RADIANT ESG

Race and ethnicity data: we must push for company disclosure

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In September 2020, Citigroup published a report estimating that the racial gap between blacks and whites along four key dimension — wages, education, housing, and investment — has cost the US economy $16 trillion over the past 20 years, and by not closing the gap an additional $5 trillion of US GDP could be forfeited over the next five[1]. A year earlier, McKinsey tackled the concept of racial wealth gap, estimating a dampening effect on consumption and investment that will cost the US between four to six percent of GDP between 2019 and 2028[2]. Putting aside the obvious moral call to action, the economic cost of racial inequality is something we cannot afford.

The demand that companies be part of the solution has hit a crescendo, but *data*, which forms the lifeblood of corporate America, is conspicuously absent when it comes to race and ethnicity. In some parts of the world, there are cultural prohibitions on the collection of sensitive information like race and religion – and for good reason! Germany and France, for example, have some of the most stringent prohibitions having enacted laws protecting citizens from the kind of list keeping that was a hallmark of the Nazi and Vichy regimes. In the UK, initiatives like the Business in the Community Race at Work Charter have attracted a significant number of signatories from both the public and private sector, though it has not led to large amounts of published race data (even though this is a stated goal). And in the United States, all but the very smallest companies are required to file what is known as an EEO-1 report to the US Equal Employment Opportunity Commission detailing the diversity profile of their workforce (including race), but there is no requirement that these reports be made public.

To date, publicly available data on race and ethnicity for corporations has been hard to come by. In 2019, approximately half of the Fortune 100 companies released some information about the ethnic make-up of their corporate boards[3], but company-wide race and ethnicity statistics have been hit or miss, taking the form of non-standard reporting of only the most flattering facts (if any).

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[1] Closing the Racial Inequality Gaps - CitiGPS (citivelocity.com)
[2] The economic impact of closing the racial wealth gap | McKinsey
[3] Five Takeaways From the 2019 Proxy Season (harvard.edu)

Two forces now come to bear on the problem of race data paucity: 1) the widespread recognition that diversity, in the abstract, is a source of strength for companies, and 2) the social upheaval caused by both COVID-19 and the reaction to police brutality against communities of color.

Investors have largely embraced the logic for increased diversity within their investee companies. And while their initial focus was on gender, given the preponderance of studies demonstrating the relationship between diversity and financial performance were gender-focused, attention has now turned to other dimensions of diversity like race and ethnicity. The theory behind why diversity 'works' clearly applies: diversity, when supported by a culture of inclusion, acts as the remedy to group think. For purely economic reasons, a mix of employees who are from different backgrounds or different problem-solving frameworks, who better represent the mix of customers or society at large is now thought of as 'best practice' and seen as a competitive advantage for corporations.

The disproportionate suffering of black and brown people related to the pandemic (with respect to both health and financial outcomes), and the calls for justice by Black Lives Matter and other groups in the wake of the George Floyd killing in the US have led to a groundswell of demand that corporations *act*. Last year witnessed a series of high profile promises on the part of companies for greater racial diversity and opportunity within their ranks. While a few have demonstrated that commitment with tangible action, most have not, and patience on the part of communities and customers has worn thin. Investors also see the need to hold corporations accountable for recent statements and commitments made on the subject of greater racial inclusion, but this is impossible to do without data! Asset owners like New York State Common Retirement Fund, the third largest public fund in the US, will seek to require better disclosure of the ethnic breakdown of companies, voting against board members ignoring its requests[4]. ISS, a widely-used provider of outsourced proxy research, has announced that race disclosure will be a focus starting this year. And some of the largest asset management firms like BlackRock and State Street Global Advisors have joined responsible investing firms like Calvert, in raising disclosure of race data to a top priority[5,6]. The Securities and Exchange Commission (SEC), for its part, has mandated (albeit with wide latitude) that companies begin addressing 'human capital resources' in their filings. After many years of talk, there now seems to be real investor action when it comes to eliciting improved company racial and ethnic data disclosure.

In response to these twin forces, some green shoots are starting to emerge with respect to company reporting. A recent report by Just Capital reveals that, among the thousand largest US firms, there has been an 84% increase in companies revealing EEO-1-level diversity detail since December 2019. Admittedly, this is relative to a very low base, but it does represent significant momentum. And as reported in the Wall Street Journal, New York City Comptroller Scott Stringer, who has called on the largest firms to publish their EEO-1 data, has gotten data or commitments for data from 54 firms[7].

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[4] N.Y. Pension Prods Companies to Boost Diversity, or Face a Vote (bloomberglaw.com)

[5] Calvert CEO to Press Corporates on Racial-Data Reporting (1) (bloomberglaw.com)

[6] BlackRock to Push Companies on Racial Diversity in 2021 - Bloomberg

[7] Big Companies Disclose Details on Gender, Race in Workforces - WSJ

Collection of corporate race and ethnicity data in parts of Europe and Asia will continue to be a challenge. Legal prohibitions as well as cultural obstacles mean that progress may be slow in certain parts of the world. As of now, ethnic minorities in Europe and Asia face a seemingly intractable problem: to prove discrimination they must agree to data collection. So, what is the solution? How do we make real progress on race and ethnicity data disclosure? In countries where collection of this kind of information is taboo, we must let those who perceive they are most at risk lead the charge.

In the meantime, the investment community's focus should be on achieving full EEO-1 disclosure for the 1000 largest US firms. Compared to other types of diversity reporting, the EEO-1 filing is seen as superior. It is sufficiently nuanced with respect to its racial categories and has the benefit of being standardized. This means that, along the required dimensions of race and gender there is natural *comparability* – a necessity for meaningful research. And, by virtue of EEO-1 reporting being a requirement for most companies, no additional cost or effort is needed. This focus would result in a standardized racial data set, spanning all economic sectors. Momentum is already favoring this approach; for investors this means pushing against an open door.

In sum, there is no immediate remedy to the lack of race and ethnicity data that is needed to do proper research and to hold companies accountable for promises made, but there are select opportunities to make progress. Approached smartly, these pockets of progress could make a real difference when it comes to building a well-constructed corporate race data set. And while disclosure on the part of companies is no substitute for action, it will allow for a baseline understanding of where the corporate worlds stands today with respect to racial diversity – an important first step in achieving both economic and societal goals.