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Combatting Racial Inequity: A Two-Year Retrospective

The events of the summer of 2020 galvanized the country and drew attention to how systemic racism and injustice continue to burden communities of color. Business leaders throughout the country stepped up to the challenge of combatting racial injustice by pledging funds and taking action to address inequity within their workforces, local communities and society at large. The [Business Roundtable](#) launched comprehensive efforts to combat racial inequality in employment, finance, education, health and housing. Diversity, equity and inclusion (DEI) has permeated the governance landscape, as evidenced by corporate and stakeholder focus on board and workforce diversity, the emergence of racial equity and civil rights audits and the heightened number of shareholder proposals targeting the disclosure of DEI metrics. Challenges remain, particularly as macroeconomic headwinds will likely leave many people, families and communities of color vulnerable.

We review some of the tools and approaches that have helped buttress corporate efforts to address racial inequity and meet the evolving expectations of investors and stakeholders.

Transparency and Disclosure. As the old adage goes, you cannot manage what you don't measure. DEI is no exception. Over the past 18 months, companies have increasingly moved to provide disclosures on their workforce demographics, notably publishing their EEO-1 reports, in part due to pressure from investors, including the [NYC Comptroller](#), institutional pension funds and large asset managers last year. Some companies have also provided information on gender and racial pay disparities, policies regarding supplier diversity, initiatives to cultivate a pipeline of diverse employees and candidates for management and board roles and DEI targets. Shareholder proposals submitted in this year's proxy season reflect ongoing pressure for DEI disclosures, with several proposals asking companies to provide disclosures on progress related to DEI initiatives and policies relating to the hiring, training, retention and promotion of diverse employees. Thoughtful DEI disclosures can be a powerful tool to demonstrate progress and credibility, particularly in advance of additional SEC rulemaking on human capital expected later this year.

Effective and Impactful DEI. When it comes to board composition, the focus for investors is no longer just a question of numbers but also a question of quality and effectiveness. The expectations of board members have never been higher, as companies face economic headwinds, climate change risks, labor shortages, persistent supply chain challenges, geopolitical tensions and political polarization. Boards should seek to leverage their full suite of backgrounds, skills and experiences to enhance oversight and impact, setting the right tone at the top, better identifying and addressing emerging risks and opportunities, engaging with stakeholders, improving human capital strategies and developing diverse management pipelines. This includes updating board and committee-level oversight frameworks.

Embedding DEI into Strategy. DEI is now expected to be integrated into an organization's human capital management, business strategy, brand and reputation management, product management and supply chain functions. Companies have already begun rolling out supplier di-

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iversity programs as both a means to shore up fragile supply chains and to strengthen ties with local communities in which they operate and benefit from the increased competition among suppliers. DEI is also being integrated into product management as a tool for companies to help align products and services with the needs and demands of their increasingly diverse customer base and identify new commercial opportunities. Effective DEI strategy can also play a key role in strengthening a company's brand and reputation, which in turn, draws diverse talent and customers.

Engagement and Outreach. DEI weaknesses have now become another tool in the activist's arsenal and can be deeply damaging to the credibility of the board and management when deployed. The activist players on DEI issues encompass hedge funds looking to drive a wedge between the company and its shareholders and employees and customers who increasingly expect companies, particularly household brands, to adopt a principled—and public—position on a range of issues. Boards and management should keep an ear to the ground, and integrate conversations on DEI issues, where appropriate, into engagement with investors and public communications with employees, customers, suppliers and the broader public. Companies deciding when and how to communicate with their disparate stakeholders on polarizing issues need to, more than ever before, stay attuned to the expectations and views of their core stakeholders, engage the input of the board and management and ensure alignment with business purpose.

Looking ahead, calls for greater disclosure, transparency, effort and accountability to address racial inequity will continue to inform investor engagement priorities and impact a business's relationship with all of its stakeholders. Being an active participant in that evolving dialogue, and keeping attuned and informed, will be critical to corporate success and long-term value creation.

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