

How do investors really react to the appointment of Black CEOs?

A comment on Gligor et al. 2021.

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Abstract

Research Summary: A recent study found that markets react negatively to the appointment of Black CEOs, with an average cumulative abnormal return of -4.2% . The authors argue this is caused by investors invoking racial biases and stereotypes. In contrast, using a comparable sampling period and analytic approach, we find markets react positively to the appointment of Black CEOs with an average abnormal return of $+3.1\%$ (or $+2.0\%$ after conservatively addressing outliers). Our results are consistent across several alternative analyses, sample adjustments, and robustness tests. We argue racial biases and stereotypes in markets are outweighed by investor appreciation for the higher bar for advancement that Black CEOs face and the exceptional attributes they must exhibit as a result. To conclude, we discuss the implications of our findings.

Managerial Summary: A recent study found that markets react negatively (-4.2%) to the appointment of Black CEOs which the authors attribute to racial biases and stereotypes among market participants. If true, boards might be dissuaded from making such appointments out of concern for the firm's stock price and their own shareholdings. Using a comparable sample, we

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find the opposite with an average return of +3.1% for the appointment of Black CEOs. We argue biases and stereotypes are outweighed by investor appreciation for the higher bar for advancement that Black CEOs face. Specifically, we show Black CEOs are appointed with, on average, more years of education, advanced degrees, and elite education than a comparable group of White CEOs. We share data and code underlying our primary results.

KEYWORDS

CEO succession, diversity, event study, race, upper echelons

1 | INTRODUCTION

The Black Lives Matter Movement, murder of George Floyd, and other high profile events have amplified widespread societal concerns over racial discrimination. These effects have impacted the business community where diversity, equity, and inclusion initiatives have led firms to evaluate their activities, especially in areas related to hiring and employee development. Notably, this focus has extended to an examination of corporate leadership. Beyond issues of underrepresentation—just 4 CEOs¹ in the Fortune 500 (0.6%) today are Black²—there is growing interest in understanding how race affects the evaluation of top strategic leaders (Carton & Rosette, 2011; Gündemir, Carton, & Homan, 2019; Hill, Upadhyay, & Beekun, 2015). A recent study by Gligor, Novicevic, Feizabadi, and Stapleton (2021)³ addressed this issue by studying the market reactions to the announcements of executive appointments (CEOs and top management team [TMT] members) between 2001 and 2020. The authors found investors reacted negatively to the appointment of Black CEOs (the average cumulative abnormal return [CAR] was −4.31%) and positively to the appointment of White CEOs (average CAR was 0.58%), and theorized the reactions stemmed from investors' racial biases and stereotypes. These findings have important theoretical implications for emerging research on race in corporate leadership, and normative implications such as the possibility that boards will be dissuaded from appointing Black CEOs due to a potential negative impact on their firm's stock price and directors' own shareholdings.

Given these possible implications, we undertook a study to understand why the reactions to Black CEO appointments were so negative. We followed an extensive, multi-prong approach (which we detail below) to reproduce the Gligor et al. sample and corresponding results. While their study included market reactions to TMT member appointments, that they also found were negative, we focused our study on the appointment of Black CEOs. In contrast to Gligor et al., we find that markets react positively to the appointment of Black CEOs with an average CAR

¹At time of submission in May 2022, the following Black leaders were serving as CEOs in the Fortune 500: Rozalind Brewer of Walgreens, Thasunda Brown Duckett of TIAA, Marvin Ellison of Lowes, and René Jones of M&T Bank (Wahba, 2021). Note that Kenneth Frazier, CEO of Merck, retired effective June 31, 2021.

²The terms and capitalization we use are consistent with APA guidelines for bias-free language (APA, 2020).

³For brevity, we refer to Gligor et al. (2021) as “Gligor et al.” throughout.

of +3.1%. After addressing extreme positive outliers, the magnitude is somewhat lower but still positive, at +2.0%. Our results remain consistent in a multivariate analysis and a multitude of robustness tests. Finally, we find that insider/outsider status affects outcomes opposite the direction reported by Gligor et al.

Since our analyses yield different market reactions to the appointment of Black CEOs than reported by Gligor et al., we performed numerous tests aimed at reconciling our findings with theirs. In particular, our tests focused on understanding whether differences in our sample of Black CEOs might be causing the differences in results. Although we identified significantly more usable CEO announcements than Gligor et al. (4,609 vs. 1,662), we identified 57 Black CEO appointments that were usable for an event study during the same sampling frame, 2001–2020, compared to Gligor et al.'s sample of 83 Black CEOs.⁴ One of our tests shows that if we artificially add 26 additional Black CEOs to our sample, which would then equal the 83 reported by Gligor et al., the reaction to those appointments would need to average a -18.1% CAR to match their results, which seems unlikely. As we explain below, our other tests failed to reconcile our findings with Gligor et al., and each one yielded positive, rather than negative, market reactions to the appointment of Black CEOs.

To assess the soundness of our alternate findings, we considered possible theoretical underpinnings to the positive market reactions and found they are in line with theory that highlights how Black leaders face a higher bar for advancement. Consistent with the common adage of minorities needing to “work twice as hard to get half as far” (DeSante, 2013), scholars have found that, compared to Whites, racial minorities are evaluated with more rigorous performance standards (Maume, 1999). Applied to leaders, this has been argued to limit career progression and helps explain why so few top executives today are racial minorities (Eagly & Chin, 2010; Rosette, Leonardelli, & Phillips, 2008). However, this explanation also highlights that racial minorities who ultimately attain senior roles must be especially qualified as compared to White leaders (Eagly & Chin, 2010; Hillman, Cannella, & Harris, 2002). As Eagly and Chin (2010) elucidate, “it is plausible that leaders belonging to diverse identity groups can perform especially well to the extent that they have had to meet a higher standard to attain leadership roles in the first place” (p. 219). While admittedly simplistic, we empirically considered whether Black CEOs face a higher bar for advancement by comparing the education of Black and White CEOs and found that Black CEOs exhibited more exceptional qualifications than the White CEOs in terms of years of education, advanced degrees, and elite education attainments.

It is through the accumulation of academic works, not individual studies, that we truly build knowledge of important phenomenon (Bettis, Helfat, & Shaver, 2016). Thus, our primary motivation with this study is to engage in transparent and collaborative research on this pressing topic of how race affects strategic leaders. In doing so, we present substantially different results than Gligor et al. and, in line with our commitment to transparency, we share the key data and code underlying our results.

Below we describe in more detail the theoretical background, methods, and results for our study. Next, we discuss the implications of our findings for multiple literatures including leadership diversity, strategic leadership, and succession. We also discuss suggestions for future research, including the benefits that can be derived from increased and more nuanced disclosure of data and results, as well as insights for practice. Finally, in the appendix, we provide a

⁴Gligor et al. declined our requests to share the list of Black and matching White CEOs in their sample and to clarify the process and keywords used for their media search for turnover announcements. They also did not respond to a subsequent request for clarification about other aspects of their paper.

list of the Black CEO appointments in our sample, the White CEO appointments used in our matched sample analyses, and the code used to generate market reactions to these appointment events. For each CEO, we include their names and firm affiliations, links to CEO pictures, the earliest announcement date found, and the market reaction (CAR).

2 | BACKGROUND

The appointment of a new CEO is an informationally rich event that is of tremendous interest to investors (Gangloff, Connelly, & Shook, 2016). When a new CEO is appointed, investors undergo a simple calculus to assess the likelihood that the new CEO will perform better than, similar to, or worse than their predecessor and buy and sell shares accordingly (Quigley, Crossland, & Campbell, 2017). As such, market reactions to succession events can be used as an indicator of how investors view the attributes and prospects of the new CEO (Shen & Cannella, 2003). The Gligor et al. study builds on literatures related to succession, diversity, and strategic leadership and uses market reactions to examine whether investors are biased when the new CEO is Black. As noted, they report results consistent with the explanation of bias with an average CAR to the appointments of Black CEOs of -4.31% .

The authors theorize these effects have to do with investors invoking stereotypes that lead them to perceive Black CEOs as less effective and capable (Ozier, Taylor, & Murphy, 2019), and at odds with society's view of the prototypical leader as White and male (Lord, Foti, & De Vader, 1984; Lord, Foti, & Phillips, 1982). Their theory is consistent with several studies reporting evidence about racial minority leaders—though not CEOs specifically—receiving weaker performance evaluations and attributions (Park & Westphal, 2013; Rosette et al., 2008), lower compensation (Guest, 2017) and fewer promotions (Greenhaus, Parasuraman, & Wormley, 1990; Powell & Butterfield, 1997), which may be more pronounced for Black leaders given the especially negative stereotypes about them that persist in society (Rosette et al., 2008). Gligor et al. note that negative investor perceptions are then reinforced by the tendency to link Black CEOs with more negative future firm performance given research indicating racial minority CEOs are disproportionately appointed to lower performing firms, a phenomenon referred to as the “glass cliff” effect (e.g., Cook & Glass, 2014; Gündemir et al., 2019).

However, we argue that while new Black CEOs likely experience the negative effects argued by Gligor et al. (and many other biases), there is ample theory suggesting a possible counter-vailing effect relevant to Black leaders as they ascend to the highest levels of the organizational hierarchy. It is well-documented that racial minorities need to contend with a higher bar for advancement than Whites (DeSante, 2013; Rosette et al., 2008). To be considered for appointment as CEO, a Black executive would have to repeatedly prove themselves over the course of their careers in ways White CEOs do not. As a result, newly appointed Black CEOs are likely to exhibit exceptional attributes relative to their White counterparts. For example, in the context of boards, Hillman et al. (2002) argued that for a “racial minority to be perceived as having high ability, he/she must have more evidence of that ability than the evidence required to judge a White male's ability” (p. 750). This same study showed that racial minority directors had more advanced degrees than White directors.

Black CEOs are also likely to be appreciated for having *unique* qualities. For example, their diversity in relation to the White corporate mainstream may afford them the ability to better understand different customer target markets and employee bases (Brammer, Millington, & Pavelin, 2007) and expand the perspectives considered during decision making (Miller &

Triana, 2009; Richard, 2000). Supporting this, Miller and Triana (2009) found that racial diversity on boards led to stronger innovation and reputation which, in turn, positively influenced firm performance. By virtue of their minority status, Black CEOs can also signal to stakeholders that the firm takes diversity seriously, yielding a multitude of benefits such as job satisfaction and retention among diverse employees (McKay et al., 2007) which, by extension, would positively impact the firm. Finally, given the paucity of Black CEOs in corporate leadership, it is plausible that, without even considering the CEO's qualities, investors may deem them especially capable for having beaten the odds to be appointed to the pinnacle of corporate leadership.

Under this alternative view, represented by a higher bar for advancement, it would follow that investors would react positively to the appointment of Black CEOs, perhaps even more so than to the appointment of White CEOs. While the negative stereotypes may persist, these may be outweighed by these positive influences and yield net positive perceptions that are observable through market reactions to newly appointed CEOs. As Eagly and Karau (2002) put it in relation to female leaders, "This effect presumably occurs because perceivers augment the causal importance of a force (i.e., task competence) that they believe has prevailed over a countervailing force (i.e., discrimination)" (p. 583). Aligned with this view, Hill et al. (2015) found racial-minority CEOs received greater compensation than White CEOs.

Gligor et al. also found that hiring from inside the firm, versus outside, moderated reactions to CEO appointments such that outsider black CEOs were associated with larger negative reactions. While we do not offer any a priori logic about this result, our analysis addresses this relationship as well.

3 | METHODS

3.1 | Data and sample

Our study started with reproducing, as best as possible, the Gligor et al. sample of 83 Black CEO appointment announcement events between 2001 and 2020. Like Gligor et al., we performed media searches in LexisNexis and Factiva. We used a broad list of search terms including "appointed CEO," "named new CEO," "succeeds and CEO," "step down and CEO," "replaces and CEO," "take over and CEO," and "to become CEO" (we also searched each of these phrases replacing "CEO" with "chief executive officer") and recorded the name, company, and earliest announcement date for any CEO appointment we could find. In some cases, this meant a CEO began serving during our sampling frame but was excluded because their appointment was announced before our sampling frame. For example, Kenneth Chenault, the CEO of American Express and the third Black CEO to run a Fortune 500 company, assumed office in 2001 but is not in our sample because his appointment was first announced in April 1999.

To ensure we found as many Black CEOs appointments as possible, we also performed targeted searches for lists of Black CEOs—of which there are many, such as "The Most Influential Black Executives in Corporate America" (Savoy, 2020), "Top Black CEOs" (Samaha, 2021), "Black Enterprise's the Most Powerful Executives in Corporate America" (Dingle, 2017), "The Elite 100 Black Women Executives" (Sykes, 2021)—and then used the CEO and corresponding company names in LexisNexis and Factiva searches for the earliest announcements of these appointments.

Our media search yielded 8,421 CEO appointment announcements, and we further filtered these cases using the same process described by Gligor et al. We dropped 40 cases that were appointments to subsidiaries and 4,895 cases that were appointments to non-publicly traded companies (private and nonprofit organizations). Among the remaining 3,486 cases, we dropped 390 cases related to “pinksheet” or OTC listed firms not covered by CRSP (where Eventus obtains stock market data) and 310 cases with insufficient stock market data for an event study (e.g., due to a merger or IPO during the estimation window). After these removals, 2,786 cases remained. We then coded CEO race using a detailed process we describe below. All CEOs were considered in our coding, including the CEOs we identified through the targeted search for Black CEOs (e.g., lists of Black executives), to ensure those lists did not have errors (we did not find any). Altogether, these broad and targeted media searches yielded a total of 2,652 usable Black or White CEO appointments, of which 49 were coded as Black and 2,603 were coded as White. We also identified 107 Asian and 27 Hispanic/Latinx CEOs that we did not include in our analyses.

We were surprised that our media searches yielded 34 fewer Black CEOs than reported by Gligor et al. especially given our media search yielded 67.6% more total usable CEOs (2,786 for our searches versus 1,662 for Gligor et al.). This is a notable difference in total appointments, especially when one considers that the Gentry, Harrison, Quigley, and Boivie (2021) database of CEO turnover reports 5,841 turnovers in this period among firms covered by Execucomp, which is roughly (and more narrowly) focused on the S&P 1500. We were also struck by the differences in the proportion of Black CEOs relative to the total CEO appointments that we found (2% in our sample vs. 5% for Gligor et al.).

In light of these differences, we took additional steps to seek out Black CEO appointments we might have missed in our media searches. Specifically, we searched for Black CEOs in three commonly used databases—Execucomp, Institutional Shareholder Services (ISS) database (a database of directors from which we extracted CEOs), and the Gentry et al. (2021) database of CEO succession events. These databases include information for senior leaders of S&P1500 firms but have some differences in coverage. For example, the ISS database captures independent directors of S&P1500 firms who might have full time positions as CEOs in firms outside the S&P1500. Given the visibility S&P1500 firms, these CEO appointments are more likely to be covered by the media. Thus, we anticipated that the database search would result in a large overlap with the appointment announcements we found through our media search. However, we also anticipated that we would find additional Black (and White) CEOs because we could use CEO and company names from these databases to search LexisNexis and Factiva for appointment announcements missed using the general search terms outlined above. This allowed us to capture CEOs we may have missed but which may have been captured by Gligor et al., perhaps because they used different search terms (we were unable to replicate perfectly the Gligor et al. search terms as they were not disclosed in the study).

The database search for Black CEOs involved identifying all unique CEO appointments between 2001 and 2020 while excluding cases for the same reasons detailed above with the media searches. We then performed searches in LexisNexis and Factiva to identify each CEO's earliest appointment announcement date, again dropping CEOs where this was outside the 2001–2020 sampling frame. Finally, we coded the race of these CEOs using the process detailed below. Altogether, this database approach identified 1,957 appointment announcements not captured in the media search, of which 8 were coded as Black and 1,949 were coded as White (as with the media search sample, other minority CEOs were excluded).

In total, our final sample includes 4,609 total usable appointments where the announcement date could be identified and where there was sufficient market data for Eventus—57 Black and 4,552 White CEO appointments. Compared to Gligor et al.'s sample, we had 26 (or 31%) fewer Black CEO appointments (57 compared to their 83) and 2,947 (277%) more total appointments (4,609 compared to their 1,662). Our sample of 57 Black CEO appointments is listed in the appendix.

Our sample includes confounding events that are typically excluded from traditional event studies (McWilliams & Siegel, 1997). Of the 57 Black CEO appointments, 12 are interim appointments or have other confounding events within plus or minus 3 days of the event (1 is both an interim appointment and has another confounding event; 7 are interim appointments only; 4 have other confounding events only). We would typically exclude these confounding events; however, to maximize the number of Black CEO appointments and create a sample as close in number to Gligor et al. as possible (who did not describe how they treated confounding events), we include all of these events in our primary analyses. We also include three events where an interim CEO was later named to be the permanent CEO (e.g., these three CEOs were captured for two separate dates each). Eliminating interim CEOs and other confounding events (but including the 3 interim CEOs only when they became permanent) resulted in a reduced sample of 45 Black CEO appointments. We report results for both samples below and the conclusions are the same.

3.2 | Variables

3.2.1 | CEO race

Consistent with Gligor et al., our study's focus was on *Black CEO*, a binary variable that took the value of 1 for Black CEOs and 0 for White CEOs. Our coding process, similar to Gligor et al., involved two independent coders coding CEO race using online biographical information, profiles, pictures, and public mentions of CEOs. We also identified Black CEOs using public lists of Black executives. As Gligor et al. did in their study, our broader coding scheme for CEO race also included the categories of Asian (South and East Asian) and Hispanic/Latinx. The race determined by the two independent coders matched 96% of the time.⁵ Disagreements were resolved through further investigations by the coders and coauthors as a group. As an additional accuracy check, a third experienced coder compared the racial conclusion of the research team with the sources noted above and did not find any errors.

Of the 57 Black CEO appointments in our final dataset, we found evidence of 58% of them self-reporting race (e.g., in an interview or otherwise) compared with 74% of Gligor's sample of Black executive appointments (which included CEOs and TMT members). For White CEOs, we randomly checked 50 cases, and found one CEO (2%) that self-reported race. Gligor et al. found 21% of White CEOs self-reported race.

⁵While 96% agreement is well beyond typical standards for rater agreement, in a sample of more than 4,000 CEOs, this would represent roughly 160 disagreements. If a substantial number of these were judgment calls between Black and White, that level of disagreement could account for the difference in sample size reported here and by Gligor et al. However, only one of the disagreements in our sample involved a potentially Black CEO. The rest involved disagreements among White, South Asian, East Asian, and Hispanic/Latinx CEOs.

As described above, we following Gligor et al.'s race coding scheme which did not include multi-race categories. While we accordingly did not perform deliberate searches for information capturing the multiracial backgrounds of CEOs, in two instances—John Agwundobi of Herbalife and Rene Jones of M&T Bank—we discovered information in our media search indicating that the CEOs were bi-racial with one biological parent who was Black and the other who was White. We include these two CEOs in our sample of Black CEOs given suggestions in the media that they are perceived as Black (e.g., appeared on lists of Black CEOs, referred to as Black in press releases issued by their firm) as well as research showing that, depending on certain conditions, individuals exhibit a tendency to perceive others as Black when they are multi-racial (e.g., both Black and other racial backgrounds) (Ho, Kteily, & Chen, 2017; Ho, Sidanius, Cuddy, & Banaji, 2013). However, removing the two CEOs from our Black CEO sample had no impact on the conclusions drawn from our analyses.

3.2.2 | Moderator and control variables

Following Gligor et al., we measured the moderator, *CEO insider/outsider status*, as a binary variable that took the value of 1 when the CEO was promoted from inside the firm and 0 when the CEO was hired from outside the firm. The control variables included were the same as Gligor et al. *Reason for appointment* was coded as 1 for unusual circumstances using the same reasoning noted by Gligor et al. (e.g., firm was acquired, management restructuring, involuntary resignation of previous CEO) and 0 otherwise. *Prior firm performance* was measured as the previous year's return on sales (net income over total revenue) and *firm size* was measured as the logarithm of total assets. Technical influences were accounted for using multiple measures. The market model root mean square error (*RMSE*) and firm beta (*BETA*) variables were retrieved from Eventus using the SAS interface and the same Eventus specifications noted below (WRDS, 2021). We controlled for market-to-book ratio measured as market value of total assets over book value of total assets. *Institutional holdings* was measured as the percent of shares owned by institutional investors as provided in the Thomson/Refinitiv Institutional (13f) Holdings dataset. Finally, for CEO attributes, *previous experience as CEO* was coded as 1 if the new CEO had prior experience as a CEO and 0 otherwise; *industry insider* was coded as 1 if the CEO was appointed from the same industry and 0 otherwise; *age* was measured as the total age in years at the time of appointment, and *female CEO* was coded as 1 if female and 0 if male.

3.3 | Analysis techniques

3.3.1 | Event study

We used Eventus to perform a standard financial event study, which uses abnormal stock returns measured during the time news is released about noteworthy events to capture investors' reactions to and perceptions of those events (Feldman, Amit, & Villalonga, 2016; Zhang & Wiersema, 2009). Consistent with Gligor et al., we considered the CARs, which are the sum of daily abnormal returns—the difference between actual returns and normal (or expected) returns on a given day—using a 3-day (−1 to +1) event window, with the event (Day 0) being the earliest announcement of the CEO's appointment. Following Gligor et al., we obtained normal returns using the market model, estimated by ordinary least squares regression using data

from a 240-day estimation window, ending 20 trading days before the CEO appointment announcement event. When stock market data were not available for a given day (e.g., a weekend or holiday), we used data from the next trading day (e.g., the Eventus auto date option).

While Gligor et al. calculated p -values for mean CARs using a bootstrapping methodology, we rely on non-bootstrapped p -values because even the smallest sample size in our analysis ($N = 45$ Black CEOs) is above the common threshold of 30 beyond which samples approximate a normal distribution (Ross, 2017). Our conclusions do not change when using bootstrapped p -values (bootstrapped p -values were uniformly smaller than what we report).

3.3.2 | Matched sample analysis

We followed Gligor et al.'s matched sample approach to allow for a test of differences in market reactions to the appointment of Black versus White CEOs. This involved identifying a sample of White CEOs using the same matching criteria applied by Gligor et al.—gender (exact match), year of the event date (exact match), and firm value measured as logged market capitalization (coarsened exact matching). The matching was performed using the coarsened exact matching (`cem`) command in Stata 16. See Appendix B for a listing of the matched White CEOs in our sample.

3.3.3 | Multivariate regression

Following Gligor et al., our analysis also included a multivariate OLS regression. We modeled these tests as Gligor et al. did, using the CAR as the dependent variable, and CEO race, insider/outsider status, the interaction of CEO race and insider/outsider status, and controls noted above as predictors. To mitigate the influence of outliers, all continuous predictor variables were Winsorized at the 1% level (i.e., 1st and 99th percentiles) prior to matching or inclusion in regression models. To ensure outliers within our outcome variable are not unduly influencing our findings, we report results using both un-Winsorized and Winsorized versions of our dependent variable.

4 | RESULTS

Table 1 provides descriptive statistics about the firms that appointed Black CEOs compared with the firms that appointed the matched White CEOs. As expected, there are no meaningful differences in market capitalization between the two groups given our coarsened exact matching on this variable. Firm size (logged total assets) is also not meaningfully different between the two groups, helping to rule out size differences as a confounding factor in our analyses. Interestingly, there is some indication that prior firm performance (i.e., performance in the year prior to the year of CEO appointment) may be lower in companies that appointed Black CEOs compared to White CEOs (previous ROS of -0.08 for Black CEOs and 0.00 for White CEOs, t -test p -value = .16).

4.1 | Overall market reaction to Black CEOs

Our univariate event study results are reported in Panel a of Table 2. Gligor et al. found that investors reacted negatively to the appointment announcements of Black CEOs in their sample

TABLE 1 Descriptive statistics for Black and matched White CEO appointment samples

Variables	Black CEOs (<i>N</i> = 57)		Matched White CEOs (<i>N</i> = 57)	
	Mean	<i>SD</i>	Mean	<i>SD</i>
Prior firm performance	-0.08	0.39	0.00	0.23
RMSE	0.03	0.02	0.02	0.01
Beta	1.32	0.59	1.08	0.50
MTB	1.14	1.49	0.97	0.78
Age	53.68	5.92	52.35	6.70
Female CEO	0.07	0.26	0.07	0.26
Total assets (logged)	7.86	2.65	7.78	1.96
Institutional holdings	0.60	0.33	0.62	0.27
Reason for appointment	0.32	0.47	0.14	0.35
Previous experience as CEO	0.25	0.43	0.37	0.49
Firm insider	0.46	0.50	0.65	0.48
Industry insider	0.88	0.33	0.93	0.26
Market cap (logged)	7.41	2.53	7.32	2.13

Abbreviations: MTB, market-to-book ratio; RMSE, root mean square error.

(average CAR of -4.31%) and that the difference between those reactions and reaction to White CEO announcements (who had an average CAR of 0.58%) was meaningful ($t = 3.57$; $p = .001$). Our main sample analysis shows that investors, on average, react positively to the appointment of Black CEOs (mean CAR of 3.11%), and the difference between those reactions and the reactions to the matched sample of White CEOs (who had an average CAR of -0.91%) is substantial (difference in average market reaction of 4.02%; $t = -2.15$; $p = .03$). After Winsorizing at the 1% level (i.e., at the 1st and 99th percentiles) within our entire sample of CEOs,⁶ the mean CAR for Black CEO announcements is a slightly smaller (2.00%), but the conclusions remain the same. That is, investors react more positively to Black CEO appointment announcements than White CEO appointment announcements. We also find the mean CAR for all White CEOs ($n = 4,552$) is close to zero (-0.01%) and that the market reaction to Black CEOs is larger ($p = .01$).

To ensure these findings are not driven by unique conditions surrounding the appointment announcements, we repeat the event study on a reduced sample of Black CEOs and White CEOs that exclude interim CEO appointments and other confounding events. The results are consistent. The mean CAR is 3.76% for Black CEOs and 0.33% for White CEOs (mean difference test: $p = .08$). (See Panel b, Table 2).

In Table 3, we report descriptive statistics and correlations for the variables used in our multivariate tests. Table 4 reports our multivariate results. For these analyses, we multiplied our dependent variable (CAR) by 100 to ensure reported coefficients displayed a reasonable number of significant digits (e.g., we wanted to avoid betas displayed as 0.00; we did the same for RMSE to maintain comparable scale). Models 1, 2, and 3 use raw CARs while Models 4, 5, and 6 use

⁶We Winsorized our entire sample of CEOs at the 1st and 99th percentiles. In practice, for Black CEOs this trimmed the values of the four largest positive CARs but did not affect any of the most negative Black cases. Thus, our conclusions from the Winsorized data are quite conservative. Details on CARs and Winsorized values are included in the appendix.

TABLE 2 Event study results: Univariate tests

Panel a. Main sample							
Sample	N	Positive: negative	CAR [-1, +1] (%)	t-test p-value	Standardized cross-sectional test p-value	Winsorized CAR (\$)	t-test p-value
Black CEOs	57	31:26	3.11	.07	0.08	2.00	.09
Matched White CEOs	57	24:33	-0.91	.27	0.29	-0.92	.25
All White CEOs	4,552	2,211:2341	-0.01	.91	0.35	0.04	.73

Comparing Black CEOs and matched White CEOs: $t = -2.15$ ($p = .03$)
 Comparing Black CEOs and matched White CEOs (Winsorized CAR): $t = -2.10$ ($p = .04$)
 Comparing Black CEOs and all White CEOs: $t = -2.69$ ($p = .01$)

Panel b. Reduced sample: Excluding confounding events and interim appointments							
Sample	N	Positive: Negative	CAR [-1, +1] (%)	t-test p-value	Standardized cross-sectional test p-value	Winsorized CAR (%)	t-test p-value
Black CEOs	45	27:18	3.76	.04	.01	2.66	.01
Matched White CEOs	45	22:23	0.33	.68	.41	0.31	.69

Comparing Black CEOs and matched White CEOs: $t = -1.78$ ($p = .08$)
 Comparing Black CEOs and matched White CEOs (Winsorized CAR): $t = -1.86$ ($p = .07$)

Note: All p-values are two-tailed.

Winsorized CARs. The largest variance inflation factor value for any variable across all models was 2.9, which is well below common thresholds used to detect multicollinearity. Models 1 and 4 include control variables only.

In Models 2 and 4, we test the main relationship between CEO race and market reactions. These multivariate results are directionally consistent with our univariate tests and show that race (Black CEO) is positively associated with CAR ($\beta = 3.81$, $p = .06$ for raw CARs and $\beta = 2.86$, $p = .06$ using Winsorized CARs). Using the Winsorized dependent variable in Model 5, which we believe provides the most appropriate test, our results show that markets react more positively to the appointment of Black CEOs than White CEOs by a margin of 2.86 percentage points. To put this in perspective, the median market capitalization of the firms in our matched pair sample is \$1.56 billion. Our results suggest the median firm appointing a Black CEO sees a market capitalization gain of \$44.6 million relative to a similar firm appointing a White CEO.

In Models 3 and 6, we introduce the moderating effect of a CEO's origin from inside or outside the firm. Using the Winsorized CAR, rather than finding that outside Black CEOs are associated with more negative reactions, as Gligor et al. report, we find that outside Black CEOs are associated with more positive reactions (Black \times insider $\beta = -4.49$, $p = .11$). In Figure 1, we plot the interaction. Notably, the only condition that is different (nonoverlapping confidence intervals) from the others is the combination of Black and outsider (marginal effect 3.88, $p = .01$,

TABLE 3 Correlations and descriptive statistics: Black and White CEO 1:1 matched sample (N = 112)

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. CAR [-1, +1]	1.10	10.13	1.00													
2. Winsorized CAR [-1, +1]	0.54	7.55	0.92	1.00												
3. RMSE	0.03	0.02	0.25	0.14	1.00											
4. Beta	1.20	0.56	-0.01	-0.06	0.49	1.00										
5. MTB	1.06	1.19	0.15	0.23	-0.08	-0.13	1.00									
6. Age	53.02	6.33	-0.08	-0.09	-0.01	0.07	0.14	1.00								
7. Female CEO	0.07	0.26	-0.10	-0.12	-0.08	-0.05	-0.06	-0.06	1.00							
8. Industry insider	0.90	0.30	-0.13	-0.02	-0.07	-0.08	-0.01	-0.03	-0.03	1.00						
9. Previous experience as CEO	0.31	0.46	0.05	0.00	0.11	-0.01	-0.06	0.13	-0.03	0.09	1.00					
10. Reason for appointment	0.23	0.42	-0.10	-0.11	0.10	0.13	-0.18	0.18	-0.07	0.04	0.00	1.00				
11. Firm size	7.82	2.32	-0.25	-0.21	-0.50	-0.16	-0.37	-0.04	0.08	0.13	-0.07	0.05	1.00			
12. Institutional holdings	0.61	0.30	-0.22	-0.17	-0.27	0.16	-0.11	0.05	-0.03	0.08	-0.15	0.01	0.23	1.00		
13. Prior firm performance	-0.04	0.32	-0.34	-0.36	-0.52	-0.21	-0.31	0.05	0.10	-0.03	-0.09	0.00	0.48	0.32	1.00	
14. Insider	0.55	0.50	-0.17	-0.14	-0.16	-0.18	-0.15	-0.31	0.04	0.36	-0.20	-0.10	0.22	-0.02	0.20	1.00
15. Black CEO	0.50	0.50	0.20	0.19	0.20	0.22	0.07	0.11	0.00	-0.09	-0.13	0.21	0.02	-0.04	-0.13	-0.19

Abbreviation: CAR, cumulative abnormal return.

TABLE 4 OLS regressions predicting CAR [-1, +1] using matched sample

Variables	CAR [-1, +1]			CAR Winsorized		
	(1)	(2)	(3)	(4)	(5)	(6)
RMSE	0.94 (.32)	0.67 (.47)	0.65 (.48)	0.06 (.93)	-0.14 (.83)	-0.16 (.82)
Beta	-2.25 (.27)	-2.64 (.20)	-2.27 (.26)	-1.64 (.28)	-1.94 (.20)	-1.68 (.26)
MTB	0.33 (.74)	0.05 (.96)	-0.04 (.97)	0.54 (.46)	0.33 (.65)	0.27 (.71)
Age	-0.15 (.36)	-0.15 (.33)	-0.12 (.44)	-0.15 (.21)	-0.15 (.19)	-0.13 (.27)
Female CEO	-3.41 (.35)	-3.61 (.31)	-3.63 (.31)	-2.99 (.27)	-3.14 (.24)	-3.15 (.23)
Industry insider	-2.87 (.41)	-2.77 (.42)	-2.83 (.41)	0.82 (.75)	0.89 (.73)	0.85 (.74)
Previous experience as CEO	-0.43 (.84)	0.37 (.86)	0.50 (.82)	-1.26 (.43)	-0.66 (.68)	-0.57 (.72)
Reason for appointment	-2.44 (.30)	-3.13 (.18)	-2.85 (.22)	-1.75 (.31)	-2.28 (.19)	-2.08 (.23)
Firm size	-0.06 (.91)	-0.28 (.61)	-0.23 (.66)	-0.01 (.98)	-0.17 (.67)	-0.14 (.72)
Institutional holdings	-2.48 (.50)	-2.05 (.57)	-1.84 (.61)	-1.48 (.58)	-1.16 (.66)	-1.01 (.70)
Prior firm performance	-6.96 (.08)	-6.78 (.08)	-7.03 (.07)	-6.74 (.02)	-6.60 (.02)	-6.78 (.02)
Insider	-2.55 (.27)	-1.85 (.42)	1.66 (.59)	-2.57 (.13)	-2.04 (.23)	0.42 (.86)
Black CEO		3.81 (.06)	7.21 (.01)		2.86 (.06)	5.25 (.01)
Black CEO × insider			-6.40 (.09)			-4.49 (.11)
Constant	15.58 (.15)	16.29 (.13)	11.55 (.29)	12.11 (.13)	12.64 (.11)	9.32 (.25)
Observations	112	112	112	112	112	112
Adjusted R-squared	.10	.12	.14	.10	.13	.14

Note: *p*-Values in parentheses.

Abbreviation: CAR, cumulative abnormal return.

95% CI 1.16–6.61). Marginal effects for the other conditions are all negative with confidence intervals that overlap with zero.

4.2 | Alternative analyses

We are aware that the differences in our sample of Black CEO appointment announcement events could potentially be affecting our findings. To address this, we performed a series of supplemental analyses to test the robustness of our results and potential avenues for reconciling our findings with those presented by Gligor et al.

First, we consider the possibility that we might have miscoded some of our CEOs as White when they were Black. For this analysis, we perform 1,000 iterations where we randomly select 26 White CEOs and recode them as Black. We then record the mean CAR of this new sample of 83 cases (e.g., the size of the Gligor et al. sample). The mean CARs from this analysis were never negative, ranging from 0.72 to 3.37%.

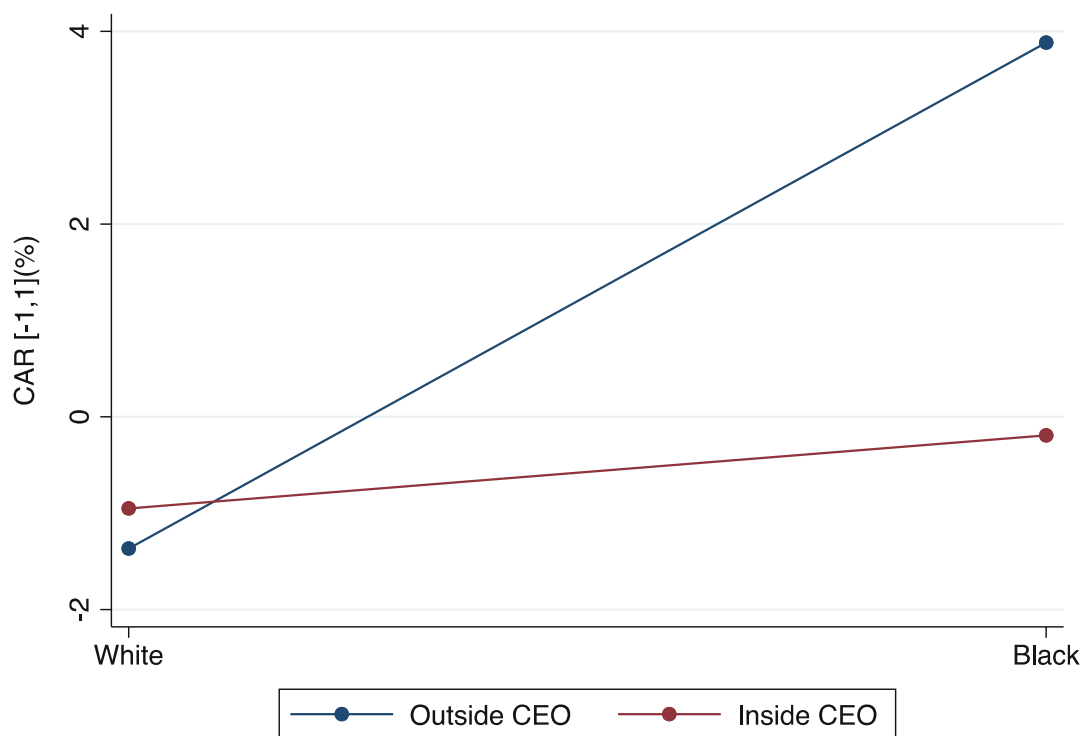


FIGURE 1 Interactive effect of race and insider status on market reactions to new CEO appointments

Second, we consider whether Gligor et al. may have inadvertently coded White CEOs as Black when the CEOs had distinctively Black names. To test this, we search our list of White CEOs for names that occurred on lists of distinctly Black names (Bertrand & Mullainathan, 2004; Cook, Logan, & Parman, 2016). We found 12 CEOs with such names, recode them as Black, add them to our sample (making it $n = 69$), and repeat the event study analysis using Eventus. The mean reported CAR for this sample was 2.90% ($p = 0.05$).

Third, we perform an analysis presented by Gligor et al. by recoding 10% of White CEOs as Black and 10% of Black CEOs as White. Following Gligor et al., we repeat this analysis 100 times. The CAR outcomes for Black CEOs are always positive, ranging from 0.90 to 4.29%.

Fourth, we consider if our findings can be explained by our reliance on identifying our sample from both media and database searches compared to Gligor et al. who focused on a media search only. For this analysis, we only consider the 49 Black CEOs from our search of media coverage. The mean CAR here is 3.75% ($p = .05$).

Fifth, we consider the possibility an alternative event date was used. Our primary analysis considered the earliest article following common event study methodology, but perhaps Gligor et al. considered the date with the most articles. For this analysis, we counted the number of articles covering the new CEO appointment by date and captured the one with the most articles. Out of 57 Black CEO appointments, 27 (47%) have a peak media coverage date different than the earliest date we originally coded. Of these, 19 were within 2 days of the earliest coverage date we identified. Using the alternative dates, we find a CAR of 2.52% ($p = .14$).

Sixth, we consider if assessing market reaction around the CEO's start date rather than date of earliest appointment announcement might affect our results. Twenty-seven (47%) of our

Black CEOs have start dates and announcement dates that coincide. The remaining CEOs have announcement dates that preceded their start date by an average of 86 days. The CAR using start dates was 2.65% ($p = .11$).

Seventh, we considered the possibility that our findings were driven by extreme positive outliers in our sample. Indeed, the most positive raw CAR in our sample of 57 Black CEO appointments was 69%. The next highest was 34%. After dropping (rather than Winsorizing) these two outliers, the resulting mean CAR is 1.34% ($p = .23$). Of course, this only reflects removing extreme positive cases and does not address extreme negative cases. Winsorizing or removing the most extreme negative events naturally yields a larger positive CAR and a substantially reduced p -value. Regardless, the mean CAR for Black CEOs remains positive.

Eighth, using our sample of 57 cases, we consider the possibility that our results differ from Gligor et al. because the additional 26 cases of Black CEO appointments they found but we missed were all substantially negative. We then calculate how negative those cases need to be to make our results match Gligor et al. To make this test more conservative, we use our Winsorized sample which has a CAR of 2.00% versus Gligor et al.'s result of -4.30% , a difference of -6.3 percentage points. To reduce the mean CAR of our Winsorized sample by that amount, the average market reaction for the additional 26 cases would need to be -18.1% (this value would be -20.5% in our unwinsorized sample). We also consider what it would take to reduce our mean CAR to zero, which would entail adding 26 cases with a mean CAR of -4.38% . While we may be missing Black CEO appointment events, and we certainly make no claim that our data are without error, it seems unlikely the missing cases are uniformly this negative. Indeed, as shown in the appendix, our sample only has seven Black CEOs with CARs more negative than the mean of -4.3% reported by Gligor et al.

Finally, we also considered the possibility that Gligor et al.'s coding of Black CEOs was more expansive such that it includes Hispanic/Latinx CEOs. While not the focus of our paper, we found 27 usable Hispanic/Latinx CEOs in our data collection through media searches and, coincidentally, that is similar in size to the gap of 26 cases between ours and Gligor et al.'s usable sample of Black CEOs. When we combine these 27 CEOs with our 57 Black CEOs, the mean CAR remains positive at 1.86% ($p = .14$).

4.3 | Assessing our “high bar” theory

Earlier we argued that markets might react positively to the appointment of Black CEOs because, to even be considered, a Black CEO candidate must be exceptional. We test this idea three ways. First, we consider the years of education of newly appointed Black versus White CEOs. Black CEOs in our sample have, on average, 1.6 more years of education than White CEOs (18.9 vs. 17.3 years; t test $p = .00$). Next, we consider advanced degrees. Again, Black CEOs are more likely to have an advanced degree. Specifically, 93% of Black CEOs (e.g., 53 of 57 in our sample) have advanced degrees compared to 53% of White CEOs (difference t test $p = .00$). Finally, we consider elite education status using the list of schools from Gomulya and Boeker (2014) and find that Black CEOs are more likely to have an elite degree. Specifically, 61% of Black CEOs and 44% of White CEOs have elite degrees (difference t test $p = .06$). While these tests are only suggestive, it appears that Black CEOs possess higher levels of education and more elite degrees than the matched pair sample of White CEOs, offering at least some support for our “high bar” theory.

5 | DISCUSSION AND CONCLUSION

A primary goal of science is the development of knowledge by establishing the empirical generalizability of a particular phenomenon of interest (Hubbard, Vetter, & Little, 1998). It is rare that one study establishes generalizability, but rather it comes from a series of studies that can examine the robustness of past research, and extend it by considering new contexts and applying different empirical approaches (Ethiraj, Gambardella, & Helfat, 2016). Like constructing a building, the first studies form the foundation, with future studies extending on it brick by brick. We hope that our study can be considered with the Gligor et al. study—one of the first to consider investor reactions to Black CEOs—to ensure a solid foundation for future research. Rather than finding a negative reaction (CAR) to the appointment of Black CEOs, we find that investors react positively. Further, rather than finding that investor reactions are amplified and even more negative in the case of Black outside CEOs, we find outsider status made the reaction even more positive.

As discussed, we did not find as many Black CEO appointment announcements as Gligor et al. despite considering a substantially larger total number of CEO appointment announcements. Based on our alternative analyses, we do not believe these sample discrepancies explain the differences in results reported by this study and Gligor et al. However, we do believe that the sample differences point to the value of making data public to ease replication work (Ethiraj, Gambardella, & Helfat, 2017). Our challenges also highlight the need for more consistent and extensive disclosure of descriptive statistics. For example, Gligor et al. did not include the CAR, the dependent variable in their multivariate regression, in their correlation table, or report the standard deviation of this variable, making it difficult for us to assess if outliers were driving their results. While journal editors and publishers consider policies of increased data and code disclosure, we believe scholars in our field should more readily embrace reasonable requests to share data and answer questions about research methods. As a collaborative field, this type of collegial engagement should be the norm regardless of journal policies.

We also believe our work offers important theoretical contributions. In many respects, Gligor et al.'s findings are what one might expect based on the large literature underscoring the biases and unfair practices racial minority leaders face in their careers (Carton & Rosette, 2011; Dreher & Cox, 2000; Rosette et al., 2008). However, our findings lend support to the argument that there is a countervailing force that emerges as a result of Black leaders needing to contend with a higher bar for advancement. That is, throughout their careers, Black professionals must repeatedly exhibit exceptional attributes that only compound as they advance to the most senior leadership positions (Eagly & Chin, 2010; Hillman et al., 2002). Indeed, we observed such exceptionality in our study, with Black CEOs in our sample having more years of education, advanced degrees, and elite education than their White counterparts. In sum, while Black CEOs undoubtedly face substantial headwinds ascending to the highest levels, it seems investors are keenly aware of the exceptional capabilities of those who ultimately become CEO.

Our findings also suggest different normative implications than those offered by Gligor et al. By showing investors react negatively to the appointment of Black executives (CEOs and TMT members), Gligor et al.'s results might dissuade boards from appointing Black leaders, which is concerning given that 12.4% of the U.S. population is Black (U. S. Census Bureau, 2011) but there are just 4 (0.8%) Black CEOs among Fortune 500 firms today. Our finding that investors react positively to Black CEO appointments might encourage boards to help improve this representation by considering comparably qualified candidates of all races.

Care must be taken when interpreting our findings. First, we are not suggesting a causal relationship. Firms cannot expect a positive reaction to the appointment of any Black CEO. Rather, our results are likely driven by the fact that Black individuals appointed to be CEO are exceptional. Moreover, we are not suggesting that the financial markets will resolve systemic disadvantages experienced by Black leaders. To the contrary, our findings suggest that Black leaders are required to meet a higher bar for advancement and point to the need to level the playing field for advancing up the organizational hierarchy. Especially in the wake of recent social movements, firms have been grappling with these issues with mixed success. One approach that our results suggest is that firms should perform regular assessments to identify high potential racial minority workers who are experiencing slower advancement through the organization and providing the support and sponsorship they need to successfully advance. Interventions are often discussed in terms of offering racial minority leaders greater professional development opportunities, but our study suggests that the focus should also be on creating more equitable promotion standards and systems that root out biases and emphasize clear and consistently applied criteria for evaluating and promoting leaders in the firm. Indeed, our findings suggest that boards are not considering Black CEO candidates as often as they should. If our theory is correct, such that CAR differences are driven by the exceptional credentials and capabilities (such as advanced degrees and elite education) exhibited by Black CEOs relative to White CEOs, then it is possible that the CAR differences only go away when firms start to neutralize those differences by considering Black and White candidates with more equivalent credentials and capabilities. That is, Black CEO candidates should not have to be more exceptional than their White counterparts just to be in the pool for consideration.

Our study is not without limitations. First, we did not examine Gligor et al.'s TMT appointments as this would have entailed hundreds of hours of additional searching to develop the required dataset. We encourage scholars to consider their findings that investors reacted negatively to Black TMT member appointments in light of what we find related to Black CEOs. Second, our tests of our higher bar arguments are simplistic and we believe further study of how minority leaders may need to prove themselves in ways other leaders do not would offer important contributions to understanding how race affects strategic leaders. Our study also shares some limitations with the Gligor et al. study. Like their study, we use an event study methodology which is useful for examining short-term investor reactions but does not speak to the longer-term impact of CEO racial minority status. Our study, like Gligor et al.'s, also relies on the race perceptions of coders, which has limitations. We cannot be fully confident that the coders' perceptions match those of investors. Moreover, Gligor et al.'s race coding scheme that we followed did not include multiracial categories. We describe above how we handled cases where we discovered information indicating CEOs had multiracial backgrounds, but we acknowledge that our approach, like Gligor et al.'s, is limited in capturing the complexity of CEO race and how investors might perceive the race of multiracial CEOs. Finally, both our study and Gligor et al. are based on publicly traded firms in the United States. Given the unique racial challenges present in this setting, our results may not be generalizable to other contexts.

5.1 | Conclusion

In this article, we consider the study by Gligor et al. and provide a different set of empirical findings that are aligned with an alternative theoretical argument. Contrary to their reported results, we find that investors do not appear to be biased against newly appointed Black CEOs.

Rather, we argue and show support for the idea that investors are favorably impressed by the exceptional qualities Black CEOs bring to their firms, especially when these CEOs are hired from outside the firm. However, this may be predicated, at least in part, by the systematic disadvantages Black leaders still face in ascending to corporate leadership. Put simply, our study suggests that it is not enough for aspiring Black CEOs to be just as good as their White counterparts—they must be substantially better to make it to the helm of firms. Until this is addressed, the poor representation of Black leaders in firms, and the differential in market returns to their appointments, will likely continue.

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DATA AVAILABILITY STATEMENT

This article has earned an Open Data badge for making publicly available the digitally shareable data necessary to reproduce results and extend future work. These data are available as a downloadable appendix of this article. Learn more about the Open Practices badges from the Center for Open Science: <https://osf.io/tvyxz/wiki>.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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