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# Shaking Things Up: Unintended Consequences of Firm Acquisitions on Racial and Gender Inequality

Letian Zhang\*

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## Abstract

This paper develops a theory of how disruptive events shape organizational inequality. Despite various organizational efforts, racial and gender inequality in the workplace remains high. I theorize that because the persistence of such inequality is reinforced by organizational structures and practices, disruptive events that shake up old hierarchies and break down routines and culture should give racial minority and women workers more opportunities to advance. To examine this theory, I explore a critical but seldom analyzed organizational event in the inequality literature - mergers and acquisitions. I propose that post-acquisition restructuring could offer an opportunity for firms to advance diversity initiatives and to objectively re-evaluate workers. Using a difference-in-differences design on a nationally representative sample covering 37,343 acquisitions from 1971 to 2015, I find that although acquisitions lead to occupational reconfiguration that favors higher-skilled workers, they also reduce racial and gender inequality. In particular, I find improved managerial representation of racial minorities and women and reduced racial and gender segregation in the acquired workplace. This post-acquisition effect is stronger when (a) the acquiring firm values race and gender equality more and (b) the acquired workplace had higher racial and gender inequality. These findings suggest that disruptive events could produce an unintended consequence of increasing racial and gender equality in the workplace.

**Keywords:** Diversity, Inequality, Mergers and Acquisitions, Disruptive Events

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## INTRODUCTION

Racial and gender inequality remains high in the workplace. Racial minorities and women tend to occupy the less-desirable positions in an organization and receive fewer opportunities to move into management (DiTomaso, Post, and Parks-Yancy 2007; Stainback, Tomaskovic-Devey, and Skaggs 2010; Reskin 2000). Although some headway was made in reducing such inequalities in the 1970s, progress has largely stalled since the 1980s (Stainback and Tomaskovic-Devey 2012). Today, racial minorities and women are still 54 percent and 36 percent, respectively, less likely than whites and men to be in managerial positions.<sup>1</sup>

This persistent disparity is somewhat surprising because the need for greater racial and gender equality has been increasingly accepted by organizations, at least on the surface. Since the passage of the Civil Rights Act in 1964, organizations have become more attentive to discrimination charges, and many have embraced the push for reduced racial and gender gaps (Edelman 1992; Kalev and Dobbin 2006; Kelly and Dobbin 1998). Over time, they have adopted antidiscrimination policies, hired diversity officers and consultants, launched diversity training programs, and taken other actions to signal their support for racial and gender equality (Dobbin and Sutton 1998; Dobbin, Kim, and Kalev 2011). But while these actions demonstrate an organization's awareness of diversity issues, many are symbolic and have little effect on day-to-day operations (Castilla and Benard 2010; Kalev, Dobbin, and Kelly 2006). As a result, there is often a gap between the level of commitment that an organization proclaims and the actual level of racial and gender equality in that organization.

I theorize that disruptive events could play an important role in reducing this gap and substantively improving racial and gender equality. Organizational efforts on diversity are often rendered merely ceremonial partly because inertia makes truly substantive changes difficult and costly to implement (Stainback, Tomaskovic-Devey, and Skaggs 2010; Stinchcombe 1965). Social networks and status hierarchies are self-reinforcing and difficult

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<sup>1</sup>These statistics are calculated based on 2015 EEO-1 data used in this study. Racial minorities include blacks, Hispanics, and Asians.

to break (Berger, Cohen, and Zelditch Jr 1972; Ridgeway and Correll 2006). Long-standing practices and routines may be taken-for-granted and altering them can be costly (Mun and Jung 2018). Organizational culture, once established, becomes difficult to shift (Padavic, Ely, and Reid 2019; Turco 2010). Facing such inertia, senior management may be reluctant to implement substantive changes and even when they do, these changes are often ignored in day-to-day routines and, in some cases, may even be used by middle managers to reinforce existing hierarchies and inequality (Acker 2006; Castilla and Benard 2010; Mun and Jung 2018; Padavic, Ely, and Reid 2019).

But disruptive events, such as a technological transformation or a major restructuring, can break down hierarchies, routines, and culture and force substantive changes. They could thus offer opportunity for firms to alter long-standing routines and introduce new practices that either directly or indirectly benefit racial minorities and women. In addition, these events often lead to major personnel reshuffling, which could open up opportunities for previously marginalized groups. In short, I argue that under the right circumstances, disruptive events should substantively improve racial and gender equality.

To examine this theory, I explore a critical yet seldom analyzed event in the inequality literature: mergers and acquisitions. Since the 1970s, there have been more than 300,000 acquisitions in the United States affecting more than five million workers every year (Andrade, Mitchell, and Stafford 2001; Haveman and Cohen 1994). Acquisitions are highly disruptive events and have important implications for employment dynamics. For example, the announcement of an acquisition is usually followed by a high level of anxiety among workers in the acquired workplace, as subsequent restructuring often leads to job loss, occupational reconfiguration, and major role changes (Corley and Gioia 2004; Clark et al. 2010).

However, despite the frequency and impact of M&A events, we have little understanding of how they shape racial and gender dynamics. The voluminous M&A literature in corporate finance generally focuses on firm performance as the outcome (Andrade, Mitchell,

and Stafford 2001; Blonigen and Pierce 2016; Maksimovic and Phillips 2001; Li 2013). The few studies that look at employment outcomes find that M&A deals lead to downsizing and overall wage reduction, but it remains unclear how this influences different groups of workers (Fligstein and Shin 2006; Ma, Ouimet, and Simintzi 2016; Siegel and Simons 2010). Anecdotal evidence may suggest that M&A events negatively affect women and racial minorities (Haveman, Broschak, and Cohen 2009; Woodall, Edwards, and Welchman 1997; S. Kim 2011). As disadvantaged groups, racial minorities and women tend to hold more peripheral positions in an organization, making them more likely to be laid off in a downsizing (Couch and Fairlie 2010; Cunningham, Lord, and Delaney 1999; Kalev 2014; Wilson and McBrier 2005; see Dencker 2008 for an exception). Given that acquisitions generally lead to downsizing, it is sometimes assumed that M&A events hurt the career prospects of racial minority and women workers, though this assumption has yet to be tested empirically (Haveman, Broschak, and Cohen 2009).

This paper offers a competing prediction: acquisitions could improve racial and gender equality. Post-acquisition restructuring often disrupts day-to-day operations and results in major reconfiguration of the acquired workplace. This could have two effects. First, firms that value diversity may use this period of disruption to change organizational structure and culture and implement new practices to reduce racial and gender gaps. Second, many acquiring firms conduct thorough re-evaluations of employees in the acquired workplace, often under external scrutiny. This re-evaluation could help racial minorities and women in those workplaces where they were previously highly disadvantaged.

I examine this hypothesis using EEO-1 data, gathered by the Equal Employment Opportunity Commission (EEOC), that covers all US private-sector establishments with more than 100 employees.<sup>2</sup> Using difference-in-differences models on 37,343 acquisitions from 1971 to 2015, I find evidence consistent with my hypothesis. After being acquired, an establishment experiences immediate downsizing, mostly affecting middle managers, back-office

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<sup>2</sup>A business establishment is a part of a firm defined by having a particular location. For example, a firm with an office in Chicago and an office in Boston would have two business establishments.

workers, and blue-collar workers. However, while M&A events eliminate many low-skilled jobs, they significantly improve the positions of women and racial minorities. Acquired establishments saw a notable drop in the proportion of white men in management, a considerable rise in the proportion of racial minority and women managers, and significantly less racial and gender segregation across occupational categories. Further analyses show that these post-M&A improvements in race and gender gaps are more pronounced when (a) the acquiring firm values race and gender equality more and (b) the acquired establishment had higher racial and gender inequality. In these cases, acquisitions lead to a roughly 17-percent increase in minority managers and an 8.5-percent increase in women managers. To reinforce the findings, I conducted a number of robustness checks, including using withdrawn M&A deals as a placebo test, and entertained various alternative explanations. In the end, results strongly suggest that racial and gender gaps decline after an establishment is acquired.

## **A THEORY OF DISRUPTIVE EVENTS AND INEQUALITY**

Racial and gender gaps have been slowly declining in the United States, but this progress has stalled in recent decades (Leicht 2008; McCall 2005; also see Figure 3, 4, and 5). Today, racial minorities and women still face strong impediments in organizations: they have a lower chance of being hired and promoted and a higher chance of being laid off (Bertrand and Mullainathan 2004; Couch and Fairlie 2010; M. Elvira and Zatzick 2002; Pager 2003; 2007; Pager and Shepherd 2008; Wilson and McBrier 2005). Research has explored both individual- and organizational-level processes to understand this inequality. At the individual level, stereotyping and in-group preference can favor white men in hiring and promotion decisions (Bielby 2000; Reskin 2005; Ridgeway and Correll 2004). Moreover, social networks and friendship ties tend to form along racial and gender lines (McPherson, Smith-Lovin, and Cook 2001). Since most managers, especially at the senior levels, are white men, this network homophily hurts racial minorities and women in the labor market: they tend to reside on the periphery of the relevant social networks and have less access to mentors, referrals, and

career information (Ibarra 1992, 1995; Roth 2004; Turco 2010).

These individual-level processes can be either amplified or suppressed by organizational structure, routine, and culture (Gorman 2005; Roth 2006; Stainback, Tomaskovic-Devey, and Skaggs 2010). For instance, cross-functional teams reduce stereotyping and benefit racial minorities' and women's chances of promotion (Kalev 2009). Certain workplace initiatives can mitigate work-family conflict to the benefit of women workers' advancement (Kelly, Moen, and Tranby 2011). But other practices, such as flexibility in HR systems, give managers room to exercise personal preferences and may therefore aggravate existing racial and gender gaps (M. M. Elvira 2001; McDowell 1991). Policies such as formalized evaluation systems can suppress managerial bias in some contexts but not others (Bielby 2000; Castilla 2008; Dobbin, Schrage, and Kalev 2015; Kalev 2014; Petersen and Saporta 2004).

But organizations are not static. They often change in response to the external environment and sometimes these changes lead to new practices and routines (Tushman and Anderson 1986). This study theorizes how organizational changes following disruptive events influence racial and gender inequality. I define disruptive events as those that force an organization to make substantive changes in its day-to-day operations, such as mergers, acquisitions, and adoption of new technologies. These events could create and destroy jobs on a large scale and significantly alter workplace routines, so they have the potential to dramatically alter the opportunities available to different groups of workers.

Despite an increasing normative acceptance of diversity, many organizations still have practices and cultures that favor whites and men. Much of this persistence may be attributed to organizational inertia (Stainback, Tomaskovic-Devey, and Skaggs 2010; Stinchcombe 1965). An organization's design, once established, is difficult to change. Both middle managers and non-managerial workers are often reluctant to change their work habits and learn new routines (Mun and Jung 2018). Substantial changes in practices could also be risky and potentially undermine performance. For instance, changing one part of an organization's design could have unintended spillover effects on other parts (Hannan, Pólos,



and Carroll 2003). In fact, because of the difficulty of change, an organization's blueprint often remains shaped by the environmental conditions of its birth: firms founded earlier tend to have less-supportive structures and cultures for racial minorities and women (Stainback, Tomaskovic-Devey, and Skaggs 2010). For example, firms founded prior to the Civil Rights Act tend to have more gender segregation than those founded later (Tomaskovic-Devey and Skaggs 1999). Similarly, pay systems in some firms that were designed in the 1950s and 1960s with a clear gender bias still reflect these biases over half a century later (Kim 1989).

Like practices and routines, social hierarchies are also difficult to change. Status dynamics can be self-fulfilling: those occupying higher-status positions - often whites and men - tend to receive better resources and opportunities that in turn lead to more positive evaluations (Berger, Cohen, and Zelditch Jr 1972; Ridgeway and Correll 2006). Those high-status individuals and groups could also reinforce existing hierarchies by shaping the norm and culture in their own favor (Padavic, Ely, and Reid 2019). For example, when most managers are men, it is difficult for women to assimilate and thrive (Turco 2010). In many cases, hierarchies are further strengthened by networks and relationships - often along racial and gender lines (McPherson, Smith-Lovin, and Cook 2001). Provided that, historically, whites and men tend to occupy higher positions, the entrenchment of social hierarchy is another impediment to racial minorities' and women's advancement in an organization.

Given the difficulty in changing organizational design and social hierarchies, I propose that disruptive events - although not primarily designed to address inequality - could be an important vehicle for reducing racial and gender gaps. I theorize two related processes. First, these events, by disrupting day-to-day operations, allow organizations to change their long-standing practices and deeply rooted culture and norms. For firms hoping to improve racial and gender gaps, this could be an opportunity to implement new practices and routines that are more supportive of racial minorities and women. Second, disruptive events often lead to major reshuffling of employees. This reshuffling could break down existing hierarchies that favor whites and men, and given the high visibility of these events, potentially benefit

racial minorities and women. In the following, I discuss these processes in greater detail by focusing on one of the most common disruptive events: mergers and acquisitions.

### **Disruptive Events - Mergers and Acquisitions**

Prior to the 1980s, anti-trust laws and active enforcement made within-industry mergers extremely difficult in the United States. Firms mostly undertook acquisitions to diversify their portfolios and expand their range of control. However, as anti-trust laws contracted in the 1980s, M&A became an instrument for enforcing market discipline: the threat of hostile takeover has forced companies to become more attentive to profitability and efficiency. Within-industry acquisitions have therefore become more prevalent; CEOs often take on acquisitions to benefit from economies of scale and to please shareholders (Andrade, Mitchell, and Stafford 2001).

In a typical integration process following an acquisition, the acquiring firm sets up a steering committee, typically composed of its C-level executives and its head of human resources. The steering committee sets the broad direction for the restructuring and is in charge of higher-level integration strategies. Under the steering committee is the integration management office, composed of senior managers and support staff. They are the central governance structure in the post-acquisition integration, managing the core functions of the integration effort and converting the steering committee's high-level strategy into detailed roadmaps. They, in turn, work with operational teams and task forces to ensure successful integration and restructuring in each department.

In the post-acquisition period, the acquired establishment typically goes through extensive restructuring. This often involves major employment and structural changes and is an important part of the overall integration process. While each restructuring is unique depending on the nature of the acquisition, many share important similarities. Most involve both (a) changing routines, practices, and culture in the acquired workplace and (b) downsizing and re-evaluation of employees in the acquired workforce.

## **Restructuring: Changes in Practices and Routines**

Post-acquisition restructuring provides an opportunity for firms to make substantive changes to the structures, routines, and culture of the acquired establishment (Corley and Gioia 2004; Clark et al. 2010; Haveman and Cohen 1994). Some of these changes are necessary to ensure compatibility with the acquiring firm, while others reflect senior managers' desired directions. In general, there is less cost to making changes during this time period compared to normal times, since the event already disrupts the day-to-day operation in the acquired establishment. Additionally, the improved economies of scale after acquisition give the acquired establishment more room to adopt new technologies and efficient operating procedures. Thus, post-acquisition restructuring often results in new practices, policies, and routines in the acquired establishment.

There are two reasons to believe that these changes in practices and routines should increase racial and gender equality. First, acquiring firms that value diversity could use this opportunity to implement practices oriented specifically toward helping improve the standing of women and racial minorities. Firms have been increasingly attentive to diversity and many seek to reduce racial and gender gaps (Dezso, Ross, and Uribe 2016; Dobbin, Kim, and Kalev 2011). This started in the 1970s, when firms tried to improve the positions of racial minorities and women to comply with anti-discrimination policies and answer calls for affirmative action (Edelman 1990; 1992; Edelman et al. 1991; Sutton and Dobbin 1996). Over time it has become normative for firms to embrace diversity and nonconforming firms may suffer backlash from the public (Kelly and Dobbin 1998). But to reduce racial and gender gaps, firms often need to change managers' behavior. For instance, some of the most effective practices to improve diversity, such as affirmative action plans that hold managers accountable and high transparency in hiring and promotion, require significant shifts in managers' habits and day-to-day routines (Dobbin, Schrage, and Kalev 2015; Kalev, Dobbin, and Kelly 2006). Making these changes could be difficult during normal times, since they involve disrupting routines and culture. But post-acquisition restructuring provides an opportunity

to implement these changes. Therefore, for acquiring firms that value racial and gender equality, post-acquisition restructuring could result in more effective practices designed to support racial minorities and women.

Second, besides diversity-related practices, restructuring may also help firms implement other types of changes in routines and practices. These changes, while not specifically intended to address inequality, may nonetheless reduce racial and gender gaps because many of them could benefit racial minorities and women (Stainback, Tomaskovic-Devey, and Skaggs 2010). For example, an increasing number of firms have been using transparency in job posting and job ladders. By making both job openings and eligibility for promotion visible to all employees, these policies limit managerial discretion and open up the applicant pool to marginalized groups (Dobbin, Schrage, and Kalev 2015). Similarly, cross-functional teams have become popular in recent decades. By encouraging repeated interaction, such a team structure allows racial minorities and women to have more exposure and reduces managers' stereotyping and other types of racial and gender biases (Kalev 2009). One notable exception is performance evaluation, which has been widely adopted by most organizations (Dobbin, Schrage, and Kalev 2015). While it seems that using objective evaluative metrics would reduce bias, in some cases these practices can paradoxically lead to more managerial bias (Castilla 2008; Castilla and Benard 2010; Dobbin, Schrage, and Kalev 2015). Nonetheless, for racial minorities and women, performance evaluations may be still preferable to some of the older promotion practices based on seniority rule (Bielby 2000).

In sum, restructuring allows the acquiring firm to carry out substantive organizational changes in the acquired establishment. Some of these changes are not expressly designed to address inequality, but may nonetheless benefit racial minorities and women. Other changes are intended to specifically reduce racial and gender gaps, and their implementation should be contingent on the acquiring firm's attitude toward diversity. Therefore, I hypothesize that acquisition reduces racial and gender inequality, with a stronger effect when the acquiring firm values racial and gender equality.

## **Restructuring: Changes in Employee Composition**

Besides organizational changes, post-acquisition restructuring could also lead to major changes in employment composition through layoffs, hiring, and/or worker reassignment. Layoffs are particularly common for three reasons. First, after an establishment gets acquired, some positions are no longer needed and some may overlap with those in the acquiring firm and become redundant. Redundancies tend to be concentrated in back-office positions, such as accounting, human resources, and finance, and workers in these roles face great layoff risks (Gugler and Yurtoglu 2004; Siegel and Simons 2010). Second, if the acquired establishment previously had excessive layers of management or was overstaffed, the acquiring firm may use the restructuring opportunity to streamline the workforce. Middle managers are often the targets of this type of layoffs (Goldstein 2012). Third, acquisition can act as a catalyst for technological change (Fligstein and Shin 2006; Ma, Ouimet, and Simintzi 2016). The adoption of automation and other technological innovations raises the demand for college-educated professionals but lessens the need for back-office and blue-collar workers, making them possible layoff targets. For all of these reasons, acquisition could lead to fewer jobs for middle managers, medium-skilled, and low-skilled workers.

But in contrast to layoffs in most other scenarios, personnel decisions in post-acquisition restructuring should be less biased against racial minorities and women for several reasons. First, workers in the acquired workplace go through extensive re-evaluations, often involving multiple rounds of interviews, reviews of past performance records, and various skill assessments. These re-evaluations are much more thorough and detailed than routine employee evaluations. Some describe these re-evaluations as “re-recruitments,” as everyone starts off with a clean slate and is essentially treated as a potential new hire (Saint-Onge and Chatzkel 2008). The extensiveness of the re-evaluation process could help those racial minorities and women who were victims of bias in earlier evaluations. When decision makers have sufficient time, they are less likely to stereotype based on race and gender (Price and Wolfers 2010). Additionally, since everyone is evaluated at the same time, it is easier to

directly compare employees based on objective metrics, which also helps reduce racial and gender biases (Bohnet, Van Geen, and Bazerman 2015). Hence, in places where racial minorities and women have been impeded by bias in the past, an extensive re-evaluation could potentially help elevate their positions. Moreover, these re-evaluations are often carried out by managers from the acquiring firm with the aid of external consultants, both of whom are new to the acquired workplace. Connections and relationships should thus be less relevant in these re-evaluations, which should help racial minorities and women who were previously excluded from the relevant networks.

Second, acquisition is a highly visible event. The restructuring process often invites scrutiny from employees, regulators, the media, and other stakeholders (Saint-Onge and Chatzkel 2008). Such scrutiny should push senior management teams to conduct layoffs, hiring, and reassignment in a non-contentious way, as charges of discrimination could lead to unnecessary attention and derail the integration process. Management may be incentivized to ensure that racial minorities and women are not being disproportionately laid off and that the promotion rates are consistent across groups. Hence, the high visibility of the event should further help racial minorities and women.

Finally, if the acquired workplace had large racial and gender gaps, then it is plausible that acquiring firms may use employee reshuffling to quickly reduce these gaps. As with habits and routines, it is difficult to significantly change existing hierarchies in a workplace. Doing so during normal times could disrupt the workflow and create anxiety. During post-acquisition restructuring, since the workplace is already making significant personnel changes, it could be a good opportunity for the acquiring firm to address racial and gender gaps directly through promotion and layoffs. This may be more likely to occur when the acquired workplace had larger racial and gender gaps and when the acquiring firm is more concerned about diversity.

In sum, restructuring leads to substantive changes in employee composition and such changes may reduce racial and gender gaps. Extensive re-evaluation under high exter-

nal scrutiny could raise the standing of racial minorities and women who were previously disadvantaged. It is also possible that firms may use employee reshuffling as an opportunity to directly reduce racial and gender gaps in those places where such disparities are high. Therefore, I hypothesize that acquisition reduces racial and gender inequality, with a stronger effect when the acquired workplace had high racial and gender inequality. In comparison to the previous hypothesis, I expect that changing practices and routines has a longer-term effect while changing employee composition through re-evaluation and reshuffling has a more immediate effect on racial and gender gaps.

## DATA AND ANALYSIS

To examine the hypotheses, I used establishment-level panel data from EEO-1 surveys. In 1966, to help monitor compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Commission (EEOC) began to collect demographic workforce data on private-sector firms. Before 1982, all private-sector firms with at least 50 employees, as well as firms under federal contract and with at least 25 employees, were required to submit EEO-1 forms annually.<sup>3</sup> In 1982, the cutoff was raised to 100 employees for non-federal contractors and 50 for federal contractors. Firms meeting this requirement are required to file a separate form for each establishment that has at least 50 employees. Each EEO-1 survey form contains a matrix of occupational classifications and race/sex combinations, into which employers enter counts of employees. The form also collects identifying information for each establishment, such as its location, industry, and parent firm. Past studies that compared the EEO-1 reports to other datasets find their quality to be comparable to that of US Census or Current Population Survey-based sources (Tomaskovic-Devey et al. 2006; Robinson et al. 2005). Data from 1971 to 2015 were obtained for research purposes through an Intergovernmental Personnel Act agreement. EEO-1 reports were not available for 1974, 1976, and 1977. In total, the EEO-1 data from 1971 to 2015 include 202,101 firms and 11,966,225 establishments.

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<sup>3</sup>Government contractors are those private-sector firms that have more than \$50,000 worth of government contracts

On average, a firm lasts 10 years in the sample and an establishment lasts 6.2 years.

Although the EEO-1 data have become the gold standard in studying organizational diversity, they have several limitations (Ferguson and Koning 2017; Tomaskovic-Devey et al. 2006). First, the EEO-1 reports are only required of firms with at least 100 employees, which account for approximately 60 percent of all employment (Hollister and Wyper 2013). Thus, the sample is only representative of medium-sized to large- firms and excludes small businesses. Second, the EEO-1 report does not provide information about individual workers, only annual employment totals for each category in each establishment. This prevents us from capturing all personnel changes within an establishment, since the data will not identify situations in which one employee leaves and a similar employee is hired as a replacement. Third, the report does not include wage data, so we can only measure racial and gender inequality based on each group’s occupational attainment. Finally, in 2007, the EEOC began collecting data from establishments whose size is below the mandatory reporting threshold. Consequently, there is a larger-than-usual cohort of establishments that entered the data in 2007 (Ferguson and Koning 2017). I conducted robustness checks to ensure that those establishments do not substantively influence my results.

### **Identifying Acquisitions**

Mergers and acquisitions can be identified based on changes in an establishment’s reported parent firm. Each establishment has a unique identifier that is consistent over time, even after changes in ownership. Similarly, there is a unique identifier for each parent firm. I can therefore identify instances of ownership change by observing when the establishment’s parent firm’s identifier changes. This identification method includes both full and partial acquisitions: one establishment of a firm can be acquired while another establishment remains under the old firm. Using this method, I identified 37,343 unique acquisitions covering 168,293 establishments from 1972 to 2014.<sup>4</sup> I compared this sample with the commonly used

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<sup>4</sup>For example, let us assume that firm B has 2 establishments and firm C has 10 establishments and that firm A acquires firm B and firm C at the same time. We count this situation as involving two unique acquisitions involving a total of 12 establishments. In my models, each of the 12 establishments would be



Securities Data Company (SDC) Platinum database on mergers and acquisitions and found that about half of the acquisitions in my sample also appear in the SDC database. A colleague and I manually merged the SDC and EEO-1 databases. As a robustness check, I ran analyses on the subsample of acquisitions that appear in the SDC database; the findings are substantively similar.

Some establishments have been acquired multiple times, which can confound the post-acquisition effect: it would be unclear if an observed pattern is due to the lingering impact of an older acquisition or the immediate impact of a more recent acquisition. I therefore focus only on the first acquisition for any given establishment and exclude its observations during and after the second acquisition. In the sample, 16.7 percent of the acquired establishments experience multiple acquisitions. After the exclusion, the resulting sample includes 140,125 acquired establishments.

Figure 1 plots the number of unique acquisitions and the proportion of workers affected over time. The volume of acquisitions has been relatively consistent over time, with a few spikes representing waves of acquisitions. On average, about 1.5 percent of all workers in the EEO-1 sample, or 5.6 million workers, experience such an event in a given year. The plotted pattern is generally consistent with M&A data from the Center for Research in Security Prices (CRSP), SDC, and other sources, showing major spikes in acquisitions in the mid-1980s and mid-1990s.

[insert Figure 1 about here]

## **Occupational Categories**

The EEO-1 data provide information on the occupational composition of each demographic group. Below, I use this information to measure racial and gender inequality in each establishment. There are nine broad occupational categories on the EEO-1 form: managers, professionals, technicians, sales workers, office and clerical workers, craft workers, operatives, laborers, and service workers. Although this categorization is rather broad

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used as the unit of analysis.

(Tomaskovic-Devey et al. 2006), it has remained constant over the years, in contrast to those of many other national surveys. The EEO-1's consistency in occupational definition ensures that any changes observed are not driven by shifts in coding systems (Kalev 2014; Wilson and McBrier 2005).

Figure 2 shows patterns in occupational composition over time. Some categories are clustered for ease of interpretation. In particular, I clustered technicians, sales workers, and office and clerical workers as back-office employees, and clustered craft workers, operatives, and laborers as blue-collar employees. This creates a classification scheme with five skill-based levels: officials and managers, professional workers, back-office workers, blue-collar workers, and service workers. Since the 1970s, the number of blue-collar jobs has decreased significantly while the number of professional and service positions has increased, which corresponds to the decline in manufacturing and the rise of the service industry during this period.

[insert Figure 2 about here]

### **Dependent Variables: Racial and Gender Inequality**

The key outcomes are an establishment's racial and gender inequality. I measured demographic inequalities using two types of variables: (a) the proportions of racial minorities and women in management and (b) racial and gender segregation across non-managerial occupations. I focus on these two types of outcomes, rather than on the total proportion of minorities and women, because they help capture the extent to which minorities and women have truly become integrated at all levels of an organization.

The EEO-1 report includes five racial groups: white, black, Asian, Hispanic, and Native American. Because each employee can only be counted once, this classification scheme effectively makes Hispanic a separate racial category. Such classification differs from that of the US Census, in which respondents can declare a race and also identify as being of Hispanic origin. Because most establishments do not have any Native American employees, I focused on the other four groups in the analyses.

I used the index of dissimilarity (D) to measure segregation at the establishment level. D is the proportion of employees who would need to change occupations for the establishment to have equal representation of two groups. It tells us how far the establishment is from an equal occupational distribution of gender or race. The index of dissimilarity is computed within an establishment as follows:

$$\text{Index of Dissimilarity (D)} = (1/2 \sum_{occ=1}^n |P_{occ-x} - P_{occ-y}|) \times (100) \quad (1)$$

where  $P_{occ-x}$  and  $P_{occ-y}$  are the proportions of groups x and y, respectively, within an occupation in an establishment (Tomaskovic-Devey et al. 2006). In calculating D, I included only the eight non-managerial occupations. Therefore, the value of D is not directly influenced by the proportion of racial minorities and women in management.

Figure 4 plots these variables over time. Consistent with past findings (Leicht 2008), overall racial and gender inequality have been declining, with a greater decline for women than for racial minorities. Figure 2a shows that both minorities and women made important advances in managerial representation in the 1970s. But since then, while women have continued to make steady progress into managerial positions, progress has stalled for blacks and Hispanics. Figure 2b shows that gender segregation has been declining rapidly since the 1970s, but racial segregation has been decreasing much more slowly.

[insert Figure 3 about here]

[insert Figure 4 about here]

## Matched Sample

To analyze the impact of acquisitions, I implemented a dynamic difference-in-difference design in which I compare the target (acquired) establishments to similar establishments that were never acquired.

I implemented a matched sampling procedure: for every target establishment in the year before its acquisition, I selected a control establishment from the same year. Specifically,

for each target establishment acquired in year  $t$ , I selected a control establishment that satisfied the following criteria in year  $t-1$ : (a) it belongs to the same two-digit SIC industry as the target; (b) it is in the same quartile of establishment size (measured by number of employees) as the target; (c) it is in the same quartile of firm size (measured by number of employees) as the target; and (d) it has never been acquired. For control establishments that satisfied these requirements, I calculated their propensity score using a linear logistic model.<sup>5</sup> and selected the establishment with the propensity score closest to that of the target. Each target establishment is matched with one control establishment and vice versa. Table 1 shows a comparison between the target group and the control group in the year before the target establishment was acquired.

[insert Table 1 about here]

As a robustness check, I ran the analyses using a number of alternative matching samples. First, I tested alternative ways of assigning the propensity scores, including using a different set of predictors in calculating the score and picking the nearest three neighbors as controls. I also tried jettisoning the propensity matching altogether and simply drew a random set of establishments that shared the target establishment's industry, year, location, and size quartile. Second, some M&A deals were announced but subsequently withdrawn, and I used the target establishments of these withdrawn acquisition deals as a control group. Data on withdrawn M&A deals come from the SDC Platinum database. Finally, I used the entire sample, including all establishments that were not acquired, as controls (see Appendix Table A.1 for results on racial and gender inequality). Using each of these alternative matching samples produced substantively similar results.

Once matched, the establishment in the control group was considered as if it had gone through an acquisition in the same year that the target firm did. I set the window of observation at 10 years; five years before the acquisition to five years after. The five years of

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<sup>5</sup>The independent variables include an establishment's racial and gender composition, occupational composition, levels of racial and gender segregation, the number of establishments in the firm, and establishment size.

pre-acquisition observation allow us to observe any parallel trends between the target and the control group, and the five years of post-acquisition observation should provide sufficient time to observe any post-acquisition change, even if it is not immediate. The other years of observation were excluded from the sample.

After matching, the sample initially includes 1,701,884 observations of 264,410 establishments. Some of these establishments were closed shortly after acquisition and their workers were either transferred or let go. Although such closings are an important topic, they do not inform us on how acquisition affects different groups. I therefore excluded establishments that were shut down within the first two years after acquisition, resulting in a final sample of 1,432,196 observations and 191,957 establishments. As a robustness check, I ran the same analyses using the initial sample (that includes closed establishments); doing so increases the overall post-acquisition downsizing effect but does not substantively change the post-acquisition effect on racial and gender inequality.

### Model Specification and Controls

I examined change in employment dynamics at the establishment level by estimating the following difference-in-differences model:

$$Y_{jt} = \sum_{p=-4}^5 c_p T_{ip} + \sum_{p=-4}^5 \beta_p T_{ip} \times Target_i + \gamma \cdot X_{it} + E_i + CY_t + \epsilon_{it}, \quad (2)$$

where  $Y_{jt}$  is the outcome variable at establishment  $j$  in year  $t$ .  $p$  is the number of years relative to the acquisition; specifically, I set year 1 to be the first year in which an establishment changed its parent firm in the EEO-1 form.  $T_{ip}$  is a dummy variable indicating  $p$  years after the acquisition. For example,  $T_{i3} = 1$  for the third year after establishment  $i$  was acquired. The coefficient of interest is  $\beta_p$ , which captures the average difference in the outcome variable between treated and control firms when  $T = p$ . In other words,  $\beta_p$  denotes the acquisition effects on the outcome variable.

I included establishment-level fixed effects,  $E_i$ , to control for time-invariant estab-

lishment traits, such as industry and location. The inclusion of fixed effects allows us to observe changes within each establishment, rather than differences between establishments. I also included calendar-year fixed effects,  $CY_t$ , to control for the macro environment, as well as leads and lags around the event time,  $T_{ip}$ . Fixed effects help rule out omitted variables, but they also reduce the power of an estimation. As a robustness check, I included industry-year and state-year fixed effects; the results are substantively similar.

X is a set of control variables that capture time-variant establishment-level characteristics, including the number of workers in each establishment, as occupational composition and demographic inequality may be a function of workplace size (Tomaskovic-Devey and Skaggs 1999). I also included the proportion of total workers in each occupational group, as occupational composition could influence minorities' and women's segregation levels and promotion rates. For example, a workplace with a higher proportion of blue-collar workers may have a lower promotion rate for women, as women could be seen as token members in such a male-dominated setting. Excluding controls for occupational composition does not, however, substantively change the results. In these models, I also included each demographic group's proportion among non-managerial workers and in the local labor market. Demographic data on local labor markets comes from the Decennial Census's county-level data, which is extrapolated to obtain annual estimates. These controls ensure that the outcome variables capture racial and gender inequality within a workplace, as opposed to overall workforce diversity. Finally, in estimating segregation levels, I included a measure for occupational heterogeneity, which tends to be correlated with the index of dissimilarity.<sup>6</sup> (Tomaskovic-Devey et al. 2006)

Standard errors are clustered at the firm level. Results are qualitatively similar whether or not establishment sizes are included as weights, so for simplicity I present models without weights. In some models, I used a simpler difference-in-differences model, grouping

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<sup>6</sup>The index of heterogeneity is calculated as  $1 - (\sum((POCC)^2)/(T_e^2) \times (100))$ , where  $\sum(POCC)^2$  is establishment employment in each occupation squared and then summed across the eight non-managerial occupations and where  $T_e^2$  is establishment employment squared.

$T_{ip}$  into pre-acquisition and post-acquisition periods:

$$Y_{it} = c \cdot Post_i + \beta \cdot Post_i \times Target_i + \gamma \cdot X_{it} + E_i + CY_t + \epsilon_{it}, \quad (3)$$

where  $Post_i$  is 1 if establishment  $i$  has been acquired within the last five years and 0 if it would be acquired within three years.

In these models, the key identifying assumption is that employment in target and control establishments would have followed parallel trends had the target establishment not been acquired. Admittedly, mergers and acquisitions are not exogenous events, but endogeneity is less of a concern as long as acquisition decisions are not based on factors highly correlated with the dependent variables. Potential threats to identification would be unobserved shocks that affect both the outcomes and the timing of acquisition. In this case, identification would be a concern if acquiring firms target establishments that are on the verge of increasing their racial and gender equality. Based on past work, I find this scenario unlikely, as acquiring firms rarely consider a target firm's diversity when making acquisition decisions.

### **Supplementary Data from Qualitative Interviews**

To supplement the quantitative data, in 2019 I conducted 23 in-depth, semi-structured interviews with M&A consultants, HR managers, diversity officers, and senior executives who have been involved in post-acquisition restructurings. Eight of the respondents are senior executives in the M&A consulting industry with over 10 years of experience. Together, these respondents have experienced over 100 post-acquisition restructurings. Interviews were conducted either in-person or over the phone and lasted 30 to 90 minutes, using a semi-structured protocol including open-ended questions regarding the acquisition experiences. Interviews were recorded and transcribed. For several respondents, I followed up after the interview with additional email correspondence. These qualitative data are not for generalization; they simply supplement the quantitative analyses by providing more information on plausi-

ble mechanisms.

## RESULTS

Results strongly support the hypothesis: acquisition significantly improves both racial and gender equality in acquired workplaces. After being acquired, establishments tend to downsize middle managers, back-office workers, and blue-collar workers, while hiring more highly skilled professionals. At the same time, they have a higher proportion of racial minorities and women in managerial positions and lower racial and gender segregation overall. This post-acquisition effect on diversity is stronger when the acquiring firm values diversity more and when the acquired establishment had higher racial and gender inequality prior to the acquisition. In these cases, acquisition increases racial minority managers by 17.0 percent and women managers by 8.5 percent.

### Impact on Occupational Composition

Before turning to the main analyses, I first examine how acquisition affects the acquired establishment's occupational composition. As expected, an establishment experiences downsizing after being acquired, with an average 2.5-percent reduction in workforce (see Table 2 Model 1;  $e^{-0.025} = 0.975$ ). But downsizing does not affect all groups equally. As Table 2 shows, middle managers and back-office workers are disproportionately affected by post-acquisition downsizing. After being acquired, an establishment loses, on average, 4.1 percent of its middle management positions, 4.3 percent of its back-office positions, and 3.5 percent of its blue-collar and service positions, but increases the number of professional positions by only 1.8 percent.<sup>7</sup> Proportion-wise, as Table 2 shows, establishments have a smaller proportion of middle managers and back-office workers and a higher proportion of professionals after acquisition.

[insert Table 2 about here]

Before moving on, I mention one implication of these results. Sociologists have been

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<sup>7</sup>Results are available upon request.



concerned about how restructuring affects the presence of managers. Although we generally expect that corporate restructuring leads to fewer management layers (Dencker and Fang 2016; Jung 2016), recent studies using Current Population Survey data have shown a positive correlation between M&A events and the number of managers in the industry (Goldstein 2012). My finding suggests that this positive correlation is not due to a direct causation, as M&A events lead to significantly fewer middle managers in the acquired establishments, both in absolute numbers and in proportions. This opens up an interesting question for future studies: if acquisitions lead to fewer managerial positions, what is driving the positive correlation between acquisition activities and managerial jobs at the industry level?

### **Impact on Racial and Gender Inequality**

Table 3 and Figure 6 show the impact of acquisition events on racial and gender inequality. After being acquired, establishments have more managerial race and gender diversity and less occupational race and gender segregation. In Table 3, following an acquisition, the proportion of white managers drops, while the proportions of black and Hispanic managers rise by 3.3 percent (0.18 percentage points) and 4.2 percent (0.21 percentage points), respectively, and the proportion of women managers rise by 1.9 percent (0.6 percentage points). The magnitude of these effects is significant in the context of managerial diversity, in which changes tend to be in relatively small increments. More importantly, as I show below, the effect sizes are highly significant for certain sets of establishments.

[insert Table 3 about here]

[insert Figure 6 about here]

Table 3 also shows a significant reduction in non-managerial occupational segregation. Following an acquisition, an establishment reduces its black-white dissimilarity by 0.85, Hispanic-white by 0.95, Asian-white by 0.67, and men-women by 1. These numbers correspond to a 2.8 percent reduction in black-white segregation, a 3.0 percent reduction in Hispanic-white segregation, a 1.9 percent reduction in Asian-white segregation, and a 2.5 percent reduction in gender segregation. Workplace desegregation is a slow process. For

example, despite various efforts, black-white and Hispanic-white segregation in the United States have been declining at a rate of only around 0.6 percent per year, while gender segregation has been declining at around 1.5 percent per year (Tomaskovic-Devey et al. 2006). Therefore, relatively speaking, the magnitude of the desegregation following an acquisition is significant. Moreover, as with managerial diversity, the impact of acquisition on desegregation is much higher for certain sets of establishments, as I will discuss later.

Figure 6 breaks down the acquisition effect into specific years before and after the event (see Equation 2). After being acquired, there is an immediate increase in managerial diversity and decrease in occupational segregation. The effects extend at a more gradual pace in the following years. For example, the proportion of black managers quickly jumps by 2.7 percent (0.15 percentage points) within the first year of being acquired and this turns into a 6.2-percent increase (0.34 percentage points) after five years. In some cases, the change appears to start before the official acquisition date, possibly because most acquisition announcements and restructurings take place before the official acquisition date.

I focused on managerial diversity and occupational segregation because they best reflect an establishment's racial and gender inequality (Kalev, Dobbin, and Kelly 2006; Ferguson and Koning 2017). An establishment's overall workforce diversity, in contrast, tends to be highly correlated with the demographics in its local labor market. After all, there is little equality in an establishment in which most racial minorities and women are clustered in low-paying, non-supervisory positions, even if it has a high overall workforce diversity. As mentioned earlier, to distinguish inequality from overall workforce diversity, all models include the five demographic groups' (whites, blacks, Hispanics, Asians, and women) respective proportions of non-managerial workers in the establishment, as well as their proportions in the local labor market. Therefore, the resulting outcomes effectively represent each group's managerial rate and occupational differences. In robustness checks, excluding these controls does not affect the conclusions.

Nonetheless, I conducted additional analyses predicting an establishment's overall

workforce demographics, finding that acquisitions have limited effect on them. Although the total proportion of white workers decreases while that of black workers increases by 3.5 percent (0.29 percentage points), the change among Hispanic and Asian workers is small and statistically insignificant, and the proportion of women workers decreased. This effect on women was marginal, however: women workers lose 0.16 percentage points in total proportion, roughly equivalent to a 0.3 percent drop. In short, acquisitions increase the proportion of black workers, but have little impact on other underrepresented demographic groups.<sup>8</sup>

### **Withdrawn M&As**

As a robustness check, I conducted a placebo test using withdrawn acquisition deals, focusing on establishments for which an acquisition was announced but ultimately withdrawn. These establishments likely share most of the same attributes - observed and unobserved - of those for which acquisition was carried out. Any difference is mostly related to the acquiring firms, such as the type of financing used to fund the deal, the acquiring firm's size, and its attitude toward the deal (Blonigen and Pierce 2016). Therefore, withdrawn M&A events serve as a suitable placebo test: if my results are driven by unobserved confounders, then we should observe the same effects after withdrawn acquisitions.

I obtained from SDC Platinum all acquisition announcements that were withdrawn within 90 days. I used a 90-day cutoff to ensure that no substantive changes had been made due to the announcement. I then manually merged the withdrawn M&A events from SDC Platinum with my sample from EEO-1 reports, finding a total of 90,313 matched establishments representing 2,580 firms. I then used the same matching procedure to identify a sample of matched establishments for this withdrawn sample and conducted the same set of analyses as if these establishments had been acquired.

As Figure 7 shows, the withdrawn establishments did not experience the same set of acquisition effects as the acquired establishments. In fact, none of the acquisition effects in this sample is statistically different from zero. This placebo test provides additional support

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<sup>8</sup>Results are available upon request.

that, in the main models, we are observing an acquisition effect, not a confounder.

[insert Figure 7 about here]

### **Voluntary Departure and Other Alternative Explanations**

There are several alternative explanations. First, whites and men may have better outside options and are therefore more likely to voluntarily leave after their establishment is acquired. To entertain this possibility, I examined the moderating role of unemployment rate and economic recession on the post-acquisition effect. If whites' and men's reduced managerial representation is driven by voluntary departures, then we should see a weaker post-acquisition effect when the economy is in recession and/or when the unemployment rate is higher. With fewer firms hiring, there should be fewer voluntary departures and more forced turnover.

Unemployment data are available annually at the state level from the Current Population Survey (CPS) and decennially at the county level from the Census Bureau. I tried both measures using separate models, linearly extrapolating the decennial Census data to approximate annual county level rates. But as Table 4 shows, a higher unemployment rate does not reduce the post-acquisition effect at all. In models using CPS data, the unemployment rate has a small, statistically insignificant interacting effect. In models using extrapolated Census data, the moderating effects are negative, which is the opposite of what the alternative explanation predicts. In a separate analysis, I used the macro-level economic recession indicator from the National Bureau of Economic Research as a moderator and found that economic recession similarly does not moderate the post-acquisition effect. These results suggest that the post-acquisition effect is not driven by voluntary departures.

[insert Table 4 about here]

Second, it is possible that white men are generally paid more for their relative productivity and therefore, to reduce costs, the acquiring firm simply cut these overpaid workers, leading to a lower proportion of white male managers. This process should be more likely to occur when the firm is in a more dire financial situations, has lower cash flow and

high-debt-to-equity ratio, and faces stronger shareholder pressure but weaker union pressure. Using a subset of the sample covering publicly traded firms, I included a firm's revenue per asset, Tobin's Q, cash flow, debt-to-equity ratio, and the proportion of institutional shareholders as moderators and did not find any significant interaction effects. I then used industry-level labor union data from the Current Population Survey as a moderator and also did not find it to influence the post-acquisition effects. While this explanation is still possible, it is unlikely to be a key reason.

Third, the acquiring firm may have more managerial diversity and less occupational segregation than the acquired establishment and the observed effect is thus a result of the acquiring firm transferring its (more diverse) employees to the acquired establishment. This explanation is unlikely for three reasons. First, on average acquiring firms do not have higher racial and gender equality than the acquired establishments. Second, it is relatively rare for acquiring firms to send a large number of non-managerial workers to the acquired establishment, so this explanation does not account for the significantly decreased desegregation levels among non-managers. Third, I did not find any significant interacting effect when adding the physical distance between the acquiring firm's headquarters and the acquired establishment as a moderator, assuming that worker transfer would be more likely when distance is smaller.

### **Moderator: Acquiring Firm's Attitude toward Diversity**

I hypothesize that the acquiring firm's attitude and stance toward racial and gender equality should play an important role in the restructuring process. When the acquiring firm values diversity, it should be more likely to use opportunity to implement practices designed to reduce racial and gender gaps. Since it is difficult to directly gauge the acquiring firm's attitude, I examine the acquiring firm's racial and gender inequality as a proxy for its attitude toward race and gender issues.

I recorded the acquiring firm's managerial diversity and segregation levels in the year prior to the acquisition and found them to significantly moderate the acquisition effects.

When the acquiring firm had been doing well on an inequality dimension, it tended to improve the acquired establishment's inequality in that dimension as well. I conducted this analysis both by including the acquiring firm's inequality as a moderator and by splitting the sample based on acquiring firms' inequality. Results are highly consistent. I show the split-sample results, but models using moderators produce the same conclusions and are statistically significant.

Figure 8 shows the split-sample analyses on those establishments whose acquiring firms had higher-than-median inequality relative to their peers in the same year, county, and two-digit SIC industry and those whose acquiring firms had lower-than-median inequality, separately for each of the eight dimensions of inequality.<sup>9</sup> As the figure shows, when the acquiring firm had higher racial and gender inequality, the post-acquisition effects still exist but are relatively small and, in some models, statistically insignificant. In contrast, when the acquiring firm had lower inequality, the acquired establishment tends to show a significant jump in managerial diversity and a sharp drop in segregation. These results support my hypothesis that acquisition improves racial and gender equality more when the acquiring firm values diversity more.

[insert Figure 8 about here]

### **Moderator: Prior Inequality in Acquired Workplace**

I also hypothesize that the acquisition effect should be stronger when there was higher racial and gender inequality in the acquired establishment prior to the acquisition. In these establishments, racial minorities and women could benefit more from an extensive re-evaluation guided by external scrutiny and acquiring firms may be more willing to use personnel reshuffling during restructuring to reduce the gaps.

I compared each establishment's managerial diversity and segregation levels in the year before being acquired and subtracted the average levels of its peers in the same year,

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<sup>9</sup>The eight inequality dimensions are proportion of black managers, proportion of Hispanic managers, proportion of Asian managers, proportion of women managers, black-white occupational segregation, Hispanic-white occupational segregation, Asian-white occupational segregation, and gender occupational segregation.

county, and two-digit SIC industry, separately for each of the eight dimensions of racial and gender inequality. Similar to above, I analyzed the moderating impact of these variables both by using them as a moderator and by conducting split-sample analyses based on their values. Results are highly consistent and suggest that the acquisition effect is much stronger in establishments that previously had higher racial and gender inequality. For simplicity, I show only the split-sample analyses.

Figure 9 shows results from the split-sample analyses: for establishments whose inequality had been lower than that of their peers, acquisition had almost no effect on subsequent inequality; establishments in both control and target groups exhibit similar post-acquisition trends. But for establishments that had higher inequality, there was a significant reduction in racial and gender inequality after acquisition. After being acquired, an establishment in this category increases its proportion of black managers by 0.41 percentage points, Hispanic managers by 0.38 percentage points, and women managers by 1.5 percentage points, which roughly correspond to a 17.0 -percent increase in black and Hispanic managers and an 8.5-percent increase in women managers. These results are consistent with the hypothesis that the post-acquisition effects are stronger in those establishments that previously had higher racial and gender inequality.

[insert Figure 9 about here]

### **Supplementary Findings from Qualitative Data**

My interviews data provide some details on possible mechanisms that drive the observed empirical patterns. Several common themes emerged. First, several respondents mentioned that post-acquisition restructuring could be an opportunity to improve racial and gender equality. For example, one senior executive mentioned that he tried to hire racial minority managers post-acquisition to increase the firm's diversity numbers, and a senior M&A consultant reflected: "All the companies that I've worked with would loathe to lose minority managers [in this process]." Besides directly improving managerial diversity, several respondents also mentioned that firm may use restructuring "as a vehicle to invent newer

and more diverse management.” Another senior M&A consultant summarized it well:

*Management and human resource teams often pursue policies to diversify their workforce and a [M&A] transaction creates an opportunity to ‘make headway’ by incorporating diversity as part of a selection process and/or insisting that slates of candidates reflect diversity targets the acquiring company has set as long-term ambitions.*

Second, due to the high visibility of the event, acquiring firms would be highly concerned about public perception and avoid laying off a disproportionate number of women and racial minorities. An experienced executive from the M&A industry explained,

*Because you are in the middle of a transaction, you don’t want to have negative impacts on the business, so you are being extra mindful of not having any sort of negativism around press or anybody suing on the basis of discrimination.*

This point is echoed by another respondent:

*You have to understand that in these acquisitions or in these mergers, there is a lot of publicity. There is a lot of light that’s being shown on them, so now all of a sudden they are in the public light. The sensitive issues of diversity will only become brighter if you are not sensitive to them. Just the influence of public relations is going to impact firms to behave with better diversity in post acquisition.*

As a result of high visibility and the possible backlash, acquiring firms are highly concerned about the objectivity of the process. One senior executive mentioned that he would go through the layoff list to specifically make sure that racial minorities and women are not being disproportionately targeted, and a junior M&A consultant commented on the rigor of the re-evaluation process in ensuring that no member is unfairly treated because of race or gender.

*We would not want to be on the cover of the Wall Street Journal with some fired employee alleging that Deloitte ran a biased process on behalf of Abbott Laboratories. It still happens unfortunately but we would have such a high threshold; there are internal reviews of the data we have and the way that the process is administrated to make sure that. Beyond reproach is the standard that we always talk about when we do this.*



Moreover, a few respondents also mentioned the value of having external consultants overseeing the post-acquisition restructuring process, which also increases the objectivity and rigor of the re-evaluation process.

*With a third party coming in I do think it does instill a level of rigor and objectivity that they might not have ordinarily. Let's assume that the incumbent management team has negative bias against minorities and women. If they brought a third party in there is no way they could express that and there is no way the third party would remain as their advisor. You'd resign the assignment before you'd let them say: 'look, there is too many minorities and women that are getting into this process.'*

In sum, interview data support some of the proposed mechanisms, including that acquiring firms may use M&A events as an opportunity to improve diversity and that the re-evaluation process benefits racial minorities and women due to external scrutiny. While I cannot empirically show the exact processes, Table 5 summarizes possible mechanisms and alternative explanations, as well as the evidence for each.

[insert Table 5 about here]

## **Heterogeneity in Acquisitions**

Before concluding, I consider heterogeneity in acquisitions. My main analyses account for all acquisitions appearing in the EEO-1 data, but the acquisition effect may vary depending on its type, size, time period, and industry. I conducted additional analyses to better understand this possible heterogeneity.

First, I compared vertical and horizontal acquisitions. When an acquisition takes place between firms of different industries, the acquiring firm's intention is often to diversify the company's portfolio. This type of vertical acquisition involves much less restructuring, as there is less expectation for the acquired establishment to be completely integrated into the acquiring firm. By contrast, horizontal acquisition, which has become more prevalent since the 1980s, takes place between firms within the same industry. In such an acquisition, the acquired establishment needs to undertake more extensive restructuring, as it is expected to be fully integrated into the acquiring firm. Using split-sample analyses, I found that

the acquisition effect on racial and gender inequality is stronger for horizontal than vertical acquisitions. This is consistent with the intuition that more extensive restructuring should strengthen the acquisition effects.

Second, I considered acquisition size. There are competing predictions on how the size of the acquired firm may moderate the acquisition effects. On the one hand, acquiring a larger firm leads to more visibility, which could benefit racial minorities and women in the re-evaluation process. But on the other hand, post-acquisition restructuring tends to be less extensive when acquiring larger firms. When its size is large, the acquired firm tends to have more power to retain its structures, routines, and culture, leading to less improvement in racial and gender equality. My analyses support the latter prediction: the acquisition effects are smaller when the acquired firm is larger (see Appendix Figure A.1). The larger the acquired firm, the less extensive is restructuring process, as evidenced by the smaller change in occupational composition following such acquisitions. Consequently, these acquisitions have less of an impact on racial and gender inequality.

Third, I examined variation across time periods. As acquiring firms use restructuring to replace old practices and routines with new ones, we expect improved racial and gender equality largely because firms have become increasingly attentive to race and gender issues (Kelly and Dobbin 1998). However, the magnitude of the acquisition effects would partially depend on the speed of change in firms' stance toward diversity and it is unclear if the speed of change has increased or decreased over the years. To measure this, I split the sample into multiple time periods. I did not find a significant temporal difference. The effect appears to be slightly stronger in the 1990s and 2000s, but quite comparable to the effects in the 1970s and 1980s (see Appendix Figure A.2, which separates the sample into pre-1990 and post-1990 periods).

Finally, I compared across industries. The post-acquisition dynamic could vary across different types of work, although it is unclear how cross-industry differences moderate the acquisition effects. In my analyses, I did not find much systematic difference across

broad industries. For example, when comparing service and manufacturing industries, the desegregation effect is slightly stronger in manufacturing and the managerial-diversity effect is slightly stronger in service, but they are highly comparable (Appendix Figure A.3).

## **DISCUSSION AND CONCLUSION**

This study theorizes how disruptive events could improve organizational inequality. Disruptive events break down an organization's entrenched hierarchies, long-standing routines, and deep-rooted culture. Organizations that value diversity could use the disruption as an opportunity to change practices to better promote racial and gender equality. In making personnel changes, high external scrutiny following the event could also benefit racial minorities and women. I test this theory by examining an important but rarely-studied event in the inequality literature - mergers and acquisitions. Using a nationally representative sample of firms covering 37,343 acquisitions, I find that acquisitions significantly reduce the proportion of white men in management, increase the proportion of racial minorities and women in management, and decrease overall racial and gender segregation. These effects are stronger when (a) the acquiring firm values diversity more and (b) the acquired establishment had larger racial and gender gaps. I considered various alternative explanations and conducted several robustness checks, including using withdrawn acquisitions as a placebo test. In the end, results strongly support the proposition that acquisitions reduce racial and gender inequality.

### **Contribution to the Literature on Racial and Gender Inequality**

This study contributes to the organizational literature on racial and gender inequality. Despite various efforts by organizations, racial minorities and women continue to face significant disadvantages in the labor market. As Figure 3, 4, and 5 show, they are much less likely than whites and men to be in management positions. These gaps have not changed significantly over the past few decades. For example, blacks were 65 percent less likely than whites to be in management in 1980, and they were still 56 percent less likely in 2015. A

major objective for social scientists is to understand the drivers of these persistent gaps and find solutions for them.

Much effort has gone into this endeavor and a rich literature on organizational inequality has emerged (Stainback, Tomaskovic-Devey, and Skaggs 2010). This literature has largely focused on how different organizational practices, policies, and strategies influence racial and gender gaps. The findings are often mixed, but generally paint a pessimistic picture. Many practices, even those initially intended to reduce bias and inequality, end up reinforcing existing hierarchies and contributing to the racial and gender disparities (Castilla 2008; Castilla and Benard 2010; Dobbin, Schrage, and Kalev 2015). It is puzzling why so few organizational efforts are effective.

Perhaps our literature is missing a few concepts. First, a lot of attention has been on ‘what’ and ‘how’: what practices and strategies improve diversity; what organizational routines exacerbate discrimination; how these practices and strategies affect racial minorities and women. In contrast, there is almost no attention to ‘when’: when should we expect to see improvement in race and gender gaps? When is the best time to implement changes that would help racial minorities and women? Bringing in a temporal dimension could be important. After all, performance is the bottom line for most organizations and it is often prioritized over equality- or diversity-related goals. Pushes for equality are more likely to succeed when the timing is compatible with performance objectives. For example, if a firm is about to launch a new product and needs to maintain its public image, then the senior management may be more likely to embrace diversity- or equality-related practices. In contrast, if a firm is resource constrained and faces immediate bankruptcy, then it is probably much less willing to push for equality-related objectives.

This leads to my second point: organizational theories of race and gender inequality seldom consider other organizational activities and concerns - such as performance goals, mergers, and competitor changes - that, at least on surface, have no direct connection to race- or gender-related outcomes. But these variables could have direct impacts on performance

and are therefore quite important to senior management. Thus, they could influence organizational decision making and indirectly impact racial and gender inequality. For example, let us imagine that a Japanese firm decides to expand overseas or rely on foreign investors. In preparation, it may become more concerned about its image to a global audience, which may prompt it increase the gender diversity on its board (Mun and Jung 2018). In this hypothetical example, a firm's decision to expand overseas may end up playing a pivotal role in improving board gender equality. In short, we may gain a better understanding of organizational inequality by considering not only variables explicitly related to inequality, but also other organizational activities and concerns that are important to senior management.

A theory of disruptive events takes a step toward incorporating these two directions. First, disruptive events - including mergers, acquisitions, and technological changes - are important to organizations but are not intended to address race and gender issues. Consequently, they have not received much attention in the inequality literature. But since inequality can be entrenched and is resistant to small nudges, these big events inadvertently create an opportunity for firms to shift their racial and gender dynamics. Hence, these events - although seemingly unrelated to inequality - in fact have important implications for inequality outcomes. Second, this study points to the need to consider an organization's timeline: we are more likely to see progress on racial and gender inequality at certain junctions, such as right after an acquisition. Understanding 'when' firms are more likely to improve inequality can complement our understanding of 'what' improves inequality and 'how' to go about it.

Disruptive events and their relationship to inequality could become an important topic. In the last few decades, events related to technological change, globalization, deregulation, and other macro trends have forced many organizations to reassess their positions and fundamentally change their day-to-day operations (Asgari, Singh, and Mitchell 2017). These disruptive events have been rising in frequency and there are reasons to expect this trend to continue. For one, technology has been progressing at an increasingly faster rate

and new technologies often drastically alter an industry or an organization (Tushman and Anderson 1986). How these disruptive events shape organizational inequality may thus become a question of increasing interest. This study paves the way on this topic by showing that mergers and acquisitions increase inequality, but it is possible that other types of disruptive events would follow a different pattern. Hence, much more work is needed toward a complete understanding of this increasingly relevant topic.

### **Contribution to the Literature on Skill Gap**

Disruptive events break down routines and culture and offer an opportunity for organizations to make major structural changes. Firms could use these opportunities to adopt new technologies and create a more efficient workforce, both of which would lead to more high-skilled positions and fewer low-skilled ones. This is the pattern that I found. In contrast to its positive effect on reducing racial and gender inequality, post-acquisition restructuring leads to skill-biased occupational reconfiguration that results in more jobs for professionals but fewer jobs for middle managers, back-office workers, and blue-collar workers. Professional positions generally require a college degree and are considered high-skilled jobs, while back-office and blue-collar positions are mostly considered to be medium- and low-skilled positions. Therefore, the acquisition effect on occupational reconfiguration could contribute to the rising wage gap between high- and low-skilled workers, as changes in job supply have direct impact on wages (Autor, Dorn, and Hanson 2016; Fligstein and Shin 2004; Kalleberg 2011; Levy and Murnane 1992; Neckerman and Torche 2007).

The acquisition effect on the skill gap is very different from that on racial and gender gaps. In an era which prizes efficiency, organizations are likely to seize opportunities to streamline their workforces by replacing or removing low-skilled workers or outsourcing their work. Therefore, disruptive events - in this case, mergers and acquisitions - do not unambiguously reduce inequality: while they improve the prospects for racial minorities and women, they possibly reduce the prospects for low-skilled workers.

## **Managerial Implications**

From a managerial perspective, disruptive events offer an opportunity to advance diversity or equality-related goals that might be difficult to pursue during normal times. As my analyses show, acquisition amplifies the race and gender differences between those acquiring firms that value diversity and those that do not. For managers concerned about race and gender issues, acquisitions and other disruptive events might serve as suitable moments to improve race and gender gaps effectively and at a relatively lower cost. Thus, despite the disruption and uncertainty during these periods, managers should see disruptive events as prime opportunities to make positive changes.

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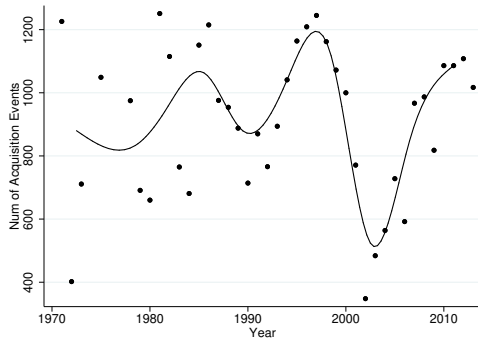
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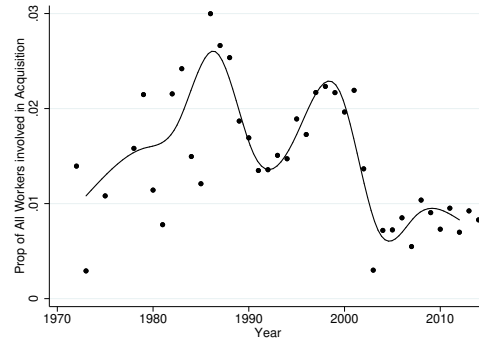
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# TABLES AND FIGURES



(a) Num of Unique Acquisition Events



(b) Proportion of Workers Affected

Figure 1: Trend in Merger and Acquisition Activities over Time

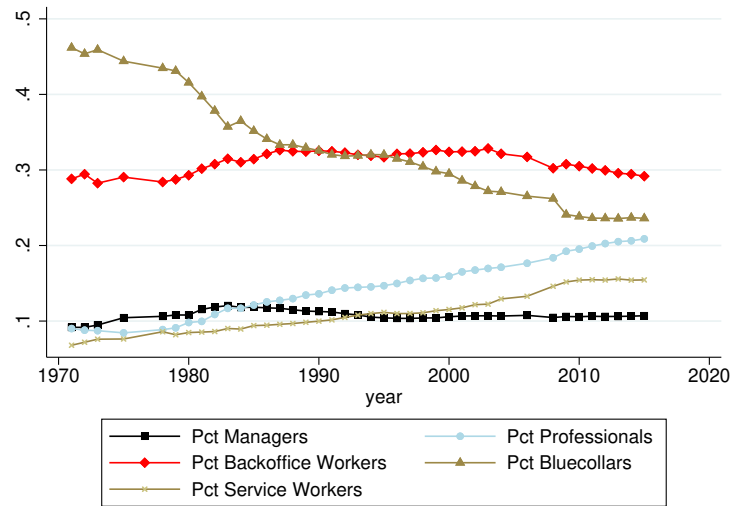
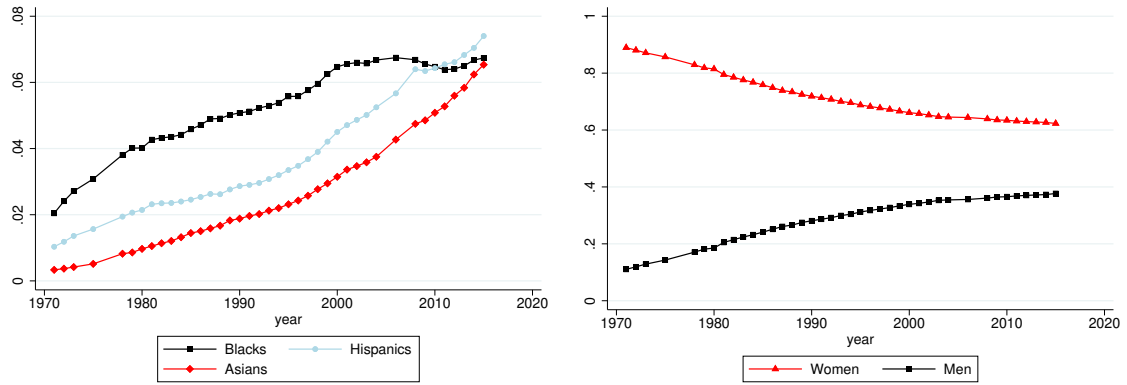


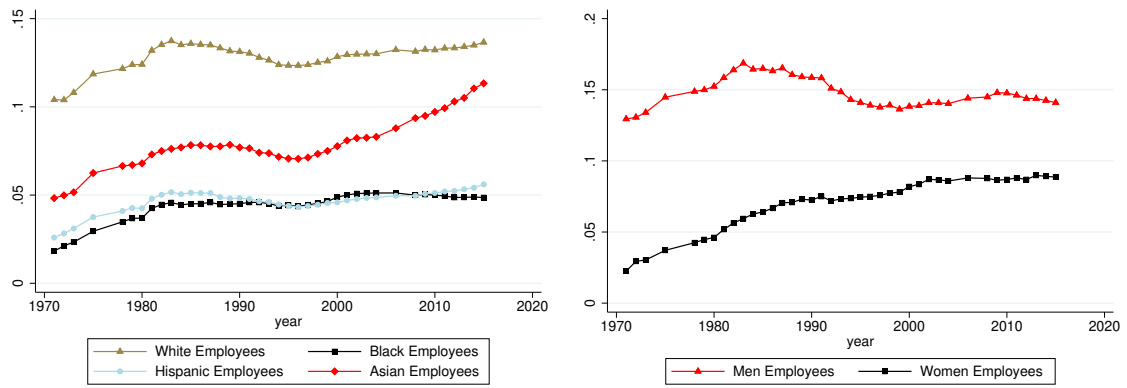
Figure 2: Occupational Composition over Time



(a) Racial Composition among Managers

(b) Gender Composition among Managers

Figure 3: Managerial Composition over Time



(a) Prop of Managers in Each Racial Group

(b) Prop of Managers in Each Gender Group

Figure 4: Likelihood of Being in Management

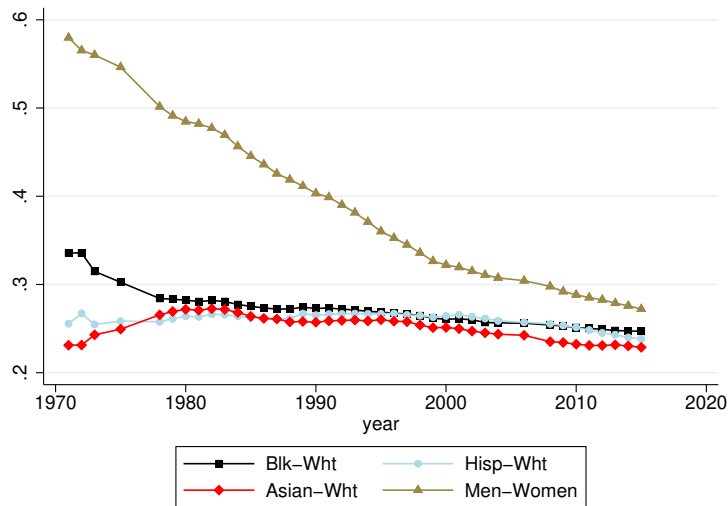


Figure 5: Racial and Gender Segregation over Time



Table 1: Comparing Means for Treatment and Control Groups before an Acquisition Event

	Treatment	Control	Rest of Sample
	mean	mean	mean
Pct White Managers	87.402	87.097	83.996
Pct Black Managers	5.500	5.410	6.793
Pct Hispanic Managers	5.010	5.317	6.703
Pct Asian Managers	2.089	2.175	2.508
Pct Women Managers	30.999	31.245	35.331
Pct White Workers	72.818	72.985	70.034
Pct Black Workers	12.486	12.070	12.941
Pct Hispanic Workers	10.149	10.343	11.805
Pct Asian Workers	3.348	3.289	3.465
Pct Women Workers	48.518	48.638	50.264
Blk-Wht Occupational Segregation	29.943	29.994	28.784
Hisp-Wht Occupational Segregation	31.735	31.840	30.258
Asian-Wht Occupational Segregation	34.985	34.482	33.200
Men-Women Occupational Segregation	39.855	40.460	37.532
Pct Managers	12.861	13.329	13.635
Pct Professionals	12.108	12.062	11.677
Pct Backoffice Workers	40.416	40.205	43.056
Pct Bluecollar Workers	27.556	26.682	22.388
Pct Service Workers	14.116	14.259	14.355

Table 2: Diff-in-Diff Models: Downsizing and Occupational Change Before and After Acquisition

	Total Employees	Pct Managers	Pct Profs	Pct Backoffice	Pct Bluecollars	Pct Service
Post Acquisition	-0.0249*** (0.00467)	-0.500*** (0.0903)	0.426*** (0.0863)	-0.392* (0.180)	0.252 (0.141)	-0.0701 (0.118)
Period x Treat Establishment						
Total Num Workers (log)		-4.877*** (0.0700)	-0.656*** (0.0660)	-2.338*** (0.128)	4.434*** (0.110)	1.223*** (0.0628)
Establishment Age (proximation)	-0.00318*** (0.000600)	0.0723*** (0.00753)	0.176*** (0.0107)	-0.271*** (0.0223)	-0.0718*** (0.0152)	-0.0616*** (0.0149)
Post Acquisition	0.0186*** (0.00315)	0.174*** (0.0436)	-0.0444 (0.0447)	0.0814 (0.0993)	-0.236** (0.0761)	0.0988 (0.0715)
Observations	1432196	1432196	1432196	1432131	1432196	1432131
$R^2$	0.932	0.823	0.908	0.921	0.944	0.954
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Establishment Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses

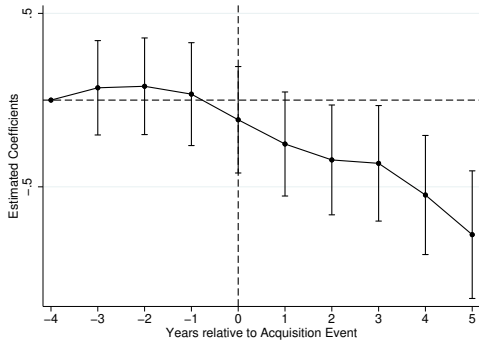
\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 3: Diff-in-Diff Models: Managerial Composition and Occupational Segregation Before and After Acquisition

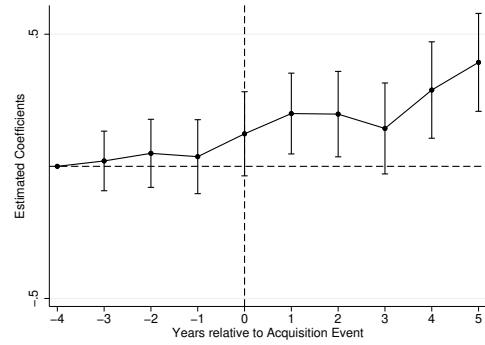
	Managerial Composition						Segregation Level			
	Pct White	Pct Black	Pct Hispanic	Pct Asian	Pct Women	Blk-Wht	Hisp-Wht	Asian-Wht	Men-Women	
Post Acquisition	-0.421*** (0.0791)	0.176*** (0.0483)	0.205*** (0.0538)	0.0401 (0.0329)	0.595*** (0.156)	-0.849*** (0.141)	-0.952*** (0.166)	-0.671** (0.213)	-1.000*** (0.137)	
Period x Treat Establishment										
Total Num Workers (log)	-0.770*** (0.0567)	0.343*** (0.0366)	0.357*** (0.0361)	0.0703** (0.0263)	1.767*** (0.107)	-5.762*** (0.119)	-6.176*** (0.128)	-6.297*** (0.152)	-4.796*** (0.119)	
Pct Managers	35.66*** (8.904)	-5.413 (2.861)	-20.29*** (5.060)	-9.949 (5.964)	21.04*** (5.227)	-7.230 (6.645)	-6.416 (6.207)	4.948 (7.723)	0.550 (4.978)	
Pct Professional Workers	45.35*** (8.858)	-9.766*** (2.854)	-23.67*** (5.038)	-11.91* (5.939)	0.829 (5.141)	-8.968 (6.675)	-8.574 (6.238)	-11.57 (7.754)	-19.70*** (5.002)	
Pct Backoffice Workers	44.80*** (8.849)	-9.371** (2.854)	-23.51*** (5.042)	-11.92* (5.921)	2.618 (5.156)	-15.90* (6.703)	-14.12* (6.243)	-1.566 (7.786)	-15.35** (5.034)	
Pct Blue Collars	45.00*** (8.861)	-9.440*** (2.851)	-23.56*** (5.044)	-12.00* (5.926)	0.172 (5.129)	-12.73 (6.683)	-8.322 (6.206)	10.74 (7.785)	-4.960 (5.010)	
Pct Service Workers	44.57*** (8.859)	-9.307** (2.857)	-23.43*** (5.043)	-11.84* (5.924)	0.857 (5.184)	-18.52** (6.703)	-18.91** (6.289)	-1.488 (7.833)	-18.94*** (5.033)	
Establishment Age (proximation)	-0.178*** (0.0149)	0.130*** (0.00969)	0.0222* (0.00922)	0.0262*** (0.00588)	0.455*** (0.0224)	-0.236*** (0.0238)	-0.280*** (0.0276)	-0.242*** (0.0350)	-0.318*** (0.0285)	
Post Acquisition Period	0.198** (0.0678)	-0.0933* (0.0430)	-0.0736 (0.0434)	-0.0316 (0.0242)	-0.172 (0.102)	0.389*** (0.0850)	0.381*** (0.0981)	0.161 (0.127)	0.254** (0.0823)	
Observations	1432196	1432196	1432196	1432196	1432196	1113726	956784	745850	1374993	
R <sup>2</sup>	0.770	0.712	0.748	0.715	0.810	0.739	0.740	0.753	0.854	
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Establishment Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Controls: Labor Market Demo	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Controls: Workers' Demo	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	

Standard errors in parentheses

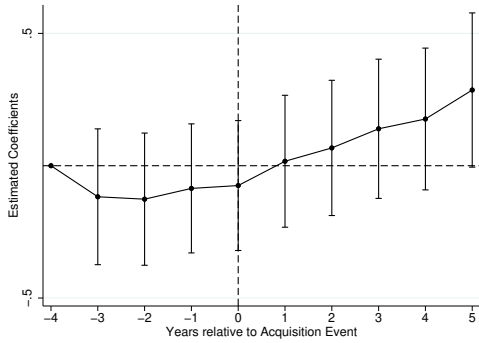
\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



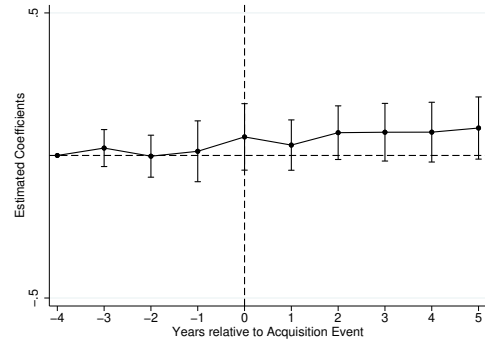
(a) Pct White Managers



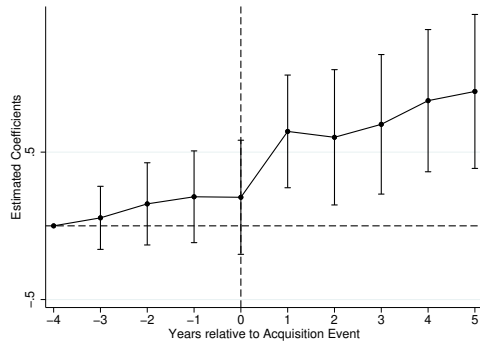
(b) Pct Black Managers



(c) Pct Hispanic Managers

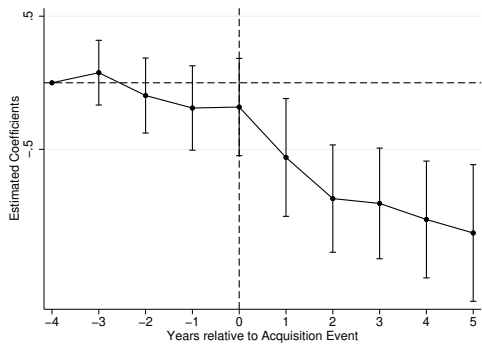


(d) Pct Asian Managers

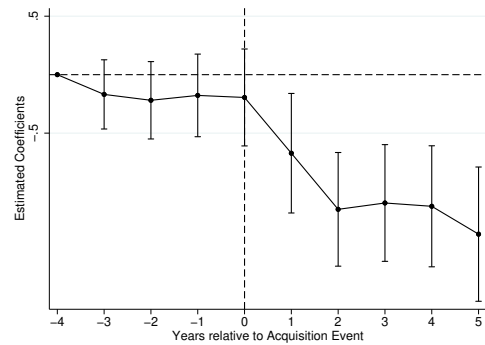


(e) Pct Women Managers

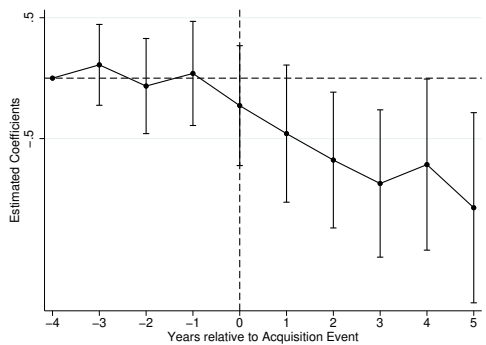
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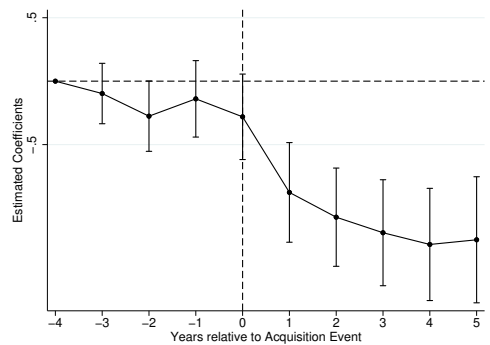
(f) Black-White Segregation



(g) Hispanic-White Segregation

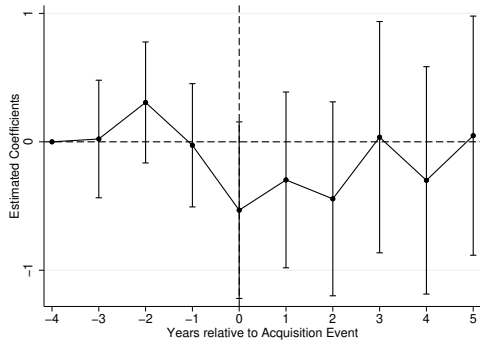


(h) Asian-White Segregation

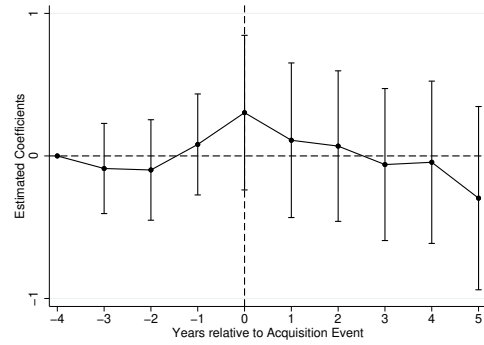


(i) Men-Women Segregation

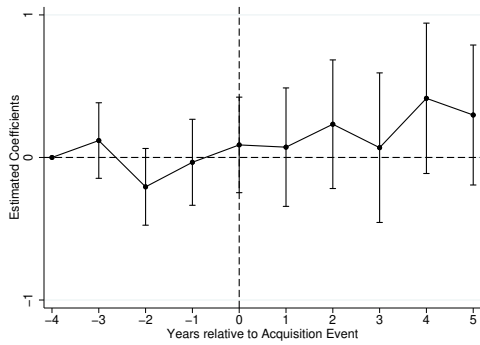
Figure 6: Predicted Change in Managerial Diversity and Occupational Segregation before and after an Acquisition Event



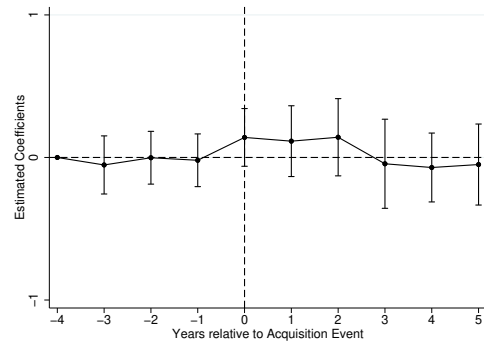
(a) Pct White Managers



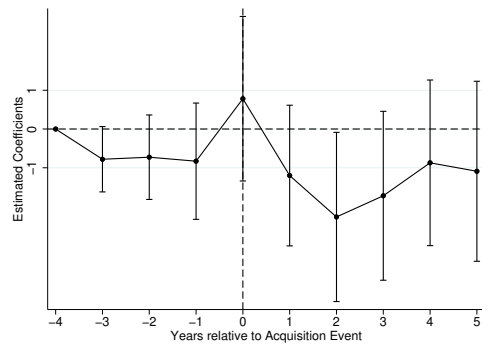
(b) Pct Black Managers



(c) Pct Hispanic Managers

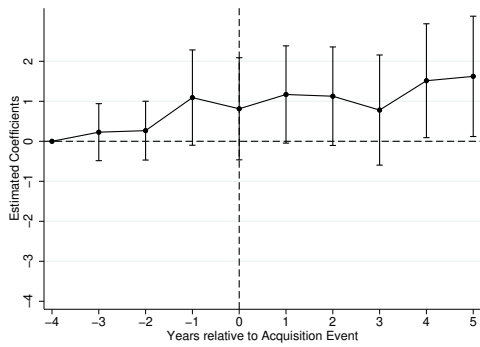


(d) Pct Asian Managers

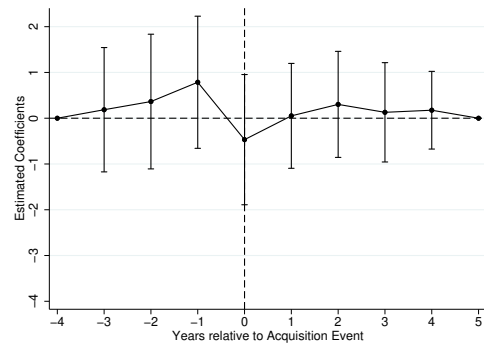


(e) Pct Women Managers

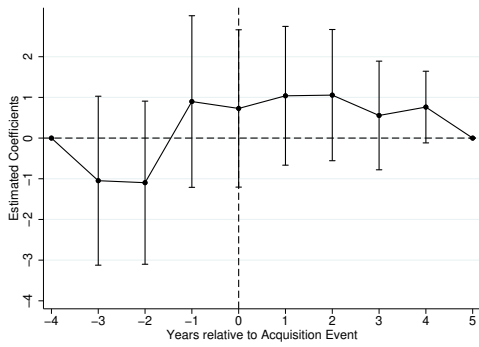
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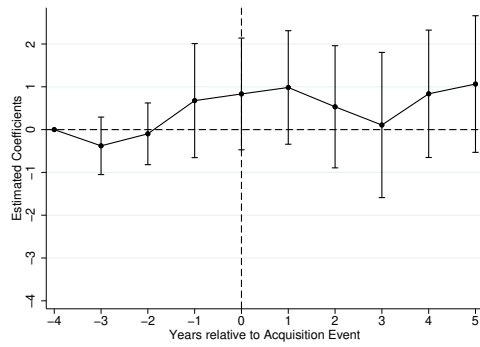
(f) Blk-Wht Segregation



(g) Hisp-Wht Segregation



(h) Asian-Wht Segregation



(i) Men-Women Segregation

Figure 7: Placebo Test: Predicted Change in Managerial Diversity and Occupational Segregation before and after a Withdrawn Acquisition Announcement

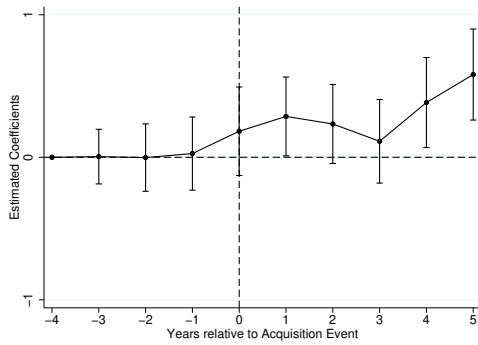
Table 4: Moderating the Acquisition Effect: Unemployment Rate

	Managerial Composition			
	Pct White	Pct Men	Pct White	Pct Men
Post Acquisition	0.0877	-0.00116	-0.423*	-0.195*
Period x Treat Establishment	(0.182)	(0.103)	(0.193)	(0.0936)
Post Acquisition			-0.133	-0.361
Period x Treat Establishment x State Unemployment Rate			(2.806)	(1.260)
Post Acquisition	-6.994**	-2.909*		
Period x Treat Establishment x County Unemployment Rate	(2.660)	(1.349)		
Post Acquisition	0.704***	-0.0514	0.552***	-0.0539
Period	(0.150)	(0.0769)	(0.153)	(0.0830)
Observations	1421792	1400958	1411122	1390293
$R^2$	0.770	0.914	0.770	0.914
Year Fixed Effects	Yes	Yes	Yes	Yes
Establishment Fixed Effects	Yes	Yes	Yes	Yes
Controls: Labor Market Demographics	Yes	Yes	Yes	Yes
Controls: Workers' Demographics	Yes	Yes	Yes	Yes
Controls: Occupational Composition	Yes	Yes	Yes	Yes

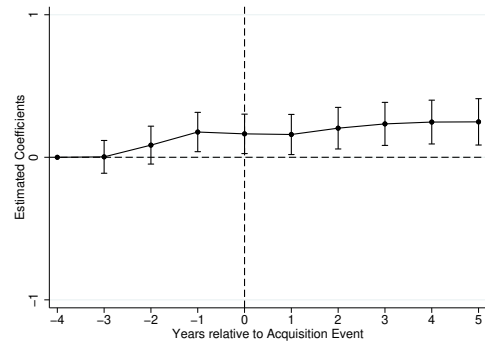
Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



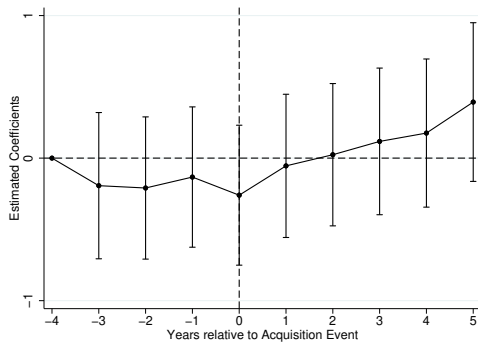


(a) Acquiring Firm: High

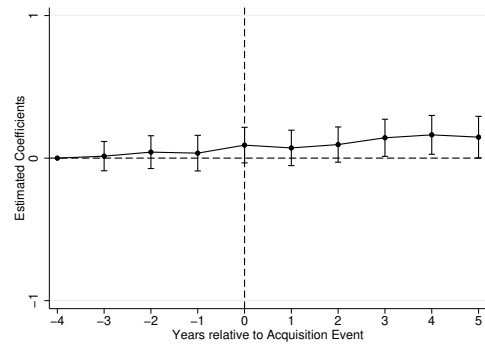


(b) Acquiring Firm: Low

Pct Black Managers

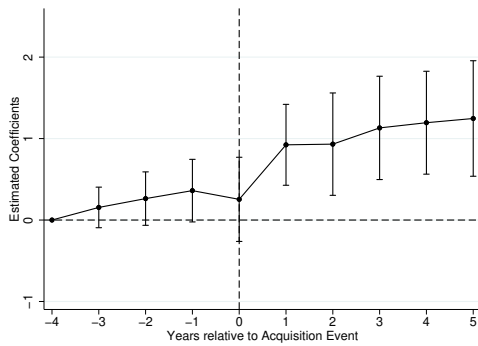


(c) Acquiring Firm: High

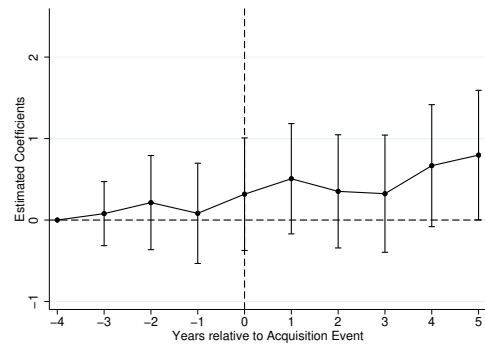


(d) Acquiring Firm: Low

Pct Hispanic Managers



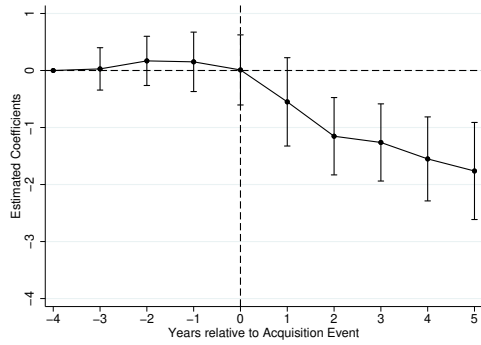
(e) Acquiring Firm: High



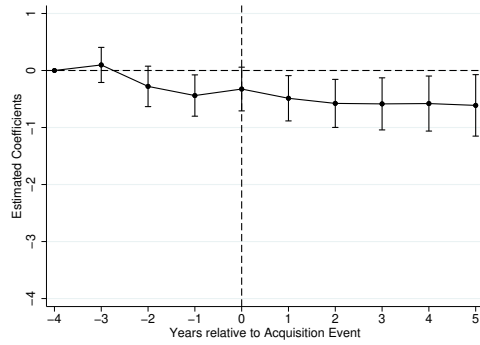
(f) Acquiring Firm: Low

Pct Women Managers

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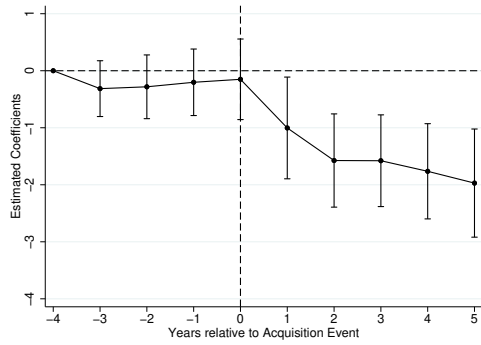


(g) Acquiring Firm: Low

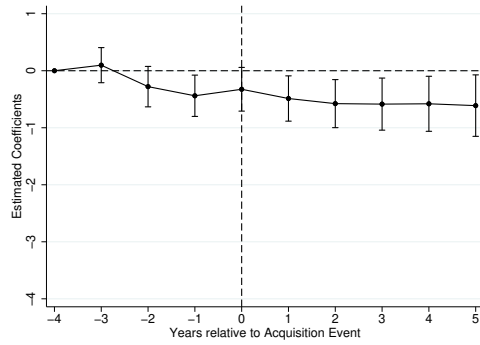


(h) Acquiring Firm: High

Blk-Wht Segregation

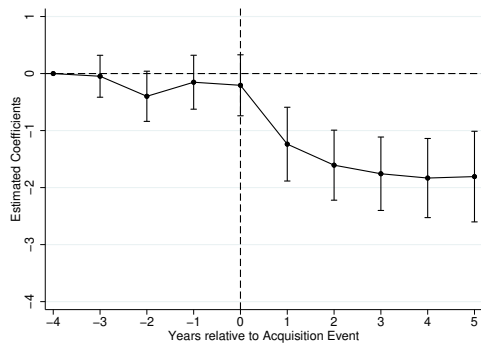


(i) Acquiring Firm: Low

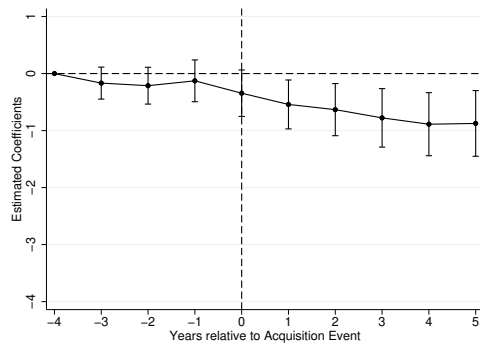


(j) Acquiring Firm: High

Hispanic-Wht Segregation



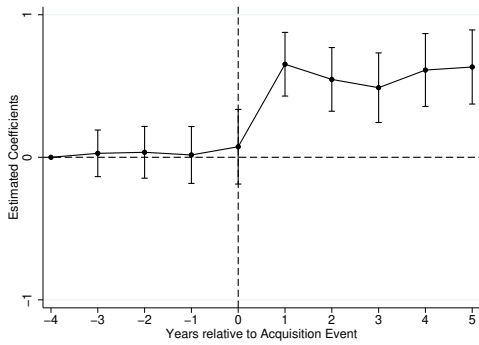
(k) Acquiring Firm: Low



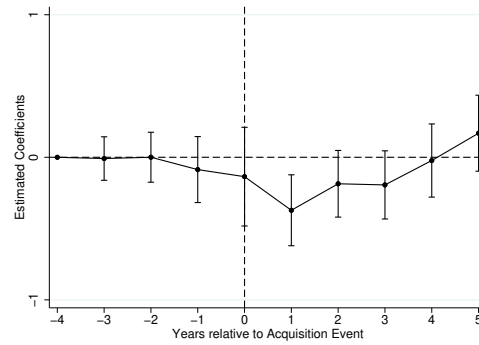
(l) Acquiring Firm: High

Men-Women Segregation

Figure 8: Predicted Change in Managerial Composition and Occupational Segregation: Splitting High and Low Diversity Levels for Acquiring Firms

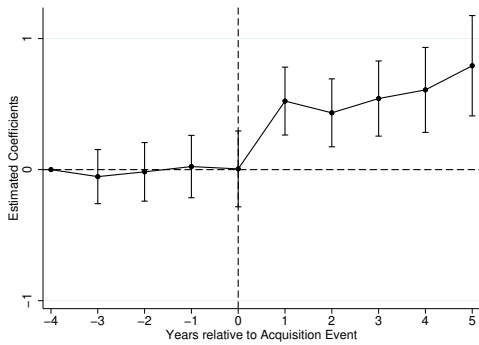


(a) Previously Low

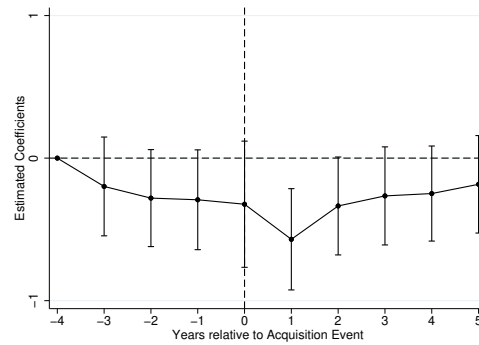


(b) Previously High

Pct Black Managers

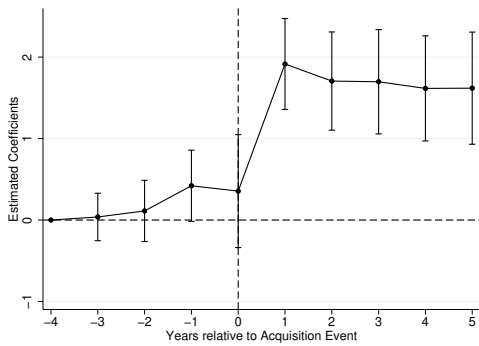


(c) Previously Low

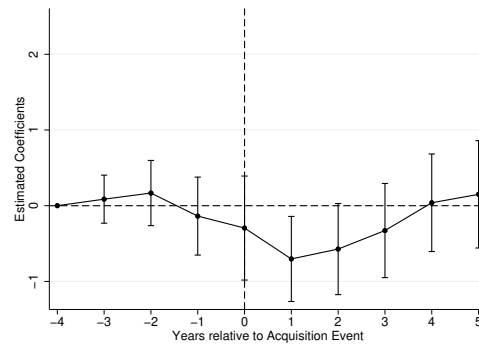


(d) Previously High

Pct Hispanic Managers



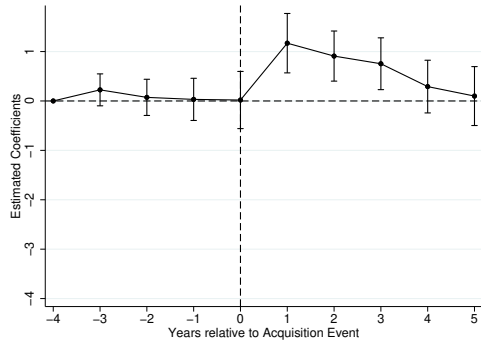
(e) Previously Low



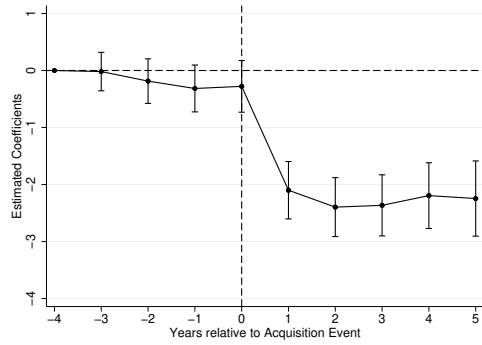
(f) Previously High

Pct Women Managers

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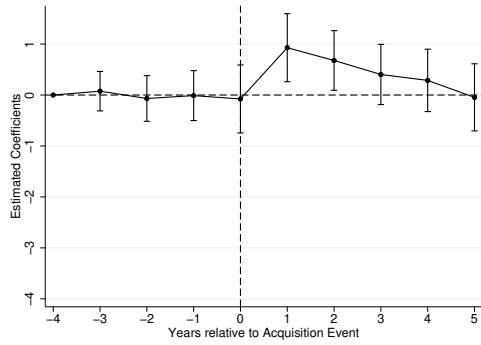


(g) Previously Low

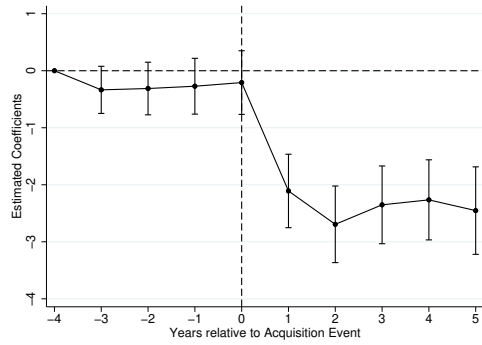


(h) Previously High

Blk-Wht Segregation

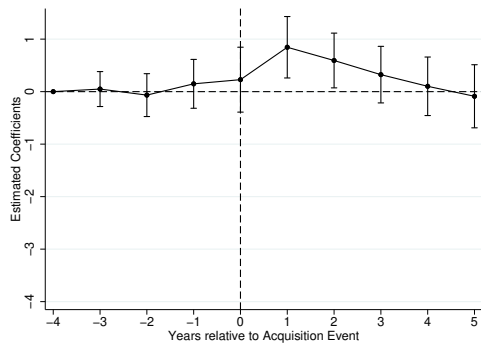


(i) Previously Low

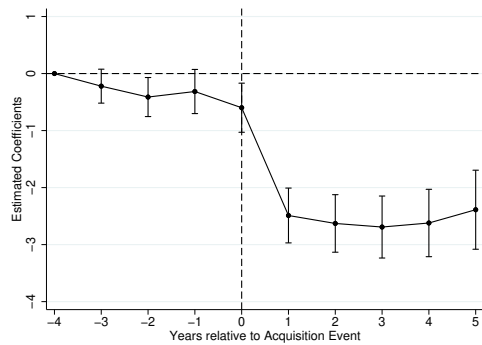


(j) Previously High

Hisp-Wht Segregation



(k) Previously Low



(l) Previously High

Men-Women Segregation

Figure 9: Predicted Change in Managerial Diversity and Occupational Segregation: Splitting High and Low Diversity Establishments prior to an Acquisition Event

Table 5: Possible Mechanisms

Possible Mechanisms	Evidence in Support	Evidence Against	Assessment
The acquiring firm uses restructuring as an opportunity to increase racial and gender equality and to establish practices and routines that improve the standings of racial minorities and women.	<ul style="list-style-type: none"> <li>• The effects are stronger when the acquiring firm is more concerned about diversity.</li> <li>• There was both an immediate drop in inequality after acquisition and a gradual decrease in inequality years after acquisition.</li> </ul>		A possible mechanism; could work in conjunctions with other mechanisms to produce the observed effects.
Restructuring allows for an extensive re-evaluation of employees under scrutiny, which helps eliminate network homophily and past bias.	<ul style="list-style-type: none"> <li>• The effects are much stronger in establishments that had higher inequality prior to being acquired.</li> <li>• An immediate drop in inequality after acquisition.</li> </ul>	<ul style="list-style-type: none"> <li>• The reduction in inequality continues slowly after the initial period.</li> </ul>	A possible mechanism; could work in conjunctions with other mechanisms to produce the observed effects.
Volunteer departures for whites and men, assuming they have better outside options.	<ul style="list-style-type: none"> <li>• An immediate drop in racial and gender inequality after acquisition.</li> </ul>	<ul style="list-style-type: none"> <li>• The effects are unrelated to economic conditions and unemployment rate.</li> <li>• Does not explain why the acquisition effects vary depending the acquiring firm's attitude toward diversity and the establishment's prior inequality.</li> <li>• The reduction in inequality continues slowly after the initial period.</li> </ul>	Unlikely, given that this mechanism should vary according to the availability of jobs on the market.
Acquiring firms cut down highly paid senior workers, who tend to be whites and men.	<ul style="list-style-type: none"> <li>• An immediate drop in racial and gender inequality after acquisition.</li> <li>• The effects are much stronger in establishments that had higher inequality prior to being acquired.</li> </ul>	<ul style="list-style-type: none"> <li>• The effects are unrelated to firm performance, cash flow, debt-to-equity ratio, proportion of institutional shareholders, and industry unionization.</li> <li>• The reduction in inequality continues slowly after the initial period.</li> <li>• Does not explain why the acquisition effects vary depending the acquiring firm's attitude toward diversity.</li> </ul>	Possible but unlikely, given that this mechanism should be stronger when the firm is in dire financial situation, faces strong shareholder pressure, and has weak unions.

*Continued on next page*

Table 5 – *Continued from previous page*

<b>Alternative Mechanisms</b>	<b>Evidence in Support</b>	<b>Evidence Against</b>	<b>Assessment</b>
Internal transfer of managers and workers.	<ul style="list-style-type: none"> <li>• The effects are much stronger in establishments that had higher inequality prior to being acquired.</li> <li>• The effects are stronger when the acquiring firm is more concerned about diversity.</li> </ul>	<ul style="list-style-type: none"> <li>• Acquiring firms on average do not have higher racial and gender equality than acquired establishments.</li> <li>• When the acquiring firm had lower racial and gender equality than the acquired establishment, the opposite spillover does not occur.</li> <li>• The effects are not moderated by the physical distance between the acquiring firm and the acquired establishment.</li> </ul>	Unlikely, for all three of these reasons.

## APPENDICES

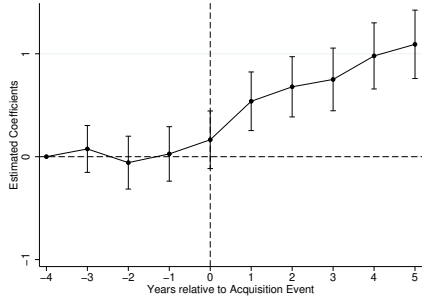
Table A.1: Fixed Effects Models without Matching: Managerial Composition and Occupational Segregation Before and After Acquisition

	Managerial Composition							Segregation Level			
	Pct White	Pct Black	Pct Hispanic	Pct Asian	Pct Women	Blk-Wht	Hisp-Wht	Asian-Wht	Men-Women		
Post Acquisition	-0.408*** (0.0755)	0.169*** (0.0461)	0.201*** (0.0523)	0.0386 (0.0303)	0.572*** (0.148)	-0.743*** (0.138)	-0.845*** (0.163)	-0.643** (0.204)	-0.895*** (0.134)		
Period x Treat Establishment											
Total Num Workers (log)	-0.778*** (0.0530)	0.329*** (0.0342)	0.367*** (0.0334)	0.0829*** (0.0242)	1.683*** (0.0998)	-5.500*** (0.111)	-5.917*** (0.120)	-6.020*** (0.139)	-4.834*** (0.116)		
Pct Managers	35.11*** (7.997)	-7.805** (2.707)	-19.29*** (4.524)	-8.011 (5.359)	19.87*** (4.760)	-8.953 (5.760)	-3.706 (5.842)	1.879 (6.538)	1.006 (4.230)		
Pct Professional Workers	44.67*** (7.949)	-12.04*** (2.699)	-22.57*** (4.504)	-10.06 (5.332)	0.285 (4.680)	-10.41 (5.823)	-5.281 (5.858)	-15.18* (6.546)	-17.17*** (4.239)		
Pct Backoffice Workers	43.87*** (7.944)	-11.53*** (2.700)	-22.32*** (4.506)	-10.02 (5.318)	2.215 (4.693)	-16.23** (5.794)	-10.32 (5.848)	-4.240 (6.593)	-11.33** (4.280)		
Pct Blue Collars	44.20*** (7.958)	-11.64*** (2.698)	-22.44*** (4.512)	-10.11 (5.322)	-0.427 (4.678)	-13.76* (5.827)	-5.420 (5.874)	7.148 (6.577)	-1.535 (4.239)		
Pct Service Workers	43.85*** (7.955)	-11.52*** (2.702)	-22.29*** (4.510)	-10.03 (5.321)	0.581 (4.727)	-19.24** (5.856)	-15.20* (5.943)	-5.138 (6.632)	-15.88*** (4.262)		
Establishment Age (proximation)	-0.183*** (0.0147)	0.131*** (0.00910)	0.0256** (0.00935)	0.0264*** (0.00541)	0.446*** (0.0215)	-0.232*** (0.0219)	-0.271*** (0.0256)	-0.233*** (0.0326)	-0.309*** (0.0258)		
Post Acquisition Period	0.173** (0.0657)	-0.0776 (0.0401)	-0.0732 (0.0432)	-0.0221 (0.0230)	-0.112 (0.0976)	0.342*** (0.0795)	0.390*** (0.0912)	0.184 (0.119)	0.249** (0.0775)		
Observations	1701884	1701884	1701884	1701884	1701884	1348725	1157607	887219	1695177		
R <sup>2</sup>	0.779	0.726	0.758	0.731	0.818	0.749	0.749	0.761	0.856		
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Establishment Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Controls: Labor Market Demographics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Controls: Workers' Demographics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		

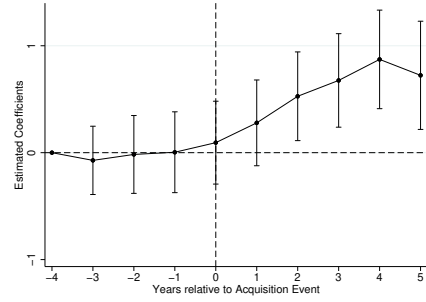
Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

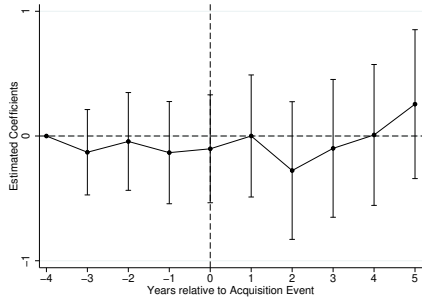




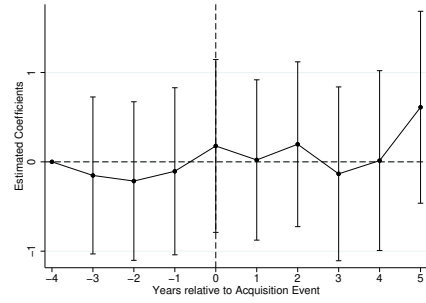
(a) Bottom Quartile



(b) Second Quartile

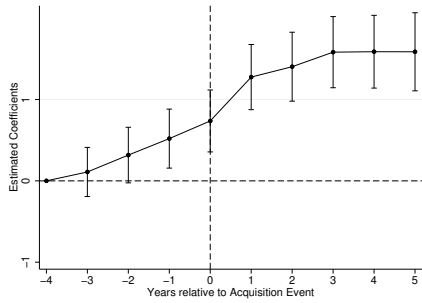


(c) Third Quartile

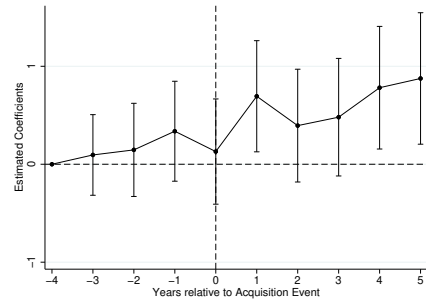


(d) Top Quartile

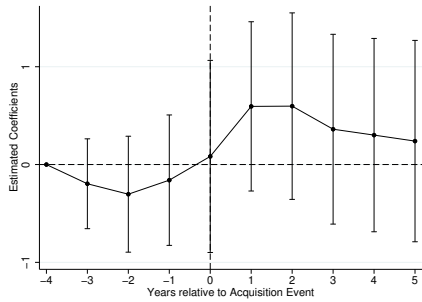
Pct Minority Managers



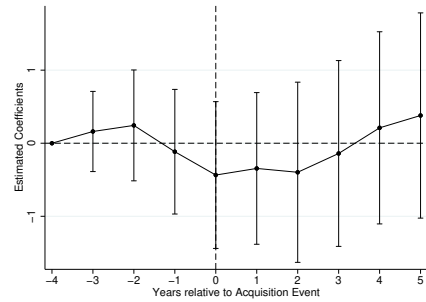
(e) Bottom Quartile



(f) Second Quartile



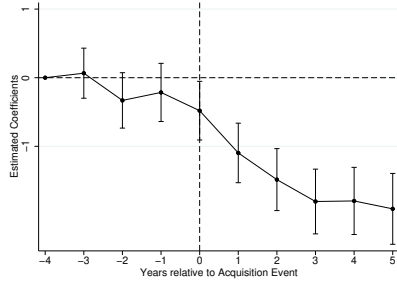
(g) Third Quartile



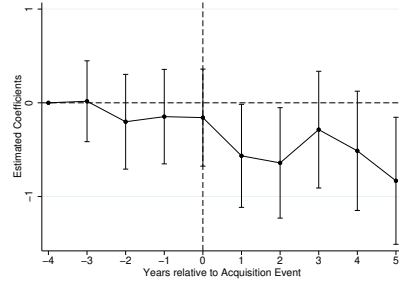
(h) Top Quartile

Pct Women Managers

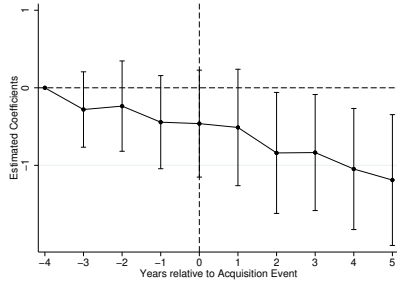
cont. on next page



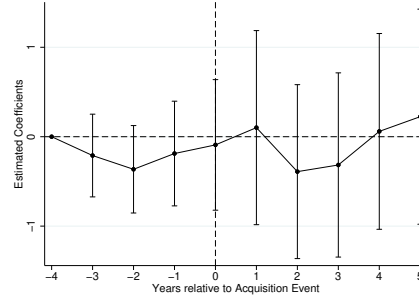
(i) Bottom Quartile



(j) Second Quartile

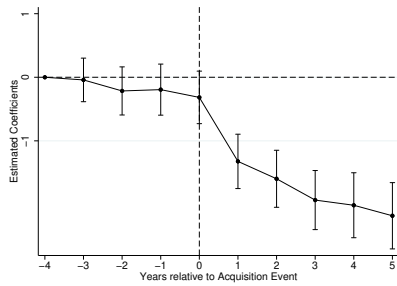


(k) Third Quartile

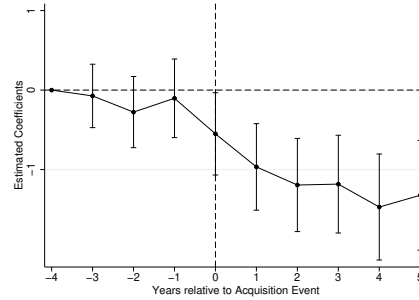


(l) Top Quartile

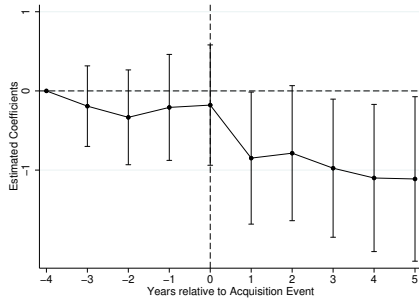
### Minority-White Segregation



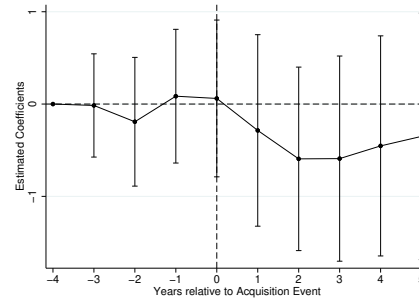
(m) Bottom Quartile



(n) Second Quartile



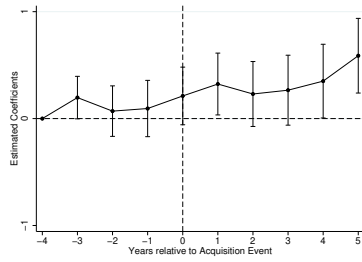
(o) Third Quartile



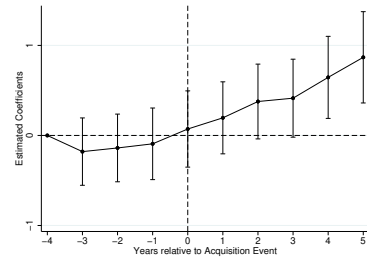
(p) Top Quartile

### Men-Women Segregation

Figure A.1: Acquisition Effect on Managerial Diversity and Segregation: sorted by Firm Size (of the Acquired Firm)

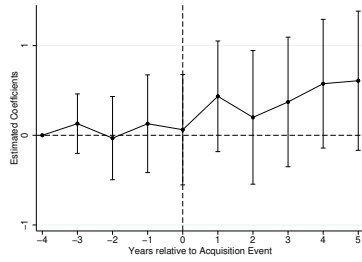


(a) 1970s and 1980s

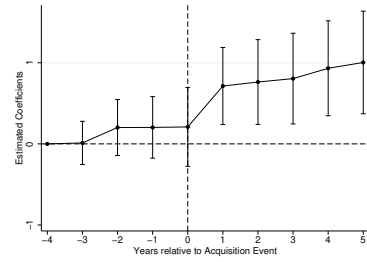


(b) 1990s and 2000s

Pct Minority Managers

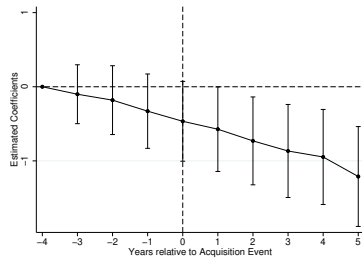


(c) 1970s and 1980s

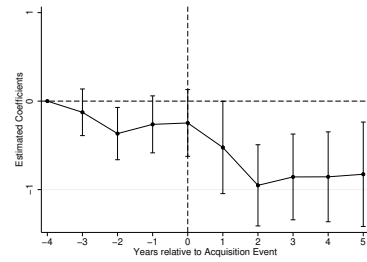


(d) 1990s and 2000s

Pct Women Managers

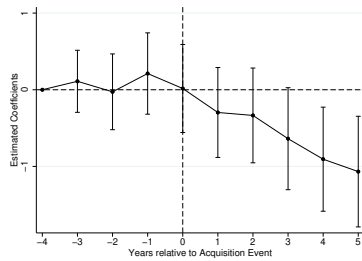


(e) 1970s and 1980s

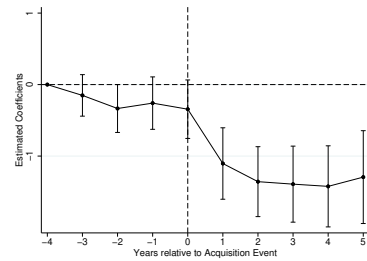


(f) 1990s and 2000s

Minority-White Segregation



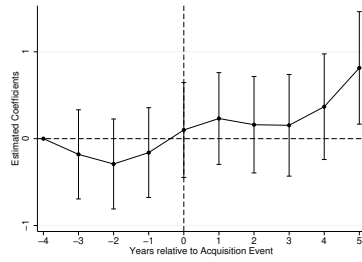
(g) 1970s and 1980s



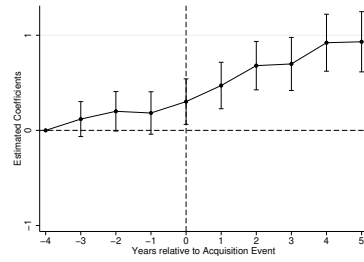
(h) 1990s and 2000s

Men-Women Segregation

Figure A.2: Acquisition Effect on Managerial Diversity and Segregation: sorted by Decades

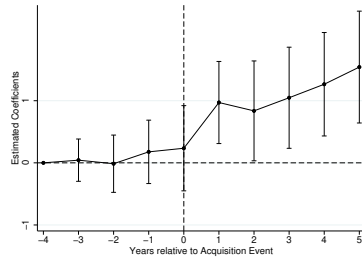


(a) Service Industries

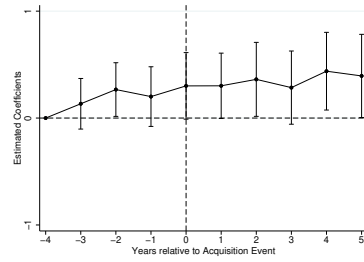


(b) Manufacturing Industries

Pct Minority Managers

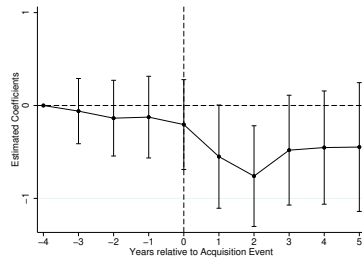


(c) Service Industries

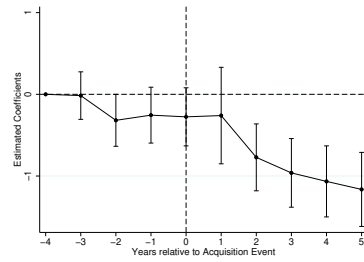


(d) Manufacturing Industries

Pct Women Managers

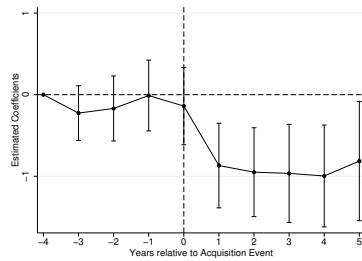


(e) Service Industries

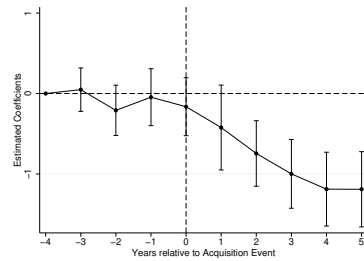


(f) Manufacturing Industries

Minority-White Segregation



(g) Service Industries



(h) Manufacturing Industries

Minority-White Segregation

Figure A.3: Acquisition Effect on Managerial Diversity and Segregation: sorted by Broad Industries