Experiments find bias in way analysts view firms led by black grads of prestigious universities

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Analysts examining a firm and the qualifications of its top management team discount the educational background of African American managers who graduated from prestigious universities while accepting the qualifications of white managers with the same college credentials, according to two experiments reported in the current issue of *Organization Science*, a journal of the Institute for Operations Research and the Management Sciences (INFORMS).

"We found that possessing high educational prestige was less beneficial for firms led by African Americans than for firms with white leaders," write the authors. In fact, the effect of having a highly prestigious education was significantly negative for teams that were led by African American executives. "Even though participants had plenty of information about the firm's financial performance and the management team's accomplishments on which to base their assessments, the interactive effects of race and educational prestige remain. We can only surmise that this is due to assumptions of affirmative action through race-based preferential selection of African Americans into prestigious institutions."

"Too Good to Be True? The Unintended Signaling Effects of Educational Prestige on External Expectations of Team Performance" is by Stephen J. Sauer of the Clarkson University School of Business, Melissa C. Thomas-Hunt of the Darden School at the University of

Virginia, and Patrick A. Morris of the May Group Family Fund. The study appears in the current issue of Organization Science.

The authors believe that the effect of executives' racial characteristics stems from outsiders' assumptions that African American managers received preferential treatment in the admissions process for high prestige universities.

In the first experiment, the authors find that top executives' educational background and race affected analysts' valuation of a firm's stock. Outside analysts made the highest stock price projections for firms led by white executives who had highly prestigious educational backgrounds but made the lowest valuations for firms led by African Americans with the same prestigious education.

In the second experiment, the authors find that when they explicitly removed the possibility of preferential selection in the admissions process, analysts gave the same stock valuation to firms led by white and African American executives with high educational prestige.

The experiments were conducted with participants from a major business school. In the first experiment, 101 current and former MBA students took part. Each played the role of a financial analyst for a venture capital firm. The instructions asked them to review information and assign a current value to the stock of a privately held company. Participants were randomly assigned to one of four conditions that varied in the top executives' race and the prestige of their alma maters.

In the second experiment, 61 MBA students from the same university conducted the same stock valuation. Before conducting the valuation, participants were randomly assigned to one of four conditions that varied in the use of preferential selection practices in the admissions process of the top managers' alma maters and their race. Results showed that for

African American executives, stock valuations were significantly lower when the executives' alma maters did not explicitly refute the use of preferential treatment.

"Because participants had read at length about the company's historical performance, current status, and future prospects, and they had analyzed a compendium of financial numbers, one would not expect that four small black and white photos alongside four short bios on the very last page of the pitch book would have had an effect on our analysts' assessments, yet clearly they did," write the authors.

Participants in the study include a representative sample of the larger population of professional analysts, maintain the authors. The majority of participants were MBA students, but a number in the first study were MBA alumni. In addition, two-thirds of participants in Study 1 reported that their work experience was in finance-oriented occupations, and at least 20% specifically listed their most recent work title as "auditor," "CFA," or another kind of "analyst."

"Our findings underscore the work of other scholars who have found that ambiguity about the cause of superior performance of those associated with affirmative action diminishes perceptions of their competence," the authors conclude.

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