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Why ESG Matters (Fourth of a Series)

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As with climate change, diversity, equity and inclusion (DEI), with its goals of broad representation, fair pay and equal opportunity have become the lens through which investors are judging both managers' investment selections and their internal DEI efforts.

And as with environmental sustainability, more DEI attention has driven global policy making and regulation towards disrupting the status quo. Numerous markets in Europe now employ gender quotas for company boards. In the US, the SEC recently approved NASDAQ's proposal for listed companies to disclose board demographics and meet minimum diversity tests.

These efforts, as we've outlined in the series, whether policy or market driven, are not without controversy and unintended consequences.

With intense pressure on corporations to demonstrate commitment to diverse workforces and equal opportunity, talent pipelines become critical. This is challenging at senior management and board levels, where women and candidates of color have historically comprised a minority. Companies are often vying for concentrated pools of eligible and qualified professionals.

Seeking diversity while requiring prior board or executive leadership experience becomes a Catch-22 situation. While many argue that the answer is to reinvent hiring practices and expand the scope of searches, others raise concerns about losing perspectives gained through tenure.

In the process, "equity" and "inclusion" have become charged words. But their intents are reasonable. And as our *Chart of the Week* shows, research supports DEI as a performance enhancer. Awareness is growing that different perspectives and backgrounds foster innovative thinking and problem-solving. Demonstrating commitment to a level playing field and a nurturing culture has become a hiring magnet amid the fierce competition for human capital.

This war for workers accelerated with the Covid's onset. Over a weekend the world's employees abruptly left their offices for home, upending established employment norms. Employees discovered they had leverage. Many decided to leave work altogether. Those who stayed considered a host of new work/life options the pandemic offered.

The timing also coincided with heightened awareness of systemic racial and gender inequality; "essential" workers also being those on the lowest economic rungs. The timing of Amazon's recent loss in the battle to unionize one of its New York City warehouses may be emblematic of that evolving sensitivity.

DEI is often seen as a corporate box-checking exercise. But as more evidence mounts of the tangible growth benefits of a more diverse and inclusive workforce and management team, we suspect the best employers will take more proactive steps in their employment practices.

Next week: We continue our look at current ESG themes, with corporate accountability.