



VCU

Virginia Commonwealth University
VCU Scholars Compass

Undergraduate Research Posters

Undergraduate Research Opportunities Program

2016

Ethnic Diversity of Boards of U.S. Companies: Business Sustainability and Group Dynamics

Saajan Sappal

Virginia Commonwealth University

Follow this and additional works at: <https://scholarscompass.vcu.edu/uresposters>

 Part of the [Business Administration, Management, and Operations Commons](#), and the [Organizational Behavior and Theory Commons](#)

© The Author(s)

Downloaded from

Sappal, Saajan, "Ethnic Diversity of Boards of U.S. Companies: Business Sustainability and Group Dynamics" (2016). *Undergraduate Research Posters*. Poster 208.

<https://scholarscompass.vcu.edu/uresposters/208>

This Book is brought to you for free and open access by the Undergraduate Research Opportunities Program at VCU Scholars Compass. It has been accepted for inclusion in Undergraduate Research Posters by an authorized administrator of VCU Scholars Compass. For more information, please contact libcompass@vcu.edu.

Ethnic Diversity on Boards of Directors of Large US Companies and Business Sustainability and Group Dynamics

Saajan Sappal
Prepared for HONR 200



Introduction

- According to the a Corporate Diversity Report published by Senator Robert Menendez in 2010, ethnic minorities held only 14.45% of seats on Fortune 500 boards of directors. [3]
- Ethnic minorities held 15.6% of seats on Fortune 100 boards of directors.
- Resource Dependence Theory and Agency Theory** suggest that ethnic minorities hold value to the board that should be reflected in financial performance.
- Most studies conducted have found a positive relationship between ethnic minority representation on the board of directors and key financial indicators.

Abstract

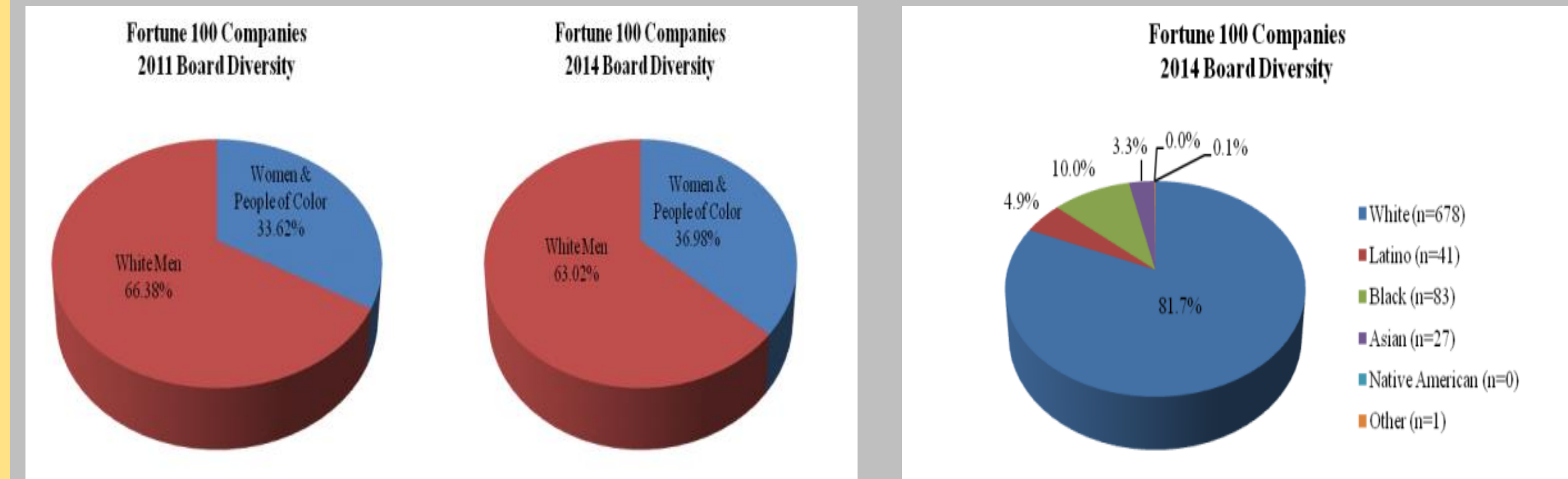
Ethnic minorities are significantly underrepresented on the Board of Directors of large US firms. White males comprise nearly twice the proportion of directorships of Fortune 1000 companies as they do the total US population. Ethnic diversity in corporate governance is valued as an asset per two prominent theories: Resource Dependence theory and Agency theory. However, Ethnic diversity on the Board of Directors can also impair the group process per Status theory and constraints such as tokenism and marginalization. This paper is aimed at developing both a theoretical and empirical understanding of the value of ethnic minorities on the Board of Directors of Fortune 500 Food Service and Production firms as it relates to financial performance. Analysis of Fortune 500 Food Service and Production firms finds a positive correlation between ethnic diversity on Board of Directors and market value, return on assets, and return on investment. As a result, empirical evidence suggests that future pressures aimed at increasing diversity in corporate governance may prove financially valuable.

Board of Director Diversity Background

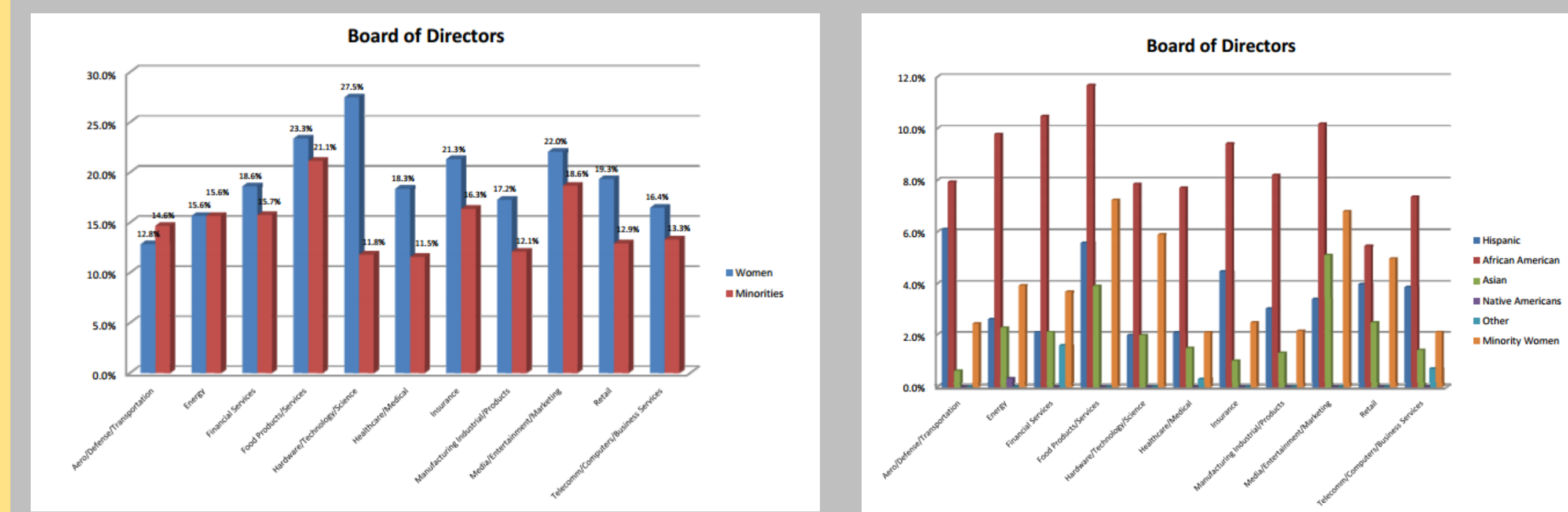
- The role of the Board of Directors has been cited as monitoring and controlling managers, providing information and counsel to managers, monitoring compliance with laws and regulations, and linking the corporation to the external environment.
- Within the linkage function of the board, the benefits of **access to resources** and **legitimacy** are argued to be aided by increased diversity, reflecting the shareholder population.
- Ethnic minorities are vastly **underrepresented** on the boards of directors of Fortune 500 companies, but studies with substantial controls reveal mostly **positive relationships between ethnic diversity and key financial indicators**.
- Within Fortune 500 Companies, **food production and service companies** have the most ethnically diverse boards. [4]

Conclusion

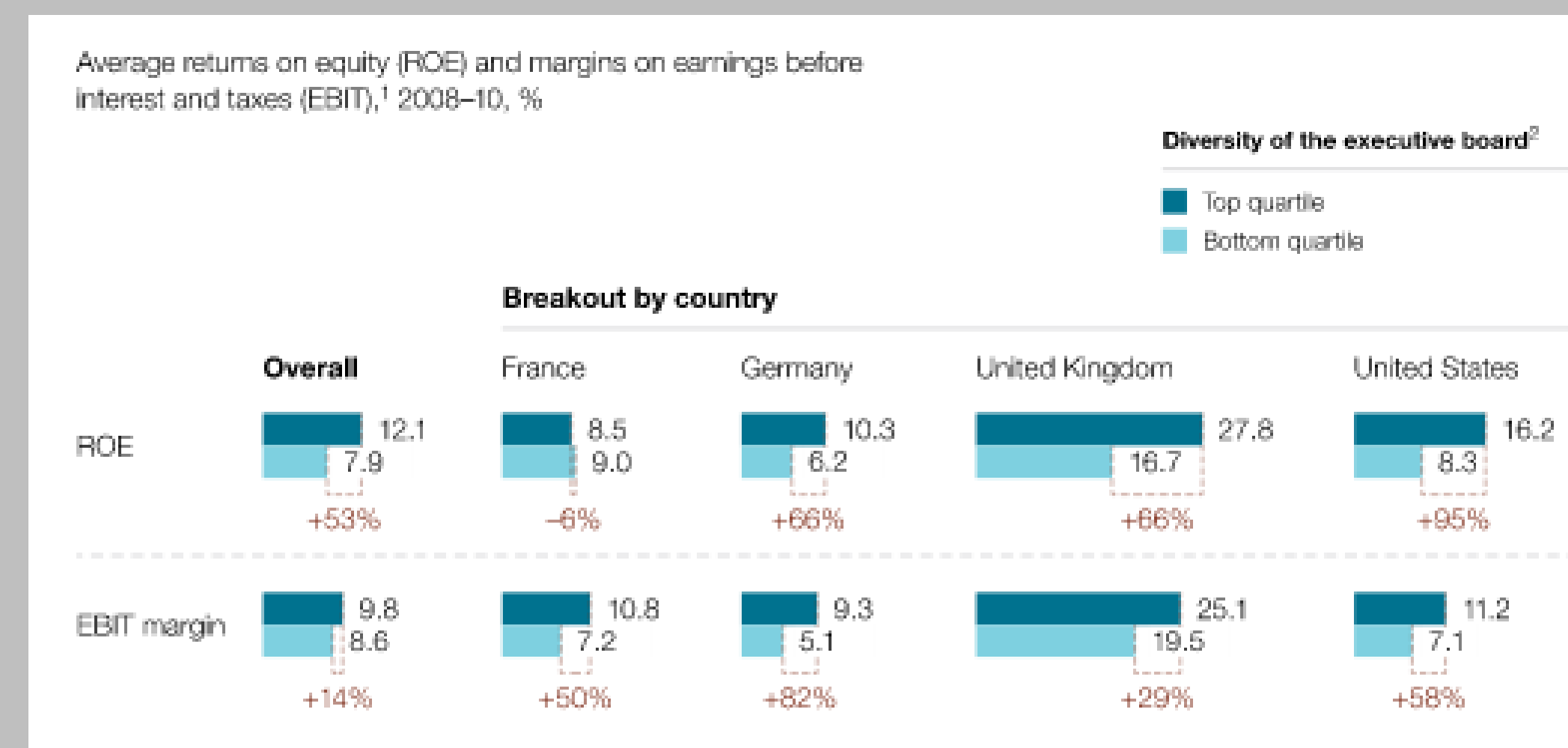
There is still significant research to be done in the area of ethnic diversity on boards of directors of Fortune 500 U.S. Companies, especially geared towards understanding the possible marginalization and tokenism that opposes minority influence. Further, research across industries is ample, yet research within industries is lacking. This study provides an empirical connection between ethnic diversity in Fortune 500 food service and production firms and financial performance; however, it is still debated exactly why this correlation exists and how this correlation varies across different industries. Still, empirical evidence supports the business case for the inclusion of ethnic minorities on the boards of directors of Fortune 500 food service and production firms.



Senator Robert Mendez's 2014 Corporate Diversity Report revealed the demographics of Fortune 100 boards of directors. Note the minor increase in diversity from 2011 to 2014 [3].



Descriptive graphics of 2010 Fortune 500 Board Diversity published by Senator Robert Menendez. Notably, food service and production companies have the most ethnically diverse boards and the second most gender diverse boards. [3]



A global breakdown comparing Return on Equity and Return on Sales for the top quartile most diverse boards and the bottom quartile least diverse boards. Though this study group gender and ethnic diversity together, a clear and pronounced trend is apparent globally and in the United States.[1]

Fortune 500 Food Production And Food Service Firms (2015)													
Company	Rank	P/S	Profits (Million)	Market Value (million)	Profit as % of Revenues	ROA	ROE	Return to Investors (2014)	Number of Directors	Number of Hispanic Directors	Number of African American Directors	Number of Asian Directors	Total Ethnic Directors %
Archer Daniels Midland	34	P	\$ 2,248.00	\$ 29,812.00	2%	5%	11%	22%	12	3	1	1	41.67%
Starbucks	187	S	\$ 16,448.00	\$ 71,006.00	12%	19%	39%	6%	13	2	2	1	38.46%
McDonald's	110	S	\$ 27,441.00	\$ 93,651.00	17%	13%	37%		14	1	3	0	28.57%
Seaboard	417	P	\$ 365.00	\$ 4,837.00	5%	9%	13%	50%	4	1	0	0	25.00%
Ingredion	462	P	\$ 355.00	\$ 5,565.00	6%	7%	16%	26%	4	1	0	0	25.00%
Yum Brands	228	S	\$ 1,051.00	\$ 34,117.00	7%	12%	67%	-1%	15	1	1	1	20.00%
Leucadia National	244	P	\$ 208.00	\$ 8,173.00	1%	-1%	2%	-20%	8	0	1	0	12.50%
Tyson Foods	83	P	\$ 37,580.00	\$ 15,565.00	2%	3%	9%	20%	9	0	1	0	11.11%
Darden Restaurants	325	S	\$ 286.00	\$ 8,722.00	3%	4%	13%	12%	11	0	1	0	9.09%
CHS	69	P	\$ 1,081.00	\$ 8,706.30	2%	7%	16%		18	0	0	0	0.00%
			\$ 8,706.30	\$ 30,160.89	5.70%	7.77%	22.30%	14.38%	10.80	0.90	1	0.30	21.14%

Fortune 500 Food and Service Correlation Statistics											
	Profits	Market Value	Profit as % of Revenue	ROA	ROE	Return to Investors	Number of Directors	Number of Hispanic Directors	Number of African American Directors	Number of Asian Directors	Total Ethnic Diversity
Profits	1										
Market Value	0.507321	1									
Profit as % of Revenue	0.411551	0.893166545	1								
ROA	0.201809	0.733736973	0.809985757	1							
ROE	0.074722	0.574576372	0.623879109	0.750005	1						
Return to Investors	0.043234	-0.265807989	0.047335116	0.166562	-0.21765	1					
Number of Directors	0.116444	0.707375372	0.217471692	0.336805	0.490747	-0.530306658	1				
Number of Hispanic Directors	-0.0776	0.385232732	0.296366754	0.465212	0.245786141	0.043818584		1			
Number of African American Directors	0.598762	0.920795537	0.752961666	0.447815	0.408596	-0.600163925	0.385147514		1		
Number of Asian Directors	-0.1071	0.348874275	0.173683827	0.504642	0.587568	-0.215435801	0.380877027	0.783324653	0.243975018		
Total Ethnic Diversity	0.080745	0.5305034	0.492060734	0.524767	0.26097	0.271394992	-0.152137966	0.93105344	0.406274561	0.638271644	1

Research into Food and Service Fortune 500 companies (n=10) reveals positive correlations between total board diversity and key financial indicators. Indicators tested included: Market Value, Return on Revenue, Return on Assets, and Return on Equity. Especially high correlation are found for total board ethnic diversity and Market Value, Return on Sales, and Return on Assets. Other studies revealed either positive or no correlation between ethnic diversity on the board and Tobin's Q, a measure of the accuracy of market valuation.

Current Research

- Prior research reveals either a positive, negative, or no correlation between ethnic minority representation on the Board of Directors and Financial performance. Additionally, the food production and service industry has the most ethnically diverse boards.
- Within the food service and production industry, a case-by-case analysis for Fortune 500 companies reveals a positive correlation between the percentage of ethnic minorities on the board of directors and key financial indicators.
- The highest correlation present for total ethnic diversity is with Return on Assets, and notably African-American representation has a very strong correlation to Market Valuation (r=0.92).

References

- [1] Barta, T. Kleiner, M. Neumann, T. (2012). Is there a payoff from top-team diversity?. *McKinsey Quarterly*.
- [2] Kumar, K., Michaelsen, L., & Watson, W. (1993). Cultural diversity's impact on interaction process and performance: Comparing homogenous and diverse task groups. *Academy of Management*, 36(3), 590-602. doi:10.2307/256593
- [3] Menendez, Robert. (2010). Corporate Diversity Report
- [4] Menendez, Robert. (2014). 2014 Corporate Diversity Survey.

Acknowledgments

This research was conducted for Honr 200, taught by Professor Mary. Boyes.