

Comparative Analysis of Racio-Ethnicity and Gender Impact on Stock Risk

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The study purpose is to examine the relationship between cultural diversity and firm performance from the perspective of the investors. Stock values were used to test the hypothesized relationships between the components of cultural diversity (i.e. racio-ethnicity and gender impact on firm performance) using an event study methodology with regression analysis techniques. The findings indicate that the influences of racio-ethnicity and gender diversity on firm performance were mixed. However, significant relationships were found between the components of cultural diversity and firm performance. New directions for future research are offered.

Keywords: Cultural Diversity, Firm Stock Performance, Gender Diversity, Racio-Ethnicity, Stock Values

INTRODUCTION

The Hudson Institute, a not-for-profit research organization, predicted that workforce diversity was increasing and that the number of minorities and women in the workforce was increasing at a faster rate than white men (Johnston & Packer, 1987; Judy & D'Amico, 1997).

The Institute's *Workforce 2000* study released in 1987 indicated that by the year 2000, white men would comprise 15 percent of the new entrant pool whereas white women, native non-whites, and immigrants would comprise the remainder (Johnston & Packer, 1987).

In response to this report, managers seemed to search for more inclusive recruitment and retention strategies for the growing number of women and other underrepresented groups.

The influx of minorities and women as new entrants into the workforce necessitated empirical research on how firm performance might be affected by the changing workplace demographics. As workplace diversity increased, managers sought to harness employees' diverse perspectives, eliminate conflicts, and enhance corporate performance. (Cook & Glass, 2009b, 2011; Dezso & Ross, 2012; Gul, Srinidhi, & Ng, 2011; Ivancevich & Gilbert, 2000; Konrad & Linnehan, 1995).

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The researchers have sought to understand how a culturally diverse workforce contributed to organizational performance. (Alison, 2011; Buckingham, 2010; Hartenian & Gudmundson, 2000; Ng & Tung, 1998; Richard, 2000; Wright, Ferris, Hiller, & Kroll, 1995). However, these studies have yielded inconclusive findings.

RESEARCH PROBLEM

This study will investigate the impact of cultural diversity on firm stock performance. The effect of racio-ethnicity and gender diversity on firm performance from the external perspective of shareholders (i.e., investors) was examined in this study.

More specifically, this study was conducted to determine how investors responded to the cultural diversity activities of the firm through the change in firm stock values. Hence, the major research questions are:

1. Do the components of cultural diversity (i.e., racio-ethnicity and gender diversity) have an impact on firm performance?
2. Does gender diversity or racio-ethnicity have an influence on firm performance?
3. Do stock values respond differently to cultural diversity announcements on the day of the announcement and during the post-announcement periods?

LITERATURE REVIEW

Diversity in Organizations

Perspectives on Diversity

Different people viewed diversity differently, resulting in numerous perspectives and conflicting responses (Cox & Blake 1991; Dass & Parker, 1999; Milliken & Martins, 1996). Over the years, diversity had been described in a number of ways. Sims (1994) considered diversity to be “the full participation of a diverse population within a particular system” (p. 2), synonymous with pluralism and multiculturalism.

Cox (1994) defined it as “the representation of people, in one social system, with distinctly different group affiliations of cultural significance” (p. 6). Gilbert and Ivancevich (2000) suggested that diversity referred to “the inclusion of all groups at all levels in the company” (p. 218). Others attempted to define it broadly, as encompassing any characteristic that differentiated one person from another including, “gender, race, age, physical ability, sexual orientation, religion, skills, and [organizational] tenure” (Joplin & Daus, 1997, p. 218); and racio-ethnicity, qualities, attitudes, perspectives, and backgrounds (Robinson & Dechant, 1997).

Cultural Diversity in Organizations

Culture may refer to socialized differences at the national, organizational or group levels of analysis – this study concentrates on the organizational level of analysis (Strang, 2012).

In this study, culture is meant to refer to race and ethnic socialization but not as measured by the global cultural dimensions of individualism-collectivism, power distance, masculinity-femininity, uncertainty-avoidance, or long-term-orientation (Strang, 2010). In this study cultural diversity refers to anthropological differences associated with the racio-ethnicity and gender in the workforce. In this study, cultural diversity refers to the differences associated with the racio-ethnicity and gender of the workforce employees. The section below discusses cultural diversity in organizations as a competitive advantage and examined how it affected individual performances and group outcomes.

Competitive Advantage

Richard (2000) revealed that racial diversity provides a competitive advantage to firms during periods of business growth. He reasoned that “cultural diversity in human capital serves as a source of sustained competitive advantage because it creates value that is both difficult to imitate and rare” (p. 165). Richard noted that the background, experiences, and knowledge of an

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