results' conflicting with that of prior research.

Networks and board membership. Formal and informal networks are a source of advancement for executives. Formal networks are based on "official organization structure, [for instance,] organizational charts, supervisor/subordinate relationship, standing committee and advisory structures, and designated legitimate authority" (Combs, 2003, p. 395). In contrast, informal networks are based on voluntary memberships and are not part of the organizational structure or governed by a corporate authority. Friday lunch groups, membership in a professional and affinity groups, and social groups are all examples of informal networks (Ibarra, 1995). These informal networks provide "relationships and contacts that facilitate access to career and social support" required for career advancements (Combs, 2003, p. 386). Lack of informal networks may be one reason why women and minorities are underrepresented in the management levels of organizations (Mehra, Kilduff, & Brass, 1998).

Both formal and informal networks are key to career progression. As Judge et al. (1995) stated, "An attribute that is expected to positively influence executives' objective career success is their appointments to the boards of directors of other firms" (p. 491). Further, Useem and Karabel (1986) noted that, by being part of informal structured networks, such as a board, individuals can develop a set of skills outside the realm of their experiences within their own companies; these skills include:

> capacity to understand problems facing companies operating in entirely different markets, ability to develop broadly conceived and long-range political strategies for businesses as a whole, facility in mixing with established families that are still a force in the life of some corporations, [and] capacity to work with a range of conflicting and sometimes hostile groups and constituencies, ranging from federal official to leaders of the environmental and labor movements. (p. 194)

The board member position enables executives to augment their knowledge and expand their network, which will in turn assist them in reaching higher leadership roles. According to Savitz (2011), "About 45 percent of CEOs served as non-executive directors on public company boards before being named chief executive of the Fortune 500 companies they lead today" (p. 2). Therefore, board membership can be considered as a stepping-stone to the CEO position.

Summary

This chapter presented a review of the literature relevant to minority leadership. The chapter began with a review of dominant theories of leadership, from trait to transformational theory. It became apparent that, despite the evolution of leadership theories, all theories were silent on the issue of diversity and equity. Further, the research on the relationship between diversity in leadership and organizational performance has yielded equivocal findings. Some argue that diversity enhances creativity, innovation, breadth of knowledge/skill sets, and problem-solving capabilities in organizations; these researchers see a positive relationship between diversity in leadership and positive organizational performance. Others argue that diversity hinders organizational performance because it reduces social cohesion, consensus, momentum for change, and decision making; these researchers see a negative relationship. Overall, the relationship between diversity in leadership and organizational performance is complex.

The literature on a series of barriers to diversity, from the individual to the systematic level, was presented. In this context, the concepts of tokenism, glass ceiling, glass cliff, bamboo ceiling, and double outsiders were presented. Finally, the research on common career strategies used by executives to progress in their careers highlighted three main strategies: education, international experience, and board membership.

Chapter Three: Methodology

This study focuses on a purposeful sample of ten Fortune 500 companies that have a minority individual in the CEO position. The ten selected minority CEOs have the longest tenure of all Fortune 500 minority CEOs, which yield four years (2007-2010) of comparable data. In this study, the financial performance metrics (return on equity, return on assets, earnings per share, and earnings before income, tax, depreciation/ amortization multiple) of companies led by minority CEOs are compared to the same metrics for non-minority-led companies.

This chapter presents the methodology. The chapter begins with a restatement of the purpose and research questions, followed by a presentation of the hypotheses, approach, population and sample, data source, data collection, institutional review board approval process, validity and reliability, limitations of the study, and data analysis. The chapter concludes with a summary.

Restatement of Research Questions

The study was guided by the following research questions:

1. How does the financial performance of minority-led companies, as measured by Return on Assets (ROA), compare with industry averages, when all other variables are held constant?
2. How does the financial performance of minority-led companies, as measured by Return on Equity (ROE), compare with industry averages, when all other variables are held constant?
3. How does the financial performance of minority-led companies, as measured by Earnings Per Share (EPS), compare with industry averages, when all other variables are held constant?

4. How does the financial performance of minority-led companies, as measured by the Enterprise Value/Earnings Before Interest, Tax, Depreciation, and Amortization (EV/EBITDA) multiple and Market Cap/EBT for the banking industry, compare with industry averages, when all other variables are held constant?
5. What common career strategies are presented among minority Fortune 500 CEOs?

Hypotheses

To assess the relationship between the financial metrics of each sample firm and the industry averages, for the years 2007-2010, the following null hypotheses were tested. The first set of hypotheses relate to the relationship between minority leadership and the financial performance of a firm.

H_1: There will be no statistically significant correlation between the presence of a minority CEO and the ROA performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_2: There will be no statistically significant correlation between the presence of a minority CEO and the ROE performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_3: There will be no statistically significant correlation between the presence of a minority CEO and the EPS performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_4: There will be no statistically significant correlation between the presence of a minority CEO and the EBITDA multiple performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

The hypothesis below relates to commonalities among career strategies of minority CEOs.

H_5: There are no differences in the educational levels of minority and non-minority Fortune 500 CEOs; additionally, international experience and board membership have no impact on career trajectory of executives.

Approach

In this study, a quantitative approach was used to assess the relationship between the presence of a minority CEO and the financial performance of his or her firm, while a qualitative approach was used to address whether these two types of CEOs have common career strategies. A firm's financial statements are used to understand its operational health from a financial perspective. The income statement, balance sheet, and statement of cash flows are most commonly used for financial review. Financial ratios derived from these statements help to assess the overall financial condition of the firm. Because the sample companies for this study are all publicly traded, and are required to use generally accepted accounting principles (GAAP), sufficient financial data are publicly available in a standardized fashion.

The financial metrics gathered for the sample companies are considered to be secondary data. As stated by McMillan and Schumacher (2010), "Secondary data are data that have already been collected. These data are different from primary data in that the data user had no involvement in the data collection effort" (p. 242). Further, use of secondary data in the form of financial reports of publicly traded companies does not involve human subjects and, thus, does not require the subjects' informed consent, as discussed later in this chapter. The secondary data that were used to assess the financial performance of the selected Fortune 500 companies were accessed via Capital IQ, Yahoo Finance, SEC 10K company filings, and the companies' websites. Financial metrics for each firm were collected based on the tenure of the minority CEO.

As noted, to identify commonalities among career strategies of minority CEOs, a qualitative approach was used. In this approach, publicly-available resources were reviewed by the researcher, including CEO biographies provided on the company websites, resumes/vitas (if available), articles or books on the selected minority CEOs, and other relevant literature. During this review, commonalities in regard to the identified minority CEOs' education, professional experience, professional associations, and other relevant factors were identified.

Population and sample. In this study, a purposive sample of ten minority-led companies was selected based on minority tenure as noted in the official Fortune 500 2010 listing. A purposive sampling approach was used to provide insight into the research questions (Creswell, 2007). In a purposeful sample:

> The researcher selects particular elements from the population that will be representative or informative about the topic of interest. On the basis of the researcher's knowledge of the population, a judgment is made about which subjects should be selected to provide the best information to address the purpose of the research. (McMillan & Schumacher, 2010, p. 138)

The sample consisted of ten Fortune 500 companies as presented in Table 1. These ten companies were drawn from a total population of 18. In 2010, 18 CEOs were identified as minority, i.e., a non-Caucasian individual. To have sufficient data for multi-year (2007-2010) comparisons, of the 18, the ten CEOs with the longest tenure were chosen.

Table 1

Sample CEOs and Fortune 500 Companies

CEO	Company	Fortune Ranking	Minority Status	Industry
Vikram Pandit	Citigroup	12	Asian Male	Financial
Indra Nooyi	PepsiCo	50	Asian Female	Food Services
Ronald Williams	Aetna	63	African American Male	Health Care
Kenneth Chenault	American Express	88	African American Male	Financial
George Paz	Express Scripts	96	Hispanic Male	Health Care
Andrea Jung	Avon Products	228	Asian Female	Other
Kevin Murai	Synnex	294	Asian Male	Other
Surya Mohapatra	Quest Diagnostics	303	Asian Male	Health Care
Clarence Otis	Darden Restaurants	311	African American Male	Food Services
Jeff Yabuki	Fiserv, Inc.	491	Asian Male	Financial

Source: CNNMoney (2010) and Diversity Inc. (2011).

As noted, the ten companies selected for this study were on the 2010 Fortune 500 listing. This listing is published in April each year and is based on the financial performance of the preceding year. Therefore, the company selection reflects financial performance of 2009.

Data source. The sample of ten minority-led companies was created from the Fortune 500 listing provided on CNNMonday.com (2010) and Diversity Inc. (2011). To measure financial performance, Capital IQ, Yahoo Finance, and SEC 10K company filings were used, from which data were extracted, including ROA, ROE, EPS, and EBITDA multiple. Capital IQ, a division of Standard & Poor's, was the primary source of the financial information. Capital IQ serves government agencies, consulting firms, corporations, and academic institutions and is considered:

> a leading provider of multi-asset class data, research and analytics to institutional investors, investment advisors and wealth managers around the world. It provides a broad suite of capabilities designed to help track performance, identify new trading and investment ideas, and perform risk analysis and mitigation strategies. (Standard & Poor, 2011, para. 3)

Given the rigor behind Capital IQ's method, their database provides a reliable collection of financial metrics for this study.

Data collection. The data for this study were collected in four stages. In the first stage, a purposeful sample of ten minority-led companies, based on the Fortune 500 company listing, was identified. These companies were selected based on minority-CEO tenure. Specifically, all CEOs but two (Citigroup and Synnex) were in office between the years 2007-2010. Vikram Pandit (Citigroup) assumed his position in December 2007, and Kevin Murai assumed his position in March 2008. This has been identified as a limitation of this study later in the chapter. However, due to the limited number of minority CEOs, these exceptions had to be made to ensure a sufficient sample size of ten. Another exception to note is in the case of Mastercard. In 2010, Mastercard elected Ajay Banga, a minority, to its CEO position; while he is not in the primary sample of ten, he is coded in 2010 as a minority CEO.

In the second stage, based on sample and their industry bracket categories, each company's competitors were identified, as noted on CNNMoney.com. The population size, including the minority-led companies, is 63 Fortune 500 companies.

In the third stage, the financial metrics (ROA, ROE, EPS, EBITDA multiple) and the variables that may affect the performance of the CEO for all 63 companies were gathered. These variables included CEO tenure, age, minority status, gender, education, and number of employees, industry, and the year the company was founded.

In the fourth stage of analysis, which pertained to career strategies, the researcher reviewed relevant literature to identify the commonalities in career strategies among the identified minority CEOs. Official executive biographies, books, lectures, and magazine articles were reviewed to gather the three main career success strategies used by executives: education, international experience, and board memberships.

Institutional review board approval process. As defined by McMillan and Schumacher (2010), "The human subject is a living individual about whom an investigator obtains data through an intervention or interaction with the individual or uses identifiable private information" (p. 123). The study will not gather data from human subjects; only secondary data were utilized. Therefore, per Pepperdine University's guidelines, the researcher informed the Institutional Review Board (IRB) of the method used in gathering data, which was to access publicly-available financial data and to review existing biographical literature on the CEOs, and submitted a Graduate and Professional Schools IRB non-human subjects verification form (Feltner, 2005). Further, this study was considered exempt from IRB review and the approval process because it used existing databases in identifying financial metrics and career strategies (McMillan & Schumacher, 2010). A non-human subjects verification form was submitted to and approved by Pepperdine University's Graduate & Professional IRB & Dissertation Support department.

Validity and reliability. Validity concerns how well a metric measures a certain variable. For instance, the validity of ROE depends on how well it describes corporate performance as desired by equity holders. ROE is one of the most commonly used financial measures by Wall Street analysts, company executives, and business scholars (Hagel, Brown, & Davison, 2010; McWilliams & Siegel, 2000; Peloza, 2009; Verschoor, 1998). While ROE is a good measure to assess the financial health of an organization, over the past few decades, mounting pressures on company performance have led some firms to artificially distort their ROE by reducing equity and increasing debt, thereby achieving desired ROEs through increased risk of default. In this manner, companies can report a high ROE in the short term even though their business base and operational profitability may be eroding. Thus, by itself, ROE may not be sufficiently valid in describing corporate performance. To avoid the potential distortions associated with ROE, Hagel et al. suggest a focus on ROA. Accordingly, for the purposes of this study, both ROE and ROA were used together to assess the financial performance of a firm, which improved the overall validity of these financial metrics.

The relationship between assets and equity on a balance sheet allows for the two ratios of ROE and ROA to be analyzed simultaneously in financial evaluations of firms. A balance sheet of a firm always denotes Assets = Liabilities + Equity; it is this relationship that allows studying ROA and ROE together to be beneficial. Generally, if:

> ROA is sound and debt levels are reasonable, a strong ROE is a solid signal that managers are doing a good job of generating returns from shareholders' investments. ROE is certainly a "hint" that management is giving shareholders

> more for their money. On the other hand, if ROA is low or the company is carrying a lot of debt, a high ROE can give investors a false impression about the company's fortunes. (McClure, 2010, para. 14)

EV/EBITDA is a more recent metric used in finance community for valuation purposes. According to Speidell and Graves (2010):

> Because enterprise value is the sum of debt and equity, EV/EBITDA is not as sensitive to stock price movements as earnings-to-price or book-to-price, but the addition of interest and depreciation to pre-tax earnings causes a bias in favor of capital-intensive companies. (p. 12)

While no single financial metric gives an exact measure of the performance of a firm, ROE coupled with ROA and EBITDA multiple fosters a better view of the financial performance of the firms under study.

Reliability and accuracy concern the data's ability to consistently and with accuracy present the true value of the metric. Under the 1933 Securities Act, also known as the truth in securities law, the SEC has the following two objectives: "(1) to ensure that investors have access to financial and other significant information concerning securities being offered by corporations to the public; and (2) to prohibit deceit, misrepresentation, and other fraud in the sale of securities" (SEC, 2010a, para. 1). Following the Securities Act of 1933, numerous rules and regulations came into law to protect investors. The most recent is the Sarbanes-Oxley Act of 2002. President Bush (2002) referred to the Sarbanes-Oxley Act as the "most far reaching reforms of American business practices since the time of Franklin Delano Roosevelt" (para. 4). Amid the corporate scandals of Enron, WorldCom, Tyco, Adelphia, and others, Congress passed the Sarbanes-Oxley Act (SOX), which enhances financial disclosure in terms of the accuracy and reliability provided to investors and boards of corporations, while accomplishing three main objectives: "(1) establishing an independent audit process, (2) stiffening both financial and criminal penalties for providing false information, and (3) forcing companies to validate their internal financial control process" (Berk & DeMarzo, 2011, p. 40).

All companies selected for this study are publicly traded companies; therefore, per SEC rules and regulations, they must present timely, comprehensive, meaningful, and accurate reports to the public for investors to make sound decisions (SEC, 2011). Further, the selected companies for this study are required to hire outside auditors to ensure the reliability and accuracy of firm's financial statements per GAAP. These auditors act as a neutral third party that provides unbiased and independent opinions of firm's financial statements and filings (Berk & DeMarzo, 2011). Despite these regulations, the financial statements of firms may still contain biased errors. However, the data available to the public is the most reliable data available to outsiders.

Limitations of the study. Limitations to this study included the following:

1. Sample size. The small sample (ten companies) required the yielding of higher correlation to reject the null hypothesis.
2. Reliability and validity of financial statements. This is a limitation that every investor faces when considering investing in a company. The SEC imposes certain rules and regulations that publicly-traded companies must obey to increase the reliability and validity of the financial metrics.
3. Time period under study. Generally, a decade is deemed as a sufficient period of performance for financial analysis; however, this study was limited to the four years in which the minority CEOs have held office. Because very few minority

CEOs have been in office in the past decade, the time period for this study included only 2007 to 2010.

4. All CEOs but two, Vikram Pandit of Citigroup and Kevin Murai of Synnex, were in office between the years 2007-2010. In the case of Citigroup, Vikram Pandit assumed his position in December of 2007, and Kevin Murai assumed his position in March of 2008. To ensure a sufficient sample size of ten, these exceptions had to be made.

Data analysis. The analytical techniques used in this study included Pearson product-moment correlations and repeated-measures analysis of covariance (ANCOVA). The Pearson correlation is a frequently used measure of association between two variables. The correlation ranges from -1 to +1, inclusive (Huck, 2008). All of the financial metrics for the years 2007-2010 were inputted into the Statistical Package for the Social Sciences (SPSS), which is used for statistical analysis. Next, a Pearson correlation was conducted to assess the relationship between the performances of minority-led firms versus non-minority-led firms. A second correlation test was conducted, in which seven variables (age, education, tenure, gender, number of employees, Fortune 500, year founded) were controlled. These variables were identified as having an impact on the performance of the CEO and, ultimately, the financial performance of the firm; therefore, a second correlation analysis was conducted to adjust for these variables.

The second part of the analysis involved running a repeated-measures ANCOVA test. In this study, it involved a single dependent variable (minority status) and multiple independent variables – ROA, ROE, EPS, EBITDA multiple (Mendenhall & Sincich, 2007). Again, for each of the four financial metrics, a repeated-measures ANCOVA test was run as follows: within-subject variable test, between-subjects variable test, and interactions of two variables test. The within-subject variable test collapsed all 63 companies for each year (2007-2010) and determined whether there were differences within the years 2007, 2008, 2009, and 2010 for averages of ROA, ROE, EPS, and EBITDA multiple. The between-subjects variable test compared the four-year averages of financial performance metrics of minority-led companies versus non-minority-led companies to determine any statistically significant differences between these companies. Finally, the interaction of two variables test was conducted using the mean score of all four years for the years 2007-2010. The mean scores were inspected for patterns in minority-led versus non-minority-led companies.

Summary

This chapter presented the methodology used for conducting this study. The chapter began with a restatement of the research questions and their corresponding hypotheses. A quantitative approach was used to assess the relationship between the presence of a minority CEO and the financial performance of his or her firm. Subsequently, a qualitative approach was used to determine the success strategies of minority CEOs, using public data/documentation of the CEOs.

A purposeful sample of ten minority-led companies was used for the study. Financial data were collected using Capital IQ for each company as well as for their competitors in each industry bracket, as defined by CNNMoney.com and Diversity Inc. Validity and Reliability were ensured by the use of four appropriate financial metrics and the financial/accounting rules and regulations that govern the data, respectively. Small sample size, reliability of financial statements, short time period of the study, and two minority CEOs' being appointed only at the end of 2007 and early 2008 were considered to be limitations to this study.

The statistical tests utilized for this study were Pearson product-moment correlations and repeated-measures ANCOVA. The Pearson correlation concerned the relationship between the performances of minority-led versus non-minority-led firms for each of the four financial metrics. An additional partial correlation test was run to control for seven variables that may have an impact on CEO's performance. Finally, a repeated-measures ANCOVA was conducted to assess firm performance over time for each of the four financial metrics.

Chapter Four: Results

This chapter presents the results of the data analysis. The chapter begins with a restatement of the purpose of the study, the research questions and hypotheses, and data collection strategy. This is followed by the results for each research question, accompanied by data displays. The chapter concludes with a summary of the findings.

Restatement of the Purpose of the Study

The purpose of this study was twofold: (a) to determine whether there is a relationship between minority leadership and the financial performance of a firm, and (b) to identify commonalities among career strategies of minority CEOs. The study was guided by the following research questions:

Restatement of the Research Questions and Hypotheses

Of the five research questions presented below, the first four were addressed using a quantitative approach, while the fifth was addressed using a qualitative approach.

1. How does the financial performance of minority-led companies, as measured by Return on Assets (ROA), compare with industry averages, when all other variables are held constant?
2. How does the financial performance of minority-led companies, as measured by Return on Equity (ROE), compare with industry averages, when all other variables are held constant?
3. How does the financial performance of minority-led companies, as measured by Earnings Per Share (EPS), compare with industry averages, when all other variables are held constant?
4. How does the financial performance of minority-led companies, as measured by the Enterprise Value/Earnings Before Interest, Tax, Depreciation, and

Amortization (EV/EBITDA) multiple and Market Cap/EBT for the banking industry, compare with industry averages, when all other variables are held constant?

5. What common career strategies are present among minority Fortune 500 CEOs?

To assess the relationship between the financial metrics of each sample firm and the industry averages, for the years 2007-2010, the following null hypotheses were tested. The first set of hypotheses relate to the relationship between minority leadership and the financial performance of a firm.

H_1: There will be no statistically significant correlation between the presence of a minority CEO and the ROA performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_2: There will be no statistically significant correlation between the presence of a minority CEO and the ROE performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_3: There will be no statistically significant correlation between the presence of a minority CEO and the EPS performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

H_4: There will be no statistically significant correlation between the presence of a minority CEO and the EBITDA multiple performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.

The hypothesis below relates to commonalities among career strategies of minority CEOs.

> H_5: There are no differences in the educational levels of minority and non-minority Fortune 500 CEOs; additionally, international experience and board membership have no impact on career trajectory of executives.

Restatement of the Data Collection Strategy

The data for this study were collected in four stages. In the first stage, a purposeful sample of ten minority-led companies, based on the Fortune 500 company listing, was identified. These companies were selected based on minority-CEO tenure. Specifically, all CEOs but two (Citigroup and Synnex) were in office between years 2007-2010. Vikram Pandit (Citigroup) assumed his position in December 2007, and Kevin Murai assumed his position in March 2008. This has been identified as a limitation of this study in the previous chapter. However, due to the limited number of minority CEOs, these exceptions had to be made to ensure a sufficient sample size of ten. Another exception to note is in the case of Mastercard. In 2010, Mastercard elected Ajay Banga, a minority, to its CEO position; while he is not in the primary sample of ten, he is coded in 2010 as a minority CEO.

In the second stage, based on sample and their industry bracket categories, each company's competitors were identified, as noted on CNNMoney.com. The population size, including the minority-led companies, is 63 Fortune 500 companies.

In the third stage, the financial metrics (ROA, ROE, EPS, EBITDA multiple) and the variables that may affect the performance of the CEO for all 63 companies were gathered. These variables included CEO age, education, tenure, gender, number of employees, Fortune 500 standing, and the year the company was founded.

In the fourth stage of analysis, which pertained to career strategies, the researcher reviewed relevant literature to identify the commonalities in career strategies among the identified minority CEOs. Official executive biographies, books, lectures, and magazine articles were reviewed to gather the three main career success strategies used by executives: education, international experience, and board memberships.

Descriptive Findings

Table 2 displays the descriptive statistics for the demographic variables. As seen in the table, most CEOs were Caucasian (82.5%), with only 11 (17.5%) having minority status. About a third (31.7%) of the corporations were from the financial services industry, with 25.4% from the health care industry and 23.8% from the food services industry. Two-thirds of the CEOs (68.3%) had graduate degrees, and all but five were male (92.1%).

Table 2

Descriptive Statistics for Demographic Variables

Variable	Category	*n*	%
Race/Ethnicity			
	African American	3	4.8
	Asian	7	11.1
	Caucasian	52	82.5
	Hispanic	1	1.6
CEO Minority Status			
	No	52	82.5
	Yes	11	17.5
Gender			
	Male	58	92.1
	Female	5	7.9

(continued)

Variable	Category	*n*	%
Industry			
	Financial Services	20	31.7
	Food	15	23.8
	Health Care	16	25.4
	Other	12	19.1
Education			
	Bachelor's degree	20	31.7
	Graduate degree	43	68.3

Table 3 displays the descriptive statistics of selected variables. These variables include age (*M* = 55.29), tenure (*M* = 6.05), number of employees of the firm (*M* = 62,670.24), Fortune 500 standing (*M* = 207.46), and the year in which the firm was founded (*M* = 1931.65).

Table 3

Descriptive Statistics for Selected Variables

Variable	*M*	*SD*	Low	High
Age	55.29	5.08	44	68
Tenure	6.05	4.50	0	18
Number of Employees	62,670.24	87,806.72	1,800	400,000
Fortune 500 Ranking	207.46	140.31	5	497
Year Founded	1931.65	55.32	1806	2007

Table 4 includes the descriptive statistics for the financial outcome variables. Within this table, 16 financial outcome variables are displayed for the four financial metrics (ROA, ROE, EPS, and EBITDA multiple) and each of four years (2007-2010). ROA is a measure of the profitability of a company based on its assets use; ROE is a measure of the profitability of a company based on the return earned by the equity holders (shareholders); EPS is a per-share measure of return on equity that is directly beneficial to stockholders as an indicator of investment profitability; and EBITDA multiple is a measure of the operating capability of the firm (Brigham & Houston, 2007).

Table 4

Descriptive Statistics for the Outcome Variables

Financial Outcome/Year	*M*	*SD*	Low	High
ROA 2007	0.07	0.05	0.00	0.19
ROA 2008	0.06	0.05	-0.02	0.20
ROA 2009	0.06	0.05	-0.01	0.15
ROA 2010	0.07	0.05	-0.00	0.22
ROE 2007	0.21	0.16	-0.10	0.60
ROE 2008	0.16	0.22	-0.30	0.64
ROE 2009	0.20	0.21	-0.10	0.71
ROE 2010	0.22	0.20	-0.11	0.80
EPS 2007	0.08	0.41	-1.00	1.00
EPS 2008	-0.27	0.65	-2.00	1.07
EPS 2009	-0.12	1.01	-2.00	2.00
EPS 2010	0.11	0.62	-1.00	1.50
EBITDA 2007	10.13	2.45	5.79	15.00
EBITDA 2008	8.25	2.91	1.52	15.00
EBITDA 2009	7.73	2.73	1.77	13.00
EBITDA 2010	8.33	3.70	0.86	19.15

Note. ROA, ROE, and EPS are presented in percentages, while EBITDA multiple is presented as a dimensionless ratio.

Table 5 displays the Pearson product-moment correlation and the partial correlations that controlled for the seven variables (age, tenure, number of employees of the firm, Fortune 500 standing, and the year in which the firm was founded). As seen, 4 of the 16 correlations between the minority status of the CEO and the financial outcome measures were significant. Specifically, corporations with a minority CEO had significantly higher metrics for ROA 2008 (r = .22, p < .10), ROE 2007 (r = .26, p < .05), EBITDA 2008 (r = .28, p < .05), and EBITDA 2010 (r = .26, p < .05). Similarly, partial correlation test resulted in two statistically significant outcomes for EBITDA 2008 (r = .24, p < .10), and EBITDA 2010 (r = .24, p < .10).

Table 5

Pearson Correlations and Partial Correlations for Minority CEO Status and Financial Outcome Measure

Financial Outcome/Year	Pearson Correlation	Partial Correlation
ROA 2007	0.15	0.06
ROA 2008	0.22	0.14
ROA 2009	0.18	0.06
ROA 2010	0.15	0.07
ROE 2007	0.26*	0.20
ROE 2008	0.10	0.00
ROE 2009	0.14	0.03
ROE 2010	0.07	-0.02
EPS 2007	0.04	0.06
EPS 2008	0.12	0.05
EPS 2009	-0.06	-0.14
EPS 2010	0.05	0.04
EBITDA 2007	0.16	0.13
EBITDA 2008	0.28*	0.24
EBITDA 2009	0.13	0.12
EBITDA 2010	0.26*	0.24

*p < .05

Research Question and Hypothesis Testing

Research question 1 asked, “How does the financial performance of minority-led companies, as measured by Return on Assets (ROA), compare with industry averages, when all other variables are held constant?” The corresponding null hypothesis predicted, “There will be no statistically significant correlation between the presence of a minority CEO and the ROA performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.”

Table 6 presents the data, derived from a repeated-measures ANCOVA test, pertinent to this research question and to this hypothesis. The test considers ROA outcomes from 2007-2010 based on CEO minority status while controlling for the seven aforementioned covariates. Inspection of the findings indicated that the within-subjects variable of year was not statistically significant (p = .41); the between-subjects variable of minority CEO status also was not statistically significant (p = .52); and the interaction of the two variables was not statistically significant (p = .45). Therefore, the null hypothesis was supported.

Table 6

ANCOVA for ROA Outcomes Based on CEO Minority Status

Source	*SS*	*df*	*MS*	*F*	*p*
Year	0.00	3	0.00	0.97	.41
Minority [b]	0.00	1	0.00	0.41	.52
Year X Minority	0.00	3	0.00	0.89	.45
Error (Minority)	0.40	54	0.01		
Error (Year)	0.03	162	0.00		

Research question 2 asked, “How does the financial performance of minority-led companies, as measured by Return on Equity (ROE), compare with industry averages, when all other variables are held constant?” The corresponding null hypothesis predicted, “There will be no statistically significant correlation between the presence of a minority CEO and the ROE performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.”

Table 7 presents the data, derived from a repeated-measures ANCOVA, pertinent to this research question and to this hypothesis. The test considers ROE outcomes from 2007-2010 based on CEO minority status while controlling for the seven aforementioned covariates. Inspection of the findings indicated that the within-subjects variable of year was not statistically significant ($p = .23$); the between-subjects variable of minority CEO status also was not statistically significant ($p = .73$); and the interaction of the two variables was not statistically significant ($p = .39$). Therefore, the null hypothesis was supported.

Table 7

ANCOVA for ROE Outcomes Based on CEO Minority Status

Source	*SS*	*df*	*MS*	*F*	*p*
Year	0.06	3	0.02	1.44	.23
Minority	0.01	1	0.01	0.12	.73
Year X Minority	0.04	3	0.01	1.01	.39
Error (Minority)	5.84	54	0.11		
Error (Year)	2.21	162	0.01		

Research question 3 asked, “How does the financial performance of minority-led companies, as measured by Earnings Per Share (EPS), compare with industry averages, when all other variables are held constant?” The corresponding null hypothesis predicted, “There will be no statistically significant correlation between the presence of a minority CEO and the EPS performance of that company relative to comparable companies, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.”

Table 8 presents the data, derived from a repeated-measures ANCOVA test, pertinent to this research question and to this hypothesis. The test considers ESP outcomes from 2007-2010 based on CEO minority status while controlling for the seven aforementioned covariates. Inspection of the findings indicated that the within-subjects variable of year was statistically significant (p = .01). Post hoc analysis found EPS scores in 2007 (M = 0.10) to be significantly higher than those same scores in 2008 (M = -0.24, p = .04). The between-subjects variable of minority CEO status was not statistically significant (p = .78); and the interaction of the two variables was not statistically significant (p = .50). Based on the combination of findings, the null hypothesis was supported.

Table 8

ANCOVA for EPS Outcomes Based on CEO Minority Status

Source	*SS*	*df*	*MS*	*F*	*p*
Year	4.78	3	1.59	3.62	.01
Minority	0.04	1	0.04	0.08	.78
Year X Minority	1.04	3	0.35	0.79	.50
Error (Minority)	28.68	54	0.53		

(continued)

Source	*SS*	*df*	*MS*	*F*	*p*
Error (Year)	71.23	162	0.44		

Research question 4 asked, “How does the financial performance of minority-led companies, as measured by the Enterprise Value/Earnings Before Interest, Tax, Depreciation, and Amortization (EV/EBITDA) multiple and Market Cap/EBT for the banking industry, compare with industry averages, when all other variables are held constant?” The corresponding null hypothesis predicted, “There will be no statistically significant correlation between the presence of a minority led CEO and the EBITDA multiple performance of that company relative to its peers, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded.”

Table 9 presents the data, derived from a repeated-measures ANCOVA test, pertinent to this research question and to this hypothesis. The test considers EBITDA multiple outcomes from 2007-2010 based on CEO minority status while controlling for the seven aforementioned covariates. Inspection of the findings indicated that the within-subjects variable of year was not statistically significant (p = .73). The between-subjects variable of minority CEO status approached statistical significance (p = .08); post hoc analysis found corporations with majority CEOs (M = 8.37) tended to have lower EBITDA multiple outcomes than did corporations with minority CEOs (M = 9.76). The interaction of the two variables also was not statistically significant (p = .41). Based on the combination of findings, the null hypothesis was supported.

Table 9

ANCOVA for EBITDA Outcomes Based on CEO Minority Status

Source	*SS*	*df*	*MS*	*F*	*p*
Year	5.70	3	1.90	0.43	.73
Minority	63.96	1	63.96	3.20	.08
Year X Minority	12.81	3	4.27	0.96	.41
Error (Minority)	1,077.65	54	19.96		
Error (Year)	717.74	162	4.43		

Research question 5 asked, "What common career strategies are present among minority Fortune 500 CEOs?" The corresponding null hypothesis predicated, "There are no differences in the educational levels of minority and non-minority Fortune 500 CEOs; additionally, international experience and board membership have no impact on career trajectory of executives." To address this hypothesis, the researcher analyzed each segment (education, international experience, and board membership); the results are reported below.

Education. Official executive biographies were reviewed to determine the educational attainment of the CEOs. Table 10 presents the findings.

Table 10

Educational Background of Minority CEOs

CEO	Company	Undergraduate	Graduate	Doctorate
Vikram Pandit	Citigroup	B.S. Electrical Engr. Columbia University	M.S. Electrical Engr. Columbia University	Ph.D. Finance Columbia University
Indra Nooyi	PepsiCo	B.S. Chemistry, Physics, Mathematics Madras Christian College, India	1) M.B.A. Indian Institute of Management, Calcutta 2) Master of Public and Private Management Yale University	

(continued)

CEO	Company	Undergraduate	Graduate	Doctorate
Ronald Williams	Aetna	B.A. Psychology Roosevelt University	Master of Science Massachusetts Institute of Technology	
Kenneth Chenault	American Express	B.S. History Bowdoin College		J.D. Harvard Law School
George Paz	Express Scripts	B.S. Business Administration University of Missouri		
Andrea Jung	Avon Products	B.A. English Princeton University		
Kevin Murai	Synnex	Bachelor of Applied Science, Engineering University of Waterloo (Ontario, Canada)		
Surya Mohapatra	Quest Diagnostics	B.S. Electrical Engineering Sambalpur University, India	M.S. Medical Electronics Salford University, England	Doctorate in Medical Physics University Of London, England
Clarence Otis	Darden Restaurants	B.A. Economics & Political Science Williams College		J.D. Stanford Law School
Jeff Yabuki	Fiserv, Inc.	B.S. Business Administration California State University, Los Angeles		

According to a *U.S. News* report (as cited in Burnsed, 2011) on the Fortune 500 CEOs, “Of the 500 CEOs in question, 174 have M.B.A.s and 59 have law degrees. Nearly 200 of the CEOs have no graduate-level degree. Nineteen of the 500 CEOs attained no college degree, and many were college dropouts turned visionaries” (para. 4). Based on the data derived from executive biographies, the researcher determined that the minority CEOs in this study hold educational credentials similar to those of non-minority Fortune 500 CEOs. In regard to educational level, all have college degrees; specifically, 4 have a master’s degree and 4 hold a doctorate. For prestige of the school, 6 of the 8 U.S. graduates attended top-ten ranked schools (4 Ivy League as well as MIT and Stanford). In regard to subject area of the degree, all but three hold a degree in business, law, or engineering. This combination of findings provided support for the null hypothesis.

International experience. Based on the executive biographies, of the minority CEOs, all but one, Clarence Otis Jr., has international experience. CEOs’ experiences include overseas assignments and director level/global management positions of international divisions within their parent company, (e.g., Vikram Pandit, Indra Nooyi, Andrea Jung). As noted, Magnusson and Boggs (2006) have identified “international experience as an important construct associated with ascension into the CEO position of large corporations [U.S. Fortune 200 companies]”(p. 107). In fact, “A global mindset is argued to be critical for managers to develop their firms’ current and future international success” (Lovvorn & Chen, 2011, p. 275). The study’s findings are in keeping with the literature that showed that 90% of minority CEOs used their previous international experience to advance in their career, ultimately reaching the CEO position. These findings enable the rejection of the null hypothesis that international experience does not affect an executive’s career trajectory.

Board membership. It is common for executives to join the boards of other organizations, academic institutions, and non-profits to assist them and to learn valuable management lessons. The literature indicated that membership on boards of other organizations provides executives with the necessary knowledge and skill set to further one’s career. Table 11 shows the memberships of the minority CEOs.

Table 11

Board Membership of Minority CEOs

CEO	Company	Academic	Industry	Community	Nonprofit	Total
Vikram Pandit	Citigroup	1	5			6
Indra Nooyi	PepsiCo	1	5	4	2	12
Kenneth Chenault	American Express	1	4	3		8
George Paz	Express Scripts	1	3			4
Andrea Jung	Avon Products		5	1	1	7
Kevin Murai	Synnex		2			2
Surya Mohapatra	Quest Diagnostics	2	5			7
Clarence Otis	Darden Restaurants		7	1		8
Jeff Yabuki	Fiserv, Inc.		3			3

On average, the minority leaders are involved in six boards, including those from industry, academic, community, and non-profit organizations. In keeping with the literature, through their many board memberships the minority CEOs have exposure to a variety of issues, which helps them to develop their skill set and to solve problems faced not only by their own organizations but also by organizations in different market sectors. The rich experiences gained from board memberships also assist CEOs to further their professional development. These findings enable the rejection of the null hypothesis that board membership does not affect executive's career trajectory.

Summary

The results of this study indicated that there is no difference in the financial performance of minority- versus non-minority-led Fortune 500 companies. Consequently, the null hypothesis that stated that there will be no statistically significant correlation between the presence of a minority-led CEO and the financial performance of that company relative to its peers, after correcting for the effects of CEO age, education, tenure, gender, and employee size, Fortune 500 standing, and year founded, was supported. Although the Pearson correlation and the partial correlation presented four data points that were statistically significant, when the findings were taken in aggregate, there were, overall, no significant differences. Additionally, while the repeated-measures ANCOVA within-subject test resulted in a significant finding for ROE, as did the between-subjects variable test for EBITDA multiple, post hoc analysis of the data did not support a relationship strong enough to reject the null hypothesis.

The literature showed that executives progress in their career through education, gaining international experience, and serving on boards of other organizations. The results of this study indicated that minority CEOs are accomplished educationally but are not significantly different from non-minority CEOs in terms of their educational credentials. Further, all but one CEO had international experience, which is in keeping with the literature that shows that international experience is crucial in executives' career trajectory. Finally, the minority CEOs were involved in a range of boards, which demonstrates the importance of board membership for success in an executive's career. The extensive international experience and board memberships of minority CEOs refute the null hypothesis that these are not important to one's career trajectory.

Chapter Five: Conclusion

This chapter provides a conclusion to the dissertation. The chapter begins with a summary of the study, followed by a summary of the findings. Then the findings are discussed in terms of their relationship to the literature that was reviewed. The chapter concludes with recommendations for future research and policy.

Summary of the Study

While the minority population of the U.S. is on the rise, minority leaders of Fortune 500 companies, especially in the CEO position, remain underrepresented. The existing research on the relationship between diversity in leadership and organizational performance has yielded equivocal findings. To further our understanding of the impact of minorities in leadership ranks, the purpose of this study was to (a) determine whether there is a relationship between minority leadership and financial performance of the firm, and (b) identify commonalities among career strategies of minority CEOs. Such research is important as it provides a foundation for the organizational focus on human capital management. Moreover, human capital management, as it relates to firm performance and the promotion of minorities into leadership positions, is a key element in a firm's competitive advantage.

This study was designed to assess the financial performance of ten minority-led Fortune 500 companies using four commonly used financial metrics: ROA, ROE, EPS, and EBITDA multiple. Other variables that were considered to have an impact on a CEO's performance, including age, education, tenure, gender, number of employees, Fortune 500 standing, and year of establishment, also were taken into account to ensure that cross-correlations between minority status and these variables did not account for the findings. Examining the most commonly used financial metrics in business allowed an understanding of the relationship between minority-CEO leadership and the financial performance of a firm.

Additionally, the researcher determined whether three common career success strategies, as identified in the literature, were applicable to minority CEOs. These strategies are (a) attainment of higher educational levels, which encompasses the quality or prestige of the school attended and the degree type earned; (b) international/global experiences; and (c) board memberships.

Summary of the Findings

The findings of this study revealed no statistically significant performance differences between Fortune 500 companies led by minorities versus those led by non-minorities. This result held true for all four performance measures: ROA, ROE, EPS, and EBITDA multiple. In other words, the presence of a minority CEO does not enhance or diminish financial performance, on average. Additionally, the results of this study indicated that both minority CEOs and non-minority CEOs shared similar levels of education. Finally, all but one minority CEO had international experience. All minority CEOs were involved on numerous boards of other corporations, academic institutions, and nonprofits, which indicates that board membership is an important aspect in the career progression and success of a CEO.

Financial metrics. As presented in the previous chapter, a Pearson correlation analysis was conducted for each of the four financial metrics for the years 2007-2010. This statistical test resulted in 16 correlations between financial performance and minority status. Four correlations (ROA 2008, ROE 2007, EBITDA 2008, and EBITDA 2010) were statistically significant. In aggregate, however, these correlations were determined not to be statistically significant and, thus, the null hypothesis could not be rejected.

Additionally, a partial correlation analysis was conducted to control for seven variables identified as affecting CEO performance. When adjusted for CEO age, education, tenure, gender, size of company, Fortune 500 standing, and year the firm was established, two of the 16 correlations (EBITDA 2008, and EBITDA 2010) indicated better financial performance of companies led by minority versus non-minority CEOs. Again, the two data points in aggregate, however, did not result in a statistically significant outcome that would have indicated that minority CEOs, as a whole, enable better firm performance.

An additional statistical test was conducted to assess the relationship between the minority status of the CEO and the independent variables of ROA, ROE, EPS, and EBITDA multiple. For each of the financial variables, a repeated-measures ANCOVA was run, which assessed within-subject variables, between-subjects variables, and the interaction of the two variables. With regard to ROA, all three tests yielded no significant differences between minority and non-minority CEO performance. Similarly, with regard to ROE, all three tests yielded no significant differences between minority and non-minority CEO performance. The repeated-measures test for EPS and EBITDA multiple resulted in statistically significant outcomes for the within-subject variables and a nominally statistically significant outcome for between-subject variables. However, in aggregate, a post hoc analysis showed that there were no statistically significant correlations between the presence of a minority CEO and financial performance of the firm; thus, the null hypothesis could not be rejected.

As noted, the literature, which was used to identify commonalities among career strategies of minority CEOs, yielded three common success strategies in attainment of the CEO position: education, international experience, and board membership. Again, data collected for this research question showed that there were no differences in the educational levels of minority versus non-minority Fortune 500 CEOs. Data collected also refuted the null hypothesis that international experience and board membership have no impact on career trajectory of executives. Executives are more likely to have international experience and diverse board memberships as illustrated by numerous international assignments and board memberships.

Discussion

Beginning in the 1960s, minorities began entering corporate America in greater numbers than before. Nevertheless, minorities are still underrepresented in the CEO position, and there is sparse and equivocal literature on the relationship between minority leadership and the financial performance of a firm. Some researchers have found that diversity enhances creativity, innovation, breadth of knowledge/skill sets, and problem-solving capabilities in organizations (Bantel & Jackson, 1989; McCuiston et al., 2004; Milliken & Martins, 1996; Smith et al., 1994). Others argue that diversity hinders organizational performance because it reduces social cohesion, consensus, momentum for change, and decision-making (Ferrier, 2001; Hambrick et al., 1996; Kochan et. al., 2003; Murray, 1989).

The findings in this study do not support either side of the debate. Viewed differently, one might infer that this study can be seen to confirm the view that the correlation between minority leadership and performance is highly dependent upon the situation. For instance, while the results of this study showed no correlation between minority versus non-minority leadership and performance, a possible explanation for the lack of correlation could be that minorities bring a diverse perspective, which has the potential to improve performance, on average, but also tend to have a more limited network, which is detrimental to firm performance (Ibarra, 1995). Therefore, in accordance with Thomas and Ely's (2001) integration and learning paradigm, the benefits of diversity must be incorporated within the processes and strategies of an organization, while the risks of diversity, such as increased conflict and decreased social integration, must be controlled, using training and communication. Once different perspectives and experiences are shared, understanding, respect, and growth within an organization can occur. In every situation, the shared knowledge generated from diversity enables organizations to redefine markets, products, and strategies in a way that helps to advance its mission.

Recommendations for Future Research

Based on the limitations of this study, the following are recommendations for future research: (a) replicate this study, using a 10-year time span, once data are available; (b) explore the impact of diverse boards and executive teams on financial performance; (c) consider the impact of minority status and gender together in terms of financial performance; and (d) differentiate the impact of minority-led leadership in terms of the specific industry.

Length of study. This study covered the years 2007-2010, which is an acceptable period of time for financial analysis of a firm's performance, given the low number of minority CEOs and their short tenure with Fortune 500 companies. As minorities increase their tenures as CEOs, this study could be extended to cover the span of a decade. As noted as a limitation of this study, minority CEOs have not been in office long enough to be able to achieve a longer period of performance; less than a handful of minority CEOs were in their position prior to 2006.

Diversity of boards and executive teams. While the CEO position is the most important position in an organization, the full executive team and board members, are also important to a firm's performance because high-level strategic decisions are made at the executive and board levels. Although the current study used minority status of a CEO as a binary variable (CEO is a minority = 1, CEO is a non-minority = 0), a recommended future study on diversity could be modified by converting the binary variable (non-minority vs. minority) into a scaled variable. For instance, in such research, the number of minorities who serve on the leadership team of each Fortune 500 company could be identified and normalized as a percentage. Thereafter, a multiple regression analysis could be performed on the minority percentage variable against the four performance metrics (ROA, ROE, EPS, and EBITDA multiple) rather than against minority presence.

Industry factors. Different industries have been shown to have different average levels of profitability as a function of a variety of forces, including macroeconomic, legal, geographical, cultural, political, and regulatory. As more minorities enter the executive offices of corporate America, and data on their performance become available, the relationship between minority- versus non-minority-led companies and their financial performance in specific industries is worthy of study.

Minority status and gender. In this study, two out of ten minority CEOs were women. As the number of minorities and women in business increases, so does the literature on their leadership style and effectiveness as managers as it relates to financial performance of a firm. Therefore, a recommendation for a future study is to analyze the minority status and gender of a leader together as they relate to leadership style and possible impacts on a firm's financial performance.

Policy Recommendations

Based on the results of this study, four policy recommendations at the organizational level can be made: (a) improving leadership's commitment to diversity, (b) identifying the best diversity program, (c) increasing investment in mentoring programs, and (d) creating partnerships between organizations and educational institutions.

Leadership's commitment to diversity, especially at the executive level, is essential to the recruiting, training, and retaining of minority leaders. At the leadership level, executives need to encourage an inclusive environment in which all employees are engaged as partners and encouraged to share their suggestions for improvements. By incorporating diversity as a business strategy, leadership may be more likely to allocate the necessary time and resources in retaining, training, and promoting minorities into leadership positions.

Over the years, organizations have implemented a series of diversity programs that include minority mentoring programs, affinity groups, diversity trainings, and diversity counsel. Each of these programs, if effective, may help organizations move toward a more inclusive culture. Yet, it is important to note that the diversity program that works best for one organization may not work well for another organization. Therefore, determination of the proper diversity program based on the evaluations or assessments conducted is required for successful incorporation of diversity into an organization.

One of the main issues that Ibarra (1995) identified was the lack of mentorship available to minority employees, which ultimately affects their career progression. Increasing formal and informal mentoring programs will assist minorities to progress in their career. Ultimately, by receiving guidance and support through these mentoring relationships, minority employees can progress into management/leadership ranks at a pace more in-line with their non-minority counterparts.

As the minority population grows in the U.S., so does its representation within the labor force. Therefore, partnerships with educational institutions can help to ensure a successful transition from the academic world into a professional environment for minority students. In this regard, some organizations have internship programs geared toward minority students. Exposure of minority students to the professional world can not only assist and ease with students' transition but also better prepare organizations to effectively work with a workforce that is more diverse than in the past. Many organizations currently do support and engage minority students early on; however, this policy recommendation is simply a continuation and expansion of the current organizational policies in place.

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