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Beyond Diversity: Equity and Inclusion in Firms

Finance Working Paper N° 913/2023
Revised July 2026

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This paper can be downloaded without charge from:
https://doi.org/10.67929/ecgi-fin-913-2023

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ECGI Working Paper Series in Finance

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Abstract

This paper measures equity and inclusion (EI) using confidential data from employee responses to the Best Companies to Work For survey. Our EI measure has low correlation with gender and ethnic diversity in the boardroom, senior management, and wider workforce, highlighting EI as a distinct dimension of human capital and cautioning against reducing diversity, equity, and inclusion to demographic diversity only. EI is associated with higher future accounting performance, future earnings surprises, and current valuation ratios, but diversity alone is not. EI perceptions among professional workers, such as R&D employees, are significantly correlated with the number and quality of patents.

Keywords:

JEL Classification: G12, G32, J53, J71, J81

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Current draft: July 29, 2026

Abstract

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* We are indebted to the Great Place to Work® for generously sharing their data, and Marcus Erb for answering questions on it. We thank Vikas Agarwal, Bruce Bolger, Marco Ceccarelli, Tom Gosling, Moqi Groen-Xu, John Hand, Amy Hutton, Wei Jiang, Steve Kaplan, Jon Karpoff, Kai Li, Yumiko Murakami, Kasper Meisner Nielsen, Dan Su, Geoff Tate, Greg Watson, Jun Yang, and participants at the ASSA/AFA, Bielefeld/Bonn/Dortmund/Wuppertal/WHU Joint Finance Seminar, Delaware Weinberg Center/ECGI Corporate Governance Symposium, EFA, FMA, Harvard, INSEAD, MFA, Paris December Finance Meeting, Rice, Rutgers, SFS Cavalcade, Toledo, UN PRI Academic Network Conference, and Zurich for helpful comments. We are very grateful to the Ford Foundation and Just Capital for research funding. A previous version of this paper was circulated under the title "(Diversity) Equity and Inclusion." The analysis and conclusions contained in this paper are those of the authors and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System, its members, or its staff.
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1. Introduction

Diversity, equity, and inclusion ("DEI") is one of the most topical issues in business today. Some countries have board diversity quotas, several investors have policies to vote for diverse directors, and many companies have launched DEI programs. Proponents argue that DEI initiatives broaden firms' recruitment pools and identify high-ability candidates who might otherwise be overlooked. Moreover, firm performance depends on not only employees' individual abilities but also how they work together. DEI can lead to a company containing a broad range of backgrounds, experiences, and problem-solving approaches, where the whole exceeds the sum of its parts. This view is reinforced by widely-held beliefs that DEI is positively correlated with performance, such as the practitioner studies by McKinsey (2015, 2018, 2020, 2023) and practitioner surveys of the academic evidence such as Gorte (2024).[1]

In contrast, opponents argue that DEI can undermine meritocracy, by leading companies to prioritize candidates' demographic characteristics over their ability. This has led to a DEI backlash, particularly in the US where President Trump has rolled back DEI initiatives, activists have pressured companies to abandon DEI programs, and courts have ruled DEI policies illegal.[2] While critics view this opposition as politically motivated, others highlight the weaknesses in widely-cited evidence on the benefits of DEI (e.g. Green and Hand's (2024) critiques of the McKinsey studies) and that high-quality academic research finds a mixed or no link.

However, this debate focuses on demographic diversity and largely ignores equity and inclusion ("EI"), which we define as providing fair opportunities and treatment to all employees,

[1] A second rationale for DEI initiatives is social: the belief that companies have a responsibility to contribute to societal goals. DEI initiatives can ensure that a company provides jobs, and in particular leadership positions, to underrepresented individuals. Our paper follows the literature by studying financial performance. Even for social goals, equity and inclusion matter in addition to diversity, to ensure that underrepresented individuals can thrive at work.

[2] For example, the US Court of Appeals struck down Nasdaq's board diversity rules in December 2024, and the US Supreme Court struck down race-based college admission policies in June 2023.

ensuring that they feel respected and welcome, and encouraging them to speak up and express their views. DEI policies, regulations, measures, and empirical studies typically concern demographic diversity alone; criticism of DEI initiatives is similarly directed at diversity policies rather than EI. Where inclusion is considered, it is often interpreted as the inclusion of employees from different demographic groups, rather than different ideas and perspectives. This omission is important because the theoretical mechanisms underlying EI are distinct from, and arguably stronger than, those underlying diversity. While diversity affects the availability of heterogeneous information, EI affects whether such information is voiced and acted upon within the organization. Even if employees have diverse ideas, they may be unwilling to share them unless the work environment is inclusive and psychologically safe (Nembhard and Edmondson, 2006; Detert and Burris, 2007). Moreover, EI is beneficial even in the absence of diversity, for instance by mitigating groupthink in otherwise homogeneous teams (Nemeth, 1986).

DEI is often reduced to demographic diversity because it is easy to measure. However, this practice is problematic if diversity bears little correlation with EI, and if EI is a stronger predictor of company performance than diversity. This paper measures the EI of a company using confidential data gathered by Great Place to Work® ("GPTW") to compile the list of the 100 Best Companies to Work For in America. Three-quarters of the score that determines list inclusion stems from employee responses to the Trust Index™, a 58-question survey on various dimensions of employee satisfaction; the remaining one-quarter arises from a Culture Audit™ on a company's demographic makeup, pay and benefits programs, and culture. Edmans (2011, 2012) finds that the Best Companies enjoyed superior long-term shareholder returns and earnings surprises over a 28-year period from 1984-2011, suggesting that the information captured by the list is financially material, and addressing concerns that employees fill in the survey carelessly or management

influences employee responses. Boustanifar and Kang (2022) demonstrate that this outperformance continues to hold through to 2020, and Edmans et al. (2024) extend these results to outside the US.

These studies only investigate list inclusion and so it is unclear whether any correlation stems from EI or other aspects of being a Best Company. The individual responses to the 58 questions are confidential, as are the responses from companies that applied for the list but ended up unsuccessful. Via a confidentiality agreement with GPTW, we obtained the responses to all 58 questions in the Trust Index, for all applicants irrespective of whether they were eventually included, from 2006 to 2021. We identified 13 questions that cover our definition of EI, such as "People here are treated fairly regardless of their age/race/sex/sexual orientation", and "This is a psychologically and emotionally healthy place to work". They differ from the other 45 questions which are unrelated to EI, such as "Management makes its expectations clear" and "I am given the resources and equipment to do my job"; thus, our results isolate EI rather than Best Company status more broadly. We aggregate employee responses to form a measure that we call *EI*.

Our first set of tests relate *EI* to demographic diversity to study whether EI represents a distinct attribute of a company's human capital, separate from its demographic composition. In univariate correlations, *EI* is only weakly associated with diversity: its correlation with the percentage of female (minority) employees is 0.12 (-0.04) and correlations with the gender and minority status of senior management, the CEO and board of directors are similarly low. This has implications for the significant attention paid to diversity metrics by companies, investors, employees, the public, the media, policymakers, and ESG rating agencies – they omit a big piece of the picture. Companies can "hit the target, but miss the point" by improving diversity without improving EI.

We then run multivariate regressions of *EI* on demographic diversity and firm controls. The percentage of women in senior management is now positively and significantly associated with *EI* across all specifications. A one standard deviation increase in this percentage is associated with a 0.04 increase in *EI* (17.4% of the sample standard deviation). One interpretation is that female senior managers are more attuned to EI and directly improve it. A second is that women in senior management play a figurehead role, affecting employees' perceptions of EI (if they lump DEI together) or their pursuit of EI initiatives. The granular nature of our dataset allows us to divide *EI* into the average responses by white males, white females, minority males, and minority females. The percentage of women in senior management is positively linked to *EI* across all categories, inconsistent with a purely figurehead explanation as women are unlikely to be natural role models for white or minority males. In contrast, *EI* is unrelated or negatively related to ethnic diversity in senior management and to ethnic and gender diversity at both the CEO and board levels.

The multivariate regressions also include workplace policies and characteristics, such as childcare, unpaid parental leave days, sabbaticals, flextime, and unionization, to examine whether they are associated with employee perceptions of EI. A positive association would be consistent with companies being able to enhance EI through general workplace arrangements, rather than specific, targeted initiatives. Alternatively, even if the association is non-causal, it would indicate that these policies and characteristics are good proxies for EI. However, we find that all workplace policies and characteristics are either insignificantly or negatively associated with *EI*.

We then explore the relationship between EI and future firm performance. We do not interpret these regressions causally, because EI is endogenous. While there exist exogenous shocks to diversity, such as the introduction of board diversity quotas, perceptions of EI are much harder to

regulate; thus, any study on EI (rather than diversity) can likely only document correlations.[3] Instead, we are interested in the future performance of high-EI companies compared to low-EI companies. An investor wishing to buy high-EI companies may want to know how they typically perform, and whether EI is a better predictor of performance than diversity, even if the future performance cannot be attributed to EI in isolation. Relatedly, a positive correlation with future performance attenuates concerns that firms with high levels of EI sacrifice financial performance. Thus, even if companies feel political pressure to roll back DEI efforts, they may wish to ensure that this does not lead to a decrease in EI.

Our hypothesis is that firm performance is positively linked to EI due to the benefits discussed earlier, but that it is unrelated to demographic diversity given the lack of a clear theoretical prediction (Milliken and Martins, 1996; Williams and O'Reilly, 1998; Van Knippenberg and Schippers, 2007). We find that *EI* is positively associated with seven out of eight measures of future profitability, such as return on assets, return on sales, profits per employee, and sales per employee. For example, a one standard deviation increase in *EI* is associated with a 0.7 percentage point increase in return on assets (9.5% of the sample standard deviation). In contrast, the fractions of female and minority employees are insignificantly linked to almost all profitability measures.

These findings remain significant when controlling for Li et al.'s (2021) cultural value of "respect", obtained from applying machine learning to earnings calls. The link between *EI* and profits and sales per employee is stronger in high-skill industries as classified by Tate and Yang (2015), consistent with the greater importance of employees (and thus EI) in such sectors. We also

[3] Events such as the #MeToo movement arguably affect all companies, in contrast to regulation which targets non-compliers in particular. In addition, it is unclear if such events increase the level of EI (by making companies aware of its importance), do not change EI but increase its link with financial performance (by increasing the public attention paid to EI), or increase the attention paid to diversity. Lins et al. (2024) find that #MeToo affected stock prices of firms based on gender diversity among the top five executives, and increased the hiring of women into these positions.

find that *EI* is positively associated with valuation measures, such as Tobin's Q, and future earnings surprises, indicating that the market does not fully incorporate the correlation between *EI* and profitability.

We next study innovation, since one of the main financial arguments for EI is that it allows for broader perspectives and more varied ideas. We find that *EI* is unrelated to either the number of future patents or patent citations. However, the granular nature of our data allows us to stratify the survey responses by job category. We find that EI perceptions of professionals, a job category that includes R&D staff, are positively and significantly correlated with both innovation measures, but there is no positive link with the responses from the three other categories: executives, managers, and hourly workers. This is consistent with prior research that traces innovation to inventors, rather than executives (e.g. Seru (2014) and Bernstein (2015)).

Finally, we study future stock returns. Despite prior results on profitability, innovation, and earnings surprises, we find no link between EI and stock returns, after controlling for either firm characteristics in Fama-MacBeth regressions or risk in portfolio regressions. This may result from investors having a taste for high-EI firms or perceiving them to have lower systematic risk, both of which will reduce their returns in equilibrium (Pastor, Stambaugh, and Taylor (2021)), or stock returns being affected by many other factors than EI.

This paper is most closely related to research on EI, which has predominantly been conducted in the organizational behavior literature. Edmondson (1999) pioneers a survey-based measure of psychological safety and finds that, within an office furniture manufacturer, more psychologically safe work teams perform better. Edmondson (2018) synthesizes evidence from other contexts, including error reporting by nurses, workarounds in hospitals, and employee voice in service environments. These studies typically compare the behavioral performance (e.g. speaking up,

information sharing, and decision quality) of different teams within a single organization at one point in time.[4] It is unclear whether their results extend to firm-level financial performance, to other organizations, or when comparing psychological safety across companies. In addition, some of these studies measure a team's perception of its own performance, rather than actual performance. We study the link between EI and profitability, valuation, earnings surprises, and innovation across 676 firms over 16 years, and contrast EI with diversity. In doing so, we deliver two new economic insights. First, EI exhibits little correlation with demographic diversity and is thus a distinct aspect of a company's human capital. Second, EI is significantly correlated with future firm performance whereas diversity alone is not.

The finance literature typically focuses on boardroom gender diversity, given data availability. An influential early paper is by Adams and Ferreira (2009); Ahern and Dittmar (2012), Matsa and Miller (2013), and Eckbo, Nygaard, and Thorburn (2022) study causal effects using Norway's 40% female quota; and Greene, Intintoli, and Kahle (2020) investigate the impact of California's (later scrapped) requirement to have at least one female director. Baker et al. (2024), Bourveau, Flam, and Le (2026), and Frijns, Garel, and Liao (2025) explore workforce diversity. Fos, Jiang, and Nie (2025) go beyond demographic diversity to consider boardroom diversity in experience, skill, institutions, and political affiliations. Our contribution is to study equity and inclusion.

Briscoe-Tran (2023) studies Glassdoor employee ratings of a company's "Diversity & Inclusion" ("D&I"). However, D&I is often equated with diversity; for example, D&I-linked executive pay and investor voting guidelines are nearly always based on diversity, and so employee responses may reflect diversity rather than EI. He links D&I to firm flexibility (variation in operating cost margins relative to productivity fluctuations) rather than firm performance.

[4] While some studies are cross-sectional, they typically consider a small number of companies, again at a single point in time.

Our paper uses a similar dataset to Edmans (2011, 2012), but he only has data on overall Best Company status rather than individual responses and so he cannot attribute the results to specific HR practices. Any correlation with firm performance might be driven by non-EI components of the survey, and so his results have no implications for EI.

2. Conceptual Framework

This section discusses the conceptual framework that motivates the study of EI, and in particular its link with future firm performance. In the early 20th century, a company's main assets were its physical capital, and employees largely followed instructions given by top management. A large literature (surveyed by Maug (2026)) highlights the importance of human capital in the modern firm, where rank-and-file employees develop new products, build customer and supplier relationships, and mentor colleagues. An equitable and inclusive working environment is valuable for both recruitment and retention of skilled employees. In addition, EI is a valuable intrinsic motivator: Akerlof (1982) posits that employees view a positive working environment as a "gift" from the firm and respond with a "gift" of increased effort. The importance of intrinsic motivators has likely increased over time, as the above tasks are difficult to observe and thus incentivize with the extrinsic motivators, such as "piece rates", used in 20th-century manufacturing firms.

The above arguments apply to a positive working environment in general, which can stem from EI but also other factors such as office amenities or job rotation. There are additional reasons why EI in particular may have value. The first is encouraging *challenge*. This may involve speaking up (proposing new ideas, questioning the status quo, and reporting misbehavior) and taking innovative actions that deviate from the job description. Employees who speak up may be ignored if they are junior or from minority backgrounds, or chastised if they oppose senior management;

those who innovate may face repercussions if their ideas backfire. Inclusion enables employees to challenge without pressure to conform (Detert and Burris, 2007; Morrison, 2014) and fosters psychological safety where team members are willing to take interpersonal risks (Edmondson, 1999). Equity ensures that employees do not fear unfair treatment for contradicting seniors or making mistakes (Colquitt et al., 2013), and that they have opportunities to participate in decision making and thereby contribute their ideas (De Dreu and West, 2001).

Second, equity and inclusion enhance *coordination* where team members work synergistically with each other. An inclusive environment reduces the formation of ingroups and outgroups which can lower willingness to collaborate across departments, demographic groups, and viewpoints (Tajfel and Turner, 1979). Equity helps employees trust that their individual contributions to joint projects will be fairly rewarded, rather than "favorites" receiving disproportionate credit. Third, equity enhances *motivation*, even in independent tasks that do not involve challenge or coordination. While a positive working environment in general improves intrinsic motivation through "gift exchange", equity strengthens extrinsic motivators by increasing expectations that effort will be fairly rewarded.

Like most human capital practices, EI has costs as well as benefits. Direct costs may include managerial time devoted to fostering an inclusive work environment, resolving conflicts, and implementing fair promotion and evaluation processes. EI may also entail indirect costs. Some CEOs may naturally improve EI because of high emotional intelligence, without requiring significant financial expenditure or time investment. If boards select such CEOs, they may implicitly trade off other desirable managerial characteristics. Additional costs may arise if EI is poorly implemented, for example if equity is interpreted as equality of outcome rather than equality of opportunity. This highlights the importance of constructing an accurate measure of EI.

We hypothesize a positive correlation between EI and firm performance. This would arise if, for the average firm, the benefits of higher EI outweigh the associated costs. This prediction is consistent with the organizational behavior literature, which finds a positive link between psychologically safe and inclusive work environments and team-level performance.

Importantly, a positive relationship need not imply that firms systematically underinvest in EI. Demsetz and Lehn (1985) argue that if firms optimally choose managerial ownership, there should be no relationship between ownership and firm performance after controlling for other determinants. However, changing employee perceptions of equity and inclusion involves significant adjustment costs. Firms with a long history of fostering an equitable and inclusive workplace have EI embedded in their corporate culture, whereas firms with a history of low EI may face substantial costs in increasing it. A positive relationship between EI and performance is therefore consistent with firms optimizing. Indeed, prior research documents positive associations for other human capital attributes such as culture (Li et al., 2021), trust in management (Garrett, Hoitash, and Prawitt, 2014), management integrity (Guiso, Sapienza, and Zingales, 2015), organizational purpose (Gartenberg, Prat, and Serafeim, 2019), and employee satisfaction (Edmans, 2011, 2012), which plausibly also involve adjustment costs.

In addition, adjustment costs mean that EI is likely to be persistent, and thus the positive relationship between EI and performance should arise primarily in the cross-section of firms rather than over the time series. Consistent with this intuition, the literature on persistent firm-level intangibles primarily relies on between-firm variation using pooled panel regressions. This includes the above studies of human capital, as well as research on corporate governance (Gompers, Ishii, and Metrick, 2003) and organizational capital (Lev, Radhakrishnan, and Zhang, 2009).

While EI is often combined with demographic diversity in the umbrella term "DEI", it is conceptually distinct. Demographic diversity concerns the composition of a firm's workforce across observable characteristics such as gender or ethnicity. By contrast, EI concerns how employees are treated within the organization and whether they feel respected, fairly evaluated, and able to contribute. As a result, demographic diversity is neither necessary nor sufficient for high EI. This distinction arises because the mechanisms through which EI operates differ fundamentally from those relevant for demographic diversity. Diversity affects the availability of heterogeneous perspectives, but EI determines whether these perspectives are expressed, taken seriously, and incorporated into decision-making. Moreover, EI can shape behavior even in the absence of diversity by encouraging dissent, reducing groupthink, and improving information aggregation. Thus, EI reflects an organization's norms, practices, and interpersonal dynamics rather than its demographic composition.

Indeed, the theoretical link between demographic diversity and firm performance is more ambiguous. The organizational behavior literature highlights how demographic diversity can generate informational benefits by broadening perspectives, but also coordination and relational costs through social categorization, conflict, and reduced cohesion (Milliken and Martins (1996), Williams and O'Reilly (1998), Van Knippenberg and Schippers (2007)). In addition, the pursuit of demographic diversity targets may be at the expense of meritocracy. Consistent with these offsetting forces, the empirical literature finds no robust relationship between demographic diversity and performance when comparing across different teams within an organization. We therefore hypothesize no systematic link when comparing across firms.

Based on this conceptual framework, our paper studies two main hypotheses. The first is that EI bears little correlation with demographic diversity, due to capturing a separate dimension of a

company's workforce. The second is that EI is positively linked to future financial performance but demographic diversity is not.

3. Measuring Equity and Inclusion

3.1 The Best Companies Survey

The source for our EI measure is the survey responses used by Great Place to Work to compile the list of the Best Companies to Work for in America. This list was initially published in a book in 1984 that was later updated in 1993; from 1998 onwards it has been released every January in *Fortune* magazine. Three-quarters of the score comes from the Trust Index, a 58-question survey that GPTW administers to a company's employees. Companies must randomly select 5,000 employees to receive the survey, or survey all employees if they have fewer than 5,000. [5] [6] They are strictly forbidden from requiring employees to take the survey or encouraging them to respond in a certain way. To ensure these guidelines are followed, an anonymous whistleblower link on the survey homepage allows employees to report to GPTW if they have "concerns about the integrity of the survey process, the communications you have received, or have been asked to respond in a manner that does not accurately reflect the experience you are having at work". Any allegations are investigated by GPTW and may lead to disqualification.

The survey asks specific questions on five areas, Credibility, Respect, Fairness, Pride, and Camaraderie, which were developed through an extensive process that involved a review of academic literature; interviews with managers, employees, and workplace experts; focus group

[5] There were 57 questions until 2008. Initially, only 250 employees were surveyed and this was increased over time to 5,000.

[6] We verified that the demographics of the surveyed employees are highly correlated with the demographics of the firm. The correlation between the percentage of females in the workforce and in the survey respondents is 0.96; for minorities it is 0.89.

sessions; and discussions with consultants, survey design experts, and researchers. The survey was then beta-tested in a variety of workplace settings to ensure that each survey question was capturing what GPTW intended. The remaining one-quarter of the score comes from the Culture Audit, which plays no role in our *EI* measure – *EI* is driven entirely by employee responses rather than GPTW's evaluation.

The list of the 58 questions is confidential and has never been released in full; however, Great Place to Work has given permission to certain research teams to release a subset in academic papers. Edmans (2012) includes nine questions to give examples of the dimensions that the survey captures, Garrett, Hoitash, and Prawitt (2014) focus on those that capture trust in management, Guiso, Sapienza, and Zingales (2015) use two questions to gauge management integrity, and Gartenberg, Prat, and Serafeim (2019) employ a different four to measure organizational purpose. Via a confidentiality agreement, GPTW generously gave us access to the individual responses from 2006 to 2021.[7]

Firms apply to be considered for the Best Companies list. This is a potential issue for a study that compares listed to unlisted firms as the latter may include companies that simply did not apply. However, we obtained responses to all applicants, regardless of whether they were eventually listed, and our analyses compare low- versus high-EI companies rather than listed versus unlisted ones. A remaining concern might be "restriction of range": companies that apply for the Best Companies list have higher EI than the average firm, and so our results may not generalize. For example, even low-EI companies within our sample may have high EI compared to the average company. Then, the lower variation in EI within our sample should make it less likely that we find a correlation with firm performance, in contrast to our results.

[7] Great Place to Work no longer has the individual responses for the years prior to 2006.

Before selecting the questions that best reflect EI, the first step was for all coauthors to agree on a definition of EI so that there was clarity on what we were seeking to measure. After reviewing both the academic literature and practitioner studies, and in particular the channels through which EI may improve firm performance in Section 2, we defined equity as "providing fair access, opportunities, rewards, and resources to all employees, regardless of their background" and inclusion as "ensuring that people of all backgrounds are respected and made to feel welcome, and that employees are encouraged to speak up, express their views, and be themselves without pressure to conform."[8]

In the second step, all three co-authors independently studied the 58 questions and selected those we believed to reflect our definition of EI. While there was significant consensus, there was a small amount of disagreement, and we discussed these differences and converged. This led to a final list of 13 questions below:

- Everyone has an opportunity to get special recognition.
- When people change jobs or work units, they are made to feel right at home.
- Managers avoid playing favorites.
- This is a psychologically and emotionally healthy place to work.
- Promotions go to those who best deserve them.
- I can be myself around here.
- People here are treated fairly regardless of their age.
- People here are treated fairly regardless of their race.
- People here are treated fairly regardless of their sex.
- People here are treated fairly regardless of their sexual orientation.
- Management shows a sincere interest in me as a person, not just an employee.
- I am treated as a full member here regardless of my position.
- When you join the company, you are made to feel welcome.

[8] We initially also defined diversity as "bringing a range of perspectives and backgrounds into an organization. This can include, but is not limited to, gender, race, age, disability, religion, marital status, sexual orientation, experience, education, political views, and socioeconomic background", in case the questions allowed us to form a holistic measure of DEI. However, there were no diversity questions in the list.

Eight of these questions fall within the Fairness category, three under Camaraderie and two under Respect. The survey contains twelve Fairness questions[9], but we deemed four not to relate to EI. For example, some captured whether employees are treated fairly relative to management, rather than other employees of different backgrounds. Thus, our EI measure is not simply a measure of fairness. We calculated *EI* as the mean responses across these 13 questions.

Our *EI* measure provides information that is difficult to obtain from alternative datasets, since it focuses on employee perceptions. Diversity metrics reflect demographic diversity; the existence of DEI policies does not capture their effectiveness; and textual analysis of annual reports or conference call transcripts are also unable to ascertain worker views. While Glassdoor surveys are filled in by employees, their free-text responses are open-ended and unstructured. Some may not mention EI at all; others may but interpret it as demographic diversity. Although Glassdoor now has a "Diversity & Inclusion" rating, employees may interpret it in inconsistent ways. In contrast, all respondents to the Best Companies survey answer the same specific and targeted questions, which were developed after extensive testing to ensure no ambiguity in interpretation.

The questions capture our definition of EI, which differs from how some organizations interpret the concept. For example, diversity targets are sometimes adopted as an EI policy, which contrasts with "Promotions go to those who best deserve them". Similarly, the questions concern fairness rather than equality, and inclusive treatment of people rather than, for example, inclusion of all ideas regardless of merit. One question that could potentially involve downsides is "I can be myself around here" if this allowed the expression of extreme religious or political views. However,

[9] These questions capture both fairness of opportunities and fairness of outcomes. For example, employees will give a low score to "people here are treated fairly regardless of their age/race/sex/sexual orientation" if employees are not given fair opportunities (e.g. are not taken to client meetings) and/or are not given fair outcomes (e.g. are not evaluated and rewarded fairly based on their performance in client meetings). Fairness of both opportunities and outcomes is relevant for perceptions of EI.

such behavior would lead to low scores on other items such as "This is a psychologically and emotionally healthy place to work." In unreported results, we show that our results are unchanged when removing this question.

For similar reasons, our definition of EI can also be considered a subset of good management practices: good managers should bring a range of backgrounds into an organization, treat employees fairly, and encourage them to speak up. However, good management encompasses many other behaviors, such as setting and executing strategy, cutting costs, and raising capital. We focus specifically on management practices related to EI and study their association with firm performance.

Finally, we stress that *EI* captures employee perceptions, which may not fully align with reality. If the ability to observe peer performance is limited, it could be that survey participants view heterogeneity in promotions as unfair even though it is merited. This is deliberate: it is employee perceptions that affect job performance, just as consumer perceptions of product quality affect purchasing decisions, and the academic profession's perceptions of research quality affect hiring and tenure decisions. Companies can improve *EI* by either improving the reality of EI or the communication of this reality, for example through transparency on promotion decisions.

3.2 Sample and Summary Statistics

We match our EI measure to stock returns from CRSP, accounting data from Compustat, analyst forecasts from IBES, director, executive, and senior manager data from BoardEx, and patent data from UVA Darden's Global Corporate Patent Dataset. We focus on publicly listed firms between 2006 and 2021.

Table 1, Panel A details the number of firms in our sample. We have 2,003 firm-year observations, corresponding to an average of 126 firms per year and 676 unique firms. Panels B and C provide summary statistics about our sample firms, as well as all firms in Compustat for comparison. The surveyed firms employ 38,600 people on average, of which 42% are female and 20% minorities (defined as Blacks and Hispanics). Sampled firms are larger, with average total book assets of $55.4 billion compared to $16.6 billion for firms in Compustat. They also have better growth opportunities, with an average Tobin's Q of 2.26 versus 1.90. Table OA.A1 in the Online Appendix provides additional stock characteristics. The surveyed firms exhibit monthly stock returns of 0.91%, compared to 0.72% for firms in CRSP, loosely consistent with earlier results that the Best Companies (a subsample of our sample firms) outperformed the market.

The *EI* scores of the surveyed firms have a mean of 4.24 and a standard deviation of 0.21. Our *EI* measure ranges from 1 (lowest) to 5 (highest). Figure 1 shows that the average EI score has risen from 4.10 in 2006 to 4.35 in 2021, consistent with the increased attention paid to EI issues. Table 1, Panel B shows that the mean *EI* is 4.29 for white males, 4.26 for white females, 4.24 for minority males and 4.16 for minority females. This ordering is logical given that minority females (white males) are most (least) likely to perceive discrimination, all else equal. However, the differences are small, consistent with *EI* capturing EI issues unrelated to diversity; for example, a white male from a lower social class, from a non-traditional educational background or with a different personality type may also experience discrimination. For the same reason, most of our analyses consider the average *EI* score across all employees rather than only particular demographic groups.

In the Online Appendix, we provide further industry statistics about our EI measure. Table OA.A2 shows that the five industries with the best EI scores are business services; restaurants,

hotels, and motels; petroleum and natural gas; banking; and construction. The five worst industries are candy and soda; electrical equipment; aircraft; construction materials; and automobiles and trucks, although we caution that the number of firm-years in these industries is below 10. Table OA.A3 shows that the between-firm variance in EI comprises 90.5% of the total variance, consistent with our hypothesis that EI is likely persistent within a firm.

4. Equity and Inclusion vs. Diversity

4.1 Univariate Correlations

We first study whether our *EI* measure captures different information from diversity. From the Culture Audit, we calculate *Female%*, *Minority%*, *FemaleMgt%* and *MinorityMgt%*. The first two variables represent the percentage of females and minorities in the workforce, and the third and fourth do so in senior management. To these, we also add *FemaleCEO* and *MinorityCEO*, the gender and race of the CEO. We obtain the name and gender of the CEO from BoardEx; we infer the CEO's race based on their surname using US Census data.[10] Finally, we obtain *FemaleDir%* and *MinorityDir%*, the percentage of female and minority directors analogously.

Table 2 illustrates the univariate correlations between *EI* and all eight measures of diversity. The highest correlation is only 0.13, with the percentage of women in senior management. The correlation with the percentage of females (minorities) in the workforce is 0.12 (-0.04); two other correlations are modestly positive. These results suggest that *EI* is a distinct dimension of a firm's human capital from demographic diversity, and that the latter should not be used as a proxy for EI, or for DEI in general.

[10] The US Census provides the most likely race for surnames (https://www.census.gov/topics/population/genealogy/data/2010_surnames.html and https://www.census.gov/topics/population/genealogy/data/2000_surnames.html).

We also find that *EI* has a correlation of 0.20 with Li et al.'s (2021) "respect" cultural value, derived from conference call transcripts, and 0.44 with the Glassdoor measure of D&I studied by Briscoe-Tran (2023). These positive correlations help validate our measure as they suggest that *EI* is associated with practices that are plausibly linked to equity and inclusion. However, the correlations are also modest, indicating that *EI* captures additional information not available in these alternative measures. For example, Glassdoor survey respondents may give D&I ratings primarily based on demographic diversity.

4.2 Demographic Diversity and Workplace Policies

We now study the link between *EI*, demographic diversity, and other workplace policies and practices by estimating the following multivariate regression:

$$EI_{it} = \beta_0 + \beta_1 Workplace_{it} + \beta_2 Controls_{it} + \eta_{jt} + \varepsilon_{it}. \quad (1)$$

Workplace is a vector of workplace variables, the main ones being related to diversity. We explored demographic diversity in Section 4.1 to study whether *EI* captures information over and above that captured in standard diversity measures. This section uses it for a different purpose: to study whether diversity affects perceptions of EI.[11] Thus, in contrast to the univariate correlations in Section 4.1, we also include *Controls*, a vector of controls: the number of employees, the book-to-market ratio, age, dividend yield, cash, and leverage. We include these controls as firm maturity, growth opportunities, and organizational stability may affect employee perceptions of EI. We

[11] An alternative specification would be to lag the workplace policies by one year. However, doing so would lead to a significant loss of observations as it requires both the EI variable and the Culture Audit data, and thus we would lose companies that are not surveyed in successive years.

measure size with the number of employees since this affects the ease of managing EI issues, but the results are the same if we measure firm size with book assets. We control for industry by year fixed effects, η_{jt}, where j indexes industry, using the Fama-French (1997) 48-industry classification.

The results are reported in Table 3. In column (1), *Workplace* includes the percentage of females and minorities in the board of directors, the CEO role, senior management, and the wider workforce. We also include *DEISenMgr*, an indicator variable for whether BoardEx contains an executive or senior manager with "Diversity", "DEI", or "Inclusion" in their title, as appointing a senior leader tasked with DEI is a potential way to improve EI.[12] The only variable with a significantly positive association is the percentage of women in senior management. A one standard deviation increase in the percentage of female senior managers is associated with a 0.04 (=0.294*0.121) increase in EI, compared to the sample standard deviation of 0.20.

In column (2), we add a set of variables that represent workplace policies. A positive association would be consistent with companies being able to enhance EI through such policies, which are easier to implement than trying to change corporate culture. Alternatively, even if the association is non-causal, it would indicate that these policies are good proxies for employee perceptions of EI. We include *FlexSchedule*, an indicator for whether a company has a flexible work policy, *Sabbatical*, an indicator for whether it allows employees to take sabbaticals, *ChildCare*, an indicator for whether it has on-site childcare, and *UnpaidParentLeave*, the number of unpaid parental leave days that a company allows; all data is taken from the Culture Audit.[13] However, all workplace policies are unrelated to *EI*, suggesting that they are poor proxies for EI,

[12] This variable is available for all observations because BoardEx profiles directors, executives, and senior managers. Thus, we include it in all specifications, unlike the workplace variables that we include in column (2) and that we will describe shortly.

[13] The Culture Audit also contains information on whether a company has race and gender non-discrimination policies. However, except for one firm-year observation, every company has such policies, so we do not include them in the regression. The Culture Audit also has a field for paid parental leave, but it is missing for many years in our sample and is a combination of numbers and free-text values when non-missing.

and providing little support for the view that implementing such policies alone is sufficient to improve EI.

In column (3), we instead include *UnionWorker%*, the percentage of unionized workers among all employees.[14] Somewhat surprisingly, it is significantly negatively associated with *EI*. A potential explanation is that trade unions focus on quantifiable aspects of the employment relationship, such as pay, working hours, and holidays, since they can claim to their members that they have represented them well by improving these conditions, at the expense of qualitative aspects such as EI.

The percentage of female managers remains significant in columns (2) and (3). One interpretation is that female seniors are more attuned to EI issues and take direct actions to improve EI. A second, non-mutually-exclusive explanation is that they play a figurehead role, either directly affecting employees' perceptions of EI (for example, by providing role models for minorities to aspire to), or indirectly encouraging employees to pursue EI initiatives with the confidence that senior management will be supportive.

To disentangle these explanations, Panel B divides our main dependent variable, *EI*, into the average responses by white males, white females, minority males, and minority females. The percentage of women in senior management is positively and significantly linked to the average EI scores of all categories. Since women are unlikely to be the most natural figureheads for white males and minority males, these results are inconsistent with the positive link between *EI* and the proportion of women in senior management arising from a purely figurehead role. Rather, it is consistent with female senior managers' direct actions that increase EI.

[14] The set of companies for which we have union data has little overlap with the set of companies for which we have workplace policies, and so we are unable to add this variable in the same regression.

The correlation between the percentage of women in senior management and EI may also arise from non-causal explanations. One is reverse causality, in that EI may allow women to advance into senior positions. However, it is unclear why EI does not help minorities to advance into such positions, nor increase female representation at other levels. The second is omitted variables. Companies that care about EI might take actions that allow women to advance, such as ensuring that they can thrive in roles that have traditionally demanded long or inflexible hours, or that they are not penalized for taking a career break. Arguably, gender diversity in senior management is the sphere in which companies are most able to take practical steps. Such policies have relatively less effect on women in non-executive director roles where scheduling demands are more manageable; similarly, advancement of ethnic minorities is likely impeded by biases and prejudices that are difficult to eliminate. (While women also face biases and prejudices, at least some of the barriers to the advancement of women are addressable through practical action.)

Returning to Panel A and moving to CEO and board variables, we find no robust evidence that the CEO's gender and race are positively related to *EI*. The proportion of female directors is significantly negatively associated with EI in two of the four regressions, and the fraction of minority directors is negatively linked in the other two. A potential explanation is that substantial attention is placed on boardroom diversity, and thus companies may think that if it is high, they have "ticked the box" and do not need to bother improving EI.[15] Alternatively, if boardroom diversity is externally imposed by shareholder pressure, companies might respond by placing less weight on EI. Bian, Li, and Li (2026) similarly find that the staggered adoption of board gender quotas in Europe led to a significant decline in female employment. The coefficient on *DEISenMgr* is significantly negative in one regression. One interpretation is that appointing a senior manager

[15] Bertrand et al. (2019) show that Norway's gender quota in the boardroom did not feed through to greater gender equality within companies.

focused on DEI means that other senior executives no longer view it as their responsibility, to the detriment of (D)EI overall. A second is that companies with poor EI hire DEI senior managers, and it takes time for them to improve EI.

Consistent with the adjustment-cost framework in Section 2, *EI* is highly persistent within firms, so the relevant variation is mainly cross-sectional. We thus also estimate regression (1) using the Fama-MacBeth methodology, which focuses on between-firm differences by estimating a cross-sectional regression for each year and averaging the coefficients across years. Table OA.B1 in the Online Appendix shows that our results remain robust.

5. Firm Outcomes

We now explore the relationship between EI and firm outcomes. We do not interpret these analyses causally, since there may be omitted variables correlated with both EI and future performance. Since EI is an intangible variable that is unlikely to be shocked by exogenous factors such as a law change, any analysis on EI (rather than diversity) is likely only to be able to document correlations. Rather than estimating the causal effect of increasing EI, we ask whether EI contains predictive information about future firm outcomes beyond demographic diversity and observable firm characteristics. This question is particularly relevant because concerns sometimes raised about the financial performance of firms with high levels of demographic diversity may extend to firms with high levels of EI. Investors wishing to buy shares in a high-EI company, or employees or other stakeholders wishing to join a high-EI company, may be interested in its likely future performance, even if that performance is caused by other factors correlated with EI rather than EI itself. Edmans, Gosling, and Jenter (2025) find that portfolio managers of both traditional and sustainable funds use ES performance in stock selection decisions, but the main reason (even

among sustainable funds) is that ES is correlated with other firm characteristics that drive alpha rather than mattering directly.

We consider three categories of performance measures: accounting performance and valuation, innovation, and stock returns.

5.1 Accounting Performance and Valuation

The first set of analyses explores accounting performance and valuation, which we examine with the following regression:

$$Perf_{it} = \beta_0 + \beta_1 EI_{it-1} + \beta_2 Controls2_{it-1} + \eta_{jt} + \varepsilon_{it}. \qquad (2)$$

Perf is one of eight different measures of accounting performance: return on assets (where the numerator is income before extraordinary items), return on equity, return on sales, return on employees, earnings per share growth, profit growth, sales growth, and sales divided by the number of employees. We now use a more extensive set of control variables, *Controls2*. These include *Female%* and *Minority%*, to study whether EI has explanatory power over and above diversity. Following Gompers, Ishii, and Metrick (2003) and Giroud and Mueller (2011), we also control for the book-to-market ratio, firm size, firm age, an S&P 500 inclusion dummy, and a Delaware incorporation dummy. Consistent with these other papers, we measure firm size with log assets, rather than the number of employees; the latter is more relevant when *EI* is the dependent variable. Gompers, Ishii, and Metrick (2003) and Giroud and Mueller (2011) use industry-adjusted dependent variables. A subsequent paper by Gormley and Matsa (2014) recommends industry fixed effects over industry adjustment. We use industry by year fixed effects,

η_{jt}, as it is a more stringent specification that allows for industry-level components of accounting performance that vary over time.

Table 4, Panel A reports the results. We find that lagged *EI* is positively associated with seven out of the eight accounting variables: all except return on equity. When return on assets and profit growth are the dependent variable, the coefficient on lagged *EI* is significant at the 10% level; for the five other dependent variables, it is significant at the 5% level or better. As examples of economic significance, a one standard deviation increase in lagged EI is associated with a 0.74 percentage point (=0.038*0.198*100) increase in return on assets (9.5% of the sample standard deviation) and with a 2.41 percentage point (=0.122*0.198*100) increase in one-year sales growth (14.4% of the sample standard deviation). In contrast, the percentages of females and minorities in the workforce are insignificant in eight and seven specifications, respectively; in only one regression, the percentage of minorities is negatively linked to sales growth (significant at the 10% level). Overall, these results suggest that EI is associated with superior future accounting performance, but diversity is not.[16]

The positive association between *EI* and firm performance is likely to be stronger in industries with highly skilled employees, where the benefits of recruiting, retaining, and motivating workers are particularly important. In Table 4, Panel B, we add an additional interaction term, *EI* × *HISKILL*, where *HISKILL* is a dummy variable that equals one if the company's industry has an above-median proportion of high-skill workers, as estimated by Tate and Yang (2015).[17] The coefficient on *EI* × *HISKILL* is positive and significant at the 5% level for return on employees

[16] The results are unchanged when replacing the percentage of females and minorities in the workforce with the percentage of females and minorities in senior management, to address the concern that it is diversity in senior management that is more important for performance.

[17] Tate and Yang (2015) obtain information from the Bureau of Labor Statistics on the distribution of workers across Standard Occupational Classification ("SOC") codes for each two-digit SIC. They classify employees as high- or low-skill based on their SOC code, and then calculate the proportion of high-skill workers in each SIC. We thank Geoff Tate and Liu Yang for providing us with this data.

and sales per employee, the two performance variables with the number of employees in the denominator. This is consistent with *EI* having a particular role in increasing employee motivation and engagement in high-skill industries. The interaction is positive and significant at the 10% level where return on sales is the dependent variable, but insignificant (albeit typically positive) in other specifications. *EI* itself remains significant in the same seven specifications as before. These results also narrow the set of alternative explanations for the correlation between EI and profitability; any omitted variable would also need to generate a stronger association in high-skill industries.

Li et al. (2021) apply machine learning techniques on earnings call transcripts to score companies on five cultural values: innovation, integrity, quality, respect, and teamwork. Since two of the questions used to construct our *EI* measure fall within GPTW's Respect category, in Panel C we control for Li et al.'s "respect" cultural value to explore whether *EI* has incremental explanatory power over and above their measure. The purpose of this analysis is not to distinguish EI conceptually from respect. Rather, it tests whether employee perceptions of EI contain incremental information beyond a measure of corporate culture derived from conference-call transcripts. Despite the loss of nearly 300 (or 18%) of observations, we find that *EI* is positive and significant in six of the eight specifications, whereas "respect" is only positive and significant in one (and negative and significant in another). In Panel D, we add Li et al.'s four other cultural values, and *EI* remains positive and significant in the same six specifications. In Table OA.A4, Panel A in the Online Appendix, we alternatively control for the Glassdoor D&I rating studied by Briscoe-Tran (2023). *EI* remains positively and significantly associated with five of the eight profitability measures. The slight loss in significance is due to the loss of nearly 650, or 40%, of observations. Indeed, Table OA.A4, Panel B repeats Panel A for the subset of firms that also have a Glassdoor D&I rating but without including the control. Comparing Panels A and B shows that

the coefficients on *EI* are slightly higher when controlling for D&I. Thus, the explanatory power of EI does not arise from it proxying for D&I.

Table 4 controls for observable variables by including them as additional covariates in a regression. An alternative approach is to use propensity score matching ("PSM"), which does not assume a linear relationship between the observables and accounting performance; it also ensures that treated and control firms are similar on observables and removes control firms that are very different.[18] We implement it in three steps. First, we split the EI variable at the median for each year to identify treated (high-*EI*) and control firms (low-*EI*). Second, we estimate propensity scores using a logistic regression of a binary EI indicator (equal to one if *EI* is above-median) on *Controls2* and year dummies. Finally, we perform nearest neighbor matching, restricting matches to treated and control firms within 0.2 standard deviations of the logit of the propensity score and within the same year. Figure OA.A1 shows that the absolute mean differences between treated and control firms are substantially reduced in the matched sample. Table OA.A5 reports that lagged *EI* remains significantly associated with the same seven performance measures.

In Table 5, we use Tobin's Q, the price-earnings ratio, and the aggregate value-EBITDA ratio as the measure of performance, to study the extent to which EI (or other attributes correlated with EI) is valued by the stock market. Table 5 shows that *EI* is positive and significant in all specifications. In terms of economic significance, a one standard deviation increase in EI is associated with a 0.32 (=1.596*0.201) increase in Tobin's Q, compared to the sample standard deviation of 1.77. These results suggest that the market at least partially incorporates the value of EI, potentially because some investors go beyond diversity and analyze EI.[19]

[18] The terminology "treated" and "control" is consistent with the standard PSM terminology and does not imply that we estimate a treatment (i.e. causal) effect.
[19] The economic magnitude is similar to Gompers, Ishii, and Metrick (2003) who find a 0.336 average difference between the Tobin's Q of democracy and dictatorship firms.

While Table 5 tests whether the market at least *partially* incorporates the value of EI, Table 6 investigates whether it does so *fully* by investigating the link between *EI* and future one- and two-year earnings surprises. Our dependent variable, *Surprise*, is the actual earnings per share for the fiscal year ending in year *t* minus the median I/B/E/S analyst forecast, deflated by lagged assets per share as in Giroud and Mueller (2011). The I/B/E/S consensus forecast for the one-year (two-year) earnings surprise is taken eight (twenty) months prior to the end of the forecast period, i.e. four months after the fiscal year-end. Since most annual reports are filed within three months of the fiscal year-end, this ensures that analysts know prior earnings when making their forecasts. As in Giroud and Mueller (2011) and Edmans (2011), we remove observations for which the forecast error is larger than 10% of the price, and control for firm size and the book-to-market ratio.

Table 6 shows that *EI* is positively and significantly associated with future earnings surprises. Panel A shows the results for one-year earnings surprises. In column (1), a one standard deviation increase in *EI* implies that actual earnings are 0.16 percentage points (=8.257*0.200/1000*100) higher than analyst estimates, scaled by assets per share; this is 8% of the sample standard deviation. Columns (2) and (3) successively add firm size and book-to-market as additional controls and the results remain robust. Consistent with prior results, the percentage of minorities in the workforce is insignificant, and the percentage of women has a significantly negative relationship in all specifications. In Panel B, we find a positive correlation between *EI* and two-year earnings surprises. While the magnitudes are similar to Panel A, the statistical significance is 10% in all specifications, potentially due to the lower number of observations. These findings suggest that the superior accounting performance documented in Table 4 is not fully anticipated by the market. They are consistent with the positive earnings surprises to the US Best Companies

documented by Edmans (2011), and to the Best Companies in countries with flexible labor markets found by Edmans et al. (2024).

Finally, in Tables OA.B2-OA.B4 in the Online Appendix, we repeat the analyses of Tables 4, 5, and 6 using Fama-MacBeth regressions. We find that the cross-sectional analyses show very similar results to the pooled panel regressions.

5.2 Innovation

We next turn to innovation. As highlighted in Section 2, one of the main theoretical benefits of EI is that it can lead to the creation and dissemination of new ideas, even if they go against the grain, in turn enhancing innovation. To examine the relationship between EI and innovation, we estimate the following regression:

$$Innov_{it} = \beta_0 + \beta_1 EI_{it-1} + \beta_2 Controls3_{it-1} + \eta_{jt} + \varepsilon_{it}. \quad (3)$$

Innov is either the number of patents filed in a given year or the citations to those patents, a measure of patent quality. Both variables are taken from the UVA Darden Global Corporate Patent Database used in Bena et al. (2017). This data is available until 2017, but we omit the last two years because of the reporting gap when filing patents.[20] While many papers on innovation use the log of one plus the number of patents or the number of citations, Cohn, Liu, and Wardlaw (2022) highlight problems with adding one to a count or count-like variable and taking logs; for example, the coefficients no longer have any economic meaning. We thus follow their recommendation to use a Poisson regression. The independent variable of interest is lagged *EI.* We control for book-

[20] There is an average of two years between patent applications and patent grants (Hall, Jaffe, and Trajtenberg, 2005).

to-market and firm age as measures of growth opportunities, and firm size (as measured by log assets), dividend yield, cash holdings, and leverage as measures of financial strength. Following Flammer and Kacperczyk (2016), we also control for R&D expenses divided by sales and a missing R&D dummy, since R&D expenses likely contribute to innovation.

Table 7 presents the results. We find that *EI* is insignificantly related to either the number of patents (column (1)) or patent citations (column (3)). However, we note that innovation is likely to stem from particular types of employees, such as those in the R&D department. We thus stratify the responses by job category. Our dataset contains the job category of each respondent, which is either executives[21], managers, professionals, or hourly workers; the third category includes all salaried employees, such as R&D staff and technical professionals.

In columns (2) and (4), we disaggregate the firm-level *EI* measure into the averages reported by each of the four categories of respondent. We find that the average *EI* scores of professionals are positively related to both the number and quality of patents, and the results are significant at the 10% level for patents and at the 1% level for citations. In terms of economic significance, in column (4), a one standard deviation increase in the EI score of professionals is associated with a 121% (= $e^{3.769*0.210}$-1) increase in the number of citations. None of the other averages are positively related to either innovation measure, which may explain why the aggregate *EI* measure bears no relation to innovation. Consistent with earlier results, the coefficients on gender and ethnic diversity are either insignificant or negative in all specifications.[22]

[21] Executives are senior managers, rather than C-suite executives.
[22] We are not aware of a Fama-MacBeth analog for Poisson regressions, hence not performing this test.

5.3 Stock Returns

Our final set of analyses studies stock return performance. Stock returns capture all channels through which *EI* (or correlated firm attributes) affects firm performance, as long as they are not fully anticipated by the market. These channels include the accounting performance and innovation previously studied, but also other potential channels, such as customer satisfaction ratings and news announcements that have not yet fed through to accounting performance.

We estimate the following regression based on monthly cross-sectional regressions:

$$R_{it} = \beta_0 + \beta_1 EI_{it-2} + \beta_2 Controls4_{it-2} + \tau_t + \varepsilon_{it}. \quad (4)$$

R_{it} is the return on stock i in month t, either the raw return or the industry-adjusted return. $Controls4_{it}$ include the control variables used in Brennan, Chordia, and Subrahmanyam (1998), calculated using data from CRSP and Compustat. *LnSize* is the log of firm *i*'s market capitalization at the end of month *t-2*. *LnBM* is the log of firm *i*'s book-to-market ratio. This variable is recalculated each July and held constant through the following June. *DivYield* is firm *i*'s dividend yield: the total dividend paid over the previous fiscal year, divided by the market value at calendar year-end. This variable is recalculated each July and held constant through the following June. *LnRet23* is the log of one plus firm *i*'s cumulative return over months *t-3* through *t-2*. *LnRet46* and *LnRet712* are defined similarly. *LnDollarVol* is the log of firm *i*'s dollar trading volume in month *t-2*. *LnPrc* is the log of firm *i*'s price at the end of month *t-2*. Following Brennan, Chordia, and Subrahmanyam (1998) and the broader asset pricing literature, we estimate equation (4) using Fama-MacBeth regressions.

While specification (4) controls for firm characteristics, specification (5) instead controls for risk. We calculate the Carhart (1997) four-factor alphas to an *EI* portfolio by estimating the following time-series regression:

$$R_{pt} = \alpha + \beta_{MKT}MKT_t + \beta_{HML}HML_t + \beta_{SMB}SMB_t + \beta_{MOM}MOM_t + \varepsilon_t, \quad (5)$$

where R_{pt} is the return to a portfolio of companies that is long in the top tercile of *EI* and short in the bottom tercile of *EI* for a given month *t*. The portfolio is either equal-weighted or value-weighted, and individual stock returns are either unadjusted or industry-adjusted. α is an intercept that captures the abnormal risk-adjusted return. *MKT, HML, SMB,* and *MOM* are, respectively, the market, value, size, and momentum factors, collected from Ken French's website. Standard errors are corrected for heteroskedasticity and autocorrelation using Newey-West's (1987) estimator with four lags.

Table 8 presents the results of the Fama-MacBeth regressions and shows that *EI* is uncorrelated with both future raw stock returns and industry-adjusted stock returns. Table 9 illustrates that none of the *EI* portfolios have a significantly positive alpha – whether equal-weighted or value-weighted, or raw or industry-adjusted.

The absence of a relationship between *EI* and stock returns, despite its link to accounting performance, may arise because stock returns are affected by other factors than accounting performance. One is tastes. If investors have a taste for high-EI stocks, then their returns will be lower in equilibrium (Pastor, Stambaugh, and Taylor (2021)). A second is risk. If investors perceive high-EI stocks as bearing lower systematic risk, they will demand lower expected returns, leading to lower realized returns in equilibrium. A third is extraneous factors such as macroeconomic conditions, investor buying/selling pressure, or sentiment, which mean that stock

returns are noisy, and so any link between *EI* and profitability does not translate into stock returns.[23] Indeed, many organizational behavior studies relate EI or diversity to employee perceptions (such as perceived decision quality or team creativity) rather than actual profitability, under the view that even profitability is too noisy to detect a link.[24]

6. Conclusion

This paper introduces a measure of equity and inclusion available across a large sample of firms over sixteen years, complementing prior research in finance that typically focuses on demographic diversity, and extending prior literature in organizational behavior that explores psychological safety in a single firm at a point in time. We construct our measure using the employee responses to the Great Place to Work's Trust Index survey that are most closely associated with EI. We show that these average responses exhibit a low correlation with demographic diversity, whether at the boardroom, executive, or workforce levels, suggesting that diversity measures may miss many important aspects of EI. This result has important implications for companies, investors, stakeholders, and regulators who pay substantial attention to diversity statistics – these metrics may omit a big piece of the picture.

In multivariate regressions, the percentage of women in senior management is significantly positively associated with EI perceptions. However, there is a negative correlation with the percentage of female directors in some specifications and minority directors in other specifications, while other demographic variables bear no relation. EI is also unrelated to general workplace

[23] Another potential explanation is that *EI* is priced in by the market. However, this is unlikely since Edmans (2011, 2012) and Boustanifar and Kang (2022) find that Best Companies inclusion is not fully priced in by the market, despite it being publicly observable (which *EI* is not).

[24] For example, Miller, Burke, and Glick (1998) note that some prior papers "simply related diversity to outcome variables such as organizational innovation and profitability. It may be that diversity's effects on ultimate outcome variables are too weak to be detected consistently, particularly in cross-sectional studies."

policies and characteristics, suggesting that it differs from general good human capital management, and providing little support for the idea that EI can be improved through generic rather than targeted initiatives.

Moving to firm outcomes, we find that high-EI firms enjoy superior subsequent accounting performance across a range of variables. The stock market partially incorporates the value of EI, as shown by higher valuation ratios, but this incorporation is only partial as evidenced by the superior future earnings surprises. While firm-wide EI scores bear no relation to either the quantity or quality of patents, EI perceptions by professionals, which include R&D employees, are positively and significantly linked to both measures. We find no link between EI and stock returns, potentially because stock returns are affected by factors other than accounting performance.

Overall, our results have two main implications. First, EI captures a distinct dimension of a company's human capital from demographic diversity, and so demographic diversity is a poor proxy for both EI and DEI. Second, EI is positively related to future firm performance but demographic diversity is not. These findings matter for companies that initiate DEI policies, regulators who implement them, and investors and stakeholders who monitor company-level DEI: they suggest that greater attention should be paid to EI rather than demographic diversity metrics alone.

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Figure 1: EI firm scores over time

This figure reports the firms' average EI scores over time. We calculate the EI measure as the average of 13 EI-related survey questions from the GPTW Institute and aggregate it over all surveyed employees in a given firm and year. The sample period is from 2006 to 2021.

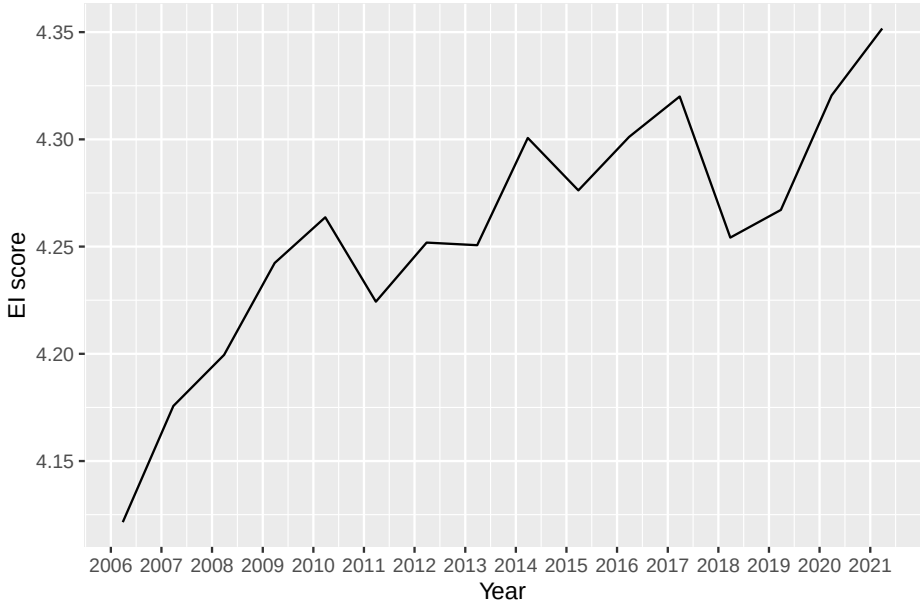


Table 1: Descriptive statistics

This table reports summary statistics for our sample based on Compustat data. The GPTW sample contains firm-year observations of publicly listed companies that participate in the GPTW survey. The full Compustat sample has all firms included in Compustat. The appendix provides descriptions for each variable. The sample period is from 2006 to 2021.

Panel A: Number of firm-year observations

Year	GPTW sample
2006	227
2007	185
2008	168
2009	150
2010	127
2011	126
2012	115
2013	109
2014	104
2015	102
2016	83
2017	87
2018	106
2019	104
2020	101
2021	109
Total sample	2,003

Panel B: GPTW sample

Statistic	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
EI	4.24	0.21	3.28	4.11	4.26	4.38	4.82	2,003
EI_whitemale	4.29	0.22	3.14	4.15	4.32	4.45	4.85	1,976
EI_whitefemale	4.26	0.21	3.24	4.13	4.28	4.40	4.85	1,975
EI_minoritymale	4.24	0.29	2.31	4.06	4.27	4.44	5.00	1,967
EI_minorityfemale	4.16	0.32	1.00	4.00	4.19	4.36	5.00	1,965
EI_executives	4.51	0.27	2.77	4.36	4.53	4.69	5.00	1,961
EI_managers	4.34	0.19	3.36	4.21	4.34	4.47	4.88	1,984
EI_professionals	4.22	0.22	2.65	4.09	4.23	4.37	4.92	1,984
EI_workers	4.14	0.28	2.22	3.97	4.17	4.33	5.00	1,974
Female%	0.42	0.17	0.05	0.29	0.40	0.54	0.98	1,922
Minority%	0.20	0.13	0.00	0.10	0.15	0.27	0.77	1,903
FemaleMgt%	0.25	0.13	0.00	0.16	0.24	0.32	0.98	1,860
MinorityMgt%	0.13	0.11	0.00	0.06	0.11	0.17	1.00	1,808
FemaleCEO	0.03	0.18	0	0	0	0	1	1,842
MinorityCEO	0.03	0.17	0	0	0	0	1	1,866
FemaleDir%	0.19	0.11	0.00	0.11	0.18	0.27	0.57	1,901
MinorityDir%	0.04	0.06	0.00	0.00	0.00	0.08	0.57	1,901
DEISenMgr	0.12	0.32	0	0	0	0	1	1,867
FlexSchedule	0.71	0.46	0	0	1	1	1	1,568
ChildCare	0.20	0.40	0	0	0	0	1	1,273
Sabbatical	0.12	0.32	0	0	0	0	1	1,477
UnpaidParentLeave	43.26	48.01	0	0	35	60	394	1,251
UnionWorker%	0.07	0.14	0.00	0.00	0.00	0.05	0.89	867
SurveyedWhiteMale%	0.40	0.15	0.00	0.30	0.41	0.51	0.80	1,978
SurveyedWhiteFemale%	0.31	0.14	0.00	0.21	0.30	0.40	1.00	1,978
SurveyedMinority%	0.15	0.11	0.00	0.07	0.12	0.19	0.92	1,978
emp	38.59	84.37	0.61	5.00	13.02	40.41	2,300.00	1,971
roa	0.05	0.08	−0.51	0.02	0.05	0.10	0.19	1,982
q	2.26	1.78	0.45	1.16	1.64	2.71	16.22	1,774
assets	55,353.36	205,232.30	69.62	2,409.94	7,551.10	26,177.50	3,169,495.00	2,003

Panel C: Full Compustat sample

Statistic	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
emp	12.12	50.40	0.001	0.21	1.15	6.25	2,300.00	75,145
roa	−0.03	0.17	−0.72	−0.03	0.02	0.06	0.19	74,520
q	1.90	1.75	0.34	1.00	1.29	2.07	16.22	73,363
assets	16,633.97	119,823.60	0.13	184.03	890.87	3,960.88	3,771,200.00	79,446

Table 2: Correlations between EI and demographic diversity

This table provides correlation coefficients between our EI measure and demographic variables from GPTW's Culture Audit and BoardEx. Correlations are calculated separately for each year and then averaged over time. The appendix provides descriptions for each variable. Statistical significance is based on two-sided t-tests. The sample period is from 2006 to 2021. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Variable	EI	Female%	Minority%	FemaleMgt%	MinorityMgt%	FemaleCEO	MinorityCEO	FemaleDir%	MinorityDir%
EI	1.000***								
Female%	0.123***	1.000***							
Minority%	-0.044*	0.303***	1.000***						
FemaleMgt%	0.127***	0.603***	0.220***	1.000***					
MinorityMgt%	0.001	-0.180***	-0.071**	0.045	1.000***				
FemaleCEO	0.047*	0.168***	0.005	0.141***	-0.036*	1.000***			
MinorityCEO	-0.046*	0.002	0.005	0.005	0.026	-0.035***	1.000***		
FemaleDir%	-0.128***	0.265***	0.015	0.296***	0.007	0.300***	0.036	1.000***	
MinorityDir%	-0.093***	0.085***	0.090***	0.049**	0.034	-0.069***	0.452***	0.070***	1.000***

Table 3: EI and diversity characteristics

This table regresses EI on demographic characteristics and workplace policies using a pooled OLS model. Panel A shows the results for our aggregated EI measure. Panel B analyzes the EI responses by demographic groups (i.e., white males, white females, minority males, and minority females). In both panels, we include industry times year fixed effects. Standard errors are double clustered at the firm and year level. The appendix provides descriptions for each variable. The sample period is from 2006 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Baseline EI measure

	Dependent variable:		
	EI		
	(1)	(2)	(3)
Female%	0.05	−0.02	−0.05
	(0.08)	(0.11)	(0.08)
Minority%	0.05	0.11	−0.02
	(0.10)	(0.14)	(0.11)
FemaleMgt%	0.29***	0.34**	0.38***
	(0.08)	(0.14)	(0.11)
MinorityMgt%	−0.12*	−0.21	−0.15
	(0.07)	(0.12)	(0.11)
FemaleCEO	0.01	0.06	0.01
	(0.04)	(0.04)	(0.04)
MinorityCEO	0.01	0.003	0.07
	(0.05)	(0.06)	(0.04)
FemaleDir%	−0.15**	−0.19**	−0.12
	(0.06)	(0.07)	(0.07)
MinorityDir%	−0.17	−0.33	−0.52**
	(0.15)	(0.19)	(0.18)
DEISenMgr	−0.04*	−0.02	−0.02
	(0.02)	(0.03)	(0.03)
FlexSchedule		0.03	
		(0.02)	
ChildCare		−0.01	
		(0.02)	
Sabbatical		0.005	
		(0.03)	
UnpaidParentLeave		0.0001	
		(0.0002)	
UnionWorker%			−0.41***
			(0.05)
lnemp	−0.03***	−0.03***	−0.03***
	(0.01)	(0.01)	(0.01)
lnbm	−0.04***	−0.03*	−0.03*
	(0.01)	(0.01)	(0.01)
divyield	−0.10	−0.14	0.23
	(0.27)	(0.30)	(0.35)
cash	0.04	0.03	−0.06
	(0.08)	(0.09)	(0.10)
leverage	−0.12**	−0.17**	−0.17***
	(0.04)	(0.06)	(0.05)
lnage	−0.02*	−0.02	−0.01
	(0.01)	(0.01)	(0.01)
Year x FF48 FE	Yes	Yes	Yes
Observations	1,492	735	781
Adjusted R^2	0.42	0.47	0.52

Panel B: EI responses by demographic group

	Dependent variable:			
	EI_whitemale	EI_whitefemale	EI_minoritymale	EI_minorityfemale
	(1)	(2)	(3)	(4)
Female%	0.05	0.07	−0.005	0.09
	(0.09)	(0.08)	(0.10)	(0.12)
Minority%	0.03	0.09	0.09	0.20
	(0.10)	(0.11)	(0.09)	(0.13)
FemaleMgt%	0.28^{***}	0.32^{***}	0.36^{**}	0.25^{*}
	(0.08)	(0.08)	(0.14)	(0.13)
MinorityMgt%	−0.08	−0.08	−0.15	0.01
	(0.06)	(0.07)	(0.12)	(0.12)
FemaleCEO	−0.01	0.02	0.03	0.05
	(0.04)	(0.03)	(0.04)	(0.06)
MinorityCEO	0.04	−0.01	0.01	−0.03
	(0.05)	(0.04)	(0.08)	(0.06)
FemaleDir%	-0.22^{***}	−0.14	-0.22^{**}	-0.24^{**}
	(0.07)	(0.08)	(0.10)	(0.11)
MinorityDir%	−0.29	−0.22	−0.15	−0.07
	(0.17)	(0.15)	(0.19)	(0.19)
DEISenMgr	−0.03	−0.03	−0.05	-0.05^{*}
	(0.02)	(0.02)	(0.03)	(0.02)
lnemp	-0.03^{***}	-0.02^{***}	-0.04^{***}	-0.04^{***}
	(0.01)	(0.01)	(0.01)	(0.01)
lnbm	-0.03^{***}	-0.04^{***}	-0.04^{***}	−0.02
	(0.01)	(0.01)	(0.01)	(0.02)
divyield	−0.17	−0.09	0.04	0.02
	(0.28)	(0.31)	(0.33)	(0.40)
cash	0.07	0.07	0.02	0.18
	(0.09)	(0.08)	(0.09)	(0.11)
leverage	-0.12^{**}	-0.08^{*}	-0.16^{**}	-0.12^{**}
	(0.04)	(0.04)	(0.06)	(0.04)
lnage	-0.02^{**}	-0.02^{**}	−0.02	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)
Year x FF48 FE	Yes	Yes	Yes	Yes
Observations	1,476	1,476	1,471	1,470
Adjusted R^2	0.44	0.35	0.28	0.21

Table 4: Accounting performance

This table regresses accounting performance measures on lagged EI scores, demographic characteristics, and controls using a pooled OLS model. Panel A shows our baseline EI measure, Panel B interacts the EI measure with industries with high-skill employees, Panel C controls for respect, and Panel D controls for five corporate culture values. We winsorize all accounting performance measures at the 5% and 95% levels. We include industry times year fixed effects in each column. Standard errors are double clustered at the firm and year level. Panels B, C, and D have the same control variables as Panel A. The appendix provides descriptions for each variable. The sample period is from 2007 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Baseline EI measure

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.04^{*}	0.02	0.13^{**}	72.95^{**}	0.59^{**}	0.57^{*}	0.12^{***}	317.05^{**}
	(0.02)	(0.04)	(0.05)	(24.69)	(0.25)	(0.28)	(0.03)	(116.09)
$Female\%_{t-1}$	−0.02	0.07	0.02	−22.66	−0.13	−0.24	−0.04	−210.61
	(0.02)	(0.05)	(0.03)	(19.75)	(0.21)	(0.19)	(0.04)	(140.51)
$Minority\%_{t-1}$	−0.01	0.04	0.04	59.78	0.07	0.02	-0.10^{*}	85.34
	(0.03)	(0.08)	(0.08)	(48.03)	(0.40)	(0.42)	(0.05)	(203.84)
$lnbm_{t-1}$	-0.03^{***}	-0.09^{***}	-0.03^{***}	-11.11^{*}	-0.14^{**}	-0.15^{**}	-0.04^{***}	12.94
	(0.01)	(0.02)	(0.01)	(5.50)	(0.05)	(0.06)	(0.01)	(15.82)
$lnassets_{t-1}$	0.01^{*}	0.03^{***}	0.02^{***}	12.29^{***}	0.04	0.05	0.0001	78.95^{***}
	(0.003)	(0.01)	(0.01)	(3.40)	(0.03)	(0.03)	(0.004)	(13.83)
$lnage_{t-1}$	0.01^{*}	0.02	0.01	−2.46	−0.01	−0.02	-0.04^{***}	-72.93^{***}
	(0.004)	(0.01)	(0.01)	(4.54)	(0.07)	(0.07)	(0.01)	(20.98)
$sp500_{t-1}$	−0.01	−0.02	−0.01	9.98	−0.04	−0.07	−0.01	67.49
	(0.01)	(0.03)	(0.02)	(11.76)	(0.07)	(0.08)	(0.01)	(40.47)
$delaware_{t-1}$	-0.02^{***}	-0.04^{**}	0.003	3.02	0.04	0.06	−0.01	44.71
	(0.01)	(0.02)	(0.01)	(8.11)	(0.08)	(0.07)	(0.01)	(43.41)
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,602	1,601	1,602	1,578	1,600	1,602	1,602	1,578
Adjusted R^2	0.23	0.26	0.14	0.35	0.02	0.03	0.38	0.49

Panel B: EI interacted with high-skill industries

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.04^{*}	0.02	0.12^{**}	74.15^{***}	0.59^{**}	0.56^{*}	0.12^{***}	321.40^{**}
	(0.02)	(0.04)	(0.05)	(24.64)	(0.26)	(0.28)	(0.03)	(114.49)
EI_{t-1} x $HISKILL_{t-1}$	0.002	0.01	0.01^{*}	8.01^{**}	0.03	0.04	−0.0003	29.15^{**}
	(0.002)	(0.005)	(0.01)	(2.93)	(0.03)	(0.02)	(0.003)	(12.27)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,602	1,601	1,602	1,578	1,600	1,602	1,602	1,578
Adjusted R^2	0.23	0.26	0.14	0.36	0.02	0.03	0.38	0.50

Panel C: Controlling for the "respect" cultural value in Li et al. (2021)

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.04^{*}	0.004	0.08^{**}	56.89^{**}	0.50^{*}	0.48	0.08^{**}	284.71^{**}
	(0.02)	(0.04)	(0.03)	(22.72)	(0.27)	(0.29)	(0.03)	(127.13)
$cc_respect_{t-1}$	−0.01	−0.02	-0.02^{*}	−7.32	−0.03	0.0002	0.02^{*}	−10.96
	(0.01)	(0.01)	(0.01)	(4.85)	(0.05)	(0.05)	(0.01)	(20.92)
$Female\%_{t-1}$	−0.02	0.06	−0.001	−23.24	−0.03	−0.16	−0.04	−183.94
	(0.02)	(0.05)	(0.03)	(19.72)	(0.31)	(0.30)	(0.04)	(148.93)
$Minority\%_{t-1}$	−0.02	−0.04	−0.04	28.51	−0.60	−0.59	−0.07	77.87
	(0.03)	(0.07)	(0.04)	(42.20)	(0.72)	(0.71)	(0.04)	(228.21)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,319	1,318	1,319	1,302	1,318	1,319	1,319	1,302
Adjusted R^2	0.25	0.29	0.23	0.39	−0.03	−0.01	0.35	0.51

Panel D: Controlling for the five cultural values in Li et al. (2021)

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.04^{*}	0.01	0.08^{**}	55.27^{**}	0.51^{*}	0.48	0.08^{**}	274.08^{**}
	(0.02)	(0.04)	(0.03)	(22.03)	(0.27)	(0.29)	(0.03)	(122.07)
$cc_integrity_{t-1}$	0.01	0.02	0.005	6.42	0.10	0.07	-0.02^{**}	30.39
	(0.01)	(0.02)	(0.02)	(7.91)	(0.18)	(0.17)	(0.01)	(39.18)
$cc_respect_{t-1}$	-0.01^{**}	-0.03^{*}	-0.02^{**}	−9.27	−0.07	−0.03	0.02^{**}	−4.28
	(0.01)	(0.01)	(0.01)	(5.20)	(0.08)	(0.07)	(0.01)	(22.99)
$cc_innovation_{t-1}$	0.004	0.004	0.01^{*}	3.83	0.05	0.04	−0.003	−16.45
	(0.003)	(0.01)	(0.004)	(2.45)	(0.05)	(0.05)	(0.003)	(10.75)
$cc_teamwork_{t-1}$	-0.01^{**}	-0.03^{*}	-0.03^{*}	6.05	−0.04	−0.04	0.02^{*}	97.44^{**}
	(0.01)	(0.01)	(0.01)	(7.36)	(0.12)	(0.12)	(0.01)	(37.65)
$cc_quality_{t-1}$	0.004	0.02	0.01	−5.79	0.03	0.03	−0.001	-50.41^{**}
	(0.004)	(0.01)	(0.01)	(5.35)	(0.04)	(0.04)	(0.005)	(17.45)
$Female\%_{t-1}$	−0.02	0.06	0.002	−20.48	0.01	−0.13	−0.04	−189.18
	(0.02)	(0.05)	(0.03)	(18.42)	(0.31)	(0.30)	(0.04)	(144.09)
$Minority\%_{t-1}$	−0.02	−0.05	−0.04	37.93	−0.52	−0.54	−0.07	94.97
	(0.03)	(0.07)	(0.04)	(42.84)	(0.70)	(0.69)	(0.04)	(230.81)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,319	1,318	1,319	1,302	1,318	1,319	1,319	1,302
Adjusted R^2	0.26	0.29	0.24	0.39	−0.03	−0.01	0.36	0.52

Table 5: Firm valuation

This table regresses firm valuation measures on EI scores, demographic characteristics, and controls using a pooled OLS model. We drop negative valuation measures and winsorize the valuation measures at the 1% and 99% levels. We include industry times year fixed effects in each column. Standard errors are double clustered at the firm and year level. The appendix provides descriptions for each variable. The sample period is from 2006 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Dependent variable:		
	q	pe	avebitda
	(1)	(2)	(3)
EI	1.60^{***}	37.69^{**}	18.36^{**}
	(0.38)	(12.84)	(6.45)
Female%	−0.88	−5.17	−8.17
	(0.52)	(13.12)	(5.29)
Minority%	-1.24^{*}	8.63	0.90
	(0.69)	(19.13)	(7.43)
lnassets	-0.40^{***}	-5.06^{***}	-1.57^{**}
	(0.08)	(1.44)	(0.59)
lnage	−0.14	−5.09	−2.61
	(0.12)	(3.65)	(1.79)
sp500	1.25^{***}	14.46^{**}	6.01^{*}
	(0.27)	(6.14)	(3.18)
delaware	0.21	8.31^{**}	3.37^{**}
	(0.14)	(3.56)	(1.39)
Year x FF48 FE	Yes	Yes	Yes
Observations	1,613	1,574	1,684
Adjusted R^2	0.27	−0.01	0.07

Table 6: Earnings surprises

This table regresses analysts' forecast errors, normalized over assets per share, on lagged EI, demographic characteristics, and controls using a pooled OLS model. Panel A shows one-year earnings surprises and Panel B shows two-year earnings surprises. We measure the median analysts' forecasts eight and twenty months (for one- and two-year surprises, respectively) before the actual earnings are announced. We calculate assets per share by dividing assets from the previous fiscal year by shares outstanding at the time of the forecast. We drop observations when the median forecast errors are larger than 10% of the stock price. In both panels, we include year fixed effects. Standard errors are double clustered at the firm and year level. The appendix provides descriptions for each variable. The sample period is from October 2006 to December 2021 in Panel A and from October 2007 to December 2021 in Panel B. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: One-year earnings surprises

	Dependent variable:		
	one-year surprise$_t$		
	(1)	(2)	(3)
EI$_{t-8}$	8.26**	8.55**	7.46**
	(3.28)	(3.16)	(3.09)
Female%$_{t-8}$	−8.24**	−7.04*	−6.72*
	(3.34)	(3.35)	(3.46)
Minority%$_{t-8}$	−8.12	−7.65	−5.61
	(5.17)	(5.30)	(5.14)
lnsize$_{t-12}$		0.97**	0.97**
		(0.44)	(0.45)
lnbm$_{t-12}$			−1.16*
			(0.60)
Year FE	Yes	Yes	Yes
Observations	1,707	1,707	1,669
Adjusted R^2	0.03	0.03	0.03

Panel B: Two-year earnings surprises

	Dependent variable:		
	two-year surprise$_t$		
	(1)	(2)	(3)
EI$_{t-20}$	8.33*	8.28*	8.61*
	(4.26)	(4.41)	(4.73)
Female%$_{t-20}$	−1.87	−1.20	−1.23
	(7.61)	(7.36)	(7.74)
Minority%$_{t-20}$	−11.41	−10.96	−10.31
	(10.41)	(10.59)	(11.13)
lnsize$_{t-24}$		0.77	0.84
		(0.70)	(0.71)
lnbm$_{t-24}$			0.15
			(1.51)
Year FE	Yes	Yes	Yes
Observations	1,476	1,472	1,440
Adjusted R^2	0.04	0.04	0.04

Table 7: Innovation

This table regresses innovation measures on lagged EI scores, demographic characteristics, and controls using a Poisson model. We include industry times year fixed effects in each column. Standard errors are double clustered at the firm and year level. The appendix provides descriptions for each variable. The sample period is from 2007 to 2015. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Dependent Variables:	$patents_t$		$citations_t$	
Model:	(1)	(2)	(3)	(4)
EI_{t-1}	0.1565		1.253	
	(0.5661)		(1.107)	
$EI_executives_{t-1}$		-0.3085		-0.8359***
		(0.2605)		(0.2160)
$EI_managers_{t-1}$		-0.6598*		-1.187**
		(0.3740)		(0.4883)
$EI_professionals_{t-1}$		1.493*		3.769***
		(0.7747)		(1.447)
$EI_workers_{t-1}$		-0.0846		-0.0581
		(0.2110)		(0.1891)
$Female\%_{t-1}$	-3.429**	-3.564**	-0.1821	-0.9647
	(1.408)	(1.448)	(1.459)	(1.527)
$Minority\%_{t-1}$	-0.1911	0.1635	-1.462	0.5057
	(1.768)	(1.968)	(3.080)	(2.627)
$lnbm_{t-1}$	-0.4538***	-0.4544***	-0.2890**	-0.3516***
	(0.0763)	(0.0936)	(0.1138)	(0.1006)
$lnassets_{t-1}$	0.8362***	0.8300***	0.9175***	0.9080***
	(0.0609)	(0.0592)	(0.0921)	(0.0798)
$divyield_{t-1}$	2.345***	2.334***	-1.253	-0.6348
	(0.5669)	(0.6963)	(1.860)	(1.148)
$cash_{t-1}$	-1.749*	-1.920*	-0.2557	-0.8346
	(1.019)	(0.9829)	(1.065)	(0.8110)
$leverage_{t-1}$	-1.054	-1.065	0.3419	0.0371
	(0.6815)	(0.6602)	(0.8512)	(0.7884)
$lnage_{t-1}$	0.1352	0.1546	0.1949	0.1427
	(0.1256)	(0.1244)	(0.2243)	(0.1736)
$rdsales_{t-1}$	6.538***	6.254***	11.41***	10.14***
	(1.506)	(1.435)	(1.831)	(1.610)
$rdmiss_{t-1}$	-2.297***	-2.124***	-2.996***	-2.712***
	(0.4372)	(0.3057)	(0.6913)	(0.6295)
Year x FF48 FE	Yes	Yes	Yes	Yes
Observations	1,133	1,110	1,133	1,110
Pseudo R^2	0.91201	0.91465	0.88850	0.90201

Table 8: Stock returns

This table regresses raw and industry-adjusted stock returns on lagged EI and controls. All variables used to predict the stock returns of month t are available at the end of month $t-2$. We calculate industry-adjusted stock returns by subtracting the returns of value-weighted Fama-French-48 industries from the raw stock returns. The reported coefficients are averages from monthly cross-sectional regressions. Standard errors are calculated using the Newey-West method with one lag. The appendix provides descriptions for each variable. The sample period is from February 2006 to December 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Dependent variable:	
	ret	retvwind
	(1)	(2)
EI	0.29	0.17
	(0.41)	(0.36)
lnsize	0.17	0.17
	(0.16)	(0.15)
lnbm	−0.10	−0.004
	(0.09)	(0.08)
divyield	0.36	0.10
	(1.25)	(1.05)
lnret23	−0.19	0.30
	(0.91)	(0.83)
lnret46	0.21	0.84
	(0.81)	(0.75)
lnret712	0.75	0.56
	(0.60)	(0.56)
lndollarvol	−0.20	−0.20
	(0.15)	(0.15)
lnprc	−0.04	0.02
	(0.11)	(0.10)
Constant	1.22	0.55
	(2.05)	(1.81)
Observations	23,452	22,698

Table 9: Portfolio returns

This table regresses the returns of an EI portfolio on asset pricing factors. The portfolio is long (short) firms with a EI score in the top (bottom) tercile. Variables *ewlsrf* and *vwlsrf* are the equal- and value-weighted portfolio returns, whereas variables *ewlsind* and *vwlsind* are the equal- and value-weighted industry-adjusted portfolio returns. We calculate industry-adjusted portfolio returns by subtracting the returns of value-weighted Fama-French-48 industries from the raw stock returns before creating the portfolios. Standard errors are calculated using the Newey-West method with a lag of 4. The appendix provides descriptions for each variable. The sample period is from February 2006 to December 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Dependent variable:			
	ewlsrf	vwlsrf	ewlsind	vwlsind
	(1)	(2)	(3)	(4)
Constant	−0.223	−0.106	−0.191	−0.104
	(0.189)	(0.214)	(0.155)	(0.170)
MktRF	0.103**	0.293***	0.047	0.179***
	(0.046)	(0.047)	(0.043)	(0.035)
SMB	0.129	−0.065	0.160**	−0.031
	(0.086)	(0.097)	(0.078)	(0.085)
HML	−0.245**	−0.392***	−0.128	−0.203***
	(0.112)	(0.082)	(0.095)	(0.061)
Mom	0.113***	0.054	0.082**	0.009
	(0.040)	(0.057)	(0.036)	(0.047)
Observations	191	191	191	191
Adjusted R^2	0.107	0.165	0.053	0.086

Appendix – Variable Descriptions

Variable	Description
	GPTW's employee survey
EI	Our EI measure based on 13 EI-related survey questions from the GPTW Institute. We average the survey questions and aggregate these over all employees of a firm.
EI_whitemale	EI responses of white male respondents.
EI_whitefemale	EI responses of white female respondents.
EI_minoritymale	EI responses of minority (Blacks and Hispanics) male respondents.
EI_minorityfemale	EI responses of minority (Blacks and Hispanics) female respondents.
EI_executives	EI responses of executives and senior managers.
EI_managers	EI responses of midrank managers/supervisors.
EI_professionals	EI responses of salaried professionals.
EI_workers	EI responses of hourly workers.
SurveyedWhiteMale%	Percentage of white males among surveyed employees.
SurveyedWhiteFemale%	Percentage of white females among surveyed employees.
SurveyedMinority%	Percentage of minorities among surveyed employees.
	GPTW's Culture Audit
Female%	Percentage of female employees in a company.
Minority%	Percentage of minority (Blacks and Hispanics) employees.
FemaleMgt%	Percentage of female senior managers.
MinorityMgt%	Percentage of minority (defined by GPTW as non-Caucasian) senior managers.
FlexSchedule	Dummy whether the company has a policy for flexible work schedules.
ChildCare	Dummy whether the company has on-site child care.
Sabbatical	Dummy whether the company allows their employees to take sabbaticals.
UnpaidParentLeave	Number of days of unpaid parental leave that a company allows.
UnionWorker%	Percentage of unionized workers among all employees.
	BoardEx data
FemaleCEO	Dummy whether the CEO of a company is female.
MinorityCEO	Dummy whether the CEO of a company is a minority (Blacks and Hispanics). We estimate the race of a CEO based on the CEO's last name using U.S. census data.
FemaleDir%	Percentage of female directors.
MinorityDir%	Percentage of minority directors. We estimate the race of a director based on the director's last name using U.S. census data.
DEISenMgr	Dummy whether a company has an executive or senior manager with a job title containing either "DEI", "Diversity", or "Inclusion".

CRSP

ewlsrf, vwlsrf	Equal- and value-weighted long-short portfolio returns.
ewlsind, vwlsind	Equal- and value-weighted long-short industry-adjusted portfolio returns.
ret	Raw stock returns.
retvwind	Industry-adjusted stock returns, calculated as raw stock returns minus Fama-French-48 value-weighted industry returns.
lnsize, size	Natural log (or unadjusted value) of market capitalization in millions.
lnret23, lnret46, lnret712	Natural logs of the compounded returns in, respectively, month t-3 to month t-2, month t-6 to month t-4, and month t-12 to month t-7.
lndollarvol	Natural log of dollar trading volume.
lnprc	Natural log of stock price.

Compustat

roa, roe, ros, roemp	Income before extraordinary items divided by average assets, book equity, sales, and the number of employees.
epsg1yr, profitg1yr	Earnings per share growth and income before extraordinary items growth.
semp	Sales divided by the average number of employees.
sg1yr	One-year sales growth.
q	Tobin's Q. We calculate the ratio as market value (book assets plus December market cap minus book value of common equity minus deferred taxes) divided by book assets.
pe	Price/Earnings. We calculate the ratio as December market cap divided by earnings (income before extraordinary items for common shareholders plus deferred taxes plus investment tax credit).
avebitda	Aggregate value/EBITDA. We calculate the ratio as aggregated value (December market cap plus net debt, defined as long-term debt plus debt in current liabilities minus cash and short-term investments) divided by operating income before depreciation.
divyield	Cash dividends on ordinary stock divided by December market cap.
cash	Cash and short-term investments divided by total assets.
leverage	Net debt, defined as long-term debt plus debt in current liabilities minus cash and short-term investments, divided by total assets.
lnbm, bm	Natural log (or unadjusted value) of book-to-market ratio. Book equity is calculated as shareholders' equity minus preferred stock plus balance sheet deferred taxes plus FASB 106 adjustment. Shareholders' equity is calculated as stockholders' equity if not missing, else total common equity plus preferred stock par value if both are present, else total assets minus total liabilities, if both are present.
lnassets, assets	Natural log (or unadjusted value) of book assets.
lnemp, emp	Natural log (or unadjusted value) of the number of employees in thousands.
rdsales	R&D expenses divided by sales.
rdmiss	Indicator whether R&D expenses are missing in Compustat.
lnage	Natural log of the current fiscal year minus the fiscal year when the company (gvkey) first appeared in Compustat.
sp500	Dummy whether a company is in the S&P 500 index.
delaware	Dummy whether a company is incorporated in Delaware.

	IBES
surprise	Actual earnings minus median forecast, divided by lagged assets per share. We calculate assets per share by dividing the total firm assets from the previous fiscal year by the shares outstanding at the time of the forecast.
	Global Corporate Patent Database
patents	Number of patents filed by a company. We set this variable to zero if a company has no patents in a year.
citations	Number of citations that patents filed by a company receive in subsequent years. We set this variable to zero if a company has no citations in subsequent years.
	Other sources
HISKILL	Dummy whether a company's industry has an above-median proportion of high-skill workers, as estimated by Tate and Yang (2015).
cc_integrity, cc_respect, cc_teamwork, cc_quality, cc_innovation	Five measures of corporate culture values, as estimated by Li et al. (2021).
Glassdoor_DI	Glassdoor D&I rating, as estimated by Briscoe-Tran (2023).

Online Appendix

Part A: Additional statistics and results

Table OA.A1: Descriptive statistics for the CRSP sample

This table reports summary statistics for our sample based on CRSP data. The GPTW sample contains firm-month observations of publicly listed companies that participate in the GPTW survey. The full CRSP sample has all firms included in CRSP. The appendix provides descriptions for each variable. The sample period is from February 2006 to December 2021.

Panel A: Number of firm-month observations

Month	GPTW sample
Dec 2006	230
Dec 2007	183
Dec 2008	167
Dec 2009	151
Dec 2010	127
Dec 2011	127
Dec 2012	115
Dec 2013	110
Dec 2014	106
Dec 2015	102
Dec 2016	84
Dec 2017	88
Dec 2018	108
Dec 2019	104
Dec 2020	102
Dec 2021	117
Total sample	24,467

Panel B: GPTW sample

Statistic	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
EI	4.24	0.21	3.28	4.11	4.26	4.38	4.82	24,467
ret	0.91	10.99	−99.68	−4.26	1.02	6.02	232.76	24,404
size	24,850.36	48,878.00	9.45	2,663.98	8,166.41	23,778.37	981,681.20	24,397
bm	0.58	0.95	0.004	0.21	0.37	0.67	16.53	23,493

Panel C: Full CRSP sample

Statistic	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max	N
ret	0.72	15.91	−100.00	−4.70	0.46	5.25	1,988.36	1,355,429
size	3,951.61	22,902.30	0.09	81.91	344.52	1,588.78	2,509,775.00	1,346,608
bm	2.62	42.59	0.0000	0.32	0.60	1.01	13,106.94	877,454

Table OA.A2: Descriptive industry statistics

This table provides the average EI score for the Fama-French-48 industries with the five best and five worst EI scores. We only consider industries with at least 5 firm-year observations. The sample period is from 2006 to 2021.

FF48 code	Fama French 48 Description	Firm-year N	Avg EI score
34	Business Services	377	4.34
43	Restaurants, Hotels, Motels	110	4.33
30	Petroleum and Natural Gas	62	4.31
44	Banking	130	4.29
18	Construction	48	4.29
3	Candy and Soda	8	4.01
22	Electrical Equipment	6	3.98
24	Aircraft	8	3.96
17	Construction Materials	9	3.95
23	Automobiles and Trucks	6	3.86

Table OA.A3: Between and within variance in EI

This table provides the between and within variance in EI. The sample period is from 2006 to 2021.

	EI	Percent
Overall variance	0.0433	
Between variance	0.0462	90.5000
Within variance	0.0049	9.5000

Table OA.A4: Accounting performance – Controlling for Glassdoor D&I rating

This table regresses accounting performance measures on lagged EI scores, the Glassdoor D&I rating in Briscoe-Tran (2023), demographic characteristics, and controls. Panel A controls for the Glassdoor D&I rating in Briscoe-Tran (2023) and Panel B repeats Table 4, Panel A for the subset of firms that also have a Glassdoor D&I rating but without including the control. We winsorize all accounting performance measures at the 5% and 95% levels. We include industry times year fixed effects in each column. Standard errors are double clustered at the firm and year level. The control variables are the same as in Table 4. The appendix provides descriptions for each variable. The sample period is from 2009 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Controlling for the Glassdoor D&I rating in Briscoe-Tran (2023)

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03	−0.02	0.14	63.92*	0.62**	0.55*	0.11**	425.18**
	(0.02)	(0.05)	(0.08)	(32.23)	(0.28)	(0.30)	(0.04)	(145.70)
$Glassdoor_DI_{t-1}$	−0.001	−0.01	−0.01	2.86	−0.10	−0.15*	−0.01	−58.84
	(0.01)	(0.01)	(0.02)	(5.30)	(0.08)	(0.08)	(0.01)	(34.62)
$Female\%_{t-1}$	−0.04*	0.05	0.01	−30.51	−0.28	−0.36	−0.09*	−189.14
	(0.02)	(0.06)	(0.05)	(28.16)	(0.45)	(0.48)	(0.05)	(187.20)
$Minority\%_{t-1}$	−0.001	0.11	0.12	116.26**	0.19	0.20	−0.09	124.89
	(0.04)	(0.08)	(0.08)	(51.52)	(0.56)	(0.58)	(0.06)	(259.30)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	959	959	959	954	958	959	959	954
Adjusted R^2	0.23	0.24	0.10	0.38	0.07	0.09	0.37	0.50

Panel B: Baseline analysis using the restricted sample from Panel A

	Dependent variable:							
	roa_t	roe_t	ros_t	$roemp_t$	$epsg1yr_t$	$profitg1yr_t$	$sg1yr_t$	$semp_t$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03	−0.03	0.12*	67.44*	0.50	0.37	0.10**	352.52**
	(0.02)	(0.04)	(0.06)	(32.80)	(0.30)	(0.32)	(0.04)	(147.66)
$Female\%_{t-1}$	−0.04*	0.05	0.005	−29.98	−0.30	−0.39	−0.09*	−200.11
	(0.02)	(0.06)	(0.05)	(28.42)	(0.44)	(0.48)	(0.05)	(194.21)
$Minority\%_{t-1}$	−0.001	0.12	0.12	114.79**	0.24	0.28	−0.09	154.99
	(0.04)	(0.08)	(0.08)	(51.56)	(0.54)	(0.56)	(0.06)	(253.96)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	959	959	959	954	958	959	959	954
Adjusted R^2	0.23	0.24	0.10	0.38	0.07	0.08	0.37	0.49

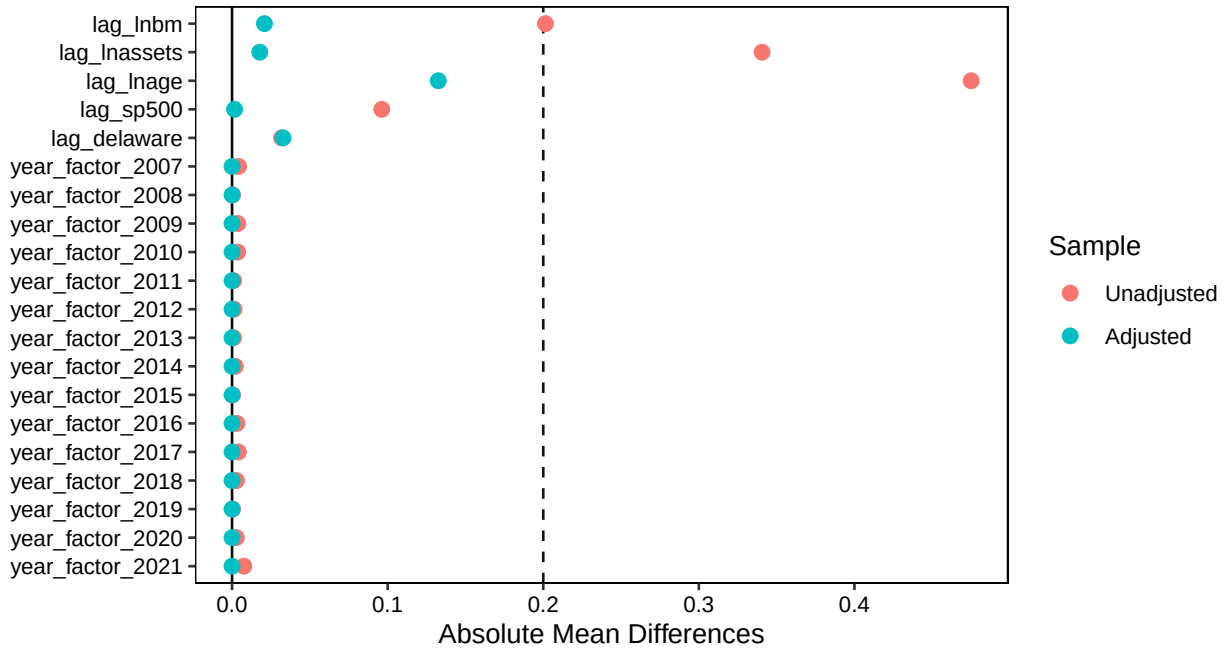
Table OA.A5: Accounting performance – propensity score matching

This table regresses accounting performance measures on lagged EI scores, demographic characteristics, and controls using a matched sample. We implement propensity score matching (PSM) in three steps. First, we split the EI variable at the median for each year to identify treated (high-EI) and control (low-EI) firms. Second, we estimate propensity scores using a logistic regression of a binary EI indicator (equal to one if EI is above-median) on lnbm, lnassets, lnage, sp500, delaware, and year dummies. Finally, we perform nearest neighbor matching, restricting matches to treated and control firms within 0.2 standard deviations of the logit of the propensity score and within the same year. We winsorize all accounting performance measures at the 5% and 95% levels. We include industry times year fixed effects in each column. Standard errors are double clustered at the firm and year level. The appendix provides descriptions for each variable. The sample period is from 2007 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Dependent variable:							
	roa_t	roe_t	ros_t	roemp_t	epsg1yr_t	profitg1yr_t	sg1yr_t	semp_t
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.05^{**}	0.05	0.11^{**}	87.38^{***}	0.87^{**}	0.86^{**}	0.12^{***}	306.00^{**}
	(0.02)	(0.05)	(0.05)	(23.56)	(0.32)	(0.36)	(0.03)	(118.52)
$\text{Female\%}_{t-1}$	−0.02	0.04	0.0001	−30.71	−0.36	−0.47	−0.03	-301.04^{*}
	(0.02)	(0.06)	(0.04)	(23.00)	(0.30)	(0.30)	(0.04)	(141.43)
$\text{Minority\%}_{t-1}$	−0.02	0.03	−0.01	65.10	−0.20	−0.23	-0.15^{**}	181.57
	(0.03)	(0.07)	(0.05)	(45.45)	(0.34)	(0.35)	(0.06)	(210.90)
lnbm_{t-1}	-0.03^{***}	-0.09^{***}	-0.04^{**}	-13.50^{*}	-0.10^{*}	-0.11^{*}	-0.04^{***}	5.10
	(0.01)	(0.02)	(0.01)	(6.49)	(0.05)	(0.05)	(0.01)	(16.37)
lnassets_{t-1}	0.01^{**}	0.03^{**}	0.02^{***}	12.90^{***}	0.05^{**}	0.05^{**}	0.001	83.37^{***}
	(0.003)	(0.01)	(0.01)	(3.97)	(0.02)	(0.02)	(0.01)	(15.09)
lnage_{t-1}	0.01^{**}	0.02	0.01	−4.15	−0.08	−0.10	-0.03^{***}	-53.19^{**}
	(0.004)	(0.01)	(0.01)	(5.88)	(0.08)	(0.08)	(0.01)	(19.74)
sp500_{t-1}	−0.01	−0.03	−0.01	7.60	0.02	0.003	−0.01	34.68
	(0.01)	(0.03)	(0.02)	(13.95)	(0.08)	(0.07)	(0.02)	(33.26)
delaware_{t-1}	-0.02^{***}	-0.03^{*}	0.0004	1.71	0.02	0.01	−0.01	65.41
	(0.01)	(0.02)	(0.01)	(8.86)	(0.08)	(0.07)	(0.01)	(45.95)
Year x FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,142	1,142	1,142	1,127	1,142	1,142	1,142	1,127
Adjusted R^2	0.26	0.34	0.19	0.47	0.02	0.04	0.36	0.54

Figure OA.A1: Propensity score matching – covariate balance

This figure presents covariate balance statistics from the propensity score matching analysis reported in Table OA.A5. The x-axis shows the absolute standardized mean differences for each covariate, both before and after matching. The y-axis lists the covariates included in the matching model. Improvements in covariate balance after matching are indicated by reductions in the mean differences toward the threshold line.



Part B: Fama-Macbeth regressions

Table OA.B1: EI and diversity characteristics (Fama-MacBeth regression)

This table regresses EI on demographic characteristics and workplace policies. Panel A shows the results for our aggregated EI measure. Panel B analyzes the EI responses by demographic groups (i.e., white males, white females, minority males, and minority females). The reported coefficients are averages from annual cross-sectional regressions, each including industry dummies. Standard errors are calculated using the Newey-West method with one lag. The appendix provides descriptions for each variable. The sample period is from 2006 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Baseline EI measure

	Dependent variable:		
	EI		
	(1)	(2)	(3)
Female%	−0.07	−0.06	0.05
	(0.08)	(0.11)	(0.18)
Minority%	0.14	0.15	0.02
	(0.08)	(0.12)	(0.11)
FemaleMgt%	0.31***	0.38**	0.30
	(0.09)	(0.11)	(0.21)
MinorityMgt%	−0.17***	−0.26**	0.10
	(0.04)	(0.10)	(0.30)
FemaleCEO	0.04	0.09**	−0.003
	(0.03)	(0.04)	(0.05)
MinorityCEO	0.05	0.05	0.21*
	(0.05)	(0.08)	(0.09)
FemaleDir%	−0.18***	−0.18**	−0.18**
	(0.05)	(0.06)	(0.06)
MinorityDir%	−0.18	−0.55**	−0.54*
	(0.17)	(0.17)	(0.23)
DEISenMgr	−0.03**	0.003	0.04
	(0.01)	(0.03)	(0.03)
FlexSchedule		0.03	
		(0.02)	
ChildCare		−0.04**	
		(0.01)	
Sabbatical		−0.02	
		(0.02)	
UnpaidParentLeave		0.0003	
		(0.0003)	
UnionWorker%			−0.39**
			(0.15)
lnemp	−0.03***	−0.03***	−0.06***
	(0.01)	(0.01)	(0.01)
lnbm	−0.04***	−0.02*	−0.04**
	(0.01)	(0.01)	(0.01)
divyield	−0.19	−0.20	2.01
	(0.47)	(1.07)	(1.13)
cash	−0.01	0.01	0.09
	(0.06)	(0.06)	(0.09)
leverage	−0.15***	−0.19***	−0.18***
	(0.03)	(0.05)	(0.05)
lnage	−0.02***	−0.02**	−0.01
	(0.01)	(0.01)	(0.01)
FF48 FE	Yes	Yes	Yes
Observations	1,492	735	691

Panel B: EI responses by demographic group

	Dependent variable:			
	EI_whitemale	EI_whitefemale	EI_minoritymale	EI_minorityfemale
	(1)	(2)	(3)	(4)
Female%	−0.08	−0.06	−0.06	0.005
	(0.09)	(0.07)	(0.08)	(0.10)
Minority%	0.12	0.16**	0.18**	0.21**
	(0.08)	(0.07)	(0.06)	(0.09)
FemaleMgt%	0.29***	0.34***	0.33**	0.33**
	(0.08)	(0.09)	(0.15)	(0.12)
MinorityMgt%	−0.11**	−0.11**	−0.16*	−0.004
	(0.04)	(0.05)	(0.08)	(0.08)
FemaleCEO	0.03	0.05	0.03	0.07
	(0.03)	(0.03)	(0.03)	(0.05)
MinorityCEO	0.07	0.01	0.03	−0.002
	(0.06)	(0.05)	(0.08)	(0.09)
FemaleDir%	−0.26***	−0.19***	−0.22***	−0.30***
	(0.06)	(0.06)	(0.07)	(0.07)
MinorityDir%	−0.25	−0.25	−0.12	−0.18
	(0.16)	(0.17)	(0.21)	(0.19)
DEISenMgr	−0.01	−0.02	−0.04	−0.05***
	(0.01)	(0.01)	(0.03)	(0.01)
lnemp	−0.03***	−0.02***	−0.04***	−0.03***
	(0.01)	(0.01)	(0.01)	(0.01)
lnbm	−0.03***	−0.04***	−0.04***	−0.03*
	(0.01)	(0.01)	(0.01)	(0.02)
divyield	−0.31	0.17	−0.02	0.23
	(0.42)	(0.34)	(0.87)	(0.69)
cash	−0.001	0.02	0.01	0.10
	(0.07)	(0.06)	(0.07)	(0.06)
leverage	−0.14***	−0.10***	−0.18***	−0.16***
	(0.03)	(0.02)	(0.04)	(0.04)
lnage	−0.03***	−0.03***	−0.01	−0.02
	(0.01)	(0.01)	(0.01)	(0.01)
FF48 FE	Yes	Yes	Yes	Yes
Observations	1,476	1,476	1,471	1,470

Table OA.B2: Accounting performance (Fama-MacBeth regression)

This table regresses accounting performance measures on lagged EI scores, demographic characteristics, and controls. Panel A shows our baseline EI measure, Panel B interacts the EI measure with industries with high-skill employees, Panel C controls for respect, and Panel D controls for five corporate culture values. We winsorize all accounting performance measures at the 5% and 95% levels. The reported coefficients are averages from annual cross-sectional regressions, each including industry dummies. Standard errors are calculated using the Newey-West method with one lag. Panels B, C, and D have the same control variables as Panel A. The appendix provides descriptions for each variable. The sample period is from 2007 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: Baseline EI measure

	Dependent variable:							
	roa_t	roe_t	ros_t	roemp_t	epsg1yr_t	profitg1yr_t	sg1yr_t	semp_t
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03^{*}	0.01	0.13^{**}	78.28^{**}	0.74^{**}	0.71^{**}	0.13^{***}	393.99^{***}
	(0.02)	(0.04)	(0.04)	(27.55)	(0.25)	(0.28)	(0.03)	(91.07)
$\text{Female\%}_{t-1}$	-0.03^{*}	0.06	−0.01	-31.36^{*}	−0.16	−0.20	−0.06	-190.42^{**}
	(0.01)	(0.05)	(0.03)	(16.35)	(0.17)	(0.16)	(0.03)	(73.97)
$\text{Minority\%}_{t-1}$	−0.01	0.06	0.07	74.24^{**}	0.04	−0.07	-0.11^{**}	83.31
	(0.03)	(0.08)	(0.09)	(32.25)	(0.46)	(0.48)	(0.05)	(62.19)
lnbm_{t-1}	-0.03^{***}	-0.08^{***}	-0.03^{**}	−7.56	-0.12^{*}	-0.13^{*}	-0.04^{***}	20.25^{**}
	(0.01)	(0.01)	(0.01)	(5.06)	(0.06)	(0.07)	(0.01)	(9.31)
lnassets_{t-1}	0.004	0.03^{***}	0.02^{***}	10.51^{***}	0.03	0.03	0.002	78.31^{***}
	(0.002)	(0.01)	(0.004)	(2.18)	(0.02)	(0.03)	(0.004)	(7.23)
lnage_{t-1}	0.01^{***}	0.03^{**}	0.02^{**}	0.24	0.02	−0.002	-0.03^{***}	-68.92^{***}
	(0.003)	(0.01)	(0.01)	(3.46)	(0.07)	(0.07)	(0.01)	(15.70)
sp500_{t-1}	−0.01	−0.02	−0.01	20.02	−0.02	−0.03	−0.01	95.04^{**}
	(0.01)	(0.02)	(0.01)	(13.09)	(0.08)	(0.09)	(0.01)	(39.14)
delaware_{t-1}	-0.01^{***}	-0.02^{**}	0.01	6.59	0.10	0.09	−0.004	51.27^{*}
	(0.002)	(0.01)	(0.01)	(6.35)	(0.09)	(0.07)	(0.01)	(28.02)
FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,602	1,601	1,602	1,578	1,600	1,602	1,602	1,578

Panel B: EI interacted with high-skill industries

	Dependent variable:							
	roa_t	roe_t	ros_t	roemp_t	epsg1yr_t	profitg1yr_t	sg1yr_t	semp_t
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03^{*}	0.01	0.13^{**}	77.69^{**}	0.70^{**}	0.67^{**}	0.13^{***}	399.17^{***}
	(0.02)	(0.04)	(0.04)	(27.74)	(0.25)	(0.28)	(0.03)	(91.16)
EI_{t-1} x HISKILL_{t-1}	0.0003	−0.0002	0.01^{*}	5.45^{***}	0.02	0.02	−0.0003	26.04^{***}
	(0.001)	(0.004)	(0.003)	(1.80)	(0.03)	(0.03)	(0.003)	(8.08)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,602	1,601	1,602	1,578	1,600	1,602	1,602	1,578

Panel C: Controlling for the "respect" cultural value in Li et al. (2021)

	Dependent variable:							
	roa_t	roe_t	ros_t	roemp_t	epsg1yr_t	profitg1yr_t	sg1yr_t	semp_t
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03^{**}	-0.002	0.08^{***}	57.26^{*}	0.64^{*}	0.63^{*}	0.08^{***}	388.08^{***}
	(0.01)	(0.03)	(0.02)	(31.10)	(0.31)	(0.35)	(0.02)	(94.32)
cc_respect_{t-1}	-0.01^{***}	-0.02^{**}	-0.02^{***}	-6.12^{**}	-0.06	-0.01	0.01^{*}	-10.33
	(0.003)	(0.01)	(0.01)	(2.05)	(0.06)	(0.05)	(0.01)	(10.30)
$\text{Female\%}_{t-1}$	-0.03	0.06	-0.01	-26.31	-0.03	-0.12	-0.05^{*}	-200.86^{***}
	(0.02)	(0.04)	(0.03)	(18.47)	(0.24)	(0.27)	(0.03)	(60.98)
$\text{Minority\%}_{t-1}$	-0.01	-0.03	-0.04	37.37	-0.40	-0.49	-0.08^{*}	79.95
	(0.02)	(0.04)	(0.03)	(28.66)	(0.57)	(0.58)	(0.04)	(63.59)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,319	1,318	1,319	1,302	1,318	1,319	1,319	1,302

Panel D: Controlling for the five cultural values in Li et al. (2021)

	Dependent variable:							
	roa_t	roe_t	ros_t	roemp_t	epsg1yr_t	profitg1yr_t	sg1yr_t	semp_t
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
EI_{t-1}	0.03^{**}	0.01	0.09^{***}	51.59	0.64^{**}	0.65^{*}	0.07^{**}	386.71^{***}
	(0.01)	(0.03)	(0.02)	(30.79)	(0.29)	(0.33)	(0.02)	(91.44)
$\text{cc_integrity}_{t-1}$	0.01	0.03^{*}	0.02	13.31	0.12	0.08	-0.02^{**}	26.07
	(0.01)	(0.02)	(0.02)	(12.06)	(0.08)	(0.08)	(0.01)	(47.84)
cc_respect_{t-1}	-0.01^{***}	-0.03^{***}	-0.03^{***}	-9.20^{**}	-0.10	-0.04	0.01	3.96
	(0.003)	(0.01)	(0.01)	(3.27)	(0.08)	(0.07)	(0.01)	(13.20)
$\text{cc_innovation}_{t-1}$	0.003	0.002	0.01^{***}	4.64^{**}	0.06	0.05	-0.003	-10.58
	(0.002)	(0.01)	(0.003)	(1.92)	(0.06)	(0.06)	(0.003)	(9.35)
cc_teamwork_{t-1}	-0.01^{***}	-0.03^{***}	-0.03^{***}	4.29	0.003	0.002	0.02^{**}	63.52
	(0.003)	(0.01)	(0.01)	(6.12)	(0.11)	(0.10)	(0.01)	(44.51)
cc_quality_{t-1}	0.003	0.02^{*}	0.01	-7.63	-0.01	-0.01	0.0001	-63.79^{***}
	(0.004)	(0.01)	(0.01)	(4.53)	(0.05)	(0.05)	(0.01)	(14.59)
$\text{Female\%}_{t-1}$	-0.03	0.07	-0.001	-20.76	0.08	-0.02	-0.04	-207.06^{***}
	(0.01)	(0.05)	(0.02)	(20.13)	(0.19)	(0.23)	(0.03)	(59.69)
$\text{Minority\%}_{t-1}$	-0.002	-0.02	-0.02	53.66	-0.47	-0.55	-0.09^{*}	59.41
	(0.02)	(0.05)	(0.04)	(31.78)	(0.55)	(0.58)	(0.05)	(53.58)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FF48 FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,319	1,318	1,319	1,302	1,318	1,319	1,319	1,302

Table OA.B3: Firm valuation (Fama-MacBeth regression)

This table regresses firm valuation measures on EI scores, demographic characteristics, and controls. We drop negative valuation measures and winsorize the valuation measures at the 1% and 99% levels. The reported coefficients are averages from annual cross-sectional regressions, each including industry dummies. Standard errors are calculated using the Newey-West method with one lag. The appendix provides descriptions for each variable. The sample period is from 2006 to 2021. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Dependent variable:		
	q	pe	avebitda
	(1)	(2)	(3)
EI	1.61^{***}	43.04^{***}	22.03^{***}
	(0.27)	(12.35)	(6.67)
Female%	-0.91^{***}	2.30	−2.13
	(0.25)	(16.21)	(5.01)
Minority%	-1.25^{**}	6.83	−2.39
	(0.47)	(13.01)	(4.92)
lnassets	-0.45^{***}	-5.71^{***}	-2.10^{***}
	(0.06)	(1.12)	(0.47)
lnage	−0.09	−4.41	-2.72^{***}
	(0.08)	(2.56)	(0.84)
sp500	1.37^{***}	15.79^{***}	7.83^{***}
	(0.20)	(4.08)	(1.60)
delaware	0.33^{**}	9.93^{***}	4.28^{***}
	(0.13)	(2.98)	(1.38)
FF48 FE	Yes	Yes	Yes
Observations	1,613	1,574	1,684

Table OA.B4: Earnings surprises (Fama-MacBeth regression)

This table regresses analysts' forecast errors, normalized over assets per share, on lagged EI, demographic characteristics, and controls. Panel A shows one-year earnings surprises and Panel B shows two-year earnings surprises. We measure the median analysts' forecasts eight and twenty months (for one- and two-year surprises, respectively) before the actual earnings are announced. We calculate assets per share by dividing assets from the previous fiscal year by shares outstanding at the time of the forecast. We drop observations when the median forecast errors are larger than 10% of the stock price. The reported coefficients are averages from annual cross-sectional regressions. Standard errors are calculated using the Newey-West method with one lag. The appendix provides descriptions for each variable. The sample period is from October 2006 to December 2021 in Panel A and from October 2007 to December 2021 in Panel B. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively.

Panel A: One-year earnings surprises

	Dependent variable:		
	one-year surprise$_t$		
	(1)	(2)	(3)
EI$_{t-8}$	8.57**	9.11***	7.85**
	(3.04)	(2.98)	(3.11)
Female%$_{t-8}$	−7.29**	−6.50*	−6.47*
	(3.02)	(3.19)	(3.18)
Minority%$_{t-8}$	−7.91*	−6.98	−4.67
	(4.47)	(4.50)	(4.26)
lnsize$_{t-12}$		0.83*	0.90*
		(0.40)	(0.42)
lnbm$_{t-12}$			−1.07
			(0.68)
Observations	1,707	1,707	1,669

Panel B: Two-year earnings surprises

	Dependent variable:		
	two-year surprise$_t$		
	(1)	(2)	(3)
EI$_{t-20}$	8.68**	8.48**	9.13**
	(3.08)	(3.25)	(3.09)
Female%$_{t-20}$	−1.57	−2.78	−2.99
	(5.88)	(6.00)	(6.52)
Minority%$_{t-20}$	−12.48	−11.76	−9.97
	(8.63)	(8.66)	(8.86)
lnsize$_{t-24}$		0.83	1.01*
		(0.49)	(0.49)
lnbm$_{t-24}$			0.23
			(1.38)
Observations	1,476	1,472	1,440

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