CAPTURING THE DIVERSITY BENEFIT

WORKFORCE DIVERSITY LINKED TO FINANCIAL PERFORMANCE

AS YOU SOW

ACKNOWLEDGMENTS AND GRATITUDE

As You Sow is the nation's leading shareholder representative, with a 30-year track record promoting environmental and social corporate responsibility and advancing values-aligned investing. Its issue areas include climate change, ocean plastics, pesticides, racial justice, workplace diversity, and executive compensation.

Whistle Stop Capital is a consultancy that works with asset owners and advisors to assess and address material social and environmental exposures within their investment portfolios. Whistle Stop Capital manages *As You Sow*'s workplace equity program.

TABLE OF CONTENTS

KEY FINDINGS

The analysis of 1,641 U.S.-based and publicly traded companies between 2016 and 2022 strongly indicates that a diversity benefit exists and that companies are incentivized to be attentive and proactive in capturing it. The key findings of this research are as follows:

- There is a diversity benefit. Across the full data set, higher percentages of BIPOC (non-White) management are positively correlated with increases in enterprise value growth rate, free cash flow per share, income after tax, long-term growth mean, 10-year price change, mean return on equity (ROE), return on invested capital (ROIC), and 10-year total revenue compound annual growth rate (CAGR).

- All statistically significant relationships between BIPOC management and financial performance were positive in the Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, and Information Technology sectors.

- Companies with large market capitalizations displayed a clear and statistically significant positive relationship with diverse management. This may be because they are more willing to dedicate resources to equity and inclusion programs.

- The Energy, Materials, and Real Estate sectors scored lower than their peers across almost all criteria related to their racial justice management and strategy. These sectors also did not realize a performance benefit from increased manager diversity.

- Workforce diversity increased sharply in 2020. Brokers' projections for companies with diverse managers also shifted to be more positive during this time.

- Analysis is constrained by the lack of reporting by companies on their hiring, promotion, and retention rates.

- Investors are incentivized to advocate for corporate disclosure of quantitative data of diversity, equity, and inclusion (DEI) initiatives.

INTRODUCTION

In June 2023, the Supreme Court ended race-conscious admissions to colleges and universities across the U.S. (Totenberg, 2023). This ruling did not impact employers' obligation to provide a fair and equitable workplace to their employees. However, within the context of the Court's decision, questions have been raised around the necessity of corporate DEI programs. For example, in July 2023, Republican Attorneys General from 13 states sent letters to Fortune 100 companies, urging their restriction of corporate DEI policies.

Numerous studies have supported an assertion that companies do benefit from more racial, ethnic, and gender diversity. Diversity has been linked with cultivating more creative and innovative workplaces. Individuals from different backgrounds with varying expertise, lived experience, and knowledge allow companies to access a wider range of skills and consider risk differently when addressing complex challenges. Previous studies have strongly indicated workforce diversity to be beneficial for company performance (Greenfield, 2019; Hunt et al., 2018). For example, *The Wall Street Journal* found that the top 20 companies with the most diverse employee populations in the S&P 500 index had a higher operating profit margin and average annual total return on shares compared to the 20 least diverse companies (Holger, 2019). Yet, female, Black, Indigenous, and people of color (BIPOC) individuals are consistently underrepresented in leadership roles (Krivkovich et al., 2022).

Until recently, however, it had not been possible to conduct an empirical and statistically significant analysis of the relationship between corporate diversity and financial performance. Demographic information is collected by the U.S. Equal Employment Opportunity Commission (EEOC) through Equal Employment Opportunity Component 1 (EEO-1) data forms, which cover race/ethnicity, sex, and job categories. Historically, this has been a non-public form.

However, in April 2023, the U.S. Department of Labor (DOL) released EEO-1 forms from 2016 to 2020 as the result of a FOIA request by the Center for Investigative Reporting. Diversity research provider DiversIQ has also compiled all voluntarily published EEO-1 forms. Across the DOL and DiversIQ EEO-1 datasets, our sample comprised 4,970 EEO-1 forms from 1,641 unique companies collected between 2016 and 2022.

EXAMPLE: PROCTER & GAMBLE'S 2021 CONSOLIDATED EEO-1 FORM

JOB CATEGORIES	HISPANIC OR LATINO		NOT HISPANIC OR LATINO												OVERALL TOTALS
			★★★★★★★★★★★★ MALE ★★★★★★★★★★★★						★★★★★★★★★★★★ FEMALE ★★★★★★★★★★★★						
	MALE	FEMALE	WHITE	BLACK OR AFRICAN AMERICAN	NATIVE HAWAIIAN OR PACIFIC ISLANDER	ASIAN	AMERICAN INDIAN OR ALASKAN NATIVE	TWO OR MORE RACES	WHITE	BLACK OR AFRICAN AMERICAN	NATIVE HAWAIIAN OR PACIFIC ISLANDER	ASIAN	AMERICAN INDIAN OR ALASKAN NATIVE	TWO OR MORE RACES	
EXECUTIVE / SR. OFFICIALS & MGRS.	11	8	47	6	0	8	0	2	37	3	0	7	0	0	129
FIRST / MID OFFICIALS & MGRS.	481	335	2952	356	0	471	13	34	2121	344	1	370	7	48	7533
PROFESSIONALS	118	110	1141	91	2	190	1	19	1033	122	0	170	0	17	3014
TECHNICIANS	228	101	1105	187	5	21	5	12	631	94	1	38	6	20	2454
SALES WORKERS	85	69	605	76	2	38	4	11	487	63	0	52	3	10	1505
ADMINISTRATIVE SUPPORT	31	48	541	73	1	4	1	2	1245	113	0	38	10	12	2119
CRAFT WORKERS	333	66	4587	649	12	97	57	34	1046	259	1	15	16	13	7185
OPERATIVES	242	92	1406	341	5	41	6	53	423	115	0	22	7	19	2772
LABORERS & HELPERS	19	16	70	28	0	2	2	2	47	13	0	1	1	3	204
SERVICE WORKERS	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	1548	845	12455	1807	27	872	89	169	7070	1126	3	713	50	142	26916
PREVIOUS REPORT TOTAL	1363	752	12040	1607	24	786	91	194	6799	1052	2	625	48	131	25514

Given that the DOL release was the result of a FOIA request and not a reflection of voluntarily made corporate disclosure decisions, the data sets for 2021 and 2022 are both smaller than the years before (2016, $n = 1,469$; 2017, $n = 1,525$; 2018, $n = 1,585$; 2019, $n = 1,584$; 2020, $n = 1,728$; 2021, $n = 602$; and 2022, $n = 60$) and represent a skew toward larger companies. The very low representation in 2022 reflects that most voluntarily disclosed EEO-1 forms are lagged to match companies' broader sustainability reporting, so many 2022 forms were not yet available for this analysis.

This report analyzes the relationships between workforce diversity and financial performance through the review of this newly available dataset. In particular, we examine how this relationship has changed over time. Attention is paid to 2020, when a cultural shift in attention to race and equity issues took place in America, including a significant shift in corporate attention to racism and its harms (Alfonseca & Zhan, 2023).

DATA AND METHODS

Our analysis focused on the EEO-1 forms available from 2016 through 2022 (n = 4,970) across 1,641 companies. From the EEO-1 forms, workforce diversity variables were identified. For each company present in the EEO-1 dataset, financial data for the appropriate year were obtained from the financial database provider Refinitiv and matched against the dataset for that year. For example, 2019 EEO-1 data were matched against 2019 financial information; a five-year performance metric for a 2019 EEO-1 form looks at the performance five years prior to 2019. Only partial financial data were available for some companies. Further details on the sample size can be found in the report's appendix.

The variables used in this analysis are included below in Table 1.

TABLE 1: VARIABLE SELECTION FOR ANALYSES

DIVERSITY METRICS	FINANCIAL METRICS
• Asian employees, total and management[1] • Black employees, total and management • Latine employees, total and management[2] • Indigenous employees, total and management[3] • White employees, total and management • BIPOC employees, total and management[4] • Female employees, total and management • Male employees, total and management • Gap between BIPOC total and management-level employees[5] • Gap between female total and management-level employees	• Enterprise value growth rate • Income after tax • Income after tax, 3-year CAGR • Income after tax, 5-year CAGR • Profit margin, net • Total revenue, 5-year CAGR • Total revenue, 10-year CAGR • ROE, mean • ROIC • Price change, 3 years • Price change, 5 years • Price change, 10 years • Long-term growth, mean[6] • Price/earnings-to-growth (PEG ratio), forecast 12 months • Free cash flow per share, mean

1. Management included executives, senior, first, and mid-level management employees, as defined in the EEO-1 form.
2   Defined as Hispanic or Latino employees on the EEO-1 form, this category is referred to as Latine throughout the report.
3   Given the small number of employees in both the Native Hawaiian or Pacific Islander and American Indian or Alaskan Native categories, we have combined these two unique and independent categories into an Indigenous employees category.
4   BIPOC employees included Asian, Black, Latine, Indigenous, and two or more race individuals. It sits in direct contrast to the White category.
5   The gap was calculated by subtracting the proportion of BIPOC/female employees at the management level from the proportion of BIPOC/female employees at the total level.
6   Long-term growth, mean is a Refinitiv calculation that aggregates the statistical average of all broker estimates of the compound average rate of EPS growth an analyst expects over a period of 3 to 5 years.

Relationships between workforce diversity and financial performance were then assessed using ordinary least squares (OLS) linear regression. OLS regression is a statistical analysis used to assess the relationship between two variables (e.g., as the percentage of BIPOC management increases, how does the return on assets change?). OLS regression can provide information on both the direction (positive or negative) and strength of the relationship. The results of this method can be assessed for statistical significance using p-values. The p-value is used to verify hypotheses, where a smaller p-value indicates a lower likelihood of a value occurring by chance. Traditionally, $p < 0.05$ indicates a value is unlikely to occur by chance and is therefore statistically significant, which is what the following analyses use.

Limitations of the study should be considered as results are reviewed. Firstly, linear regression was limited to smaller sample sizes in the analysis of smaller sectors such as Real Estate, Consumer Staples, and Communication Services. Additionally, these data spanned multiple years and a complex economic environment; changes in financial performance may also be attributed to other factors beyond workforce diversity. The longitudinal analysis attempted to control for these externalities, but aggregate results do not.

It is important to note that the EEO-1 report's gender and race definitions are also insufficient to capture the bias and discrimination that may impact a company's workplace. There are many dimensions of diversity; this report pulled from the existing data set, which captured only binary gender and government-defined and simplified categorization of people's races and ethnicities. The available research does not include a wide range of classes known to need legal protection from discrimination – such as sexual orientation, gender identity, pregnancy status, veteran status, or religion. They also do not allow for complexity within the listed definitions; for example, within the Asian category, there are significant cultural nuances and differences. Within race, within Black, there are significant differences in experience by skin tone (Peck, 2023).

Compared to general population levels obtained from the 2021 American Community Survey, Asian, Black, and male individuals are overrepresented in our dataset while White, Latine, Indigenous, two or more races, and female individuals are underrepresented (Figure 1).

FIGURE 1: COMPARISON BETWEEN STUDY DATASET AND U.S. POPULATION
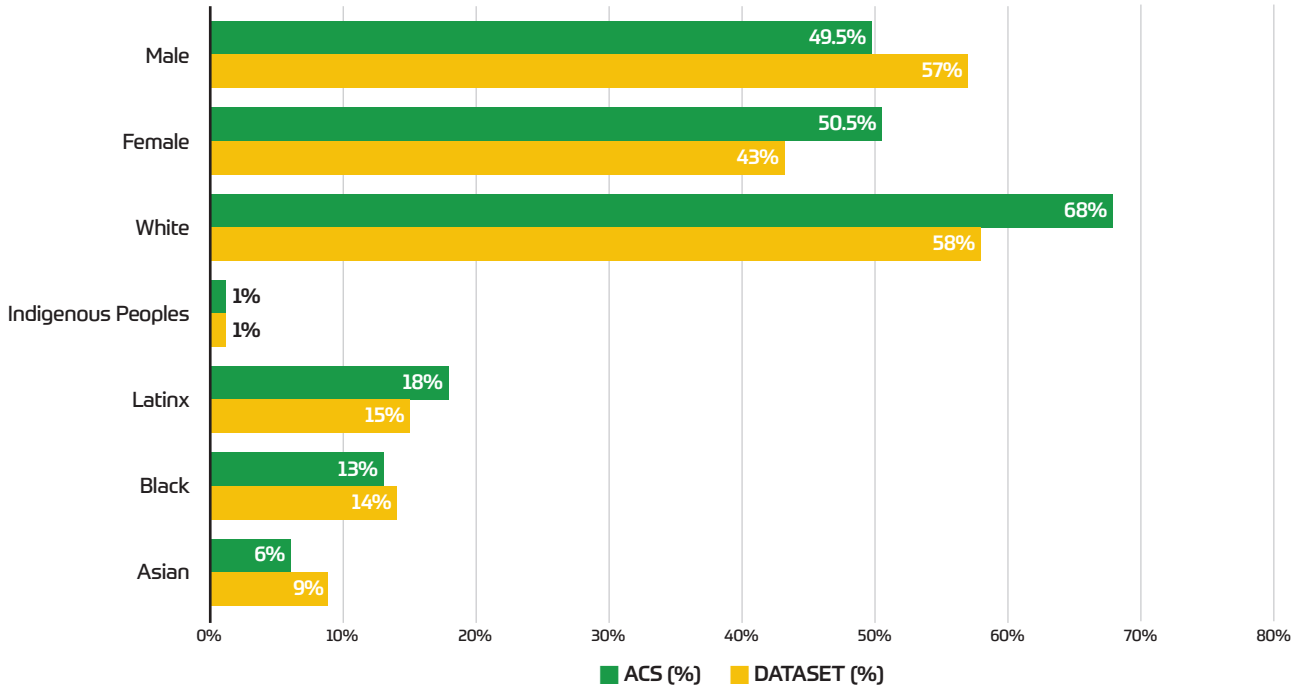
FINDINGS

From 2016 to 2021, there were increasing rates of female and BIPOC employee composition in both leadership and total employees (Figure 2). In 2020, BIPOC hiring rates increased sharply, likely associated with pushes in workforce DEI initiatives stemming from an increased cultural attention to race and justice topics.

A lack of promotion at companies may be indicated by the difference between representation at the managerial level and total workforce representation. This promotion gap is more prominent in BIPOC composition compared to female composition and varies across sectors. Gaps in BIPOC representation between the total workforce and the manager level are the largest in the Consumer Discretionary and Consumer Staples sectors but the smallest in Utilities. Gaps in female representation are the largest in Financials, but this promotion gap is nearly zero in the Materials and Utilities sectors (Figure 3).

> " In 2020, BIPOC hiring rates increased sharply, likely associated with pushes in workforce DEI initiatives stemming from an increased cultural attention to race and justice topics. "

FIGURE 2: LONGITUDINAL CHANGES TO WORKFORCE DIVERSITY FROM 2016-2021
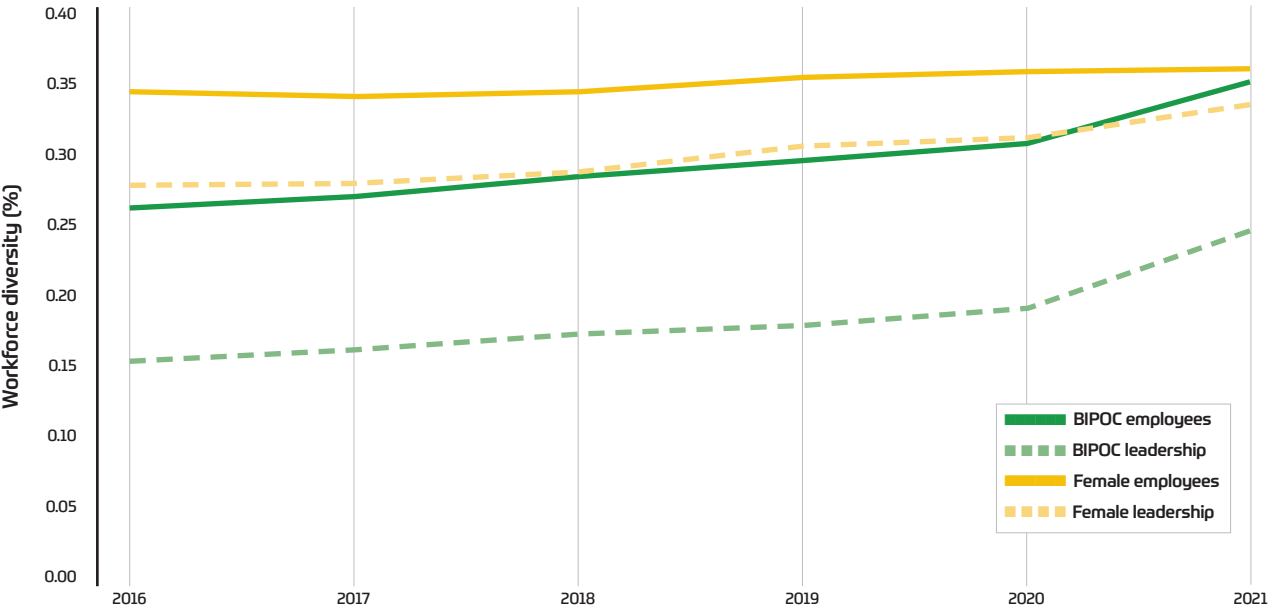
FIGURE 3: MANAGEMENT AND WORKFORCE REPRESENTATION OF BIPOC AND FEMALE EMPLOYEES ACROSS SECTORS

BIPOC Diversity Per Sector

Legend:
- BIPOC employees
- BIPOC Imanagement
- Median

Female Diversity Per Sector

Legend:
- Female employees
- Female Imanagement
- Median

Workforce Diversity (%)
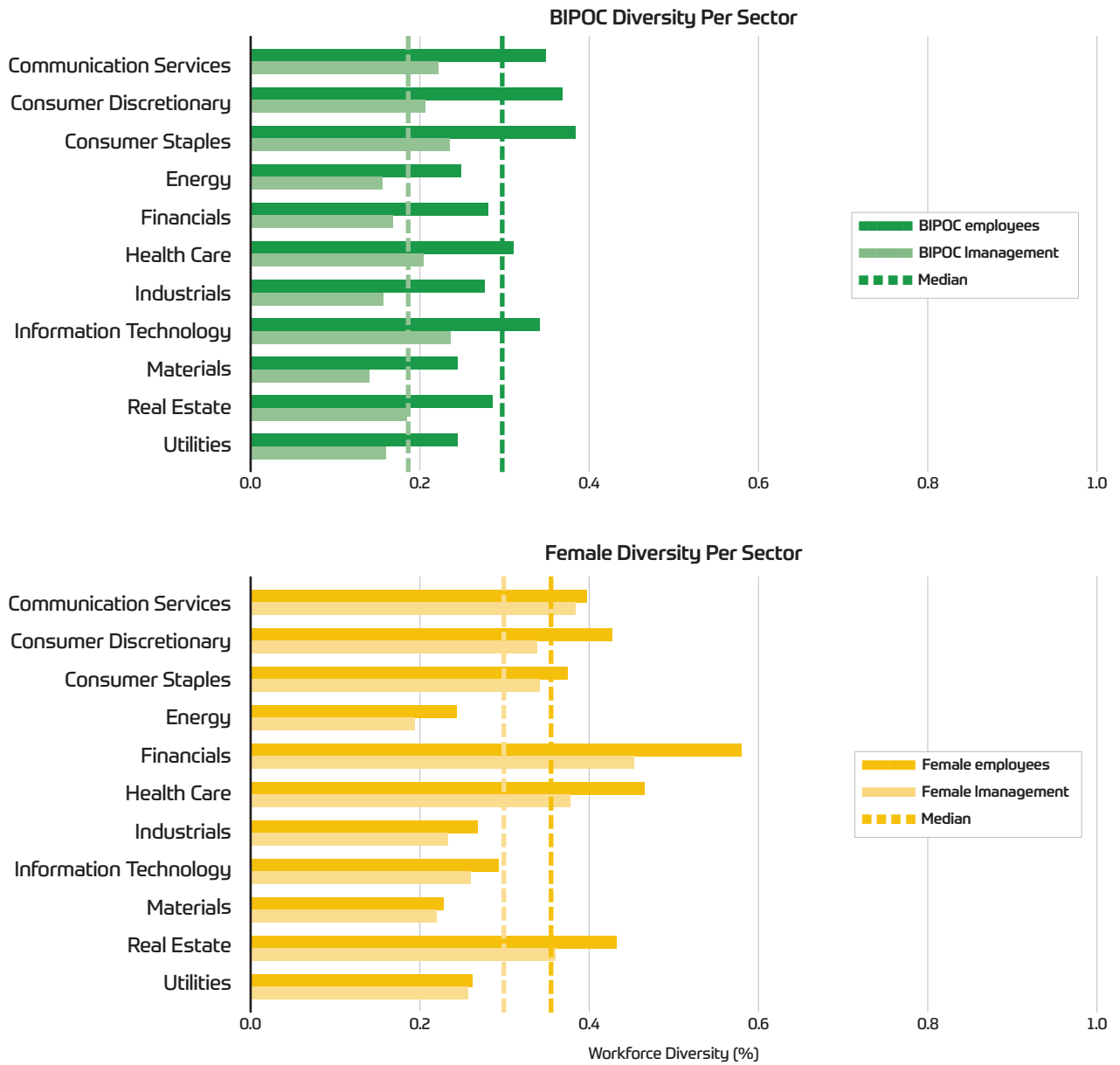
As seen in Figure 4, Black and Latine promotion gaps are prominent across all sectors. In contrast, the gap in Asian representation in management relative to total workforce is minimal or negative in most sectors, with the exceptions of the Health Care and Information Technology sectors. For Indigenous employees, both total workforce and management representation was under 1% in all sectors, so the differences in representation here represent a much smaller number of individuals. White individuals in management are overrepresented in every sector.

The analysis in this report primarily focused on manager-level diversity as total workforce diversity does not reflect the ability of diverse employees to lead an organization.

FIGURE 4: DIVERSE REPRESENTATION WITHIN MANAGEMENT AND WORKFORCE BY RACE AND SECTOR
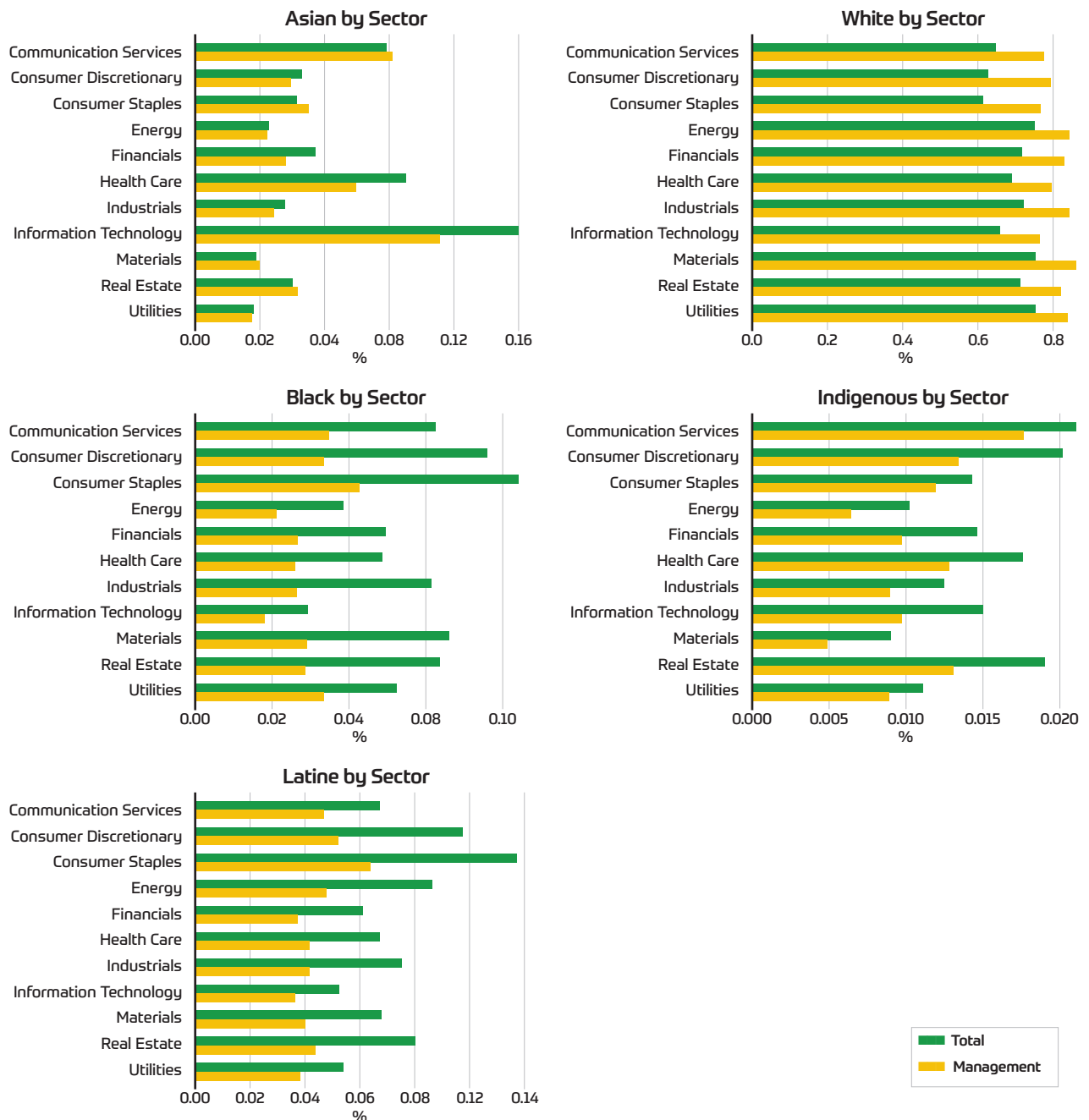
AGGREGATE TRENDS BY RACE AND GENDER

Race and gender trends were assessed across all years and sectors using OLS linear regression. The results from the regression are shown below. Colored cells are statistically significant ($p < 0.05$). Green cells indicate positive relationships while red cells indicate negative relationships.

Within Table 2, BIPOC management is positively and significantly correlated with increases in enterprise value growth rate, free cash flow per share, income after tax, long-term growth mean, 10-year price change, mean ROE, ROIC, and 10-year total revenue CAGR. No statistically significant relationship is found for any of the remaining factors. Management was identified by summing the "Executive/senior-level officials and managers" and the "First/mid-level officials and managers" categories. This approach was taken given the variance in how widely companies define their executive and senior management teams.

Findings with regard to female management were similarly positive. Increases in female leadership were positive and significantly correlated with increases in mean free cash flow per share, income after tax, income after tax 3- and 5-year CAGR, profit margin net, ROIC, and total revenue 10-year CAGR, though there were negative correlations with share price over 3, 5, and 10 years.

TABLE 2: LINEAR REGRESSION RESULTS ASSESSING RELATIONSHIP BETWEEN WORKFORCE DIVERSITY AND FINANCIAL METRICS

Financial Metric	BIPOC Female Management	BIPOC Management	Female Management	White Male Management
Enterprise value growth rate (%)		+		-
Income after tax ($)	+	+	+	-
Income after tax, 3-year CAGR (%)			+	-
Income after tax, 5-year CAGR (%)	+		+	-
Profit margin, net (%)			+	-
Total revenue, 5-year CAGR (%)				
Total revenue, 10-year CAGR (%)	+	+	+	-
ROE, mean (%)		+		
ROIC (%)	+	+	+	-
Price change, 3 years (%)	-		-	+
Price change, 5 years (%)	-		-	+
Price change, 10 years (%)		+	-	
Long-term growth, mean (%)		+		
PEG ratio forecast 12 months (#)				
Free cash flow per share, mean ($)	+	+	+	-

> " BIPOC management is positively and significantly correlated with increases in enterprise value growth rate, free cash flow per share, income after tax, long-term growth mean, 10-year price change, mean ROE, ROIC, and 10-year total revenue CAGR. No statistically significant relationship is found for any of the remaining factors. "

BREAKDOWN BY SECTOR

The available dataset allowed for review of EEO-1 forms by sector: 1,108 within Industrials; 1,040 within Financials; 932 within Information Technology; 698 within Health Care; 477 within Consumer Discretionary; 322 within Materials; 260 within Utilities; 252 within Energy; 226 within Real Estate; 214 within Consumer Staples; and 162 within Communication Services.

Linear regressions were performed for each sector represented in the dataset. The results for BIPOC and female management are shown below in Tables 4 and 5. To fit within the page, positive associations are represented with a "+" in green cells, and negative associations are represented with a "-" in red cells. Statistically significant relationships are marked with an asterisk.

> "That the relationships between BIPOC management and financial performance were positive and statistically significant in the Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, and Information Technology sectors is incontrovertible."

TABLE 3: FINANCIAL PERFORMANCE BY SECTOR FOR BIPOC MANAGEMENT (%)

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Enterprise value growth rate	+*	+	-	+	-	+	-	+	+	+	-
Income after tax	+*	+*	+*	+	+*	+*	+	+*	+	+	+
Income after tax, 3-year CAGR	+	-	+	-	-	+	+	+	-	-*	-
Income after tax, 5-year CAGR	+*	-	+	-*	-	-	+*	+*	-*	-	-
Profit margin, net	+	-	+	+	+	-	-*	+*	-*	-	-
Total revenue, 5-year CAGR	+*	-	-	+	-	+	-	+	+	-	+
Total revenue, 10-year CAGR	+*	-	-	-	-	+*	+	+	+	+	+
ROE, mean	+	-	+*	-*	+*	-	+*	+*	+	-*	+
ROIC	+*	+	+*	-*	+	+	-*	+*	-*	-	+
Price change, 3 years	-	+	+	-	-	+	-	+	-	-	+*
Price change, 5 years	+	-	+	-	-	+	-	+	-	-	+
Price change, 10 years	+*	+	+	+	+	-	-	+	-	+	-
Long-term growth, mean	+	+	-	-	+	+*	-*	+	-	+	+
PEG ratio forecast 12 months	-	-	+	+	-	+	+	-	+	+	-*
Free cash flow per share, mean	-	+*	+	-	+	+*	-	+*	-	-	-

That the relationships between BIPOC management and financial performance were positive and statistically significant in the Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, and Information Technology sectors is incontrovertible. In these sectors, the only statistically significant relationships seen are positive. A clear diversity benefit exists within these sectors. Within Utilities, the only statistically significant indicator is one reflecting on brokers' forecasts; historical data, therefore, show no statistically significant relationship between manager diversity and financial performance, either positive or negative, within this sector. Within Industrials, the data are inconclusive, with statistically significant positive outcomes seen in income after tax over 5 years and ROE and negative associations with ROIC and net profit margin. Within the Energy, Materials, and Real Estate sectors, the relationship between manager diversity is less well-defined, shifting between positive and negative relationships depending on the financial indicator. Additional insight into these sectors is in the section entitled "Capturing the Diversity Benefit."

With respect to female management, the Health Care and Consumer Staples sectors showed more positive significant relationships, while Consumer Discretionary, Industrials, and Real Estate showed a large number of significant negative relationships.

TABLE 4: FINANCIAL PERFORMANCE BY SECTOR FOR FEMALE MANAGEMENT (%)

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Enterprise value growth rate	+	-	-*	+	-	+	+	+	+	-*	-*
Income after tax	-	-	+*	+	-*	+*	-	-	+	-	-*
Income after tax, 3-year CAGR	-*	-*	-	+	+	+	+	-	+	-	+
Income after tax, 5-year CAGR	-	-*	-	+	+	+	+	+	-	-	+
Profit margin, net	+	-	+	+*	+*	+	-	-	-*	-	+*
Total revenue, 5-year CAGR	-	-	-	+	+	+	-	+*	+	-	+
Total revenue, 10-year CAGR	-	-	-	+	+	+*	-	-	+*	-	+
ROE, mean	-	-	+*	-	-*	+	+*	-	+*	-*	-
ROIC	-*	+	+	-	+*	+	+*	+	-	-*	+
Price change, 3 years	+	+	-	-	+	+*	-*	-*	-*	+	+
Price change, 5 years	-	-*	-	-	-*	+	-*	-	-*	-	-
Price change, 10 years	-	-	-	+	-	+	-	-	-	-*	-
Long-term growth, mean	-	-	-	+	-	-	-*	+	-	-	+
PEG ratio forecast 12 months	+	-	+	-*	-	-*	+	+*	+	+*	-*
Free cash flow per share, mean	+	-	+*	-	-	+*	+	+	+	-	-

BREAKDOWN BY MARKET CAP

Additionally, a separate analysis was run for companies with small-, mid-, and large-market capitalizations, as seen in Table 5. Companies with large-market capitalizations more consistently displayed positive relationships with financial metrics compared to companies with small- and mid-market capitalizations, especially with BIPOC management.

The analysis of the data suggests that in order to capture a diversity benefit, companies need to have an active approach to ensure effective DEI programs. More research is needed to understand why this relationship exists. The difference in diversity benefit by market cap may reflect that smaller companies are less likely to have dedicated resources to the DEI infrastructure needed to hire, mentor, and retain diverse employees at scale. As smaller employers, they may also be unable to overcome any local cultural norms that may be in opposition to an inclusive workplace. The necessity of allocating sufficient attention to DEI programs is further discussed in the "Capturing the Diversity Benefit" section and in the conclusion of this report.

> "The analysis of the data suggests that in order to capture a diversity benefit, companies need to have an active approach to ensure effective DEI programs."

TABLE 5: LINEAR REGRESSION RESULTS ASSESSING RELATIONSHIP BETWEEN BIPOC LEADERSHIP, MARKET CAP, AND FINANCIAL METRICS

Financial Metric	Small	Mid	Large
Enterprise value growth rate			+
Income after tax			+
Income after tax, 3-year CAGR			+
Income after tax, 5-year CAGR			+
Profit margin, net	-	-	
Total Revenue, 5-year CAGR			+
Total Revenue, 10-year CAGR			+
ROE, mean			+
ROIC			+
Price change, 3 years			
Price change, 5 years			
Price change, 10 years			
Long-term growth, mean			+
Price/earnings-to-growth (PEG ratio), forecast 12 months		-	
Free cash flow per share, mean	-	-	

TABLE 6: LINEAR REGRESSION RESULTS ASSESSING RELATIONSHIP BETWEEN FEMALE LEADERSHIP, MARKET CAP, AND FINANCIAL METRICS

Financial Metric	Small	Mid	Large
Enterprise value growth rate			
Income after tax	+	+	+
Income after tax, 3-year CAGR	+	+	
Income after tax, 5-year CAGR	+		
Profit margin, net	+	+	+
Total Revenue, 5-year CAGR	+		
Total Revenue, 10-year CAGR	+		
ROE, mean		-	
ROIC	+		+
Price change, 3 years		-	-
Price change, 5 years	-	-	-
Price change, 10 years		-	
Long-term growth, mean	-		
Price/earnings-to-growth (PEG ratio), forecast 12 months			
Free cash flow per share, mean			+

LONGITUDINAL ANALYSIS: BREAKDOWN BY YEAR

A longitudinal analysis of the data using linear regression was undertaken to better understand any changes associated with financial performance and diversity over time. Special attention should be paid to the shifts in long-term growth predictions by brokers' estimates with respect to BIPOC management. As shown in Table 7, the long-term growth mean becomes statistically significant between 2019 and 2020. Long-term growth mean is a subjective measure reflecting brokers' expectations for future corporate performance; the strengthening of this relationship is indicative of an increase in confidence of brokers in companies that are more racially and ethnically diverse.

TABLE 7: FINANCIAL PERFORMANCE BY YEAR SECTOR ASSESSING RELATIONSHIP BETWEEN MANAGERS' RACE (BIPOC) AND FINANCIAL METRICS

Financial Metric	2016	2017	2018	2019	2020	2021
Enterprise value growth rate			+	+	+	-
Income after tax	+	+	+	+	+	+
Income after tax, 3 years					-	
Income after tax, 5 years						
Profit margin, net						
ROE, mean		+	+		+	
ROIC	+	+	+	+	+	+
Long-term growth, mean	+			+	+	
PEG ratio forecast 12 months					-	
Free cash flow per share, mean	+					

TABLE 8: FINANCIAL PERFORMANCE BY YEAR SECTOR ASSESSING RELATIONSHIP BETWEEN GENDER (FEMALE) AND FINANCIAL METRICS

Financial Metric	2016	2017	2018	2019	2020	2021
Enterprise value growth rate	-		+			-
Income after tax					+	+
Income after tax, 3 years				+	+	
Income after tax, 5 years		+		+	+	
Profit margin, net	+	+	+	+	+	
ROE, mean						
ROIC	+	+		+		+
Long-term growth, mean				-		–
PEG ratio forecast 12 months	-					
Free cash flow per share, mean				+		

" Long-term growth mean is a subjective measure reflecting brokers' expectations for future corporate performance; the strengthening of this relationship is indicative of an increase in confidence of brokers in companies that are more racially and ethnically diverse. "

DEEPER DIVE: CAPTURING THE DIVERSITY BENEFIT

Given that a clear diversity benefit is seen in some sectors but is not as clearly expressed in others, we seek to better understand what might be leading to the differentiation in findings between these companies. Assessment of company location and attribution by market cap yielded no particular insights into sector specific differences. However, review of corporate policies and practices as they relate to racial justice yielded significant insight into why some sectors less successfully capture the benefits associated with more diverse management.

> " Review of corporate policies and practices as they relate to racial justice yielded significant insight into why some sectors less successfully capture the benefits associated with more diverse management. "

RACIAL JUSTICE INDICATORS

As You Sow hosts a Racial Justice Initiative (RJI). Since 2020, it has developed Racial Justice Scorecards on the Russell 1000, which track publicly available information on key actions related to racial equity, DEI disclosure and policies, and environmental justice. The Scorecards serve as educational tools, guidelines to help a variety of stakeholders understand and gauge corporate progress on racial equity.

As You Sow's Racial Justice Research Team examines the websites, social media accounts, and sustainability reports for each company in the Russell 1000. In collaboration with its Advisory Committee, 27 key performance indicators were established to measure companies' racial justice statements and corporate policies and practices related to DEI and environmental justice to develop individual corporate scorecards. Some scores are binary while others are based on a sliding scale. The data available for this report were collected against 2022 company reporting.

FIGURE 5: BIPOC EMPLOYEES VS. RJI SCORE

We mapped this dataset against companies in the Russell 1000 who also share EEO-1 data. The sample (*n*=585) was made up of companies with both a Racial Justice Scorecard and EEO-1 data. We also looked at all Russell 1000 companies to compare sector trends.

First, the relationship between workforce diversity and the racial justice scores were assessed. For all companies in the Russell 1000, the median RJI score was 14.5% and ranged from -16% to 66%. As illustrated in Figure 5, we see an overall positive trend between RJI scores and BIPOC workforce composition though the RJI scores vary greatly for a given BIPOC workforce composition.

We also looked at all companies in the Russell 1000 and assessed variability in the RJI scores per sector. The available dataset allowed for review by sector of 159 within Industrials, 141 within Financials, 170 within Information Technology, 114 within Health Care, 123 within Consumer Discretionary, 58 within Materials, 40 within Utilities, 39 within Energy, 66 within Real Estate, 53 within Consumer Staples, and 43 within Communication Services.

Boxplots for RJI and DEI scores were created to assess the median RJI scores per sector (vertical black line within each orange box) and variability (length of box and length of "whiskers" on each side of the box).

> **The Energy, Materials, and Real Estate sectors received the lowest scores from RJI; these are the same sectors that failed to see positive correlations between the diversity of their management and financial performance.**

The Energy, Materials, and Real Estate sectors received the lowest scores from RJI; these are the same sectors that failed to see positive correlations between the diversity of their management and financial performance (Figure 6). RJI scores had high variability in many sectors as indicated by long "whiskers." This suggests that RJI scores are not only driven by sector type, but within sector factors as well (e.g., companies in Communication Services could have RJI scores anywhere between -0.02 to 0.62).

FIGURE 6: RJI SCORE DISTRIBUTIONS BY SECTOR
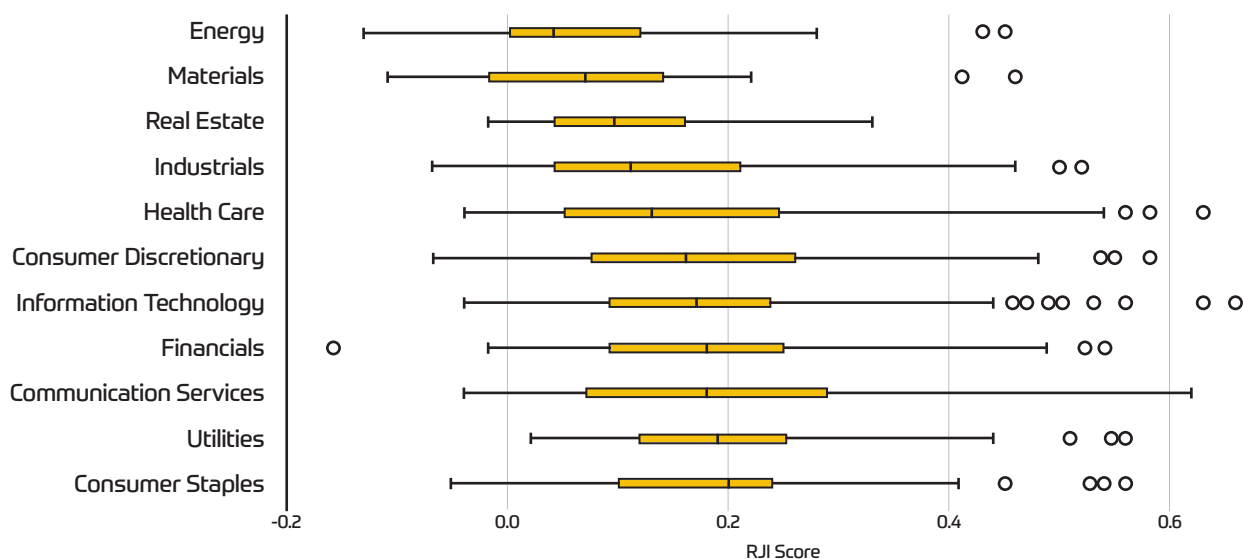
Within the RJI scores themselves, while Energy scored higher than the rest of the sample set when it comes to DEI data disclosure, the Energy, Materials, and Real Estate sectors otherwise scored lower than their peers across almost all criteria related to racial justice management and strategy. Within Table 9, below, it is only the orange boxes where these sectors performed above the mean; in all other areas they were insufficiently managing these topic areas.

In contrast, the scores on the RJI framework sat consistently above the mean within the Communication Services, Consumer Discretionary, Consumer Staples, Financials, and Information Technology sectors, where the strongest positive correlation between diverse management and financial performance is seen. The only anomalous sector in this regard is the Health Care sector, where despite showing strong positive correlations between manager diversity, free cash flow, income after tax, and 10-year revenue CAGR, it underperforms across a number of racial justice metrics.

TABLE 9: RJI SCORES RELATIVE TO THE MEAN

	Energy	Materials	Real Estate	Industrials	Health Care	Financials	Consumer Discretionary	Information Technology	Communication Services	Consumer Staples	Utilities
Racial Justice Statement											
Racial justice statement	-0.3	-0.2	-0.1	-0.1	-0.1	0.1	0.2	0.0	0.1	0.2	0.2
Statement post location	-1.3	-0.6	-0.5	-0.5	-0.3	0.5	0.6	0.0	0.3	1.0	0.9
Corporate Responsibility											
CEO responsibility	-1.2	-0.3	-0.1	-0.3	-0.1	0.2	0.6	0.2	-0.5	0.6	0.9
Solicits input from Black employees	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.2
Acknowledgment of Key Terms											
Names victims of police violence	-0.2	-0.2	-0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.1
States Black Lives Matter	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1	0.0
Call for criminal justice reform	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Acknowledges systemic racism	-1.3	-0.9	-0.6	-0.3	-0.3	0.1	0.5	0.3	0.5	1.1	0.8
Identifies as antiracist	-0.4	-0.2	-0.3	0.0	-0.2	0.0	0.2	0.3	0.5	0.0	0.0
DEI Department											
Internal DEI department	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
DEI Leader Title	-1.0	-0.6	-1.0	-0.4	0.0	0.4	0.3	0.2	0.7	0.5	0.8
DEI Data Disclosure											
Workforce composition disclosure	0.2	0.0	0.0	0.0	-0.2	-0.1	0.0	0.0	-0.1	0.1	0.1
Pay equity data disclosure	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Promotion rate disclosure	0.0	-0.3	-0.3	-0.1	0.0	-0.2	0.1	-0.1	0.3	0.1	0.5
Recruitment rate disclosure	0.1	-0.4	-0.3	-0.2	0.0	-0.3	0.1	0.1	0.4	0.1	0.4
Retention rate disclosure	0.1	-0.2	-0.3	-0.2	0.0	-0.2	-0.1	-0.1	0.5	0.2	0.3
Explicit diversity goal disclosure	-0.2	0.3	-0.2	0.1	-0.1	-0.1	0.1	0.0	0.0	0.2	0.0
EEO-1 data released	0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Supply chain diversification	-0.3	-0.3	-1.0	0.0	-0.1	0.0	0.0	-0.5	-0.1	1.0	1.5
External Actions											
Community engagement with racial justice	-0.1	-0.2	-0.2	-0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.2
Racial justice donations	-0.1	-0.2	-0.2	-0.2	-0.1	0.1	0.1	0.0	0.1	0.2	0.2
Hate speech accountability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Third party racial equity audit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Environmental Justice											
Acknowledgment of environmental justice	0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.3
Abides by environmental regulations (since 2015)	-1.0	-0.7	0.4	-0.1	0.3	0.5	0.1	0.5	0.5	-0.2	-0.5
Environmental fines and penalties (since 2015)	-1.4	-1.0	0.7	0.0	0.6	0.8	0.2	0.8	0.6	-0.1	-1.2
Adverse effects to BIPOC communities (since 2010)	-0.3	-0.3	0.5	0.1	0.4	0.2	0.0	0.5	-0.3	-0.2	-0.5

Unfortunately, a time series data set does not exist across these indicators, so we were unable to map this relationship over time.

ADDITIONAL CONTENT ONLINE

The 3,000 largest public American companies have been reviewed for their workplace equity data transparency. That data set is available at **https://www.asyousow.org/our-work/social-justice/workplace-equity/data-visualization**. The full set of RJI scores for these same companies is available at **https://www.asyousow.org/our-work/social-justice/racial-justice/data-visualization**. Companies and investors can review this public database to identify leading practices as well as individual companies and their scores on the identified indicators. The dataset can be sorted by sector, market cap, region of headquarters, and total number of employees.

CONCLUSION AND IMPLICATIONS

The data analyzed support the general view that there is a broad diversity benefit; companies are advantaged by having diversity of gender, race, and ethnicity in their management teams. Certainly, there are many unseen factors at work here. The data in this report exist within a broader societal context. The data in this report identify contemporaneous correlation; the ability to affirm causality does not exist within the data that are currently publicly available.

> **A company's EEO-1 form may indicate a diverse staff, but this does not guarantee a healthy workplace culture.**

A number of outstanding questions remain regarding why many companies and sectors capture a diversity benefit while a subset does not. We can theorize that justice issues are poorly understood and managed within these sectors and companies, but, at this point in time, we do not have sufficient data to do more than conjecture. The EEO-1 form by itself is insufficient in providing the needed answers. It provides a blurry snapshot of a company's current employees and where they sit in the organization, and it does not show the inclusivity of the company's policies, practices, and culture. The data currently available through the EEO-1 form are unable to support a complete understanding of which companies have diverse employees operating at their maximum potential and which companies are still on a journey toward building a more supportive, cohesive, and inclusive work environment.

> **Hiring, promotion, and retention rate data are essential in understanding which companies have human capital management programs that are effective in enabling a diverse and inclusive work environment.**

We also cannot assume that a diverse workforce or management team is synonymous with an inclusive one; a better understanding is needed of what actions most efficiently contribute to effective DEI programs. A May 2023 survey by the Pew Research Center found that over one third of all workers feel that being male made success at work easier while being Black, Hispanic, and Asian made it harder to succeed (25%, 20%, and 11%, respectively). The percentage of Black, Hispanic, and Asian employees who felt that being White at work would make it easier to be successful was 52%, 37%, and 51% respectively. For White employees, however, only 24% felt this was true, indicating a significant disconnect in employee perceptions by race (Minkin, 2023).

As the findings in the Energy, Materials, Real Estate sectors show, a company's EEO-1 form may indicate a diverse staff, but this does not guarantee a healthy workplace culture. For instance, if a company focuses only on hiring diverse employees but has trouble retaining them, EEO-1 data would not flag for investors that a pernicious, damaging, DEI-related problem exists within the company – one that increases its human resources cost expenditures and undermines the ability of its employees to successfully complete their work. EEO-1 without inclusion data (hiring, promotion, and retention rates) is equivalent to reviewing a balance sheet without an income statement.

Hiring, promotion, and retention rate data are essential in understanding which companies have human capital management programs that are effective in enabling a diverse and inclusive work environment. These inclusion indicators are essential in understanding which companies best capture the diversity benefit.

Whistle Stop Capital, *As You Sow*, and other investors have been asking companies to release their hiring, promotion, and retention rates of diverse employees since 2019. In the last four years, over 80% of the companies we formally spoke with committed to release the data by the EEO-1's gender, race, and ethnicity categories within two years of our conversations. Between November 2021 and April 2023, the release of hiring rate data by gender, race, and ethnicity by Russell 1000 companies increased by 67%, retention rate data disclosure increased by 89%, and promotion rate data release increased by 136%. However, the amount of inclusion data remains insufficient for statistical analysis.

IMPLICATIONS

It is essential for companies to acknowledge that their workplaces are not utopian environments, free of discrimination simply because they wish it was so. Those companies wishing to capture the diversity benefit must do so with intention. Investors should verify, through the review of quantitative data, that the diversity and inclusion programs companies implement are effective in their efforts.

Investors appear likely to benefit from the integration of quantitative DEI data into their company assessments. They are incentivized to ask for this data from the companies they invest in or are considering investing in.

> " It is essential for companies to acknowledge that their workplaces are not utopian environments, free of discrimination simply because they wish it was so. Those companies wishing to capture the diversity benefit must do so with intention. "

Broader societal trends indicate that the positive associations between corporate diversity and financial performance identified in this study are likely to become even more defined over time. The U.S. is becoming a more diverse country; census data show that by 2045, non-Caucasian individuals will make up the majority of the population. This change will affect the labor market as well as the customer base. Companies will need to be in tune with these changing demographics to remain competitive.

> " Investors appear likely to benefit from the integration of quantitative DEI data into their company assessments. "

When we consider discrimination and bias, no company is immune, and no company is helpless. An appreciation of the value of diversity and a clear understanding of current barriers to workplace equity, as well as the actions needed to overcome these barriers, will prepare companies to grow as the world around them changes.

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APPENDIX

The following content is intended to complement the **CAPTURING THE DIVERSITY BENEFIT: WORKFORCE DIVERSITY LINKED TO FINANCIAL PERFORMANCE** released in November 2023. To request additional information, please contact **info@asyousow.org**.

SAMPLE SIZE DEMOGRAPHICS

Category	n	Mean	Standard deviation	Range
Total employees	8335	6575.75	12487.70	(6.0, 106614.0)
Total management	8037	873.76	1392.79	(4.0, 9523.0)
Asian total	8045	0.08	0.08	(0.0, 0.34)
Black total	8114	0.07	0.05	(0.0, 0.22)
Hispanic total	8060	0.09	0.06	(0.0, 0.28)
Female total	8270	0.38	0.17	(0.03, 0.76)
Male total	8270	0.62	0.17	(0.24, 0.97)
Two or more total	8283	0.02	0.01	(0.0, 0.05)
White total	8189	0.70	0.13	(0.37, 0.99)
Indigenous total	8288	0.01	0.01	(0.0, 0.04)
BIPOC female total	8111	0.12	0.07	(0.0, 0.33)
BIPOC total	8189	0.30	0.13	(0.01, 0.63)
Asian management	7830	0.07	0.07	(0.0, 0.3)
Black management	7857	0.04	0.03	(0.0, 0.11)
Hispanic management	7922	0.05	0.04	(0.0, 0.17)
Female management	7933	0.32	0.13	(0.03, 0.63)
Male management	7933	0.68	0.13	(0.37, 0.97)
Two or more management	8062	0.01	0.01	(0.0, 0.05)
White management	7944	0.81	0.10	(0.53, 1.0)
Indigenous management	8031	0.00	0.01	(0.0, 0.03)
BIPOC female management	7925	0.07	0.05	(0.0, 0.21)
BIPOC management	7944	0.19	0.10	(0.0, 0.47)

SAMPLE SIZE FINANCIAL METRICS

KPI	n	Median	Mean	Standard deviation	Range
Market cap	4675	4094379874.00	18615390270.45	34464576522.65	(210990.0, 223322000000.0)
Long-term growth, mean	2473	10.00	11.21	10.68	(-31.2, 57.77)
EPS, mean	4429	2.38	3.28	6.63	(-165.0, 105.68)
Free cash flow per share, mean	2500	2.58	3.60	6.04	(-69.23, 92.63)
ROE, mean	3663	13.04	16.06	29.82	(-212.85, 246.03)
ROIC	2398	11.36	14.16	16.27	(-103.45, 175.0)
Total common shares outstanding	4836	88169760.00	275875246.31	500580783.05	(4170.0, 4082000000.0)
Total debt to equity	4645	58.00	111.75	209.45	(0.0, 2811.62)
Profit margin, net	4911	7.67	5.03	37.01	(-711.04, 439.35)
Book value per share	4899	15.22	27.81	156.56	(-1144.85, 5134.4)
Income after tax	4913	109493000.00	909129213.41	3062568442.34	(-23276000000.0, 34343000000.0)
Income after tax, 3 years	3386	9.71	10.62	22.01	(-62.92, 90.98)
Income after tax, 5 years	3204	8.67	9.28	14.82	(-32.23, 54.55)
PEG ratio forecast 12 months	1514	1.80	2.49	3.38	(-0.01, 49.87)
ROA	4632	3.34	3.79	7.50	(-25.76, 30.92)
Enterprise value	2381	10773900000.00	26717634159.60	38532559957.16	(9500000.0, 224546040000.0)
Enterprise value growth rate	2051	0.06	0.17	0.44	(-0.96, 2.86)
Price change, 3 years	991	20.77	28.60	63.46	(-99.96, 271.92)
Price change, 5 years	950	10.40	22.42	70.23	(-99.97, 254.6)
Price change, 10 years	835	90.19	155.68	219.98	(-99.98, 1265.33)
Total revenue, 10-year CAGR	916	5.93	6.95	7.70	(-16.86, 34.33)
Total revenue, 5-year CAGR	989	7.35	8.73	8.54	(-15.49, 37.15)

SAMPLE SIZE PER SECTOR, FOR AVAILABLE FINANCIAL METRICS

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Book value per share	132	434	185	209	891	549	946	730	280	195	233
EPS, mean	125	386	172	175	790	508	876	674	266	187	230
Enterprise value	65	263	118	128	46	348	469	427	175	151	179
Enterprise value growth rate	67	225	112	123	36	305	383	369	139	131	152
Free cash flow per share, mean	104	318	135	129	122	267	599	485	203	53	76
Income after tax	133	433	185	209	893	551	956	727	282	196	233
Income after tax, 3 years	75	306	153	59	808	308	660	416	189	149	208
Income after tax, 5 years	70	289	146	76	738	302	623	394	176	131	203
Long-term growth mean	78	219	138	72	378	334	455	389	167	46	185
Market cap	109	412	167	201	856	515	924	680	279	191	232
PEG ratio forecast 12 months	42	146	114	57	253	215	236	234	83	17	113
Price change, 10 years	30	90	37	38	148	87	164	102	41	40	42
Price change, 3 years	36	99	43	32	178	118	185	142	48	48	45
Price change, 5 years	35	97	43	43	171	105	174	126	49	48	45
Profit margin, net	134	437	185	209	898	536	953	733	282	196	233
ROA	121	416	177	197	875	469	909	668	271	192	229
ROE, mean	101	316	135	150	730	415	636	526	224	179	218
ROIC	81	297	144	127	100	311	481	408	181	99	160
Total revenue, 10-year CAGR	34	96	40	43	164	88	171	127	48	42	44
Total revenue, 5-year CAGR	35	98	43	43	175	105	183	142	52	48	45
Total common shares outstanding	118	428	180	206	884	544	949	709	275	195	233
Total debt to equity	125	399	165	197	882	515	904	658	269	190	230