

The Limited Corporate Response to DEI Controversies

Finance Working Paper N° 1072/2025

August 2025

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Abstract

Firms' diversity, equity, and inclusion (DEI) policies have received significant scrutiny in recent years, including their efficacy and role in long-term value creation. We provide new evidence on these issues by studying what is arguably the most important group of firms—those with identified problems. We find that in the wake of DEI controversies, firms shift their hiring practices toward recruiting diverse employees to presumably improve public perception of their DEI profiles. However, these effects are economically small and primarily in junior, lower-paying positions. Despite these limited firm responses, we find these controversies have important negative stock price implications, which are largely offset when firms make more meaningful DEI investments. Our findings suggest firms currently often do little to address public concerns regarding their DEI activities, despite their significant value implications.

Keywords: Corporate social responsibility (CSR), Human capital, Diversity, equity, and inclusion (DEI), Environmental, social, and governance (ESG)

JEL Classifications: G30, G34, G28, J82, M14, M41, M51

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The Limited Corporate Response to DEI Controversies

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Abstract

Firms' diversity, equity, and inclusion (DEI) policies have received significant scrutiny in recent years, including their efficacy and role in long-term value creation. We provide new evidence on these issues by studying what is arguably the most important group of firms—those with identified problems. We find that in the wake of DEI controversies, firms shift their hiring practices toward recruiting diverse employees to presumably improve public perception of their DEI profiles. However, these effects are economically small and primarily in junior, lower-paying positions. Despite these limited firm responses, we find these controversies have important negative stock price implications, which are largely offset when firms make more meaningful DEI investments. Our findings suggest firms currently often do little to address public concerns regarding their DEI activities, despite their significant value implications.

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1. Introduction

One of the most contentious topics in corporate governance in recent years is firms’ advancements in diversity, equity, and inclusion (DEI). In response to public unrest as a result of the murder of George Floyd and other unfortunate events, firms dedicated considerable resources toward advancing DEI, with many of these efforts intended to increase racial and gender diversity (Jan, McGregor, and Hoyer, 2021). However, within a few years, many of these same firms eliminated their initiatives driven in part by increased governmental scrutiny and increases in anti-DEI activism (Francis and Cutter, 2024). This increased focus and abrupt pullback have left many scrutinizing the efficacy of recent DEI initiatives and their costs to firms (e.g., Foxman, 2025; Borchers, 2024).

Motivated by the above, we study the DEI-related initiatives of what is arguably the most important group of firms—those at the center of DEI controversies.¹ Despite the significant shareholder and stakeholder pressures on firms following these events, we provide evidence that most companies only make superficial changes. This is surprising, given that our evidence shows adequately remediating these issues has important implications for firm value. Our findings provide new evidence on firms’ responses to DEI controversies and the valuation consequences of these actions.

To explore these issues, we leverage a comprehensive sample of DEI controversies for publicly traded U.S. firms from 2008 through 2022. The events cover a broad range of

¹We focus on the subset of firms where DEI issues have the most significant impacts on social welfare and financial performance. For instance, prior studies show that adverse ESG events tend to lead to the most significant reactions from investors (Krüger, 2015), and there is considerable focus on sustainable investors on downside risks (Hoepner, Oikonomou, Sautner, Starks, and Zhou, 2024). This is partially because violations tend to lead to litigation and fines, which can lead to important valuation consequences (i.e., see Appendix A-2).

adverse DEI-related events, primarily related to workforce inequality and discrimination issues. We combine these data with firm-level employment data from Revelio Labs, which provides standardized workforce diversity data for a large sample of U.S. firms. These data, which contain detailed information on employee positions and credentials, provide insight into how firms change diversity both within the organization and through external hiring practices.

Whether firms meaningfully respond to DEI controversies is ultimately an empirical question. As with any investment, firms must weigh the associated costs and benefits before deciding how to proceed.² Managing their reputations among stakeholders to maximize shareholder value leads to potential benefits for firms (e.g., [Kamiya, Kang, Kim, Milidonis, and Stulz, 2021](#); [Servaes and Tamayo, 2013](#); [Karpoff, 2012](#)). But as with many intangible assets, quantifying any future benefits from DEI programs is difficult, which can lead some firms to underinvest rationally. Moreover, meaningful investment in DEI typically requires sustained spending to recruit, train, and enact change in corporate culture, all of which are real near-term costs.

Because DEI-related policies and efforts affect firms’ ability to attract talent (e.g., [Choi, Pacelli, Rennekamp, and Tomar, 2023](#); [Drucker and Enriquez, 2023](#)), we begin by exploring firms’ hiring responses following DEI controversies. We show that in the years following such controversies, firms hire more diverse employees. However, these effects are economically

²We consider DEI-related “investments” to represent the various corporate initiatives and policies to improve their DEI-related profiles. Many of the most common investments are closely tied to enhancing corporate diversity. For instance, firms historically have employed diversity targets or quotas ([Cai, Chen, Rajgopal, and Azinovic-Yang, 2024](#)). More recently, we have seen a growth in managerial compensation tied to diverse hiring ([Cohen, Kadach, Ormazabal, and Reichelstein, 2023b](#)). However, many indirect drivers of diverse workforces also exist, such as pay equity audits ([Barnard-Bahn, 2020](#)) and diversity training ([Arslan, Chang, Chilazi, Bohnet, and Hauser, 2025](#)).

small, with an approximate 0.81% increase relative to the sample average of approximately 58.9% diverse new hires. Importantly, these changes are almost entirely concentrated among junior-level positions (e.g., interns or junior analysts) and “non-core” (e.g., administrative, human resources) positions within the firm, which are less connected to the firm’s main business operations. These results highlight that firms respond to DEI controversies modestly by improving diversity where doing so is easiest and the least costly.

Because DEI controversies have only a small overall effect on hiring, we next examine cross-sectional variation to investigate why many firms do not take more meaningful actions after these controversies. Our analyses suggest the limited hiring changes we document are unlikely to be explained by these events being insufficiently severe to warrant a response or by a limited supply of diverse candidates. Rather, the evidence is most consistent with the role of outside pressure from shareholders and other stakeholders, which aligns with studies that demonstrate these pressures have a meaningful impact on firms’ sustainability profiles (e.g., [Chen, Dong, and Lin, 2020](#); [Dyck, Lins, Roth, and Wagner, 2019](#); [Dimson, Karakas, and Li, 2015](#)). However, we note the overall economic effect is still modest even when these pressures are high. Broadly, our findings suggest firms either dedicate limited resources to these issues or their efforts are largely ineffective.

Although our primary analyses focus on the diversity of *incoming* employees, an important consideration is the other primary dimension that determines the overall diversity of a firm—its ability to retain diverse employees. Inconsistent with significant improvements in firm DEI, we find the diversity profile of *outgoing* employees increases by approximately 0.75% relative to the sample average of approximately 58.3% diverse departing employees. These findings suggest firms struggle to retain diverse employees, which is consistent with

survey evidence indicating diverse employees are more likely to leave a job after witnessing issues related to DEI (e.g., [Glassdoor, 2020](#)). As a result, the net change in *overall* levels of diversity following these events is smaller and near zero, consistent with our primary inference that real change at firms following these controversies is limited.

In our final set of analyses, we take a broader look at how DEI controversies affect companies financially and strategically. We find these events lead to both short- and long-term drops in stock prices. These market-performance differences are economically meaningful, with a negative cumulative abnormal return in the days immediately surrounding the event (approximately 0.72%), and a longer-term annualized underperformance of approximately 3.5%. Highlighting the important role of DEI investment in responding to these controversies, we also find sufficient investment in DEI, as evidenced by an increase in diverse hiring, largely offsets these adverse financial effects.

We then explore other common responses of firms with DEI controversies to signal their DEI commitments. We find sizable increases in diversity-related disclosures and the likelihood of a firm disclosing a diversity target following DEI controversies. Consistent with “DEI washing,” we show these disclosures have no relation with firms’ hiring responses. Finally, we explore other key non-hiring responses that proxy for various aspects of firms’ DEI investment efforts, namely, whether firms experience future adverse employee-related events, how employees rate the firm, and firms’ ESG ratings. These findings support our primary inferences related to firms’ diverse hiring practices, which suggest firms are doing little to improve their DEI profile outside of increased signaling of DEI commitments.

Our study contributes to the literature on the mechanisms that encourage corporate

diversity and attract diverse talent at firms.³ Prior research documents various forces that facilitate or impede growing in corporate diversity, such as same-group representation (Ahn, Hoitash, Hoitash, and Krause, 2025), diversity quotas/targets (Cai et al., 2024), occupational licensing requirements (Sutherland, Uckert, and Vetter, 2024), and diversity information in job postings (Choi et al., 2023). We provide detailed evidence on the limited effectiveness of these collective mechanisms among the subset of firms that are arguably the most important to study. Understanding these limitations is critical given the growing evidence of unequal work outcomes for diverse employees (e.g., Flam, Green, Lee, and Sharp, 2023; Bloomfield, Rennekamp, Steenhoven, and Stewart, 2021; Kumar, 2010), as well as prior findings that find financial benefits from corporate diversity (e.g., Lins, Roth, Servaes, and Tamayo, 2024; Liu, Makridis, Ouimet, and Simintzi, 2023; Billings, Klein, and Shi, 2022). This latter aspect is particularly relevant to our setting, as we demonstrate the implications of DEI controversies on firm value, as well as the subsequent actions taken by firms around them.

We also add to the literature on firms and investor responses to outside pressures on ESG-related issues. One related strand explores how outside forces, such as those generated through public disclosures, shape firms' ESG investments.⁴ A separate strand of this liter-

³In particular, our findings add to recent evidence that explores firm responses following major social movements around DEI, such as the Black Lives Matter movement (e.g., Chen, Dechow, and Tan, 2025; Balakrishnan, Copat, De La Parra, and Ramesh, 2023; Cai et al., 2024). An inherent novelty of our study is our ability to observe how a wide range of firms invest in human capital, presumably to repair their reputations after DEI controversies. In doing so, we also relate to prior studies that have also explored firms' reputation-building responses to a variety of adverse events, such as those around regulatory misconduct (e.g., Cai, Raghunandan, Rajgopal, and Wang, 2023; Christensen, 2016; Chakravarthy, DeHaan, and Rajgopal, 2014).

⁴A rapidly growing literature in accounting highlights the importance of disclosure, which has important consequences for the real ESG activities of firms (e.g., Dai, Ormazabal, Penalva, and Raney, 2025; Bilicka, Casi, Seregini, and Stage, 2025; Gibbons, 2024; Baik, Even-Tov, Han, and Park, 2024; Tomar, 2023; Cohen, Kadach, and Ormazabal, 2023a; Fiechter, Hitz, and Lehmann, 2022; Rauter, 2020; Christensen, Floyd, Liu, and Maffett, 2017). Important channels through which these occur are through outside pressures from investors (e.g., Chen et al., 2020; Dyck et al., 2019; Dimson et al., 2015) or other stakeholders (e.g., Houston and Shan, 2022; Dai, Liang, and Ng, 2021; Liang and Renneboog, 2017) that shape firms' ESG activities.

ature studies how investors (e.g., [Krueger, Sautner, Tang, and Zhong, 2024](#); [Li, Watts, and Zhu, 2024](#); [Moss, Naughton, and Wang, 2024](#)) and other stakeholders (e.g., [Leonelli, Muhn, Rauter, and Sran, 2025](#); [Beyer, Chaskel, Euler, Gassen, Großkopf, and Sellhorn, 2024](#); [Christensen, De George, Joffre, and Macciocchi, 2023](#)) respond to the public dissemination of firms’ ESG activities. Our results provide new insights into how outside pressures from public DEI controversies shape firms’ human capital investments, as well as investors’ responses to these actions.

Finally, we contribute to the recent literature that evaluates the extent to which firms influence outside perceptions of their sustainability profiles (e.g., [Raghunandan and Rajgopal, 2024](#); [Cohen et al., 2023a](#); [Kim and Yoon, 2023](#)). Most directly related to our study are those studies that specifically explore how firms attempt to greenwash through real actions, such as through asset divestitures (e.g., [Cascino and Correia, 2025](#); [Ecker and Keeve, 2025](#); [Duchin, Gao, and Xu, 2024](#)) or emissions shifting (e.g., [Mahieux, Sapra, and Zhang, 2025](#); [Deng, Hung, and Wang, 2024](#); [Bartram, Hou, and Kim, 2022](#)). Also directly related to our study in this vein are those studies that present evidence of firms’ using selective disclosures around DEI to manage their reputations among investors and other stakeholders (e.g., [Bourveau, Flam, and Le, 2025](#); [Baker, Larcker, McClure, Seraph, and Watts, 2024](#); [Cai et al., 2024](#)). Despite considerable increases in signaling in corporate DEI commitments, our evidence of only modest remediation suggests a sizable gap between promise and practice that may extend to other ESG domains.

The remainder of the paper proceeds as follows. The next section describes the data used in the study and presents descriptive statistics. Section 3 discusses the empirical design. Section 4 provides our main findings related to firm hiring responses in the face of public DEI

controversies. Section 5 presents additional analyses on other firm and market responses to these controversies. Finally, section 6 provides an interpretation of the results and concluding remarks.

2. Data

2.1. Workforce diversity, equity, and inclusion data

We utilize data from Revelio Labs to assess firms’ hiring practices, because the data measure diversity across a broad spectrum of publicly traded companies in the U.S. Revelio Labs aggregates and standardizes vast quantities of publicly available online profiles and resumes from various sources to provide a holistic overview of the workforce for millions of companies. Although the data are primarily constructed for use by investors, consultants, and HR organizations, they have increasingly been used by academics to study many workforce-related issues (e.g., [Baker et al., 2024](#); [Cai et al., 2024](#); [Eisfeldt, Schubert, and Zhang, 2023](#); [Li, Lourie, Nekrasov, and Shevlin, 2022](#)).

Our firm-level metrics are based on a customized version of Revelio Labs Workforce Dynamics data, which provides aggregate monthly firm-level data on employee counts and flows, segmented by job roles, gender, ethnicity, and seniority. Based on user profiles, Revelio Labs assigns probabilities on gender and ethnicity classifications using prediction-based algorithms comparing employee names and locations with Social Security Administration and census data. It also implements sampling weight adjustments to account for the fact that online professional data may not be fully representative of the workforce, because certain roles may

be over- or underrepresented in online profile data.⁵

From the above data, we construct various proxies for firm diversity changes based on the workforce composition demographics by year. Our primary measure of diversity is the fraction of employees who are female or non-white. We calculate these metrics overall but leverage the granularity of the Revelio Labs data to further break down firm hiring decisions by seniority and job roles.

We also calculate several additional measures to capture firms’ investments in workforce DEI. In particular, we obtained the Revelio Labs Sentiment data, which uses natural language processing on employee reviews (i.e., from Glassdoor) to capture employee sentiment on specific topics. Combined with our primary measures on firm hiring activities and employee departures, these data provide a comprehensive set of metrics for exploring firms’ commitments to DEI and the associated impact on their workforce.

2.2. *DEI controversies*

We construct our sample of adverse firm-level DEI-related events from RepRisk, accessed through Wharton Research Data Services (WRDS). RepRisk provides comprehensive data on ESG-related incidents sourced from over 150,000 news sources, governmental agencies, and other public sources.⁶ Each incident is time-stamped and categorized into one of 28 different topics and 80 tags, of which a subset captures adverse DEI-related events for firms. Manual confirmation indicates that the intersection of “Discrimination in employment” and “Gender Inequality” or “Racial Discrimination” appears most related to gender and race-related DEI

⁵We acknowledge our diversity measures are potentially more representative of white-collar employees. However, given that much of the focus on diversity issues revolves around higher-paying white-collar jobs, this demographic is precisely the one we hope to study.

⁶See <https://www.reprisk.com/research-insights/resources/methodology>.

controversies in the workforce.

RepRisk, due to licensing constraints, does not provide detailed information on the precise nature of the event (i.e., the link to the article). However, their team of researchers manually reviews each event and adds various measures to the data that capture different aspects of each event. Specifically, issues are further classified into several categories based on the event’s severity and reach of the information source, among others. RepRisk measures severity based on three dimensions: the event’s consequences (e.g., if the event resulted in an injury, lawsuit settlement, etc.), the breadth of the impact (i.e., one person vs. many individuals), and whether the event was caused by negligence or accident. The reach of an event is based on the readership/circulation of the media discussing the event, with high-reach events sourced from global media outlets (e.g., *New York Times*, *Wall Street Journal*), whereas low-reach events are sourced from small media outlets or NGOs.

In Appendix A, we provide several examples of the events we study.⁷ We begin with a case study from several events from Wells Fargo, which are present in our RepRisk data and displayed in Figure A-1. Panel A of Figure A-1 relates to questionable statements by Wells Fargo’s CEO that received significant backlash from the general public. According to Reprisk, this event is classified as low-severity but high-reach. To address this backlash, the CEO apologized and Wells Fargo adopted various DEI policies to increase its diversity profile, including a mandate to interview more diverse candidates for high-paying positions (see Panel B). However, as shown in Panel C, Wells Fargo did not adhere to the spirit of these mandates and instead manipulated them. The discovery of this manipulation two years

⁷Although Reprisk does not provide links to the events, we identified these examples by searching for adverse events related to the firm.

after the mandate resulted in shareholder litigation and significant media backlash. Reprisk classifies this discovery as a high-reach and high-severity event.

Figure A-2 shows several other examples for various severity and reach combinations. Panel A highlights a localized instance of low-reach/low-severity workplace discrimination, whereas Panel B highlights a serious event related to Goldman Sachs, which did not receive significant media attention. Panels C and D highlight two events that resulted in significant media backlash for the company, but the latter had more evidence of obvious wrongdoing by the firm, which resulted in more significant financial penalties.

2.3. *Sample construction*

To construct our sample, we assemble a firm-year panel of all CRSP-Compustat firms. Because RepRisk only lists a firm once it has at least one ESG-related controversy, we restrict our sample to firms with at least one RepRisk entry, thereby guaranteeing every firm in our sample is covered by RepRisk. Finally, we merge in employee diversity measures from Revelio Labs and retain only those firm-years with Revelio coverage. Our final sample includes 1,727 firms and 21,016 firm-years from 2008 to 2022. Our final sample covers 1,293 adverse DEI-related events in 654 firm-years across 315 unique firms. These data provide us with a broad sample of firm DEI events to explore variations in firms' real hiring activities.

We supplement our sample with firm-level financial and equity characteristics using data from CRSP and Compustat. We use social ratings from ESG rating agencies including Bloomberg, Thompson Reuters Refinitiv, Sustainalytics, and S&P Global.⁸ To construct

⁸Some of our ESG ratings do not cover the entire sample period. Our Sustainalytics data ends in 2018 as the data provider changed their methodology and data product that year, and is not comparable with later years. In addition, S&P data begins in September 2013; hence, they do not have coverage for the early years in our sample. Lastly, our Bloomberg data ends in 2020 due to download limitations.

diversity-related disclosure variables, we include annual proxy statements (DEF14A) through the WRDS SEC EDGAR filings database, ESG reports through the Corporate Register database, and DEI-related discussions on Twitter/X via their API. In addition, we utilize data from Refinitiv on whether a firm has a diversity target, employee sentiment data from Revelio Labs, and Equal Employment Opportunity Commission (EEOC) violations data from Good Jobs First. We winsorize all continuous variables at the 1st and 99th percentiles to mitigate the impact of outliers. All analyses are conducted on the full sample of observations, subject to data availability. Appendix B presents variable definitions and data sources.

2.4. *Descriptive statistics*

To show the types and frequency of DEI events, we plot events over our sample period in Figure 1. Panel A presents the incidence of DEI controversies, separated by whether the event relates to gender inequality or racial discrimination. This panel shows a large increase in DEI events beginning in 2018, which roughly corresponds to the #MeToo movement. Both gender inequality and racial discrimination increase around this time and remain so for the rest of our sample period. Panel B plots the fraction of firm-years with a DEI event. This panel shows the average percentage of firm-years with a DEI event by year (3% over the entire sample period), with racial discrimination being the most common. Before 2018, less than 2% of firms had a race- or gender-related event. However, as in Panel A, we observe an increase in the proportion beginning in 2018 that persists thereafter. This figure demonstrates DEI controversies are relatively uncommon historically, but the heightened focus on DEI issues by firms in recent years has elevated the incidence of these events.

We report summary statistics for the variables used in our study in Panel A of Table 1. We find the average firm hires 58.86% diverse employees. This inflow of diversity is concentrated among the lowest-ranked employees, with diversity dropping as employee rank rises—reflecting that higher positions are held mostly by white males. Similarly, we find diversity in hiring is concentrated in non-core positions, including administrative and back-office functions, whereas core positions have the lowest levels of diversity.

Panel B compares the mean firm characteristics of our sample with those of the Compustat-CRSP universe. Our sample includes firms that, on average, are larger, have higher returns and profitability, and have smaller book-to-market ratios than the Compustat-CRSP universe. Panel C compares the Fama-French 12 industry composition of our sample with the Compustat-CRSP Universe. Our sample has slightly fewer finance, business equipment, and healthcare firms, and slightly more firms in wholesale, retail, and manufacturing industries. Despite these differences, our sample appears to cover a wide range of publicly traded firms.

Table 2 reports mean differences between firms-years with a DEI event and those without one, based on statistics in the year prior to the event. This table reveals significant differences across many firm characteristics, highlighting the non-random nature of firms with DEI controversies. This table shows treated firms tend to be larger and have lower book-to-market ratios, but exhibit higher profitability and returns than non-event firms. Surprisingly, firms also have *more* diversity inflows across seniority and job functions and are more likely to discuss DEI in their disclosures. In addition, these firms also have substantially higher social ratings by ESG rating agencies despite also having a greater propensity for public DEI controversies.

3. Empirical design

We adopt a traditional empirical design where the variation in firms’ employment activities in the years following DEI controversies is compared with non-impacted years within the same firm. Firms’ employment responses are ultimately influenced by media coverage, regulatory enforcement, firm characteristics, and other potentially confounding factors. To mitigate these influences and better isolate the effect of DEI events, we incorporate a range of time-varying controls and fixed effects.

In our primary analyses, we follow prior studies (e.g., [Akey, Lewellen, and Liskovich, 2025](#); [Christensen et al., 2023](#)) and estimate the following regression specification based on the data described in section 2:

$$y_{i,t} = \alpha + \beta DEI\ Event_{i,t} + X\gamma + \delta_i + \eta_{j,t} + \epsilon_{i,t}, \quad (1)$$

where $y_{i,t}$ captures outcomes such as workforce diversity inflows or employee reviews for firm i in year t . Our main variable of interest is $DEI\ Event_{i,t}$, which identifies firm-years following an event related to DEI. $DEI\ Event_{i,t}$ equals 1 for firms disclosing a DEI event in either the current year or the previous three years, and 0 otherwise.⁹ $X_{i,t}$ is a vector of time-varying firm characteristics, including firm size, asset growth, book-to-market ratio, return on assets, leverage, market-adjusted stock returns, and idiosyncratic stock return volatility ([Baker et al., 2024](#)). We include these variables to control for basic firm characteristics that

⁹An inherent assumption of our analyses is that there are no other confounding events that otherwise impact outcome, $y_{i,t}$. While this “only through” assumption is untestable, we note that our estimates are virtually unchanged when we explicitly control for other types of ESG controversies, as measured by the RepRisk data. Additionally, that we find significant increases in DEI-related signaling following these events gives us confidence that this is the primary mechanism driving firms’ hiring-related changes following these DEI controversies (i.e., see Section 5.2).

may be related to characteristics of firms’ hiring activities and differ between firms with and without DEI events (see Table 2).

In our main specifications, we include industry-by-year fixed effects to eliminate trends in the dependent variable and shocks common to all firms in our sample in a given industry-year combination, such as those related to a firm’s labor supply.¹⁰ Because we are primarily interested in deviations from firms’ typical activities after DEI controversies, we additionally include firm fixed effects to control for unobserved heterogeneity that is constant within a firm, such as diversity levels.¹¹ By using these fixed effects, our research design essentially compares diversity levels in the four years after a DEI event with other years in the same firm, while eliminating time- and industry-varying trends. Throughout the study, we base our inferences on standard errors clustered by firm—the level of “treatment” in our setting (Abadie, Athey, Imbens, and Wooldridge, 2022).

4. Main analyses

4.1. *Corporate hiring practices*

The natural starting point for the analysis is to examine how the diversity of newly hired employees changes following DEI controversies. Examining inflows is ideal because they are

¹⁰In untabulated tests, we include MSA fixed effects based on the location of firms’ headquarters to further control for the local labor supply. Our results are qualitatively unchanged with these fixed effects. However, because most firms are geographically dispersed, headquarters-based MSA fixed effects only partially capture variation in the labor supply. We believe industry-by-year fixed effects better reflect the relevant pool of potential employees.

¹¹Our main specification is akin to a staggered difference-in-differences design where “treatment” turns on/off and not all firms receive treatment. This, along with the fact that very few of our firms are subject to DEI controversies (i.e., receive treatment), mitigates concerns related to biases in estimates from generalized difference-in-differences analyses where all firms receive treatment (e.g., Baker, Larcker, and Wang, 2022). We also re-estimate our primary specifications using a stacked difference-in-differences design and find results that are qualitatively similar to our main findings.

more responsive to DEI-related policies than overall firm diversity and reflect a range of DEI-related efforts at the firm. To the extent firms are taking real actions to improve their DEI profiles, we expect economically meaningful increases in the diversity of newly hired employees.

In Table 3, we examine how the composition of employee inflows changes following a DEI event by estimating equation (1). Panel A reports the change in diversity (in percentages) for employee inflows in the four years following an event for various fixed-effect structures. In column (1), we see that when *DEI Event* is the only explanatory variable, diverse employee inflows for treated firms in the four years following an event are approximately 5.4 percentage points higher than those of other firms. As Table 2 shows, this difference largely reflects the fact that firms with DEI controversies tend to have slightly more diverse inflows of employees on average. When we add controls (column (2)), these differences attenuate but remain largely the same.

Because we are primarily interested in how firms deviate from their normal behavior around these events, our analysis centers on specifications that include firm-level fixed effects shown in columns (3) and (4). We continue to find a positive and significant coefficient on *DEI Event*, but these estimates are economically much smaller. In our most restrictive specification with firm- and industry-year fixed effects (column (4)), we see employee inflows for treated firms are 0.48 percentage points higher than in periods without a controversy. This positive coefficient suggests firms with DEI controversies attract more diverse hires, which may result from firms taking remedial actions to improve the workplace environment for diverse employees. However, the increase is economically modest—less than 1% relative to the pre-event average.

Panel B re-estimates equation (1) but focuses on gender-discrimination events and the inflows of female employees. Although columns (1) and (2) are positive and statistically significant, when we include fixed effects (columns (3) and (4)), we find the coefficients remain positive but are no longer statistically significant. Panel C focuses on racial discrimination and the inflows of non-white employees. Unlike Panel B, this panel shows a consistently positive and statistically significant coefficient on *DEI Event*, suggesting firms increase their hiring of non-white employees following an adverse event. Combined with the weaker results in Panel B, the results in Panel C suggest the increase in diverse hiring is concentrated in non-white employees following events related to racial discrimination.

To further explore the dynamics of diversity hiring around the event, we plot inflows of diversity around the event in Panel A of Figure 2, using a stacked difference-in-differences design following Baker et al. (2022).¹² Prior to the event, where the event is at $t = 0$, the hiring trend is relatively flat. In years $t = 2$ and $t = 3$, we see diversity inflows increasing significantly, suggesting much of the increase occurs several years after the adverse event. This delay highlights that remedial actions by firms take time to take effect and provides additional justification for why we select a four-year event window. Nonetheless, the coefficient estimates in $t = 2$ and $t = 3$ (0.502 and 0.675) are in line with our panel-regression estimates in column (4) in Table 3, Panel A (0.479).

¹²Specifically, for each treatment event, we stack all non-treated firms within the sample period as control firms. We then estimate an event-time difference-in-differences using the same control and fixed-effects structure as our main empirical design, with year $t = -1$ as the reference year.

4.2. *Hiring across seniority and job roles*

Another fundamental question concerns the roles of these new hires within the firm. Prior literature finds racially/ethnically and gender-diverse employees are often hired into less senior and lower-paying roles (e.g., [Fryer, Pager, and Spenkuch, 2013](#), [Guvenen, Kaplan, and Song, 2014](#)). Accordingly, when facing the pressure to increase diversity, firms may hire lower-ranked diverse employees because filling these roles is easier, even if doing so is less likely to lead to long-lasting improvements in diversity (e.g., [Chang and Kirgios, 2024](#)). To the extent this occurs after these DEI controversies, it raises further doubts regarding the credibility of firms' motives.

We conduct two sets of analyses to explore the types of positions firms hire diverse employees into following a DEI controversy. First, we focus on employee seniority. Using Revelio Labs' classification, we partition employees into four levels of seniority: (1) entry-level positions, such as paralegal; (2) junior positions, such as junior accountants and attorneys; (3) manager positions, such as account manager and head of legal; and (4) non-C-suite executives, such as managing directors and partners. For each seniority level, we compute the percentage of employee inflows that are diverse using only employees in that level of seniority and re-estimate equation (1).

We report the findings in Table 4, Panel A. This panel shows the increases in diversity for new employees after a DEI event are isolated to the most junior employees, with a 0.861% increase in the lowest level of employees (column (1)). In contrast, there is a negative and statistically significant decline of 1% at the highest level of seniority (column (4)). A comparison of coefficients for inflows for the most junior and senior employees is statistically

significant at the 1% level. These results suggest firms tend to improve diversity where doing so is presumably easiest—among junior-level hires.

Panels B and C of Figure 2 show the trends for diversity inflows for the most junior (Panel B) and most senior positions (Panel C). Panel B shows that starting in year t , inflows for junior employees are more diverse, and this heightened increase persists through year $t + 3$. By contrast, Panel C shows the diversity of incoming senior employees is relatively flat. Combined with the findings of Table 4, Panel A, firms appear to quickly increase the diversity of their newly hired junior employees, with no effect among senior hires, even in later years.

Second, we focus on job functions and examine whether hiring occurs in functions critical to the firms’ operations (i.e., “core” positions) or whether it is in more peripheral roles (i.e., “non-core” positions). Because these core functions vary by firm and industry, we exploit the fact that employees in non-revenue-generating areas of the business often earn lower salaries than those in the core parts of the firm’s operations. Therefore, we partition employees into job functions based on the yearly average salary of each position, using the granular classifications of 150 unique job functions from Revelio Labs. We sort the yearly average salary into quartiles to create four categories describing how “core” a job function is within a firm-year, and then examine the inflows across each quartile.

Panel B of Table 4 presents the diversity inflows within each of these four categories of job function. These findings align with those in Panel A, by showing hiring is largely concentrated in less important roles. Specifically, we see the increase in diversity for new hires is largest in the jobs that are the least central to the firm’s operations. In column (1) of Panel B, the coefficient for the “1 (Non-Core)” category increases by 1.159% and is statistically

significant at the 1% level. Columns (2) and (3) show the middle two job functions are also positive and statistically significant, though the coefficients are approximately half the size of column (1). By contrast, column (4) shows that for the most core positions, the coefficient—although positive—is statistically insignificant and statistically smaller than the coefficient in column (1).

4.3. *Explaining the economically limited hiring effects*

Our primary results indicate that firms do not significantly alter their DEI hiring behaviors in response to DEI controversies. In this section, we explore several of the most credible explanations for this firm behavior. Specifically, we consider how firm responses vary with the market’s awareness of these events, as external shareholder pressure can meaningfully influence changes in firms’ sustainability profiles (e.g., [Chen et al., 2020](#); [Dyck et al., 2019](#); [Dimson et al., 2015](#)). To rule out the possibility that these DEI-controversy news stories are innocuous, we also explore the extent to which the severity of these events matters. Finally, we consider the extent to which an inelastic diverse labor supply (i.e., few diverse candidates exist) may explain our findings (e.g., [Rivera, 2012](#)).

To operationalize these cross-sectional effects, we augment equation (1) with a split indicator (*SplitVar*) and their interactions as follows:

$$y_{i,t} = \alpha + \beta_1 DEI\ Event_{i,t} + \beta_2 SplitVar \times DEI\ Event_{i,t} + X\gamma + \delta_i + \eta_{j,t} + \epsilon_{i,t}, \quad (2)$$

where the lower-order effects for the four split indicators we consider are subsumed by either the fixed effects or the interaction term. The first three indicators are defined at the event

level, proxying for whether the event has high media attention (*High Reach*), whether it is followed by negative returns (*Neg. Return*), and whether it is classified as high severity (*High Severity*). The last indicator is defined based on industry-year characteristics, namely, on whether the firm is in an industry that has above-median diversity in a year (*High Labor Supply*). Our coefficients of interest are the interaction terms between the split variables and the indicator for a DEI controversy, because they capture the additional effect of shareholder pressure or capacity for a firm to respond to DEI controversies. Statistically significant interaction terms indicate firms respond differently to controversies based on the level of external pressure, the severity of the event, or the ease of accessing a diverse labor pool.

Table 5 reports the regression when diversity inflow is the dependent variable. The first two columns report results using our two proxies of heightened external pressure—high reach and negative returns. In both columns, the coefficient on *DEI Event* is insignificant, suggesting that when an event does not have high media reach or a negative return, firms do not increase their hiring of diverse employees. The coefficients on the indicators for external pressure are positive and significant, suggesting firms respond to heightened external pressure by hiring more diverse employees. These findings highlight the importance of outside pressures from shareholders and other stakeholders in invoking meaningful internal changes.¹³ However, we note the economic significance of the changes remains low even in these cases.

The third column examines the influence of severity on diverse inflows. The coefficient on *DEI Event* is positive and significant, suggesting firms hire more diverse candidates when

¹³In an untabulated analysis, we find our main result is driven by DEI controversies after 2018, consistent with movements such as MeToo and Black Lives Matter significantly increasing public awareness and stakeholder pressure in response to these events.

events are less severe. By contrast, the coefficient on the indicator is negative and insignificant, resulting in a total effect for severe controversies that is also negative and insignificant. This result suggests firms do not meaningfully increase diverse hiring in response to especially severe controversies.¹⁴

The last column in Table 5 reports how labor-pool diversity is associated with diverse hiring. The coefficient on *DEI Event* is positive and significant, suggesting firms increase diverse hiring following a controversy when operating in less diverse industries. By contrast, the coefficient on the indicator for a highly diverse industry is negative and insignificant, which results in a total effect that is insignificant but still positive. This pattern suggests firms’ modest responses to controversies are not primarily driven by a limited supply of diverse candidates.

4.4. *Employee retention and net changes in diversity*

Our focus has been on employee inflows because they are arguably the most observable firm response to adverse DEI events. A natural complement to this analysis is an examination of employee outflows, which, along with employee inflows, determine the demographic makeup of a firm. In our setting, DEI controversies may also prompt existing employees to leave (e.g., [Glassdoor, 2020](#)), resulting in no net change in diversity.¹⁵ As such, considering the diversity of outflows provides further insights into the real changes in corporate DEI

¹⁴Although this finding at first appears counter-intuitive, many severe events have limited reach (i.e., the correlation between high reach and high severity is -0.1650). This finding further emphasizes the importance of external shareholder and stakeholder pressure in invoking real actions by firms.

¹⁵Prior studies highlight that employee turnover is largely a function of their satisfaction with the firm (e.g., [Edmans, 2012](#); [Griffeth, Hom, and Gaertner, 2000](#)) or perceptions of performance (e.g., [Li et al., 2022](#); [Hancock, Allen, Bosco, McDaniel, and Pierce, 2013](#)), which, in our context, are likely to depend on corporate DEI activities.

investments following these events.

To explore this issue, we use employee outflows as our diversity measure. Specifically, we compute the percentage of diverse employees exiting firm i in year t relative to all employees leaving the firm. We then re-estimate equation (1) and report the results in Table 6. In column (1) of Panel A, the coefficient estimate on *DEI Event* is 0.434, which is statistically significant at the 5% level of significance. This finding suggests that following a DEI controversy, departing employees are 0.434% *more* diverse. This increase suggests diverse employees may be leaving the firm in response to the negative event, which is consistent with survey evidence ([Glassdoor, 2020](#)).

Columns (2) and (3) of Panel A largely mirror our findings on inflows for female and non-white employees. Specifically, column (2) shows the percentage of female employees departing in response to gender-related DEI controversies is insignificant. By contrast, column (3) shows departing employees are 0.522% more likely to be non-white. These results closely match the inflow results in Panels B and C of Table 3, suggesting many of the diverse hiring firms are simply offsetting the heightened diverse outflows.

Because both the diverse employee inflows and outflows increase, a natural question is whether the overall employee diversity changes following these controversies. In Panel B, we re-estimate equation (1) but focus on firms' aggregate diversity *level*. The coefficient on *DEI Event* is positive and statistically significant at the 1% level and indicates an increase in diversity of 0.37% following a controversy. This amount is equivalent to 0.63% of the sample mean, again suggesting only a modest increase in diversity. Columns (2) and (3) show this increase is mainly driven by the racial aspect of diversity, echoing our inflow results in Table 3, and outflow results in Panel A. These findings highlight that firms respond to these

controversies by modestly increasing diversity primarily by hiring more non-white employees to offset departures, while overall gender make-up remains unchanged.

5. Firm performance and non-hiring responses

5.1. *DEI controversies and firm performance*

We next examine the extent to which these DEI controversies matter to investors. Whether such a relationship exists is unclear, given that our results thus far suggest, on average, only modest real firm responses following these controversies. However, prior evidence highlights that performance effects may arise from various channels, such as through deteriorating social capital (e.g., [Amiraslani, Lins, Servaes, and Tamayo, 2023](#); [Lins, Servaes, and Tamayo, 2017](#)) or declining employee morale and satisfaction (e.g., [Edmans, 2012, 2011](#)) following these adverse events. A natural question also exists as to whether increased DEI investment in response to these controversies has any incremental impact on how investors respond to these events.

We first examine the short-term market reactions around each DEI event to assess investors' initial reactions to the DEI controversy. Panel A of Table 7 reports the short-window cumulative abnormal returns around when the DEI controversies make the news (i.e., become public knowledge). Before the controversy, abnormal returns are not statistically different from zero, although we see some leakage in the week before the event. Following these events, we find in the window of $[0, 5]$ days that the CAR is -0.342% , suggesting investors perceive these controversies as detrimental to firm value. The negative return persists for several

days after, as we also observe a negative and significant abnormal return of 0.226% over the window of $[6, 10]$ days, indicating investors need time to process the implications of the DEI controversy. The cumulative abnormal return, including the full event window $[-5, 10]$, is approximately -0.72% and statistically significant at the 1% level ($t\text{-stat} = -2.90$). In economic terms, the magnitude of these reactions mirrors other short-window market reactions to CSR-related news events (e.g., [Flammer, 2021](#); [Krüger, 2015](#)).

We also analyze the long-run stock returns to better understand whether the limited real changes we document in prior sections are insufficient, on average. Long-run underperformance may arise for several reasons. For instance, firms with DEI controversies may be subject to lawsuits that require expensive settlements, experience high employee turnover, which can reduce employee morale and efficiency, or receive negative publicity that hurts demand for their products.

We re-estimate equation (1), using firm-month panel data, where the dependent variable is the abnormal monthly returns relative to the benchmark returns based on [Daniel, Grinblatt, Titman, and Wermers \(1997\)](#). We present the results in Panel B of Table 7. This panel shows the monthly abnormal returns relative to the [Daniel et al. \(1997\)](#) benchmark one, two, three, and four years after the DEI controversy are negative and statistically significant. The estimates range between -0.299% (one year) and -0.241% (four years). Annualized, these effects range from -3.53% to -2.85% per year, suggesting these firms' stock prices meaningfully underperform their benchmark portfolios over longer periods.

Although we observe that the stock price of the average firm with a DEI controversy underperforms, an important question is whether more meaningful DEI investments after these DEI controversies lead to improved financial performance. To explore this possibility,

we augment the regression from Panel B by including an indicator for whether diversity inflows increased and its interaction with the indicator for whether a DEI controversy occurred. To the extent that DEI investments after controversies increase firm value, we expect the interaction between the indicator for DEI Event and increased diversity inflows to be positive.

We report the results in Panel C of Table 7. Across all four columns, the interaction is positive and significant, which suggests firms that increase their diversity underperform less than firms that do not, and is consistent with investors valuing “offsetting” CSR activities (e.g., [Krüger, 2015](#)). In fact, the total effect of firms that increase diversity after a controversy, that is, the sum of the coefficients on *DEI Event* and *DEI Event* $\times$ *Increased Diversity*, is close to zero and insignificant. This result suggests firms that take corrective action following a DEI controversy do not have long-run underperformance, possibly because they avoid the negative consequences of unaddressed controversies, such as lower employee morale or pushback from consumers. These findings suggest an instance when DEI investment may increase firm value, namely, following a DEI controversy, and more broadly demonstrate both DEI controversies and firms’ responses to them have capital market consequences.

5.2. *Corporate communication in response to DEI controversies*

Our findings reveal that firms appear to only take superficial real actions to improve their workforce diversity following DEI controversies. A key question is the extent to which firms are “signaling” their commitments to DEI in the wake of these events, despite our earlier evidence that they make few real investments. Such a finding would confirm allegations

that question firms’ outspoken diversity commitments (e.g., [Hood, 2023](#)) and the limited resources actually being put toward enacting change (e.g., [Liu, 2023](#); [Primus, 2022](#)).

We explore how firms can signal their commitments to DEI initiatives in four ways. First, we examine DEI discussions in proxy statements, the only SEC document with a required DEI discussion for most of our sample period, and the primary SEC document through which this information is communicated (e.g., [Baker et al., 2024](#); [SEC, 2009](#)). Second, we examine alternative disclosure channels, namely, CSR reports, one of the primary channels through which firms make disclosures about CSR-initiatives issues (e.g., [Christensen, Hail, and Leuz, 2019](#)). Third, we include X/Twitter because it allows firms to transmit information directly to a wide range of stakeholders (e.g., [Blankespoor, DeHaan, and Marinovic, 2020](#)), and firms commonly disseminate information related to social issues via this platform. Finally, we examine whether firms publicly disclose a diversity target, which can serve as another way to signal a firm’s commitment to improving DEI profiles (e.g., [Cai et al., 2024](#)).

We present our analyses in Table 8. Panel A estimates equation (1) using these alternative proxies. Column (1) shows DEI discussion increases in proxy statements by approximately 17.6%, suggesting firms attempt damage control by highlighting DEI efforts in financial documents. Similarly, columns (2) and (3) of Table 8, Panel A, show firms discuss DEI in CSR reports and Twitter 16.1% and 11.5% more frequently. These sizeable increases suggest firms may use these channels to signal to outside stakeholders that they are committed to fixing their DEI issues. Finally, column (4) shows firms, on average, increase the likelihood of having a diversity target by 3.0%.

Combined with our primary findings of limited real change by firms, these significant increases in DEI-related signaling suggest firms may be engaging in little more than DEI-

washing behavior following controversies (e.g., [Baker et al., 2024](#)). We explore this possibility further in Panel B of Table 8, where we examine the relationship between how much firms signal their commitments to DEI after these events and the inflows of diversity. Specifically, we augment equation (1) by adding changes in signaling, across various proxies, and their interaction with *DEI Event*. Across all columns, we find no statistically significant relationship between the change in each signaling variable after a DEI controversy and a subsequent change in diversity hiring at the firm. These findings confirm firms’ signaling responses to these events may be little more than DEI washing.

5.3. *Corroborating non-hiring evidence*

Our main analyses indicate firms’ real diversity investments, as they relate to their DEI initiatives, are largely superficial after DEI controversies. We draw these inferences by using firm-level diversity data to study firms’ hiring practices. However, firm-level commitments to DEI are multidimensional (e.g., [Edmans, Flammer, and Glossner, 2024](#)), and increasing workforce diversity is just one of the many actions firms may take following these controversies. In this section, we confirm our earlier analyses by considering measures that capture other outcome variables related to DEI investment.

First, if firms are serious about improving their DEI profiles following controversies, we expect them to be less likely to have a future event. In Table 9, Panel A, we estimate equation (1), but where the dependent variables are indicators for a future DEI controversy (column (1)) and future EEOC violation (column (2)) in year $t + 1$. Column (1) shows that firms with a DEI event year t are 3.4% more likely to have another adverse DEI event in

year $t + 1$. Column (2) shows no significant relation between *DEI Event* and a future EEOC violation, because the coefficient on *DEI Event* is insignificant. These two columns provide no evidence that firms effectively remediate their DEI issues. In fact, we find some evidence that firms continue to experience worse DEI outcomes, which may be a systemic aspect of their culture.

We next examine whether the DEI events affect existing employees' morale. If internal investment in improving firms' DEI profiles and workplace culture is sufficient (and perceived as desirable to employees), we expect employee morale to increase after these events. We proxy for employee morale with quantitative employee ratings based on employee reviews (i.e., from Glassdoor). We estimate equation (1), where overall employee perception (column (3)) and approval of leadership (column (4)) are the dependent variables. In both columns, the coefficient on *DEI Event* is negative and significant, suggesting DEI controversies adversely affect employee morale. These results help confirm the DEI events are of sufficient scope and seriousness to warrant a reaction, in part because they have a meaningful impact on existing employees. Together, the findings in Panel A suggest firms do little to remediate their DEI issues, which can lower employee morale and may contribute to higher attrition among diverse employees, as evidenced by the results in Table 6.

In our final analyses, we explore the dynamic shifts of corporate ESG ratings around DEI controversies. Various aspects of a firm's DEI practices are key inputs into corporate ESG ratings, mainly relating to the social ratings. Improvements to these external ratings may reflect real changes in firm behavior after DEI controversies and offer insight into the quality and effectiveness of firm DEI activities.

In Panel B of Table 9, we examine DEI events' influence on ratings in year t of four

popular rating providers: S&P, Refinitiv, Sustainalytics, and Bloomberg. We re-estimate equation (1) using all four ratings. The results across rating providers are mixed: Refinitiv is significantly lower, and S&P, Sustainalytics, and Bloomberg are insignificant. Assuming each of these ratings has some degree of validity, the lack of convergence across the ratings does not provide any evidence that firms take substantive real actions in response to DEI controversies.

6. Conclusion

We study the real effects of DEI controversies across a broad set of U.S. firms. We find that following DEI controversies, firms increase their recruitment of diverse employees to enhance their DEI profiles. However, these effects are economically small and concentrated in the most junior, lowest-paying positions. These limited firm responses are surprising because we also show a negative market response to such DEI events, which are mitigated when firms strategically address the DEI controversy through real hiring actions.

In interpreting our findings, we note that they are primarily descriptive, because the assignment of DEI controversies among firms is not random. Envisioning a credible instrumental variable or methodological design that would enable us to draw causal interpretations is difficult. Periods of DEI controversies are unusual, and firms' actions around these events may not represent their general behaviors in non-controversy periods. Similar caveats are necessary when evaluating the performance results in our study, because our study cannot speak to the average performance effects of DEI investments. Rather, our evidence suggests issues related to corporate DEI can have a significant impact on shareholders' equity, as can

the effective DEI investment in the face of these issues.

Another important consideration is our focus on particular dimensions of firms' commitments to DEI issues, mainly those related to workforce diversity. This feature is largely a focus of the events we study, which center around employment-related discrimination and inequality. Firms' commitments to DEI are inherently multifaceted (e.g., [Edmans et al., 2024](#)), and our focus on diverse hiring may not be indicative of all aspects of firms' DEI investments, such as their childcare policies or their commitments to LGBTQ employees.

Despite these limitations, we believe our study has important implications for the ongoing debates around human capital and ESG-related issues. For instance, our findings highlight the limited impact of DEI controversies on firms' real behaviors, even when these events are severe and well publicized. To the extent that increased accountability by firms around these issues is socially desirable, for either economic or ethical reasons, our findings may underscore the potential need for regulatory measures to promote these behaviors.

Our findings also highlight the potential value implications of firms' DEI initiatives. At a minimum, our findings suggest the significant pushback on corporate DEI activities against corporate DEI activities may be unwarranted ([Nicquel and Thorbecke, 2024](#)).¹⁶ For firms experiencing DEI controversies, our findings suggest these efforts could help increase firm value. Furthermore, our evidence underscores a fundamental tension: although DEI investment can protect firm value following a controversy, its upfront costs, implementation challenges, and legal uncertainty can lessen firms' incentives to act. This tension suggests a potential role for regulatory policy to help firms realign their private incentives.

¹⁶These anti-DEI sentiments have been particularly forceful toward more active forms of promoting DEI at firms, such as diversity targets or quotas (e.g., [Yoshino and Glasgow, 2024](#); [Olson, Hadero, and D'Innocenzo, 2024](#)). Also see related discussions on how the U.S. Supreme Court's recent overturning of U.S. affirmative action laws may affect corporate hiring (e.g., [Wiessner, 2023](#)).

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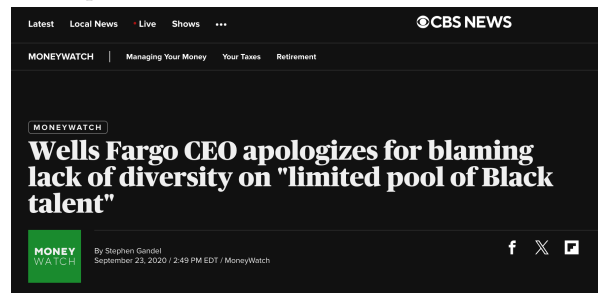
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Appendix A. Examples of DEI Controversies

Panel A: 2020 Wells Fargo Public DEI Backlash (High Reach/Low Severity)



Panel B: Adoption of Various DEI Practices to Increase Diversity



Panel C: 2022 Wells Fargo Incident on Fake Job Interviews (High Reach/High Severity)



Fig. A-1 Case Study: Wells Fargo. This figure presents a timeline of Wells Fargo's recent adverse workforce diversity in 2020 and 2023. Panel (a) highlights the backlash toward Wells Fargo for comments made by then-CEO Charlie Scharf about DEI recruitment efforts. Panel (b) highlights how Mr. Scharf subsequently apologized. Wells Fargo responded by adopting various DEI practices to increase diversity, including a mandate to consider a diverse slate of candidates for all open jobs paying more than \$100,000 a year. Panel (c) highlights the scandal caused by Wells Fargo trying to bypass these implemented policies.

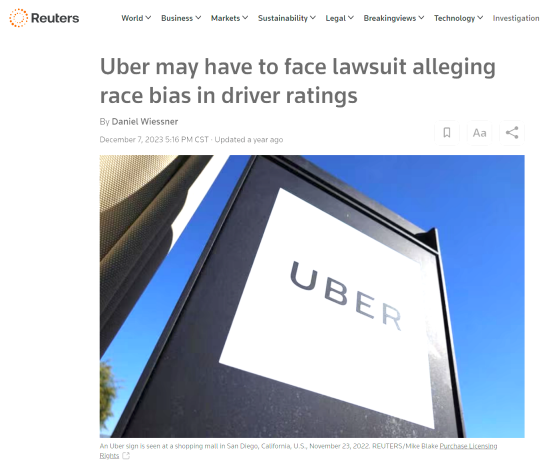
Panel A: United Airlines Racist and Sexist Accusations (Low Reach/Low Severity)



Panel B: Goldman Sachs \$215M Sex-Bias Deal (Low Reach/High Severity)



Panel C: Uber's Racist Algorithm (High Reach/Low Severity)



Panel D: Google Pay Equity Suit (High Reach/High Severity)

Google Agrees to Pay \$118 Million to Settle Pay Equity Suit

- Deal reached the same day a judge decertified an Oracle suit
- Preliminary approval hearing is scheduled for June 21



Fig. A-2 Examples of DEI Controversies from RepRisk. This figure presents news clippings from several DEI controversies from RepRisk. Panel (a) presents an example of a low-reach/low-severity event for United Airlines. A worker has sued United Airlines for alleged workplace harassment involving racism, sexism, and ignored complaints, including incidents with offensive items and anti-Mexican content. Panel (b) presents an example of a low-reach/high-severity event for Goldman Sachs. Goldman Sachs seeks approval for a \$215 million settlement to resolve claims of systematic gender discrimination against female employees through biased performance rankings. Panel (c) presents an example of a high-reach/low-severity event for Uber. A revived lawsuit accuses Uber of racial discrimination in its driver rating system, where biased customer ratings disproportionately harm minority drivers, alongside related wage lawsuits. Panel (d) presents an example of a high-reach/high-severity event for Google. Alphabet Inc.'s Google agreed to pay \$118 million to settle a gender discrimination lawsuit with about 15,500 female employees, according to a statement by law firms representing the women.

Appendix B. Variable definitions

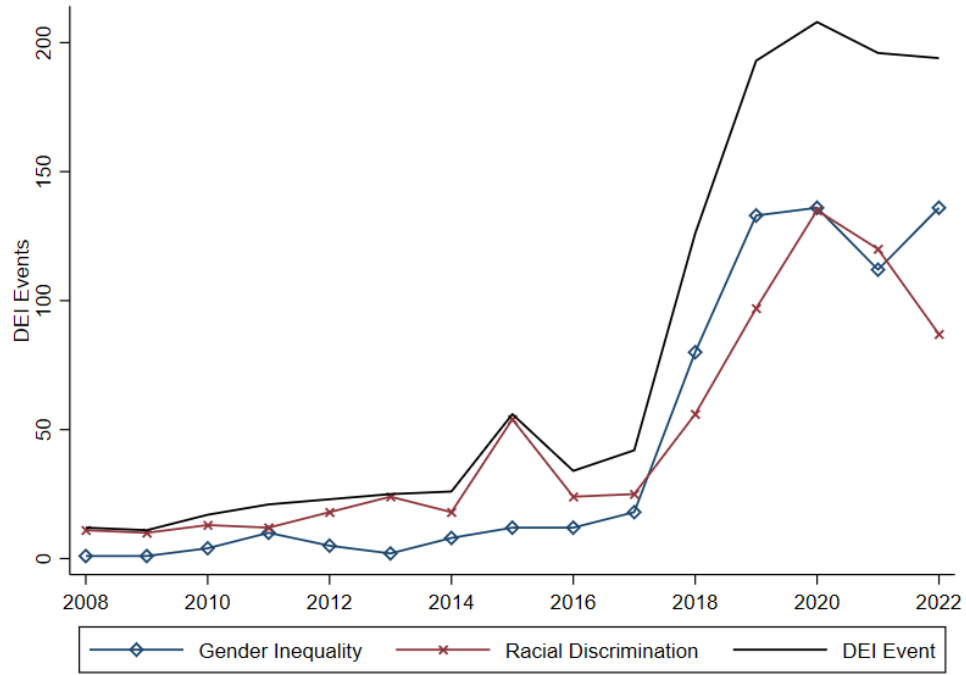
This table contains descriptions of the primary variables used throughout this paper. Sources include Revelio Labs (RL), the WRDS SEC EDGAR Filings database (EDGAR), Compustat (COMP), the Center for Research in Security Prices (CRSP), Good Jobs First (GJF), RepRisk (RRISK), ISS Incentive Lab (ISS), Sustainalytics (SUST), Standard & Poor’s (SP), Thomson Reuters (TR), Bloomberg (BBG), and Twitter/X (TWTR).

Variable	Definition
Firm characteristics	
Adj. Return	Annualized market-adjusted stock return for firm i in year t . (CRSP)
Asset Growth	Year-over-year asset growth for firm i from year t . (COMP)
Book to Market	Book value of equity scaled by market value of equity. (COMP)
Leverage	Leverage for firm i in year t . (COMP)
Return Volatility	Annualized stock market return volatility for firm i in year t . (CRSP)
ROA	Return on assets for firm i in year t . (COMP)
Size	Market capitalization of equity for firm i in year t . (COMP)
DEI-related workforce metrics	
% Diversity Inflow	The percentage of newly hired employees that are female or non-white for firm i in year t . In some tests, we report the percentage for a subset of employees. In tests of diversity by seniority, we compute % Diversity Inflow for each seniority category by dividing the number of female or non-white employees in each seniority category by the total number of employees in that category for firm i in year t . The categories are (1) entry-level positions, such as paralegal; (2) junior positions, such as junior accountants and attorneys; (3) manager positions, such as account manager and head of legal; and (4) non-C-suite executives, such as managing directors and partners. In tests of diversity by job function, we compute % Diversity Inflow for each job function by dividing the number of female or non-white employees in each job function by the total number of employees in that job function. To account for the possibility that core functions vary by firm and industry, we partition employees into job functions into four categories based on the yearly average salary of each position, with category 1 being non-core and category 4 being core. (RL)
% Diversity Outflow	The percentage of departed employees that are female or non-white for firm i in year t . In some tests, we report the percentage for a subset of employees. In tests of diversity by seniority, we compute % Diversity Outflow for each seniority category. In tests of diversity by job function, we compute % Diversity Inflow for each job function. (RL)
% Female Inflow	The percentage of newly hired employees that are female for firm i in year t . (RL)
% Female Outflow	The percentage of departed employees that are female for firm i in year t . (RL)
% Non-White Inflow	The percentage of newly hired employees that are non-white for firm i in year t . (RL)
% Non-White Outflow	The percentage of departed employees that are non-white for firm i in year t . (RL)
% Diversity	The percentage of employees that are female or non-white for firm i in year t . (RL)
% Female	The percentage of employees that are female for firm i in year t . (RL)
% Non-White	The percentage of employees that are non-white for firm i in year t . (RL)
Increased Diversity	An indicator equal to 1 if % Diversity Inflow in year t is greater than $t - 1$ for firm i . (RL)
DEI events	

DEI Event	An indicator for whether a firm i has one or more DEI controversies in years $t - 3$ through t . (RRISK)
DEI Event (T Years)	An indicator for whether a firm i has one or more DEI controversies in years $t - T + 1$ or t . (RRISK)
Future EEOC	An indicator for whether a firm i has one or more Equal Employment Opportunity Commission (EEOC) violations in year $t + 1$. (GJF)
Future DEI Event	An indicator for whether a firm i has one or more DEI controversies in year $t + 1$. (RRISK)
Gender Event	An indicator for whether a firm i has one or more gender-inequality controversies in years $t - 3$ through t . (RRISK)
High Labor Supply	An indicator for whether a firm i is in an industry with above-industry-average diversity levels in year t (RL, RRISK).
High Reach	An indicator for whether a firm i has one or more DEI controversies covered by global news media outlets (e.g., <i>The New York Times</i>) in years $t - 3$ through t . See also section 2.2. (RRISK)
High Severity	An indicator for whether a firm i has one or more DEI controversies with high severity in years $t - 3$ through t . See also section 2.2. (RRISK)
Neg. Return	An indicator for whether a firm i has one or more DEI events with negative market reactions in years $t - 3$ through t . Market reactions are measured as the buy-and-hold abnormal return in the $t \in [-10, 10]$ window around DEI event date. (RRISK, CRSP)
Racial Event	An indicator for whether a firm i has one or more racial-discrimination controversies in years $t - 3$ through t . (RRISK)
Other responses	
Proxy Disclosure	Natural logarithm of one plus the number of DEI-based words in DEF 14A disclosures for firm i in year t . DEI-based words are identified using the dictionary in Baker et al. (2024). (EDGAR)
CSR Report	Natural logarithm of one plus the number of DEI-based words in Corporate Social Responsibility (CSR) reports for firm i in year t . DEI-based words are identified using the dictionary in Baker et al. (2024). (EDGAR)
Twitter	Natural logarithm of one plus the number of DEI-based words in tweets by a firm's corporate Twitter account for firm i in year t . DEI-based words are identified using the dictionary in Baker et al. (2024). (TWTR)
Diversity Target	An indicator of whether a firm i has a diversity target in year t . (TR)
Employee ratings	
Employee Overall Rating	Overall employee ratings for firm i in year t . (RL)
Leadership Approval	Percentage of employee ratings with positive view on the CEO for firm i in year t . (RL)
ESG social ratings	
Refinitiv	Social rating provided by Refinitiv for firm i in year t . (TR)
S&P	Social rating provided by Standard & Poor for firm i in year t . (SP)
Sustainalytics	Social rating provided by Sustainalytics for firm i in year t . (SUST)
Bloomberg	Social rating provided by Bloomberg for firm i in year t . (BBG)
Stock market analysis	
CAR	Cumulative abnormal return in percentages, calculated as the sum of the daily abnormal returns (AR) over an event window. $AR_{it} = R_{it} - \hat{R}_{it}$, where R_{it} is the daily raw stock return for firm i on date t , and $\hat{R}_{it}$ is the expected return from the Fama-French 3-factor plus momentum factor model. The model estimation window is $[-150, -50]$ trading days prior to each event, and we require a minimum of 50 non-missing return observations. (CRSP)

DGTW Ret (%)	Monthly abnormal return for firm i in month t in percentages, computed as the difference between the stock's actual return and the return of a matched benchmark portfolio formed on size, book-to-market, and momentum characteristics following Daniel et al. (1997) . (COMP, CRSP)
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Panel A: Number of DEI Events



Panel B: % Firms with DEI Events

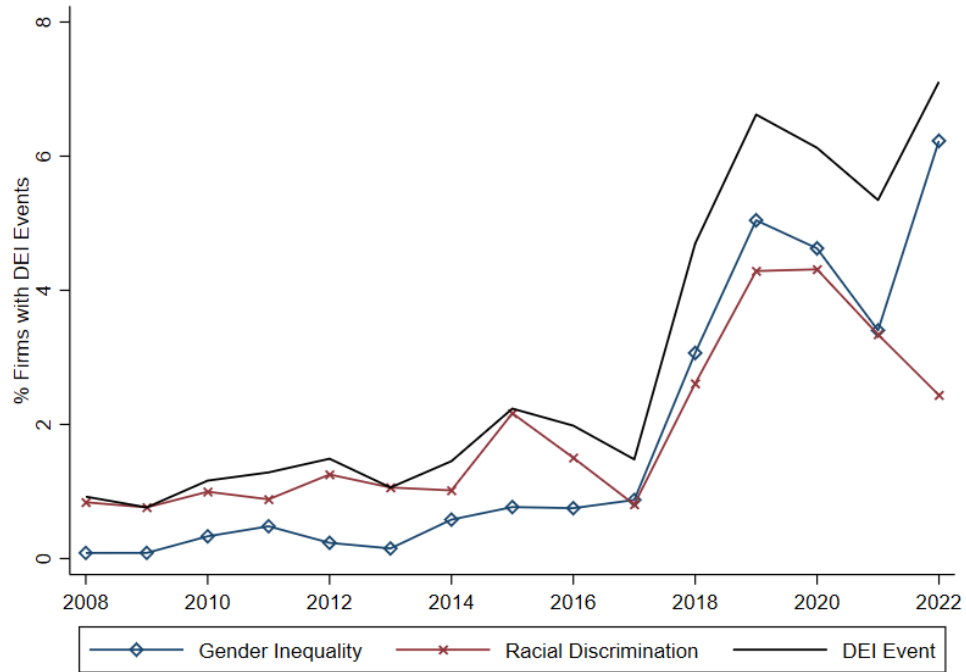


Fig. 1 DEI Controversies over Time. This figure reports the DEI events over our sample period. Panel A reports the counts of DEI events, and Panel B reports the fraction of our sample with an event. In both panels, the solid black line reports the firms with any DEI controversy. The blue line with diamonds (red line with crosses) is firms with gender inequality (racial discrimination) events.

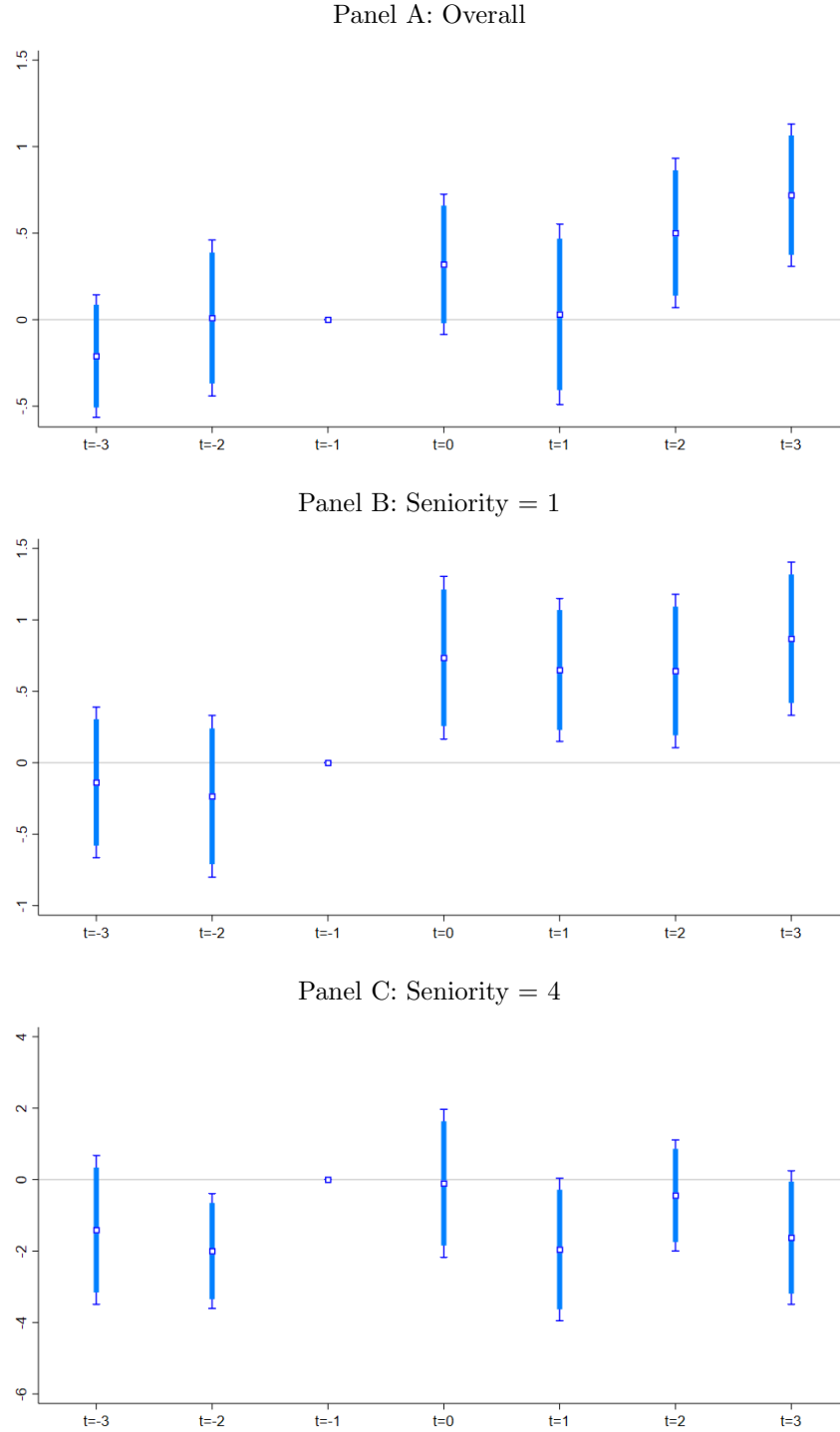


Fig. 2 Diversity Hiring in Event Time. This figure presents an event-time analysis of diversity inflows. Panel A reports diversity inflows for the entire firm. Panel B reports the trend for the most junior employees, and Panel C reports diversity inflows for the most senior employees. In all panels, the dots denote the means; the blue bars, the 90% confidence interval; and the blue lines, the 95% confidence interval.

Table 1
Descriptive Statistics and Sample Composition

Panel A: Descriptive Statistics

	(1) N	(2) Mean	(3) SD	(4) P25	(5) P50	(6) P75
<i>Firm Characteristics</i>						
Adj. Return	21,016	0.04	0.43	-0.21	-0.01	0.20
Asset Growth	21,016	1.11	0.31	0.98	1.05	1.14
Book to Market	21,016	0.54	0.56	0.23	0.43	0.73
Leverage	21,016	2.51	5.43	0.69	1.42	2.88
Return Volatility	21,016	0.09	0.06	0.05	0.07	0.11
ROA	21,016	0.02	0.16	0.01	0.04	0.08
Size	21,016	8.11	1.91	6.89	8.09	9.37
<i>Diversity Measures</i>						
% Diversity Inflow	21,016	58.86	14.08	49.45	58.68	67.70
% Female Inflow	21,016	41.18	14.82	30.66	39.69	50.51
% Non-White Inflow	21,016	31.67	12.98	23.70	30.24	37.44
% Diversity Outflow	20,969	58.26	14.20	48.88	57.95	67.12
% Female Outflow	20,969	41.10	14.98	30.63	39.59	50.31
% Non-White Outflow	20,969	30.77	12.95	22.92	29.27	36.25
% Diversity	21,016	58.38	13.01	48.37	58.00	67.42
% Female	21,016	41.22	13.97	30.36	39.25	50.64
% Non-White	21,016	30.76	11.56	23.51	29.44	35.94
<i>% Diversity Inflow by Seniority</i>						
1 (Junior)	20,569	64.49	15.27	54.50	64.90	74.86
2	20,680	58.58	15.12	49.10	58.90	67.84
3	20,618	52.68	15.92	42.76	52.89	62.47
4 (Senior)	17,598	48.39	23.09	35.18	50.06	62.25
<i>% Diversity Inflow by Job Function</i>						
1 (Non-Core)	19,893	64.65	17.25	53.57	65.88	76.33
2	20,235	58.53	16.34	48.11	58.99	68.86
3	20,281	58.91	15.09	50.08	58.97	67.74
4 (Core)	20,433	55.64	15.23	46.94	56.05	64.61
<i>Other Responses</i>						
Proxy Disclosure	19,012	1.65	1.12	0.69	1.61	2.40
CSR Report	15,485	0.76	1.48	0.00	0.00	0.00
Twitter	17,753	0.32	0.78	0.00	0.00	0.00
Diversity Target	12,763	0.06	0.24	0.00	0.00	0.00
<i>Employee Ratings</i>						
Employee Overall Rating	13,855	3.30	0.72	2.95	3.33	3.76
Leadership Approval	13,407	0.50	0.27	0.33	0.50	0.67
<i>ESG Social Ratings</i>						
S&P	9,183	32.73	16.41	21.00	29.00	40.00
Refinitiv	13,972	48.00	21.71	30.65	46.17	64.87
Sustainalytics	6,580	54.72	10.21	47.00	53.95	61.57
Bloomberg	6,270	20.43	14.21	8.77	17.54	28.07

Table 1
Descriptive Statistics (Continued)

Panel B: Sample Firms vs. Compustat-CRSP Firms

	(1) Sample	(2) CCM	(3) Difference
Adj. Return	0.04	-0.02	0.06***
Asset Growth	1.11	1.10	0.01***
Book to Market	0.54	0.69	-0.15***
Leverage	2.51	2.54	-0.03
Return Volatility	0.09	0.11	-0.02***
ROA	0.02	-0.06	0.08***
Size	8.11	6.90	1.21***

Panel C: Industry Composition

Industry	(1) Sample	(2) CCM
Finance	19%	23%
Other	16%	14%
Business Equipment	13%	17%
Wholesale, Retail, and Some Services	11%	8%
Manufacturing	11%	7%
Healthcare, Medical Equipment, and Drugs	8%	14%
Consumer NonDurables	6%	4%
Oil, Gas, and Coal Extraction and Products	4%	4%
Utilities	4%	2%
Chemicals and Allied Products	3%	2%
Consumer Durables	3%	2%
Telephone and Television Transmission	2%	3%

This table presents descriptive statistics of our sample. Panel A shows summary statistics from our sample. The first set of rows, under the heading *Firm Characteristics*, presents firm characteristics. The second set of rows, under the heading *Diversity Measures*, presents the percentage of newly hired diverse employees, the percentage of recently departed diverse employees, or the percentage of diversity in the workforce. The third and fourth sets of rows, under the heading *%Diversity Inflow by Seniority* and *% Diversity Inflow by Job Function*, respectively, present diversity inflows across different levels and job functions within the firm. The rows under *Other Responses* report statistics of other DEI-related responses to negative events. The rows under *Employee Ratings* report statistics of overall employee ratings and CEO approval on Glassdoor. The rows under *ESG Social Ratings* relate to ESG ratings for firms in our sample. The number of observations varies by data coverage, and all analyses are conducted using all observations with non-missing data. Panel B compares the mean firm characteristics and those of the Compustat-CRSP universe. Panel C compares our sample composition across the Fama-French 12 industries. To facilitate comparison, in Panels B and C we require the benchmark Compustat-CRSP sample to have non-missing control variables used in our regression analysis. All variables are defined in Appendix B, and all continuous measures are winsorized at 1% and 99%. For differences between our sample and the Compustat-CRSP universe, we use cluster robust t-statistics, by firm. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

Table 2
Firm Characteristics in the Year before DEI Event

	(1) DEI Event	(2) No DEI Event	(3) Difference
<i>Firm Characteristics</i>			
Size	9.77	6.73	3.04***
Asset Growth	1.10	1.11	-0.01
Book to Market	0.42	0.65	-0.23***
ROA	0.05	-0.07	0.12***
Leverage	3.13	2.48	0.65*
Adj. Return	0.02	-0.03	0.05***
Return Volatility	0.07	0.09	-0.02***
<i>Diversity Measures</i>			
% Diversity Inflow	63.89	60.07	3.82***
% Female Inflow	44.83	41.97	2.86***
% Non-White Inflow	36.00	32.46	3.54***
% Diversity Outflow	63.12	59.54	3.58***
% Female Outflow	44.73	41.82	2.91***
% Non-White Outflow	34.77	31.79	2.98***
% Diversity	62.40	59.62	2.78***
% Female	44.20	41.75	2.45***
% Non-White	34.05	31.73	2.32***
<i>% Diversity Inflow by Seniority</i>			
1 (Junior)	67.20	66.73	0.47
2	63.41	60.17	3.24***
3	59.21	53.84	5.37***
4 (Senior)	55.95	49.10	6.85***
<i>% Diversity Inflow by Job Function</i>			
1 (Non-core)	66.15	66.89	-0.74
2	63.73	59.98	3.75***
3	63.75	59.86	3.89***
4 (Core)	62.23	55.99	6.24***
<i>Other Responses</i>			
Proxy Disclosure	2.34	1.13	1.21***
CSR Report	1.83	0.33	1.50***
Twitter	0.63	0.20	0.43***
Diversity Target	0.12	0.04	0.08***
<i>Employee Ratings</i>			
Employee Overall Rating	3.42	3.28	0.14***
Leadership Approval	0.49	0.49	0.00
<i>ESG Social Ratings</i>			
S&P	40.75	31.56	9.19***
Refinitiv	63.74	41.75	21.99***
Sustainalytics	56.58	54.85	1.73**
Bloomberg	32.55	17.78	14.77***

This table compares the mean firm and diversity characteristics for firms with a DEI event the following year (column (1)) with those that do not (column (2)). Column (3) reports the difference and statistical significance based on standard errors clustered by firm. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

Table 3
DEI Events and Diversity

Panel A: Overall

	(1)	(2)	(3)	(4)
		Dependent Variable: % Diversity Inflow		
DEI Event	5.425*** (7.94)	4.022*** (5.58)	0.426** (2.19)	0.479** (2.44)
Controls	No	Yes	Yes	Yes
Fixed Effects	No	No	Firm, Year	Firm, Ind-Year
Observations	21,870	21,100	21,016	21,016
Adjusted R ²	0.008	0.029	0.770	0.771

Panel B: Gender Discrimination and Female Hiring

	(1)	(2)	(3)	(4)
		Dependent Variable: % Female Inflow		
Gender Event	5.089*** (5.60)	4.344*** (4.64)	0.129 (0.50)	0.178 (0.67)
Controls	No	Yes	Yes	Yes
Fixed Effects	No	No	Firm, Year	Firm, Ind-Year
Observations	21,870	21,100	21,016	21,016
Adjusted R ²	0.004	0.014	0.765	0.767

Panel C: Racial Discrimination and Ethnic-Minority Hiring

	(1)	(2)	(3)	(4)
		Dependent Variable: % Non-White Inflow		
Racial Event	4.955*** (7.42)	3.312*** (4.84)	0.717*** (3.58)	0.705*** (3.49)
Controls	No	Yes	Yes	Yes
Fixed Effects	No	No	Firm, Year	Firm, Ind-Year
Observations	21,870	21,100	21,016	21,016
Adjusted R ²	0.006	0.035	0.801	0.801

This table presents regression estimates of employee diversity on whether a DEI controversy exists. The dependent variable is the percentage of newly hired employees who are diverse (i.e., female or a minority), female, and ethnic-minority employees hired in year t for firm i in Panels A, B, and C, respectively. The independent variable of interest is an indicator for whether the firm has a DEI controversy, a gender-related controversy, or a race-related controversy in years $t - 3$ through t , depending on the outcome variable. Control variables are included in the regression but are not tabulated. Cluster robust t-statistics, by firm, are included in parentheses. Levels of significance are presented as follows: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Table 4

DEI Events and Diversity: By Seniority and Job Function

Panel A: By Seniority

	(1)	(2)	(3)	(4)
	Dependent Variable: % Diversity Inflow			
	1 (Junior)	2	3	4 (Senior)
DEI Event	0.861*** (3.18)	0.324 (1.25)	0.155 (0.59)	-1.004* (-1.77)
Pr(1>4)			0.001***	
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	20,569	20,680	20,618	17,598
Adjusted R ²	0.677	0.684	0.620	0.277

Panel B: By Job Function

	(1)	(2)	(3)	(4)
	Dependent Variable: % Diversity Inflow			
	1 (Non-Core)	2	3	4 (Core)
DEI Event	1.159*** (3.79)	0.524** (2.09)	0.562* (1.86)	0.438 (1.52)
Pr(1>4)			0.043**	
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	19,893	20,235	20,281	20,433
Adjusted R ²	0.608	0.656	0.575	0.538

This table presents regression estimates of diversity for newly hired employees at different levels of seniority or types of job functions on whether a DEI event exists. We tabulate the coefficient of interest, the coefficient for *DEI Event*, which is an indicator for whether the firm has a DEI controversy in the previous four years, namely, $t-3$ through t . In Panel A, column (1) ((4)), the dependent variables are diversity for the most junior (senior) employees. In Panel B, column (1) ((4)), the dependent variables are diversity for the most non-core (core) employees. Control variables are included in the regression but are not tabulated. Regressions include firm- and industry-year fixed effects. Clustered robust t-statistics, by firm, are included in parentheses. To compare the coefficient magnitudes between columns (1) and (4), we perform a Z-test coefficient equality test and report the p-value. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

Table 5
DEI Events and Diversity: Cross-sectional Variation

	(1)	(2)	(3)	(4)
	Dependent Variable: % Diversity Inflow			
DEI Event	0.326 (1.60)	0.254 (1.31)	0.553*** (2.86)	0.660** (2.01)
DEI Event $\times$ High Reach	0.756** (2.51)			
DEI Event $\times$ Neg. Return		0.471* (1.71)		
DEI Event $\times$ High Severity			-0.846 (-1.60)	
DEI Event $\times$ High Labor Supply				-0.299 (-0.78)
Total Effect	1.082***	0.725**	-0.292	0.362
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	21,016	21,016	21,016	21,016
Adjusted R ²	0.771	0.771	0.771	0.771

This table presents coefficient estimates from a regression of employee inflows on heterogeneous treatment effects across DEI controversies. The four event-characteristic indicators are whether the event has high reach, induces negative buy-and-hold returns, is classified as high severity, or involves a firm in an industry with above-median employee diversity. In columns (1) through (3), the lower-order effect on the characteristic indicator is subsumed by the interaction term as they perfectly covary. In column (4), the lower-order effect on the characteristic indicator is subsumed by industry-year fixed effects. Control variables are included in all the regressions but are not tabulated. Regressions include firm- and industry-year fixed effects. Cluster robust t-statistics, by firm, are included in parentheses. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

Table 6

DEI Events and Diversity: Employee Retention and Overall Diversity Level

Panel A: Employee Retention

	(1)	(2)	(3)
	% Diversity Outflow	Dependent Variable: % Female Outflow	% Non-White Outflow
DEI Event	0.434** (2.54)		
Gender Event		0.170 (0.67)	
Racial Event			0.522*** (2.96)
Controls	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes
Observations	20,969	20,969	20,969
Adjusted R ²	0.752	0.746	0.778

Panel B: Overall Diversity Level

	(1)	(2)	(3)
	% Diversity	Dependent Variable: % Female	% Non-White
DEI Event	0.370*** (4.41)		
Gender Event		0.053 (0.45)	
Racial Event			0.523*** (4.87)
Controls	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes
Observations	21,016	21,016	21,016
Adjusted R ²	0.985	0.988	0.981

This table presents regression estimates of diversity for either departed employees or overall workforce on whether a DEI event exists. In Panel A, the dependent variable is the percentage of diverse employees (i.e., female or a minority), female employees, and ethnic-minority employees departing in year t for firm i in columns (1), (2), and (3), respectively. In Panel B, the dependent variable is the percentage of diverse employees, female employees, and ethnic-minority employees in the entire workforce for firm i in year t . The independent variable of interest is an indicator for whether the firm has a DEI controversy, a gender-related controversy, or a race-related controversy in years $t - 3$ through t , depending on the outcome variable. Control variables are included in the regressions but are not tabulated. Regressions include firm- and industry-year fixed effects. Cluster robust t-statistics, by firm, are included in parentheses. Levels of significance are presented as follows: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Table 7
DEI Events and Firm Performance

Panel A: Event-Window Performance

Event Window	(1) CAR	(2) t-statistics
[-10,-6]	-0.062%	-0.43
[-5, -1]	-0.152%	-1.21
[0, 5]	-0.342%**	-2.35
[6, 10]	-0.226%*	-1.87
[11, 15]	-0.045%	-0.37

Panel B: Longer-Horizon Performance

	(1)	(2)	(3)	(4)
	Dependent Variable: DGTW Ret (%)			
$T =$	1	2	3	4
DEI Event (T Years)	-0.299** (-2.23)	-0.296*** (-2.69)	-0.264** (-2.19)	-0.241** (-2.07)
Controls	Yes	Yes	Yes	Yes
Firm, Month Effects	Yes	Yes	Yes	Yes
Observations	212,565	212,565	212,565	212,565
Adjusted R^2	0.017	0.017	0.017	0.017

Panel C: Changes in Diversity and Firm Performance

	(1)	(2)	(3)	(4)
	Dependent Variable: DGTW Ret (%)			
$T =$	1	2	3	4
[1] DEI Event (T Years)	-0.532*** (-2.78)	-0.453*** (-2.66)	-0.483*** (-2.67)	-0.449*** (-2.61)
Increased Diversity	0.007 (0.16)	0.004 (0.10)	-0.005 (-0.11)	-0.008 (-0.18)
[2] DEI Event (T Years) $\times$ Increased Diversity	0.399** (2.17)	0.325** (2.12)	0.416*** (2.78)	0.417*** (2.90)
[1] + [2]	-0.133 (-0.93)	-0.128 (-1.13)	-0.068 (-0.55)	-0.032 (-0.27)
Controls	Yes	Yes	Yes	Yes
Firm, Month Effects	Yes	Yes	Yes	Yes
Observations	183,305	183,305	183,305	183,305
Adjusted R^2	0.017	0.017	0.017	0.017

This table presents results of various analyses on firm performance. Panel A reports the cumulative abnormal return relative to the Fama-French 3-factors and momentum in the days around the DEI event. Panel B regresses the monthly DGTW-adjusted returns using the [Daniel et al. \(1997\)](#) methodology on whether a DEI controversy occurs in years $t - T + 1$ to t , with T ranging from 1 to 4 in columns (1), (2), (3), and (4). Panel C regresses these dependent variables on whether a DEI controversy occurred, an indicator for whether the change in % *Diversity Inflow* from $t - 1$ to t is positive (*Increased Diversity*), and their interactions. In Panels B and C, we use a firm-month panel. Control variables are included in all the regressions but are not tabulated. Control variables include firm size, asset growth, book-to-market ratio, leverage, and idiosyncratic stock return volatility. Regressions include firm and month fixed effects. Cluster robust t-statistics, by firm and month, are included in parentheses. Levels of significance are presented as follows: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Table 8
DEI Events and Corporate Signaling

Panel A: Main Analysis

	(1)	(2)	(3)	(4)
	Proxy Disclosure	Dependent Variable: CSR Report	Twitter	Diversity Target
DEI Event	0.176*** (3.93)	0.161* (1.92)	0.115** (2.33)	0.030* (1.67)
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	19,012	15,485	17,753	12,763
Adjusted R ²	0.718	0.546	0.509	0.358

Panel B: Variation in Signaling

	(1)	(2)	(3)	(4)
	ΔProxy Disclosure	Dependent Variable: % Diversity Inflow ΔCSR Report	ΔTwitter	ΔDiversity Target
DEI Event	0.531*** (2.73)	0.449** (2.25)	0.472** (2.38)	0.317* (1.96)
Split Variable	0.043 (0.57)	0.027 (1.15)	0.027 (0.40)	0.327 (1.29)
DEI Event × Split Variable	-0.179 (-1.55)	-0.054 (-1.24)	0.083 (0.68)	-0.059 (-0.18)
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	18,363	13,875	16,102	11,685
Adjusted R ²	0.807	0.821	0.817	0.884

This table presents analyses exploring corporate signaling following DEI controversies. Panel A reports coefficient estimates from a regression of measures of corporate signaling on whether a DEI controversy occurred in years $t - 3$ through t . The dependent variable is the amount of DEI disclosure in proxy statements (column (1)), the amount of DEI disclosure in CSR reports (column (2)), the amount of DEI disclosure on Twitter/X (column (3)), and an indicator for whether the firm has a diversity target (column (4)). Panel B regresses the diversity of newly hired employees on whether a DEI controversy occurred, changes in the signaling variables, and their interaction. Control variables are included in all the regressions but are not tabulated. Regressions include firm- and industry-year fixed effects. Cluster robust t-statistics, by firm, are included in parentheses. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

Table 9
DEI Events and Other Outcome Variables

Panel A: Non-hiring Responses

	(1)	(2)	(3)	(4)
	Dependent Variable:			
	Future DEI Event	Future EEOC	Employee Overall Rating	Leadership Approval
DEI Event	0.034* (1.85)	-0.004 (-0.24)	-0.041*** (-1.83)	-0.024** (-2.23)
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	19,604	13,162	13,855	13,407
Adjusted R ²	0.256	0.247	0.405	0.282

Panel B: ESG Social Ratings

	(1)	(2)	(3)	(4)
	Dependent Variable:			
	S&P	Refinitiv	Sustainalytics	Bloomberg
DEI Event	0.609 (0.88)	-2.544*** (-3.20)	-0.409 (-0.74)	0.034 (0.03)
Controls	Yes	Yes	Yes	Yes
Firm, Ind-Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	9,183	13,972	6,580	6,270
Adjusted R ²	0.817	0.826	0.793	0.781

This table presents coefficient estimates from a regression of non-hiring outcome variables on whether a DEI controversy occurred in years $t - 3$ through t . In Panel A, the dependent variable is the probability of a DEI controversy in year $t + 1$ (column (1)), the probability of an EEOC violation in year $t + 1$ (column (2)), a firm's overall employee rating (column (3)) or leadership-specific rating (column (4)). In Panel B, the dependent variable is the firm's ESG rating from S&P (column (1)), Refinitiv (column (2)), Sustainalytics (column (3)), and Bloomberg (column (4)). Control variables are included in all the regressions but are not tabulated. Regressions include firm and industry-year fixed effects. Cluster robust t-statistics, by firm, are included in parentheses. Levels of significance are presented as follows: *p<0.1; **p<0.05; ***p<0.01.

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