Engagement update: 99% of Top 100 companies agree to disclose diversity data

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Washington — Calvert has advocated for greater corporate workforce diversity for decades, and increasingly investors and corporate leaders are recognizing the value of diversity as a driver of financial performance over the long term. Recent events, including the COVID-19 pandemic and visible examples of police violence against Black people, have heightened public concern about racial equity, especially among young workers.

Because research indicates that diversity is likely material to company performance, investors require consistent, comparable and complete information about diversity performance. However, we as investors often lack the information that we need to evaluate corporate diversity performance as a material issue for our investment decisions.

Companies currently provide this information to the U.S. government through the Equal Employment Opportunity reporting standard known as the EEO-1 report, but they are not required to release this information publicly. We believe corporate commitments to diversity are credible only if the company releases full EEO statistics on its workplace demographics.

Widespread adoption of standardized transparency could help to address challenges to greater diversity by creating incentives for improved performance, a better overall understanding of the nature and extent of the challenge, and information-sharing to enable better problem-solving. Additionally, companies will be able to demonstrate quantifiable progress in their diversity and inclusion efforts while benchmarking their progress against that of their peers. In addition to the full EEO-1 report, companies may also wish to include narrative or numerical disclosures that provide context for the company's performance.

What Calvert asks of companies

Companies with a U.S. workforce of at least 100 workers — and those with over 50 employees and a contract of $50,000 or more if they are a federal government contractor or a Tier 1 subcontractor — are required to produce an EEO-1 report annually. The report provides details about the company's workforce, broken down by several racial and ethnic categories and by gender at each of 10 professional levels. But while every company produces an EEO-1 report, companies are not required to release the information except in certain circumstances, such as a lawsuit. Calvert is asking companies to make their EEO-1 reports public, and for companies to release their pay equity data.

We are focusing on disclosure because it adds the necessary transparency about what companies are doing when they tout their diversity efforts. Companies often report in general terms about diversity programs and management systems, but do not report in detail about how these programs are executed. Some companies claim to invest heavily in diversity efforts without providing further details. Others, as an article in the Harvard Business Review notes, have described their diversity investments to be "trade secrets" or proprietary business information.[1] Courts have ruled that diversity strategies may be considered proprietary information, but diversity data is not. Whether companies admit it or not, we suspect some companies are motivated by the possibility of reputational harm resulting from an unflattering report, while others may not fully understand how investors use this information to make their decisions on whether to invest and how to use their proxy votes.

The lack of transparency means material information is either not disclosed to investors or disclosed in a way that is not consistent, comparable or complete. More than half of the largest 100 U.S. companies disclose only partial data and about one-third disclose no diversity information despite having this data collected in a comparable manner, as required by law and reported to the EEOC.[2]

Investors, academics and the public – many who have a material interest in understanding this data –are prevented from ever seeing it, diminishing our collective understanding of the structural challenges companies are potentially grappling with alone to improve their diversity efforts. Opacity also prevents shareholders and stakeholders from holding companies accountable to the public pronouncements they make in support of diversity.

Although the EEOC has discontinued what had been a 2019 mandate for companies to report on pay data broken down by race, sex and ethnicity from 2017 and 2018 payrolls as part of Component 2 data, we believe disclosure of this important data aids investors in better understanding a company's commitment to pay equity and diversity. Such information includes the hours worked and the pay information from employee W-2s.

Why now?

Recent events, including COVID-19 and racial justice protests, have increased public awareness of racial disparities in the United States. In particular, polls of Americans of all races show a dramatic increase in concern about racial inequality, with a majority of all groups agreeing that racism is a problem in the U.S. These events come within a context of rapid transformation of society's attitudes toward discrimination and social inequity.

What Calvert is doing

Calvert has written to 100 of the largest companies in our portfolios, asking them to release their EEO-1 reports. Of these, 18 were already releasing the report, and we encouraged them to continue to do so. For those who do not currently disclose the report, we asked for a meeting to allow us to explain why we think doing so is important. We have also reached out to other investors to encourage them to support this initiative, and to coordinate with those that are already committed to the issue.

As of October 2022, we have received responses from more than three quarters of the companies, and 81 have newly agreed to release this report. We will continue dialogue with these companies to ensure that they follow through on their commitments. For those companies that initially declined to disclose or failed to acknowledge our request, we filed 16 resolutions. We were able to withdraw most of them when the companies agreed to disclose the information. For the 2023 proxy season, we are filing a resolution with the last of our target companies that is not disclosing.

Our assessment is that the evolution in attitudes toward racial injustice will also be permanent. We think that the spike in public opinion substantially exceeds those that accompanied previous periods of racial equality protests (e.g., the killing of Michael Brown in Ferguson, MO). We observe these changes bring heightened expectations for companies, in addition to the already compelling case for diversity. We already see anecdotal evidence of increasingly strident calls for companies to address diversity coming from employees.

It will be important for companies to be both diverse and to have a visible commitment to diversity. A stated commitment to diversity without accountability for results risks creating cynicism about diversity efforts among employees and other stakeholders.

Investor benefits

From an investor perspective, human capital investment may drive firm valuation more than physical investments. Yet, more information is available to investors on capital investments (R&D,

[1] Jamillah Bowman Williams, "Why Companies Shouldn't Be Allowed to Treat Their Diversity Numbers as Trade Secrets," Harvard Business Review, Feb. 15, 2019.
[2] Kavya Vahgul, "A Small Fraction of Corporations Share Diversity Data, but Disclosure is Rapidly on the Rise," JUST Capital, Dec. 17, 2020.

CAPX) than for human capital investments. Investors require information about the effectiveness of company diversity investments, which must be complete, comparable and consistent.

ESG reporting frameworks such as those created by the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) generally require companies both to explain their approach to addressing sustainability issues and to provide performance data, which allow investors to assess the quality of management's approach to long-term risks and opportunities. These standards also represent a convergence that allows comparisons across companies.

Diversity reporting provides demographic information about a company's workforce that enables investors to determine whether companies have been successful in attracting, retaining and promoting diverse employees. Complete EEO-1 reporting enables investors to better pinpoint concerns and opportunities for improvement.

Investor demand is borne out by proxy votes. In the past proxy season, two shareholder proposals asking for diversity report received 80% of the vote, while a third at a closely held company received a substantial majority of the non-management affiliated vote. Many large institutional investors – though not all — now routinely support diversity proposals.

Company benefits

Companies would also benefit from disclosing the data we are requesting in a number of ways. Transparency brings credibility to corporate commitments regarding diversity and racial equality, and lets customers and investors know that these commitments are more than just empty words. A company that makes commitments to improve their diversity and racial equality efforts but does not provide the data to back that up may risk more reputational harm from customers who feel betrayed by broken promises.

Transparency also may create incentives for management to prioritize effective diversity initiatives, which could bring about reputational rewards as well as other benefits associated with diversity. The more companies have specific, public objectives that they need to reach, the more likely management is to make the needed progress. Transparency would also help inform companies and the public about the nature and extent of the challenges faced in achieving equity, and would enable information-pooling and sharing to allow collaboration to develop improved solutions to diversity challenges.

Another reason for disclosure is that in the absence of this "official" information, customers and investors are turning to other sources for the information. Increasing efforts are being made to supply information about company workforces (such as Glassdoor, a website where current and former employees anonymously review companies) that lie outside the company's control. These efforts are growing and becoming more sophisticated over time, and fill a void left by company unwillingness to supply objective, credible information about workforce data. We believe the most effective counter to possible reputational harm caused by outside information sources is for companies to produce credible, complete and comparable information, and to engage with shareholders and stakeholders to contextualize this information, acknowledge shortcomings and develop strategies to address them.

What's next?

Moving forward, the Engagement team is focusing on three priorities:

- Reaching out to engage the remaining companies of the 100 that are not disclosing their EEO-1 reports or have not committed to do so;
- Determining which companies to escalate discussions and potentially file a shareholder resolution with; and
- Reviewing the EEO-1 report of those companies that have disclosed to analyze where a potential disparity lies within a certain job classification and a particular ethnic group and subsequently addressing these gaps with the companies.

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Source of all data: Calvert Research and Management as of October 25, 2022, unless otherwise specified.

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