This volume contains an extensive report during the fifteenth annual international conference on Business Disciplines held in Orlando, Florida, and is a result of the continuing efforts of IABD to make contributions to practitioners and academicians.

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The IABD has evolved into a strong organization, thanks to immense support from various institutions. The objectives and far-reaching goals have generated excitement among people from all over the world.

The Academy is indebted to all who have contributed to its success, particularly Krish S. Krishnan, Indiana University’s Program Chair, and to those who did an excellent job of coordinating the conference. The high quality of papers presented contributed to the Academy’s reputation, and the volume reflects this.

Our appreciation also extends to the University of Management, Ulm, who made the conference a success.

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WORKFORCE DIVERSITY: GOOD FOR MINORITIES AND WOMEN, GOOD FOR SHAREHOLDERS?

Fadel H. Mahdy, Southeastern Oklahoma State University
C. W. Von Bergen, Southeastern Oklahoma State University

ABSTRACT

Historically firms were told that they must increase the demographic characteristics of their employees to comply with numerous equal employment opportunity laws and regulations. Businesses were later instructed that having a multicultural labor force was the equitable and fair thing to do. Today employers are increasingly being advised that the creation of a pluralistic workforce will provide a competitive advantage and has a significant impact on the ultimate objective of maximizing firm’s market value. To examine the supposed relationship between a firm’s commitment to diversity and the maximization of shareholders wealth, the authors reviewed the total returns of companies identified over the last five years by Fortune magazine as minority-friendly firms. Analyses indicate that these companies in general outperform the market in terms of total return to shareholders.

I. INTRODUCTION

With the increasing demographic diversity of the U.S. workforce (Jackson & Schuler, 1990), the concern for attracting qualified ethnic-racial minority applicants to employment vacancies is similarly of increasing importance and interest. Attracting, hiring, and retaining minorities are important goals from legal, ethical, and organizational-performance perspectives (Gardenswartz & Rowe, 1993). Each of these perspectives has been emphasized over the years.

The legal perspective has been embodied in affirmative action and was the first systematic approach implemented by organizations focused on achieving equality of opportunity (Kreitner & Kinicki, 2001). Affirmative action is rooted in Title VII of the Civil Rights Act of 1964 which was a direct result of the civil rights movement of the early 1960s. Although affirmative action created tremendous opportunities for women and minorities, it did not foster the type of thinking that is needed to effectively manage diversity (Thomas, 1990).

In response to the negative perception of affirmative action as a mechanism to increase diversity the ethical or valuing diversity perspective became more popular in the 1980s. It revolves around creating an environment in which everyone feels valued and accepted. From an ethical perspective, minorities have been the targets of prejudice and discrimination in the United States for more than 200 years, and eliminating discrimination should be a concern to those who hold power, especially organizational decision makers (Brief, Dietz, Cohen, Pugh, & Vaslow, 1997). Moral and ethical imperatives drive this approach to increasing multiculturalism and it is believed that everyone benefits from an inclusive environment. Increasing diversity in the workforce and emphasizing the appreciation of differences is the proper, just thing to do.

To a large extent the goals of an ethical perspective are being overtaken by the demands of markets (Dessler, 2002). As a result, companies are increasingly focusing on diversity for reasons of increasing productivity and ultimately profits (Kreitner & Kinicki, 2001). Effectively managing an organization’s costs and employee attitudes has become increasingly important to sales and market share, creativity and productivity (Brief, Dietz, Cohen, Pugh, & Vaslow, 1997). What is argued from both perspectives is that diverse workforces can benefit companies financially.

In this study we begin to examine the effects of demographic characteristics on an organization’s performance. For example, a 1997 study of 1,000 companies by the Management Association and the Business Management Association suggested that a diverse TMT can contribute to a company’s success (Kreitner & Kinicki, 2001). Current thinking points out that diverse ideas and a variety of perspectives, with the added advantage of effective decision making (Miller, Burke, & Glick, 1999). What this review suggests, then, is that boosting workforce diversity because it is the right thing to do, but also increasingly because of the benefits of productivity, creativity, and performance, should have a significant impact on maximizing a firm’s market value or ownership benefits.

This study examines total returns to shareholders five years by Fortune magazine as minority-friendly firms.

II. SAMPLE AND DATA

Our sample of minority-friendly firms of America’s 50 Best Companies for Minorities (2002), Fortune magazine has conducted an annual survey of large firms. Using these results, a list of companies was compiled. In this study we included publicly traded firms that were included in the top fifty lists. After derivation of our sample involved the selection of companies included in the top fifty lists. After derivation of our sample involved the selection of companies.

This study uses monthly total returns (total appreciation yield) to examine any abnormalities hence, to measure the contribution to share value.
increase the demographic ligious equal employment and instructed that having a to do. Today employers nuralistic workforce will on the ultimate examine the supposed and the maximization of returns of companies minority-friendly firms. form the market in terms U.S. workforce (Jackson ed ethic-racial minority increasing importance and re important goals from actives (Gardenswartz & sized over the years. affirmative action and was the focused on achieving affirmative action is rooted in direct result of the civil affirmative action created did not foster the type of thomas, 1990). affirmative action as a diversity perspective creating an environment in dal perspective, minorities in the United States for should be a concern to those (Brief, Dietz, Cohen, drive this approach to everyone benefits from an force and emphasizing the appreciation of differences is the proper, just, and decent thing for organizations to do.

To a large extent the goals of equitable and fair treatment driving the ethical perspective are being overtaken by demographic changes and globalization of markets (Dessler, 2002). As a result, companies today are increasingly striving for racial, ethnic, and sexual workforce balance, “not because of legal [and/or ethical] imperatives, but as a matter of enlightened economic self-interest” (Coil & Rice, 1993, p. 547). What is argued from this perspective is that increasing an organization’s demographic diversity can lead to a competitive advantage (e.g., Cox & Blake, 1991). Effectively managing diversity can influence an organization’s costs and employee attitudes, recruitment of human resources, sales and market share, creativity and innovation, group problem solving, productivity—ultimate profits (Kreitner & Kinicki, 2001). Researchers are beginning to examine the effects of a top management team’s (TMT) demographic characteristics on an organization’s financial performance. For example, a 1997 study of 1,000 companies conducted by the American Management Association and the Business & Professional Women’s Foundation suggested that a diverse TMT can contribute to corporate profits (Thompson, 1999). Current thinking points out that diversity promotes the sharing of unique ideas and a variety of perspectives, which, in turn, leads to more effective decision making (Miller, Burke, & Glick, 1998; Lawrence, 1997).

What this review suggests, then, is that firms should not only be concerned with boosting workforce diversity because it is the lawful and ethical thing to do, but also increasingly because of the benefits of increased morale, profit, productivity, creativity, and performance-bottom line considerations. These benefits should have a significant impact on achieving the ultimate objective of maximizing a firm’s market value or owners’ wealth. To explore this premise, our study examines total returns to shareholders of companies identified over the last five years by Fortune magazine as minority-friendly firms.

II. SAMPLE AND DATA

Our sample of minority friendly firms (MFFs) comes from the Fortune list of America’s 50 Best Companies for Minorities. For the past five years (1998-2002), Fortune magazine has conducted an annual survey of workforce diversity in large firms. Using these results, a list of the top 50 minority-friendly companies was compiled. In this study we use a sample that comprises essentially all publicly traded firms that were included in those top fifty lists. The first step in the derivation of our sample involved the creation of a master list of all firms that were included in the top fifty lists. After eliminating any double entrees, the list contained a total of 97 companies, including several privately owned firms, subsidiaries with no publicly traded equity, new firms incorporated after year 2000, and government agencies. After dropping the aforementioned firms and agencies, our full sample comprises a total of 76 MFFs.

This study uses monthly total returns (dividends yield plus capital appreciation yield) to examine any abnormal (negative or positive) returns and hence, to measure the contribution to shareholders wealth. Our monthly total
return data comes from the COMPUSTATE database. However, the sample contained several marginal firms that lack COMPUSTATE coverage. We decided to include these firms in our sample to avoid any potential biases or inefficiencies in our results. Closing prices and dividends for those marginal firms were collected manually and monthly total return \( R_t \) for each firm \( i \) was computed using:

\[
R_t = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}
\]

where \( P_t \) is the closing price of month \( t \), \( P_{t-1} \) is the closing price of the previous month, and \( D_t \) is the dividend paid in that month. In addition to the five year period of Fortune surveys (60 months of years 1998-2002), we decided to examine the full sample from two additional windows; a short-term one of the last 24 months (years 2001 and 2002), and a long-term window of 120 months (1998-2002). We believed that these additional examinations lead to more reliable readings of the sample performance. Furthermore, the last window takes into consideration the assumption that these firms may be well established in terms of minorities far before the first 1998 Fortune survey.

III. ANALYSIS AND RESULTS

We examined the performance of the full sample as an equally weighted portfolio. We first calculated monthly mean returns and standard deviations for the three periods and examined this performance relative to the S&P 500, the most widely followed benchmark of the U.S. equity market. Next, we estimated the portfolio Beta Coefficient \( \beta \) to account for the systematic risk using the following simple linear regression:

\[
R_{pt} = \alpha_p + \beta_p R_{mt} + \epsilon_{pt}
\]

where \( R_{pt} \) is the raw monthly return for the MFFs portfolio and \( R_{mt} \) is the monthly return of the S&P 500. Table I summarizes our results in this stage and reveals that the MFFs portfolio surpass the market in all periods. The annualized average return was -4.32%, 4.56, and 14.16% in each of the three periods respectively versus -16.80%, 1.20%, and 10.56% for the market. Meanwhile, the total risk measured by the standard deviations of returns and the systematic risk measured by \( \beta \) are both less than that of the market (for all periods except the nearly equal standard deviations for the 24 month period).

<table>
<thead>
<tr>
<th>TABLE I</th>
<th>MONTHLY RETURN AND RISK</th>
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<tbody>
<tr>
<td></td>
<td>2 years</td>
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<tr>
<td></td>
<td>MFFs</td>
</tr>
<tr>
<td>Mean</td>
<td>-0.0036</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.0588</td>
</tr>
<tr>
<td>Variance</td>
<td>0.0035</td>
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<tr>
<td>( \beta ) Coefficient</td>
<td>0.96</td>
</tr>
<tr>
<td>Firms outperform S&amp;P 500</td>
<td>58</td>
</tr>
<tr>
<td>Firms underperform S&amp;P 500</td>
<td>18</td>
</tr>
</tbody>
</table>

IV. CONCLUSIONS

This data indicates potential magnitude is even higher when mean are higher with less volatility compared significance of abnormal returns, we CARs recommended by Fama for allowing cleaner tests (Fama, 1998) (BHARs) suggested by Barber and compounding in long-run return. I methodological studies on the best performance, CARs and BHARs have their complementary rather than competing returns (Dichev & Piotroski, 2001).

For CARs, a monthly abnormal for that month minus its expected return and the Beta for the period, or:

\[
AR_{pt} = R_{pt} - \frac{\beta_p}{\beta_m} R_{mt}
\]

where \( AR_{pt} \) is the MFFs monthly abnormal is the 3-months Treasury bills month from Global Finance database. The ARs were added in each period to form 24-month portfolio's cumulative abnormal return and used t-statistics to test whether it zero.

BHARs were measured as the minus the buy-and-hold return from the

\[
BHAR = \frac{1}{n} \sum_{i=1}^{n} CAR_i
\]

The mean BHAR for each of the three periods is significantly greater than zero in minority friendly companies as a portfolio.
This data indicates potential abnormal returns of the MFFs portfolio. The magnitude is even higher when mean returns are adjusted for risk, since returns are higher with less volatility compared to the market. To calculate and test the significance of abnormal returns, we used both Cumulative Abnormal Returns (CARs) recommended by Fama for having better statistical properties and allowing cleaner tests (Fama, 1998), and Buy and Hold Abnormal Returns (BHARs) suggested by Barber and Lyon (1997) because they reflect the compounding in long-run return. Despite the disagreement of the recent methodological studies on the best method to calculate and test long-run abnormal return, CARs and BHARs have their own strengths and can be considered as complementary rather than competing approaches to compute and test abnormal returns (Dichev & Piotroski, 2001).

For CARs, a monthly abnormal return equals the portfolio-specific return for that month minus its expected return using the S&P 500 return for that month and the Beta for the period, or:

$$AR_m = R_p - [R_F + \beta (R_m - R_F)]$$

where $AR_m$ is the MFFs monthly abnormal return, $R_p$ the monthly raw return, $R_F$ is the 3-months Treasury bills monthly rate or return (risk-free rate), obtained from Global Finance database. The portfolio monthly abnormal returns $AR_m$ are added in each period to form 24 months, 60 months, and 120 months of portfolio's cumulative abnormal returns. We calculated the mean for each period and used t-statistics to test whether means CARs are significantly different from zero.

BHARs were measured as the portfolio buy-and-hold monthly returns minus the buy-and-hold return from the market portfolio, or:

$$BHAR_m = R_p - R_m$$

The mean BHAR, for each of the three periods is calculated and tested against zero. Table II presents mean CARs and BHARs for the three periods and the corresponding t-test. This table reveals that the MFFs portfolio abnormal returns are significantly greater than zero in all periods which is an indication that minority friendly companies as a portfolio consistently outperformed the market.

<table>
<thead>
<tr>
<th>TABLE II</th>
<th>ABNORMAL RETURN TEST STATISTIC</th>
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<tbody>
<tr>
<td></td>
<td>2 years</td>
</tr>
<tr>
<td></td>
<td>CARs</td>
</tr>
<tr>
<td>Mean Abnormal Return</td>
<td>0.0097</td>
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<tr>
<td>t-statistic</td>
<td>0.0127</td>
</tr>
</tbody>
</table>

IV. CONCLUSIONS

The evidence presented in this paper suggests that the minority friendly firms, as a portfolio, significantly outperformed the market. This may indicate that these firms, in general, are good not only for minority employees, but for shareholders too. However, the analyses and results presented in this paper are exploratory in nature. The study did not attempt to explain why these minority firms have achieved significant abnormal returns. Further studies are needed in this regard, especially to control for firm size and book-to-market equity in
addition to the market factors which have been used here in computing long-run returns (as suggested by Fama & French, 1992). More research is needed to account for industry classification, kinds of minorities, and their managerial levels.

V. REFERENCES