

DISCUSSION OF “DIVERSITY, EQUITY, AND INCLUSION”
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THIS PAPER

▶ A great paper!

▶ Key contribution: a novel DEI measure

- created from individual responses to the *Best Companies to Work For* survey
- 13 DEI-specific questions
- a unique angle beyond traditional demographic metrics

▶ Main findings

- low correlation with standard measures: unique ability to capture distinct aspects
- “determinants”: smaller, financially stable growth firms tend to have higher DEI scores
- “consequences”: positive association between DEI and future accounting performance, earnings surprises, and valuation ratios, but no significant correlation with future stock returns

▶ Implications

- DEI is more complex and multifaceted than we thought
- improving DEI requires targeted actions rather than generic initiatives

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- ▶ current version: measure, (non-causal) determinants, and (non-causal) consequences

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 - **low correlation:** decompose aggregate DEI into D., E., & I. with external validity
 - (non-causal) **determinants and consequences** of D., E., I., & DEI could be different
 - **extended coverage:** machine-learning approach to select possible observable determinants and extend it to other non-survey companies

COMMENT #2: DEI DISAGREEMENT

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▶ 13 DEI-related questions

- Everyone has an opportunity to get special recognition.
- When people change jobs or work units, they are made to feel right at home.
- Managers avoid playing favorites.
- This is a psychologically and emotionally healthy place to work.
- People here are treated fairly regardless of their age.
- Promotions go to those who best deserve them.
- I can be myself around here.
- People here are treated fairly regardless of their race.
- People here are treated fairly regardless of their sex.
- People here are treated fairly regardless of their sexual orientation.
- Management shows a sincere interest in me as a person, not just an employee.
- I am treated as a full member here regardless of my position.
- When you join the company, you are made to feel welcome.

COMMENT #2: DEI DISAGREEMENT

- ▶ **13 DEI-related questions**

- ▶ **individual-level responses**
 - white male
 - white female
 - minority (Blacks and Hispanics) male
 - minority (Blacks and Hispanics) female
 - executives and senior managers
 - midrank managers/supervisors
 - salaried professionals
 - hourly workers

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- ▶ **13 DEI-related questions**
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- ▶ **13 DEI-related questions**
- ▶ **individual-level responses**
- ▶ **the current approach:** aggregate all responses over all employees of a firm
- ▶ first moment (mean) matters, but **second-moment** (s.d.) also matters a lot
- ▶ **individual DEI Disagreement, individual DEI-nonDEI Disagreement, within-firm DEI Disagreement, within-firm DEI-nonDEI Disagreement** → make full use of this unique dataset

COMMENT #3: DEI AND CORPORATE VALUATION

► Belo et al. (2023, JFE)



Journal of Financial Economics
Volume 143, Issue 2, February 2022, Pages 619–639

Decomposing firm value

Frederico Belo^{a d} , Vito D. Gala^b , Juliana Salomao^{c d e} , Maria Ana Vitorino^a 

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<https://doi.org/10.1016/j.jfineco.2021.08.007> 

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Abstract

What are the economic determinants of a firm's market value? We answer this question through the lens of a generalized neoclassical model of investment with quasi-fixed labor and three heterogeneous capital inputs. We estimate the structural model using firm-level data on US firms and find that, on average and depending on the industry, installed labor force accounts for 14–21% of firms' market value, physical capital accounts for 30–40%, knowledge capital accounts for 20–43%, and brand capital accounts for 6–25%. Our analysis provides direct empirical evidence for the importance of labor and intangible capital inputs for understanding firm value.

- a **generalized neoclassical growth model with DEI**
 - **underlying mechanism** on how DEI exactly works
 - **quantitative** role of DEI in different channels
 - deepen our understanding of a firm's market valuation

MINOR COMMENTS

- ▶ **selection bias:** the companies in the *Best Companies to Work For* survey may not be representative
- ▶ **survey's self-reporting bias:** reference bias; misrepresented; different response time; ...
- ▶ **broader DEI metrics:** 13 questions may not be enough to capture all; both quantitative and qualitative insights
- ▶ **correlation versus causality:** it is possible that unmeasured variables are influencing these outcomes
- ▶ **firm and year fixed effects:** only year \times industry fixed effect included
- ▶ **event study:** how generic initiatives impact a firm's actual DEI and its long-term performance
- ▶ **more discussions on stock return results**

SUMMARY

- ▶ **A great paper!**
- ▶ Substantial contribution to an important question, unique dataset and measurement, insightful implications, ...
- ▶ **Recommend everyone to read it!**