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Top Management Diversity Is Just Good Business: Using CSR Measures to Explore the Diversity-firm Performance Link

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Abstract: Historically, research on diversity as related to firm performance is inconsistent. The mixed findings can be attributed in part to a limited focus on the diversity-firm performance link. Drawing on upper echelon and human resource management literatures, the present study utilizes fortune 500 and COMPUSTAT and KLD Stats data to explore both, if and how top management diversity may impact firm performance. We argue that firms with top management diversity are more profitable over time. Moreover, firms with top management diversity seem to employ corporate social responsibility practices that may provide some explanation as to how top management diversity leads to increased firm performance. Findings from a fully mediated model lend support for both hypotheses and shed new perspectives on the black box of top management.

Key words: diversity; top management teams and mediation
JEL codes: J24, J21, M54, M14

1. Introduction

Research on workplace diversity has grown exponentially in the last five decades. While there is a widespread consensus that diversity is linked with performance outcomes, extensive reviews have noted that the evidence in this area is inconsistent (e.g., Jackson, Joshi, Erhardt, 2003; Joshi & Roh, 2009; Harrison & Klein, 2007). Some studies indicate that diversity is positively linked with performance (Erhardt, Werbel & Shrader, 2003; Finkelstein & Hambrick, 1996; Jackson, 1992), while other studies suggest that diversity negatively predicts performance (e.g., Jehn, Northcraft & Neal, 1999; O'Reilly, Snyder & Boothe, 1993). Within this debate, plenty of studies have also reported non-significant results between the direct effect of diversity and performance (Joshi & Roh, 2009; Kirkman, Tesluke & Rosen, 2004; Rose, 2007). Research on top management diversity specifically, shows similar patterns of mixed results (Shrader, Blackburn & Iles, 1997; Adams & Ferreira, 2009; Bonn, 2004; Campbell & Mínguez-Vera, 2008).

Some scholars note that the inconsistent results may be attributed to the theoretical framings of the empirical studies on workplace diversity. For example underpinnings, such as social identify theory (e.g., Raths, 1999; Milliken & Martins, 1996), resource-based view (Richard, 2000; Li, Lam & Qian, 2001, Barney, 1991), social network theory (Ibrarra, 1992), information/decision making perspective (Cox & Blake, 1991; Cox, Lobel, &

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McLeod, 1992), and upper echelon paradigm (Hambrick & Mason, 1984) have been put forth, all with different results. Within this debate, significant effort has been made to explain *why* diversity may lead to positive outcomes such as attitudinal outcomes (i.e., increased satisfaction and commitment to the firm), as well as related process losses such as conflict and miscommunication; and positive behavioral outcomes such as innovation and creativity, lower absenteeism and reduced turnover (Joshi & Roh, 2009). However, regardless of the nature of the outcome, all of these findings imply a time lag between the effects of diversity on some form of consequence. However, most researchers do not account for time in their models, which may explain these mixed findings.

Our focus here is on the top management segment of firms. Scholars using the upper echelon paradigm have argued and found empirical support for the proposition that top management diversity can potentially generate bottom line results (e.g., Erhardt et al., 2003). The argument rests on the assumption that diversity at the top can generate better strategic decisions and innovation; given their strategic position, this added value in diversity can have significant impact on the business (Bantel & Jackson, 1989; Carpenter, 2002; Finkelstein & Hambrick, 1996; Miller & del Carmen Triana, 2009; Richard, 2000). Yet, few studies have actually empirically examined *how* top management diversity contributes to various performance outcomes.

Thus, drawing on upper echelon diversity and human resource management (HRM) literatures, we attempt to unpack the black box of the diversity—firm performance link by testing how diversity at the upper echelon can drive firm performance. We do so by examining several managerial practices captured in the qualitative database called the KLD Stats[1]. Specifically, we focus on corporate social responsibility practices (CSRs) captured in KLD data and argue that demographic diversity (defined here as women, minority and disabled representation) in corporate leadership roles can shape management practices (i.e., CSRs) of the workforce, leading to a positive impact on employee actions and their working environment, which may subsequently translate into wider positive organizational consequences. Accordingly, we test the mediating effects of CSR practices on the relationship between demographic diversity and firm performance.

The remainder of this paper is organized as follows. First, we provide a conceptual background of research on upper echelon theory and linking it with diversity research. Next, we discuss the HRM literature and commitment-based HRM systems and theorize why CSR practices would mediate the link between top management demographic diversity and firm performance. Finally we provide analysis and results for our assertions.

1.1 Upper Echelon and Top Management Demographic Diversity

Diversity research drawing on the upper echelon paradigm (Hambrick & Mason, 1984), has been widely adopted in studies on top management diversity (e.g., Pitcher & Smith, 2000; Knight et al., 1999; Carpenter, 2002; Geletkanycz, 1997; Pegels, Song & Yang, 2000). Broadly, Hambrick and Mason (1984) argue that both strategic decision-making and organizational performance can be linked to the characteristics of the top managers. That is, the demographic characteristics associated with different cognitive bases, values and perceptions that shape decision-making determine firm strategic directions. However, some scholars refer to diversity as a double-edged sword. On the one hand, top management diversity can potentially add value in the form of offering different solutions, clearer evaluation of alternatives, as well as enhanced prediction of environmental changes (Cannella, Park & Lee, 2008; Cox & Blake, 1991; Finkelstein & Hambrick, 1996; Jackson, 1992; Richard, Barnett, Dwyer &

[1]Statistical Tool for Analyzing Trends in Social and Environmental Performance is a data set with annual snap-shots of the environmental, social, and governance performance of companies rated by KLD Research & Analytics Inc.

Chadwick, 2004). Yet, top management diversity has also been associated with slower decision-making, communication breakdowns, and interpersonal conflicts (Hambrick & D'Aveni, 1992; O'Reilly, Snyder & Boothe, 1993).

The inconsistency may be attributed to methodological issues rather than theoretical underpinnings. Proponents of the "value in diversity hypothesis" (e.g., Richard, 2000) argue that top management diversity would not only benefit from novel thinking and creative and alternative solutions, but would also be able to impact the firm's bottom line results given their strategic role and influence from the top. This logic implies a time lag, from the time a decision has been made at the top, until the decision (e.g., a new workplace practice) has trickled down and been fully implemented throughout the company thereby creating the intended effects on the workforce. Yet, this time lag is generally ignored or implied in upper echelon diversity research, which may contribute to the mixed findings in this field. As such, the present study addresses this time lag, through the creation of two time periods. Thus, we expect firms with greater demographic diversity composition within the top management team at time one, to report higher firm performance at time two, than firms that lack such levels of demographic diversity at the upper echelon. Formally, we hypothesize:

H_1: Firms that have higher representation of top management demographic diversity at time one will be more profitable at time two.

In addition to time lag, the direct link between top management diversity and firm level outcomes has generally been left unexamined without accounting for intervening variables as to how top management adds value, which may have contributed to spurious results. That is, we still know surprisingly little about what happens within a diverse top management team that is different than a homogenous top management team that may lead to increased profitability. The inner workings of the top management team and the managerial practices they adopt, often referred to as the "black box", remains a rich area for future research, as insights are often difficult to capture given the obvious challenges of access to such groups. As such, this research is designed to examine such practices through a CSR lens, which we turn to next.

1.2 Corporate Social Responsibility and Top Management Team Diversity

During recent years, there has been increasing pressure from society and investors to diversify a company's upper echelon (Grosser & Moon, 2005; Burgess & Tharenou, 2002), which has given rise to increased representation of women, minorities and the disabled in positions of strategic responsibility and decision-making at the core of American firms (Burke & Mattis, 2005). Much of the rationale for such decisions has been framed from a CSR perspective focused on addressing concerns of external stakeholders (e.g., customers, investors and community concerns) (e.g., Kampf, 2007; Donaldson & Preston, 1995) while placing internal emphasis on providing employees with education, profit sharing, emphasizing ethical and safety training, adopting environmental-friendly policies and sponsoring community events (Maignan & Ferrell, 2000). Such a perspective suggests that firms addressing the concerns of all stakeholders may have increased corporate profits (Miles & Miles, 2013; Miles & Porter, 2013). While CSR practices that are geared towards external stakeholders may allow companies to charge premium prices for their products, enhance employer brand, and attract individual and institutional investors (Carmeli et al., 2007; Lin, Baruch, Shih, 2012; Gardner, Erhardt & Martin-Rios, 2011), our focus here is on the impact of CSR practices on internal stakeholders (i.e., current employees) and their ultimate impact on profitability.

1.3 Mediating Role of SCR Practices

The HRM field has long established that managerial practices can shape and promote desired employee behaviors (Jackson & Schuler, 1995; Erhardt, Martin-Rios, & Way, 2009). Research indicates consistent results on the link between management practices and employee behaviors (for a review see Lengnick-Hall & Lengnick-Hall, 1988; Schuler & Jackson, 2005). However, some HRM practices seem more influential than others. High commitment-based HRM practices (practices that drive commitment and satisfaction among employees such as job design to enrich and enlarge jobs and incentive practices) appear to foster high-quality relationships with employees based on reciprocity and interdependence (Sun, Aryee & Law, 2007). Drawing on social exchange theory, HRM scholars argue and empirically demonstrate that firms investing in their workforce through high-commitment-based HR practices, create a mutually beneficial environment whereby firms invest in their employees and encourage them to reciprocate that investment by exerting greater levels of discretionary behaviors (McClean & Collins, 2011).

Upper echelon theory holds that the decision to adopt CSR practices is rooted in an individuals' values and philosophies; which parallel HRM research drawing on institutional theory positing that management practices are created and shaped by values or philosophies of the organizational founders (e.g., Sherer & Leblebici, 2001; Lepak, Taylor, Tekleab, Marrone & Cohen, 2007). Based on ideology managerial philosophy, members of the upper echelon influence a firm's strategic decisions as to how (i.e., through what practices) to manage the internal workforce (Bantel & Jackson, 1989; Child, 1997).

Extending this logic, with greater diversity composition at the top, we contend that some managerial practices may be different as a result of differences in ideology, values and philosophies around workforce management. This logic has received some support in CSR and gender research suggesting women, in contrast to their white male counterpart, may be more aware of individual employees and the practices that affect their lives and be more prone to embrace work-life balance practices (Bitman & England, 2003).

As such, it seems reasonable to assert that having higher representation of women, minorities, and people with disabilities present in the firm's upper echelon may lead to increased adoption of CSR practices within the firm. Adoption of such practices is then likely to foster positive discretionary employee behaviors which may in turn lead to increased firm profitability (Figure 1). This argument, much like the commitment-based HR systems debate, suggests that investigating firm CSR practices may provide some additional understanding of the "black box". Specifically, we suggest that increased top management diversity leads to increased firm profitability (Figure 1, C'), through the adoption of increased work life balance (Figure 1, a) (policies/procedures/practices) is likely to lead to favorable employee behaviors and ultimately translate into firm profitability(Figure 1, a). This relationship is graphically depicted in Figure 1. Hence, our second hypothesis states:

H_2: CSR practices will fully mediate the relationship between top management demographic diversity and firm performance.

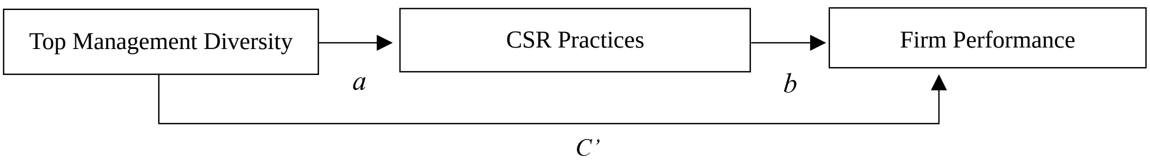

Figure 1 Mediated Role of CSR Practice between Top Management Diversity and Firm Performance

2. Method

In order to test our hypotheses, the sampling frame is all 2012 Fortune 500 firms. The value of this approach is that a sample with such breadth represents a diverse set of companies across many industries, thereby reducing the impact of any one industry. A helpful byproduct of this approach is that the sample represents economically "successful" firms (Liston-Heyes & Ceton, 2009), which are publically traded, facilitating data collection.

2.1 Sample

Following the practices of other researchers (Makni et al., 2009; Miles & Miles, 2013), we chose data available through COMPUSTAT. Specifically, we noted that of the initial list of Fortune 500 companies, 405 had sufficient data available on public databases (10 years of financial and KLD data) to enable statistical analysis. The final sample consisted of 402 firms, categorized into two demographic diversity groups.

Once the firms were identified, attention was turned to the Wharton Research Analytics Data Base (WRDS). This archival data source was utilized to obtain 12 years (2000-2011) of firm level data on the variables of interest. Because our two hypotheses imply a causal time lagged relationship between top management diversity and firm performance, it was necessary to section the data. First, the data was divided in to several time periods: a one-year time period (2000) to create a starting point for performance assessment, and two five-year time periods (2001-2005 & 2006-2010) necessary to enable the creation of a time lag, as well as to provide sufficient data to create performance nonvolatile performance indicators. This approach follows the recommendation of accounting researchers, who note that one year of data is often subject to unexplainable swings in firm performance, and averaging tends to overweight the effect of years with unusually large or small values (Dyreng, Hanlon, & Maydew, 2008). Thus, we computed all variables by first summing components across the period and then performing the computation, rather than taking an average of yearly computations. This produces a variable that more closely reflects the firm's actual actions over the long-run.

2.2 Measures

We used the following measures to operationalize the constructs necessary for hypotheses testing.

2.2.1 Top Management Demographic Diversity

Following the previous practice (Miles & Miles, 2013; Makni et al., 2008; Waddock & Graves, 1997), we utilized the Kinder, Lyndenberg and Domini (KLD) index, created for professional portfolio managers to gauge a firm's commitment to social factors in their investment strategies. The KLD uses a binary, an "on or off" rating system, to assess the firm's participation on variety of qualitative CSR practices. Of particular interest in this research are firm ratings in diversity, and employee relations. Using these data, first we identified the diversity ratings that are indicators of top management demographic diversity such as: CEO diversity, representation of women and minorities in positions of profit and loss responsibility, and diversity within the board of directors (Appendix 1; DIV-str-A, DIV-str-B, demographic indicators in DIV-str-C). Next, we identified the diversity ratings that might be associated with the adoption of CSR practice (e.g., work life balance) policies that are consistent with those that are likely to stimulate favorable employee behaviors.

Next, we summed each firm's ratings (w.r.t. the time periods) on the measure of top management diversity and computed the mean (2.34) and standard deviation (2.95). Once normalcy was established, the data was separated into two groups. Group one, was comprised of firms that scored higher than 5.30 (above the 85%) and considered to have top management diversity (TMD); group two, was comprised of firms that scored below 5.30, and (considered less diverse) and created the top management demographic diversity control (TMD-C) group (McWilliams & Siegel, 2000).

2.2.2 CRS Practices

We also used data obtained via the KLD data base to assess CSR practices. That is, evidence (or choices made by the firm leadership) that suggested certain managerial practices had been adopted by the organization. In particular, we were interested in six areas that represented managerial practices: work life benefits (D), women and minority contracting (E), gay and lesbian policies (F), employment of underrepresented groups (G), and other diversity commitments (X) (Appendix 1; DIV-str-D, DIV-str-E, DIV-str-F, DIV-str-G, DIV-str-H, DIV-str-X). We picked these practices based on face validity rather than identifying them through a factor analysis. Using these measures of CSR practices the data was summed across the years of consideration, and (as before) the mean (10.26) and standard deviation (12.09) were computed. Thus, firms scoring higher than 22 were identified as being above the 85% and placed in one group, while those below this mark were placed in the control group. Each variable as defined by the KLD index is explained in Appendix I. It should be noted that KLD indicators are firm attributes in an individual year. As such it is necessary to sum these factors over a succession of years in order to create continuous factors and apply normal statistics.

2.2.3 Dependent Variables

Four commonly used measures of firm economic performance were calculated. These are return on: Earnings Before Interest and Taxes (EBIT), Earnings Before Interest (EBI), and Pretax Income (PI), each of which is computed by dividing by Total Revenue (REVT). Consistent with the previous calculations, each measure represents data across the previously mentioned time periods divided by the sum of the total revenue (REVT) for the same period. As expected, these measures are highly correlated. Thus, we chose to compute firm profitability as the sum of pretax income divided by total revenue.

3. Analysis and Results

Before proceeding with analysis, the data were examined for normalcy, unexpected correlations, and presence of outliers. This examination revealed a handful of values that did not appear to have face validity, and fell outside the normal limits. As such, following the practice of other statisticians (Hoaglin, Iglewicz, & Tukey, 1986) we applied the multiplier of 2.2 times the middle 50% as a conservative estimate for the elimination of outliers. Observations outside these limits were discarded, reducing our sample to approximately 403 firms across two separate 5 year time periods. Using an approach such as this makes it highly unlikely ($p < 0.01$) that a case would be excluded that actually reflected accurate data.

3.1 Results

Table 1 presents the means, standard deviations and correlations for the samples in the relevant time periods. As expected, a significant correlation exists between previous firm performance and subsequent performance, making it necessary to control for previous performance in the regression model. No other correlations appeared out of order, especially our purpose which is to demonstrate a causal relationship between large groups over time, rather than an analysis across variables.

Table 1 Descriptive Statistics and Correlations

	Mean	SD	N	TMD	CSR	PI-00	PI 06-10
Top Management Demographic Diversity (TMD)	2.34	2.95	403	1	0.68**	0.13*	0.15**
CSR Practices (CSR)	10.26	12.10	403	0.68**	1	0.28**	0.26**
Firm Profitability 2000 (PI-00)	11.36	10.21	352	0.13*	0.28**	1	0.77**
Firm Profitability 2006-10 (PI 06-10)	10.12	7.86	375	0.15**	0.26**	0.73**	1

Note: * Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Hypothesis 1 posits firms with higher levels of top management demographic diversity are more profitable. In order to test this hypothesis, we performed a regression analysis controlling for firm previous performance. As expected, firms that were profitable in the year 2000 were also profitable 2010 (Table 2). However, closer examination suggests firms considered to have top management demographic diversity (upper 15% of the sample) are more profitable in 2010than firms without diverse top management. We also note that as top management demographic diversity increases, firm profitability increases at a greater rate than for those firms without top management demographic diversity. Further testing of the model reveals that the two explanatory variables explain approximately 55% of the variance (Table 3).

Table 2 Moderation Regression Coefficients [(a)]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R^2	Sig.
		B	Std. Error	Beta				
1	(Constant)	4.20	0.43		9.82	0.00**		
	Firm Profitability 2000	0.53	0.03	0.73	19.14	0.00**	0.53	0.00**
2	(Constant)	3.62	0.46		7.84	0.00**		
	Firm Profitability 2000	0.51	0.03	0.69	17.83	0.00**		
	Top Management Diversity	0.06	0.02	0.12	3.07	0.00**	0.54	0.00**
3	(Constant)	4.60	0.55		8.36	0.00**		
	Firm Profitability 2000	0.42	0.04	0.57	10.51	0.00**		
	Top Management Diversity	-0.02	0.03	-0.04	-0.57	0.56		
	Firm Profit 2000 x TMD	0.01	0.00	0.25	3.17	0.00**	0.54	0.19

** Significant to p < .01; Note: a. Dependent Variable: Firm Profitability 2006 through 2010.

Table 3 Mediation Regression Coefficients [(a)]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R^2	Sig.
		B	Std. Error	Beta				
1	(Constant)	4.20	0.43		9.82			
	Firm Profitability 2000	0.53	0.03	0.73	19.14	0.00**	0.53	0.00**
2	(Constant)	3.71	0.46		8.11			
	Firm Profitability 2000	0.51	0.03	0.70	17.70			
	CSR Practices	0.07	0.03	0.11	2.89	0.53	0.53	0.004
3	(Constant)	3.56	0.48		7.57			
	Firm Profitability 2000	0.51	0.03	0.70	17.76			
	CSR Practices	0.04	0.03	0.07	1.37			
	Top Management Diversity	0.16	0.13	0.07	1.31	0.54	0.54	0.192

** Significant to p < .01; Note: a: Dependent Variable: Firm Performance from 2006 through 2010.

Specifically, this research suggests, that previous firm profitability explains a large amount of the variance in subsequent firm performance. We also note that the change in R^2 is greatest in the regression model when the previous performance is added, accounting for approximately 52% of the variance ($p < 0.01$). However, it should be noted that when top management demographic diversity is considered and interacted with previous profitability, an additional 55% of the variance is accounted for ($p < 0.01$), suggesting that it is very unlikely that this finding has occurred by chance. Said differently, these results suggest that previously profitable firms, continue to be more profitable 10 years later, but firms that had top demographic diversity early (in year 2000), saw a statistically significant higher profitability during the same time period.

3.2 Mediation

Hypothesis 2 predicts that CSR practices mediate the relationship between top management demographic diversity and firm performance. As such, this analysis assesses the mechanism by which top management demographic diversity (TMD) affects the CSR practices (CSR) and subsequent firm performance (FP). Thus, attention was turned to mediation (Barron & Kenny, 1986). This analysis consists of four steps: step 1 suggests that the researcher shows that the initial variable is correlated with the outcome; step 2 must indicate that the initial variable is correlated with the mediator; in step 3 the researcher must regress the mediator variable on the outcome and show the effect; step 4 requires the researcher to confirm the mediating influence of the effect (beta value) of the predictor variable on the criterion variable is less (or has become insignificant), when the intervening variable is included. Following this procedure we find support for hypothesis 2.

Step 1 began with correlation matrix analysis. As seen in Table 1: correlation matrix, top management demographic diversity is significantly correlated with the outcome variable of firm performance ($\rho = 0.15, p < 0.01$). Thus, we included this pattern of results through regression analysis that also included the control variables. Step 2 shows the initial variable TMD is significantly correlated with the mediator CSR ($\rho = 0.68, p < 0.01$). In step 3, we show that the second variable CSR affects FP, designated as the outcome variable. Again, this is shown through a significant correlation ($\rho = 0.26, p < 0.01$).

Step 4 is the final determination of mediation. In this step, mediation is demonstrated when CSR practices (the second variable) is placed before TMD (the first variable) and amount of variance explained by this relationship (R^2) is reduced (partial mediation) or becomes insignificant (full mediation). Following this methodology, we proceeded. First, we note that model 1 and 2 are both significant, but, when the mediator variable is placed before the first variable in the equation, the model is no longer significant (change from $p < 0.01$ to $p < 0.19$), suggesting full mediation. In line with the predictions of hypothesis 2, the analysis confirms CSR practices fully mediate the relationship between top management demographic diversity and firm performance.

In mediation, we are trying to show that it is not just having top management demographic diversity in a firm that matters, but rather, it is what the top management team does that affects firm profitability. Thus, in mediation we first suggest presence of top management demographic diversity affects firm profitability (model 2). Then we show that the CSR practices also affect profitability (correlation matrix). Next, in model 3 we can see that the variable of interest (TMD) is no longer significant when CSR practices are placed in the equation first. Thus, we assert that having top management demographic diversity in the firm is not in itself what leads to increased firm profitability; rather, we argue that is it the presence and the impact of top management diversity at the upper echelon that drives CSR practices that may foster positive employee actions leading to an increase in firm profitability. Thus, our second hypothesis was supported.

Another important aspect of this mediation model is interpretation of variance (R^2). For a relationship to be mediated, the change in R^2 will not be significant when the mediator is placed in the equation before the initial variable. Indeed, in the present study this was found. Of note, the change in R^2 is significant in models 1 and 2 but in model 3 this becomes insignificant, suggesting mediation occurred. Research suggests (Barron & Kenny, 1986) that when the mediating variable is placed in the equation, and it absorbs the explained variance, and what is left is no longer significant, suggesting that the initial variable (TMD) is being enacted through the mediated variable (CSR practices), providing full support for the predictions of Hypothesis 2.

4. Discussion

While the extant diversity research domain has shown inconsistent results (Joshi & Roh, 2009) with an emphasis on why diversity is a double-edged sword, our study attempts to reconcile the conflicting evidence by offering insights as to how top management diversity may impact bottom line firm performance using a time lagged dataset. Drawing on upper echelon and HRM research, we theorized that top management demographic diversity would adopt CSR practices that subsequently help to explain how “a value in diversity hypothesis” could operate in fortune 500 firms (Richard, 2000). By lagging financial data, our results, first, infer a causal relationship of both a direct effect of top management demographic diversity and firm performance; second, and more importantly, a mediating role of CSR practices between top management demographic diversity and firm performance. The present study upheld both hypotheses; that firms that have top management diverse demographic presence are more profitable once the practices have been adopted over time. Also as hypothesized, it appears that top management demographic diversity drives different decisions to how they manage their workforce, the use of CSR practices (e.g., work life benefits, employment of diverse workers, etc), that leads to increased firm profitably. Our theoretical argument is based on the notion that different values and managerial philosophies that exist in diverse top management segments would be reflected in more use of CSR practices.

Caution, of course, must be taken in generalizing from the results of a single study. While the current data did examine outcomes over a period of time, which enabled the inference of a causal relationship, it is important to note we are not asserting a cause and effect relationship. Rather, in this data, it appears that demographic diversity precedes the implementation of diversity outcomes, such as work life balance. Moreover, the sample firms’ inclusion in the Fortune 500 speaks to their successfulness, and the broad range of firms included in the sample is likely to mitigate the probability that results of particular industry conditions could account for the findings.

4.1 Practical Implications and Future Research Directions

Our results also have important practical implications worth noting. There is a general assumption among practitioners that workplace diversity automatically triggers benefits. However, scholars generally agree that diversity must be properly managed to harness the potential added value in diversity of thought and alleviate process losses such as miscommunication and conflict (Erhardt, 2011; Jackson & Joshi, 2004). Our study suggests that while diversity may add value in the workplace, it does so when it operates in a strategic context (i.e., upper echelon), which may have an impact on daily operations and decision-making. Yet, companies that are serious about diversity as a business decision, beyond ethical, moral and legal reasons, must allow diverse perspectives that can add value to be heard and acted upon not just at the top, but across hierarchical lines.

Further research in the direction established here is encouraged as well. While this study investigated several important areas associated with CSR practices, other CSR variables are also likely to be of interest. One intriguing area is in the rate of pay offered to workers and/or other measures of how workers are treated. Though the data is difficult to obtain, this would complement the data presented here on executive pay and indicate whether the restraint shown by the sustainability firms in executive pay is associated with better treatment of all workers. In addition, we encourage more research that looks at individual firms before and after they committed to corporate social responsibility agendas to see if the outcomes changed in any way. That is, were the firms already committed to CSR practices before making a public commitment, or did making the commitment lead to changes in behavior?

In sum, the results presented here provide encouraging support for the diversity literature to reconcile inconsistent evidence as to the value of diversity at the upper echelon. Those firms committed to diversity showed clear differences from the comparison group even when controlling for previous firm performance. Even more compelling is that these firms performed better throughout the time frame than firms that lacked a commitment to diversity, lending credence to the CSR perspectives asserting that companies can reap benefits by focusing on different positive outcomes.

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Appendix 1 KLD Diversity Measures Used as CSR Workplace Practices

(1) CEO (DIV-str-A): The company's chief executive officer is a woman or a member of a minority group.

(2) Representation (DIV-str-B): The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.

(3) Board of Directors (DIV-str-C): This indicator measures the diversity of a firm's board. Factors affecting this evaluation include, but are not limited to, the representation of women and minorities on the board, with adjustment for nation-specific demographic conditions.

(4) Work Life Benefits (DIV-str-D): The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime.

(5) Women and Minority Contracting (DIV-str-E): The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses.

(6) Gay & Lesbian Policies (DIV-str-G): The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees.

(7) Employment of Underrepresented Groups (DIV-str-H): This indicator measures a firm's efforts to promote diversity in its workforce. Factors affecting this evaluation include, but are not limited to, its recruitment efforts to women and minority communities, and its participation in multi-stakeholder diversity initiatives.

(8) Other Strengths (DIV-str-X): The company has made a notable commitment to diversity that is not covered by other MSCI ratings.