

Executive diversity—a powerful predictor of stock returns

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A new paper from Tilburg University, 'Diversity Investing', provides more evidence supporting the case for diverse executive teams. Between 2002 and 2014, US firms whose management teams were more diverse, in terms of personal characteristics and experience, significantly outperformed less diverse peers in terms of risk-adjusted returns.

The authors maintain that their measure of [diversity](#) captures more dimensions of diversity than studies that focus on one or a few dimensions, such as tenure, ethnicity, gender or pay.

Using a new dataset on more than 50,000 top executives in US firms from 2002 to 2014, Tilburg University researchers Manconi, Rizzo, and Spalt show that top management team diversity—a new text-based measure of how diverse managers are in terms of [personal characteristics](#) and prior experiences—matters for [stock returns](#). Firms with diverse [management teams](#) have significantly higher risk-adjusted returns than firms with homogenous management teams.

A long-short strategy on the diversity characteristic yields higher risk-adjusted returns, and higher Sharpe ratios, than most leading asset pricing anomalies over our sample period. Diversity returns are driven by large-cap stocks and the long leg of the strategy, so diversity investing seems feasible for investors. Additional results suggest the large returns to diversity investing are due to (i) diversity being a new dimension of "quality" stocks and (ii) mispricing.

More information: Alberto Manconi et al. Diversity Investing, *SSRN Electronic Journal* (2015). [DOI: 10.2139/ssrn.2706550](https://doi.org/10.2139/ssrn.2706550)

Provided by Tilburg University

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