“Who Cares About Diversity?”

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The paper in a nutshell

- **Goal of the study**: To examine the impact of corporate diversity shocks, as captured by discrimination litigation related to gender, race, disability, age, and appearance, on a broad set of corporate stakeholders.
- **Research Question**: Who cares about diversity, equity, and inclusion (DEI)?
- **Theoretical Framework**: combines literature about the DEI (finance + management) & litigation literature
- **Key Findings**:
  - "Business as usual" (no significant impact) for bondholders, most shareholders, average employee, suppliers, or government.
  - A subgroup of customers care (households from non-minorities, those living in areas with more liberal leanings [Democrat party voters] and those living in areas with a concentration of religious values) BUT households have a short memory (3 months).
  - R&D-involved employees, especially female employees leave when the firm faces gender litigation and more female directors are included in the board after DEI incidents.

Strengths of the paper

- **Timely and Relevant**: Given ongoing debates on the value of DEI in organizations and recent phenomena (like #MeToo, BLM context), this study provides timely empirical evidence.

- **Original Multi-Stakeholder Perspective**: The paper's greatest strength is its comprehensiveness. It moves beyond single-outcome studies by examining a broad spectrum of stakeholders simultaneously

- **Extensive Data & Rigor**: Large-scale data (5,586 events, 1,200+ firms) and multiple data sources. The authors carefully employ appropriate methods for each stakeholder outcome.

- **Anticipates and explicitly addresses a natural criticism**: whether limited stakeholder reactions are due to lack of information or visibility of discrimination lawsuits.

- **Thought-provoking**: The paper cleverly shifts the question from a genuine inquiry ("Who cares about DEI?") to a provocative reflection (or an ironic realization): "Who cares? *Apparently, very few.*"

Areas and issues to **reflect** about

- **Theoretical framing/insights**: Somewhat descriptive - The paper straddles finance and management theory without fully developing either or integrating them both into the current version.
- **Opportunities**: engage with stakeholder salience theory (Mitchell et al.) to explain why stakeholders reacted as they did.
  - Stakeholder salience is issue-based: only stakeholders who perceive an issue (like DEI) as central and those who simultaneously possess power, legitimacy, and urgency, are likely to react.
    - In DEI litigation, female innovators clearly exemplify this: having high personal stakes (legitimacy), external job opportunities (power), and immediate personal relevance (urgency), making them particularly sensitive and responsive to DEI issues.
  - The paper suggests two motivations for DEI: Instrumental vs. Normative (social expectations/regulations).
    - Implicitly, the paper suggests that the lack of financial market reaction undermines the instrumental view. However, the departure of key talent (female innovators) actually supports DEI's instrumental value in a longer-term strategic perspective (access to talent).

Areas and issues to reflect about

- **Poor DEI = Lawsuit?**
  - Are you measuring stakeholder reactions to “diversity failings,” or just reactions to lawsuits in general?
  - Lawsuit filing vs. lawsuit sentence? “Innocent until proven guilty” (shock vs. penalty?)
  - Lawsuits vs. other DEI violations? (e. g., a viral video of a CEO’s racist rant might provoke far stronger reaction)
  - Under-reporting bias is a concern - Many serious incidents are settled privately or handled quietly
  - DEI litigation as shocks? They are endogenously determined (by management decisions, organizational behavior, etc). If litigation is endogenous, the limited stakeholder reaction might simply reflect pre-existing knowledge or expectations among stakeholders regarding poor DEI practices at certain firms.

Areas and issues to reflect about

- <u>**Corporate Governance Response to DEI litigations**</u>
  - Finding: Firms respond to discrimination lawsuits by appointing *more diverse* board directors and establishing *dedicated DEI oversight roles*.
  - Interpretation: this suggests firms act <u>proactively</u> (likely to mitigate reputational risk), even though external stakeholders' reactions remain muted.
  - Questions:
    - Are these governance responses <u>**substantive**</u> changes aimed at genuine cultural transformation, or merely <u>**symbolic**</u> gestures (window-dressing)? Do they prevent future discrimination issues?
    - Do stakeholders perceive such appointments as <u>**credible commitments**</u>, thereby restoring legitimacy and trust?
- <u>**Surprising finding**</u>: Households more likely to reduce purchases include: 1. Non-minority 2. Democrat voters and 3. Households in areas with stronger religious values
- This suggests unexpected <u>overlap</u> among consumers who care about DEI, potentially reflecting intersections between moral, ethical, and political values (future research)

¡Thank you!

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