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Market Perception of Diversity, Equity, and Inclusion (DEI) Rollbacks of U.S Public Firms

[1*]Qunfeng Liao, [2]Joy Ouyang

[1]Associate professor, School of Business Administration, Oakland University

[2]Owen J Roberts High School

https://orcid.org/0000-0002-5071-2378

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Abstract

Purpose: The rollback of diversity, equity, and inclusion (DEI) initiatives among publicly traded United States firms has raised concerns regarding investor confidence and corporate valuation. This study examined stock market perceptions of DEI rollbacks and their implications for shareholder wealth.

Methodology: The study employed a quantitative event study methodology involving 20 publicly traded United States firms that announced DEI policy rollbacks. Daily stock returns were analyzed using a mean-adjusted model, with expected returns estimated from 250 preceding trading days. Cumulative abnormal returns (CAR) were calculated over a seven-day event window (-3, +3) surrounding each announcement.

Findings: The findings revealed negative average cumulative abnormal returns throughout the event window, ranging from -1.02% to -1.98%, with an average CAR of -1.66% by day +3. These findings suggest an unfavorable market reaction to DEI rollbacks, although broader market movements and pre-announcement effects cannot be excluded.

Unique Contribution to Theory, Practice and Policy: The study recommends that corporate managers carefully evaluate the financial and reputational implications of reversing DEI commitments, strengthen stakeholder communication, and incorporate investor expectations into governance decisions. Future research should employ market-adjusted benchmarks and larger samples to establish more robust evidence concerning the valuation consequences of DEI policy changes.

Key words: *Diversity, Equity and Inclusion, Corporate Governance, Event Study, Firm Value*

JEL Codes : *D63, G14, G32, G34*

Introduction

Diversity, Equity, and Inclusion (DEI) policies remain deeply divisive. Opponents contend that they emphasize identity over merit, may lead to reverse discrimination, and can constrain open dialogue (Williams, 1987; Flower 2010; Chipriyanov, Chipriyanova, Krasteva-Hristova, Atanasov & Luchkov 2024). Supporters, however, argue that DEI efforts help address longstanding systemic inequalities, foster innovation, and expand opportunities for historically marginalized groups (Berkman, Jona & Soderstrom 2024). Since 2025, President Trump has issued a series of executive orders aimed at curbing DEI initiatives in both the public and private sectors. In response, many publicly traded companies across the United States have begun rolling back their DEI programs. This study deploys an event study method to investigate the impact of DEI rollbacks on firm value.

While an extensive body of literature has explored the relationship between corporate DEI initiatives and firm value, establishing a definitive causal link has proven elusive. Extant empirical studies frequently suffer from severe endogeneity concerns—such as reverse causality and omitted variable bias—leaving open the fundamental question of whether DEI investments directly impact firm value or merely reflect the discretionary spending of already well-capitalized firms (Grewal, Serafeim & Yoon 2016; Balakrishnan, Copat, De La Parra & Ramesh 2023). To overcome these identification challenges, this study utilizes an event study methodology centered on recent corporate DEI rollbacks. By capturing market reactions to these exogenous shifts in corporate policy, this natural experiment provides a cleaner causal framework, significantly strengthening empirical inference and advancing the understanding of DEI's true impact on firm value.

This study predicts a negative relation between DEI rollbacks and firm value. The depressing effects of scaling back DEI initiatives on firm value tend to emerge across several dimensions, including brand perception and customer loyalty, talent recruitment and workforce productivity, investor sentiment and ESG considerations, and overall corporate reputation (Dhaliwal, Li, Tsang & Yang 2011; Cheng, Ioannou & Serafeim 2014; Matsumura, Prakash & Vera-Muñoz 2024). First, withdrawing from DEI commitments can erode consumer trust. When companies appear to abandon previously stated inclusive values, they may face backlash in the form of boycotts and reduced engagement. For instance, Target's decision to scale back its DEI efforts was associated with significant financial consequences, including an estimated $500 million loss in first-quarter sales of 2025, a 12% drop in its stock price, and notable declines in foot traffic. Second, reducing or eliminating DEI initiatives can create internal challenges, such as increased employee turnover and operational inefficiencies. Evidence suggests that retreating from these efforts may undermine workplace cohesion and productivity, while also making it more difficult to attract and retain high-quality, diverse talent. Third, many institutional investors and sustainability-focused funds prioritize environmental, social, and governance (ESG) criteria. Companies that weaken their DEI commitments risk losing access to these capital sources, facing regulatory scrutiny, and experiencing declines in brand value. Finally, negative reactions from employees, advocacy groups, and the broader public can damage corporate reputation and trust. For example, firms like Ford

have faced substantial stakeholder criticism over their commitment to equity after withdrawing from benchmarks such as the Human Rights Campaign Foundation's Corporate Equality Index.

The empirical findings from this event study demonstrate that corporate DEI rollbacks exert a statistically and economically significant negative impact on shareholder wealth. By documenting negative short-window market reactions to these policy reversals, this study delivers cleaner causal evidence that market participants view DEI commitments as value-enhancing rather than purely cosmetic or value-destroying. Ultimately, these results contribute directly to the broader literature on corporate governance and financial regulation, offering critical empirical insights for corporate managers, institutional investors, and policymakers navigating the value implications firm disclosures and corporate governance (Bhattacharya, Christensen, Liao, and Ouyang, 2022; Ouyang, Tang, Wang and Zhou 2021; Efendi, Files, Ouyang and Swanson, 2013).

Literature Review

Introduction

Diversity, equity, and inclusion (DEI) have become increasingly important topics in public policy (Dhaliwal, Li, Tsang & Yang 2011; Cheng, Ioannou & Serafeim 2014; Matsumura, Prakash & Vera-Muñoz 2024). Although the terms are frequently used together, they represent distinct concepts with potentially different economic mechanisms. Diversity concerns the demographic, social, cultural, educational, and experiential composition of a workforce or organization. Equity involves fair access to economic resources opportunities. Inclusion concerns the extent to which individuals from different backgrounds are able to participate fully, contribute their knowledge, and experience belonging within an organization.

The economic consequences of DEI can therefore be examined at several levels. At the individual level, inequality and discrimination can influence employment, wages, occupational choice, and career advancement (Dhaliwal, Radhakrishnan, Tsang & Yang 2012; Plumlee, Brown, Hayes & Marshall 2015). At the firm level, diversity may affect productivity, innovation, employee retention, decision-making, and financial performance. At the industry and regional level, the allocation of talent and the composition of labor markets may influence economic growth and productivity. At the macroeconomic level, reductions in discrimination and more efficient allocation of human capital may increase aggregate output.

The central question in literature is not simply whether diversity is economically beneficial. Rather, the more theoretically and empirically meaningful question is under what conditions diversity, equity, and inclusion produce economic benefits or costs(Garvey & Swan 2010; Buallay 2019). Diversity can expand the range of knowledge and skills available to organizations, but it can also increase coordination costs, interpersonal conflict, and communication difficulties. Equity can improve the allocation of talent by reducing discriminatory barriers, but organizations may incur costs when implementing policies or when poorly designed interventions generate resistance or unintended consequences. Inclusion may allow organizations

to capture the economic value of diversity by ensuring that individuals with different perspectives can contribute effectively.

The existing literature provides evidence for both positive and contingent effects. Research on labor markets suggests that discrimination can lead to substantial economic inefficiency because workers are not necessarily allocated according to their productivity. Research on firms finds that demographic diversity is sometimes associated with higher productivity, innovation, and financial performance, but results vary substantially across settings. Meta-analyses further suggest that the relationship between diversity and performance is generally more complex than claims that diversity automatically improves profitability.

This literature review synthesizes these findings and identifies several major economic mechanisms: talent allocation, productivity, innovation, labor-market outcomes, firm performance, and the costs and benefits of DEI interventions.

Theoretical Foundations: Why Diversity Can Have Economic Consequences

Several theoretical mechanisms explain why workforce diversity might affect economic outcomes.

The first is the human-capital and talent-allocation mechanism. If individuals are excluded from occupations because of gender, race, ethnicity, or other characteristics unrelated to productivity, the economy may allocate workers inefficiently. Discrimination can therefore reduce aggregate productivity by preventing talented individuals from entering occupations in which they have a comparative advantage.

Hsieh et al. (2019) provide particularly important evidence for this argument. Using changes in occupational allocation in the United States between 1960 and 2010, they estimate that improved allocation of talent across occupations accounted for a substantial share of U.S. economic growth. Their analysis suggests that approximately 20–40% of growth in output per person during this period can be attributed to improvements in the allocation of talent, including the increased participation of women and Black men in high-skill occupations. This finding provides a macroeconomic rationale for equity: reducing barriers to occupational entry can increase the productive use of human capital.

A second mechanism is the information and decision-making mechanism. Individuals from different backgrounds may possess different experiences, knowledge, networks, and perspectives. When these differences are effectively integrated, diverse teams may generate more alternatives and improve decision quality. However, diversity may also increase coordination costs because individuals may have different communication styles, expectations, or assumptions. Van Knippenberg, De Dreu, and Homan (2004) formalize this tension through an information-elaboration perspective. Diversity can provide access to a wider range of information, but organizations need processes that encourage individuals to exchange and integrate that information.

A third mechanism is market access. Diverse organizations may be better positioned to understand heterogeneous customers and markets. Employees with different cultural or demographic backgrounds may possess information about consumer preferences that is unavailable to more homogeneous organizations. Consequently, diversity can potentially improve product development, marketing, international expansion, and customer relationships.

Finally, diversity can affect innovation. Heterogeneous teams may produce more novel combinations of knowledge, although this benefit depends on communication, collaboration, and organizational climate.

Diversity and Labor Productivity

One of the most direct economic consequences of workforce diversity concerns labor productivity. The empirical literature, however, does not provide conclusive evidence that more diversity always increases productivity.

Garnero, Kampelmann, and Rycx (2014) provide particularly useful evidence using linked employer–employee panel data from Belgium. The results indicate that educational diversity is associated with higher productivity, while the effects of age diversity are negative. Importantly, gender diversity produces different results depending on the technological environment: gender diversity is associated with productivity gains in high-technology and knowledge-intensive industries but can have the opposite relationship in more traditional industries.

These findings highlight a central conclusion of the literature: the economic effect of diversity is context-dependent. A diverse workforce may generate greater benefits in environments where employees perform complex tasks, exchange information, and rely on complementary knowledge.

Joshi and Roh (2009), in a meta-analysis of organizational diversity research, similarly conclude that the relationship between diversity and team performance is influenced by contextual factors. Their findings indicate that diversity does not have a uniform effect across organizations and occupations. Diversity should not be treated as an input that mechanically increases productivity. Instead, diversity creates a potential resource whose economic value depends on organizational processes.

Diversity and Firm Financial Performance

A particularly influential strand of research investigates whether diversity is associated with firm profitability and financial performance. The evidence is mixed.

Gender diversity has received extensive attention. Pletzer et al. (2015) conducted a meta-analysis of 20 studies covering 3,097 companies and found a small and statistically nonsignificant overall relationship between female representation on corporate boards and firm financial performance. Their results suggest that simply increasing the proportion of women on boards does

not automatically improve financial performance. This finding is important because it challenges claims that gender diversity necessarily produces direct financial returns. Rather, diversity may influence financial outcomes indirectly through mechanisms such as improved governance, innovation, decision-making, talent attraction, and market access.

Other studies have found more positive relationships under particular circumstances. Richard (2000), for example, examines racial diversity in the banking industry and finds that the relationship between racial diversity and firm performance depends on business strategy. Racial diversity interacts with strategy in determining productivity, return on equity, and market performance. The implication is that diversity can constitute a strategic resource, but its economic value depends on whether the organization's strategy enables it to exploit that resource. This helps explain why findings across firms can differ. A diverse workforce may be particularly valuable in industries characterized by innovation, international markets, knowledge-intensive production, or heterogeneous customers. In contrast, the benefits may be smaller where tasks are highly standardized and there are fewer opportunities for knowledge integration.

Inclusion as a Mechanism for Capturing the Value of Diversity

Compared with diversity, inclusion is more difficult to measure economically. Diversity can often be quantified using demographic representation, whereas inclusion involves perceptions and organizational behavior.

Nevertheless, inclusion is economically important because it determines whether diverse employees are able to contribute their knowledge effectively.

Shore et al. (2011) conceptualize inclusion as “the simultaneous experience of belongingness and uniqueness”. From an economic perspective, this suggests that organizations can fail to capture the potential benefits of diversity even when demographic representation is relatively high. Employees may be physically present but excluded from informal networks, decision-making, leadership opportunities, or important projects. Nishii (2013) similarly argues that an inclusive climate can improve outcomes in gender-diverse groups. An organizational climate characterized by fairness and integration can reduce the interpersonal costs associated with demographic differences.

The economic mechanism can therefore be represented as:

Diversity → potential for differentiated knowledge → inclusion → knowledge sharing and integration → productivity/innovation → economic outcomes.

Without inclusion, the chain can break between diversity and organizational performance. This is one reason why research on DEI should avoid treating diversity statistics as sufficient measures of organizational success. A workforce may become more diverse without becoming more inclusive.

DEI Policies and Their Economic Costs and Benefits

A separate question concerns the economic effects of DEI interventions themselves. It is important to distinguish the economic effects of diversity from the economic effects of programs intended to increase diversity and inclusion.

Organizations use many types of interventions, including diversity training, mentoring, recruitment programs, employee resource groups, leadership development, flexible work arrangements, and accountability mechanisms.

Evidence concerning these interventions is mixed. Bezrukova et al. (2016), in a meta-analysis covering more than four decades of research on diversity training, find that diversity training can produce positive changes in attitudes, knowledge, and some behavioral outcomes, although effects vary according to program design and implementation. Kalev, Dobbin, and Kelly (2006) provide additional evidence that organizational approaches differ in effectiveness. Their study of corporate diversity programs finds that practices that increase managerial responsibility and accountability for diversity tend to be more effective than approaches relying primarily on diversity training or formal evaluation systems.

These findings imply that the economic return to DEI spending depends on program design. A poorly designed intervention may generate administrative costs without producing meaningful changes in organizational behavior. A well-designed intervention may reduce turnover, expand recruitment pools, improve promotion processes, and increase the organization's ability to use diverse knowledge.

The literature on the economic consequences of Diversity, Equity, and Inclusion does not support a simple conclusion that DEI either increases or decreases economic performance. Instead, the evidence points toward a more nuanced relationship. The economic consequences of DEI depend on how diversity is created, how equity is institutionalized, and whether organizations possess the structures necessary to convert diverse human capital into productive economic activity. Future research should place greater emphasis on causal identification, longitudinal evidence, intersectionality, and rigorous evaluations of specific DEI interventions. Such research would allow scholars and policymakers to distinguish between the economic value of diversity itself and the economic effectiveness of particular DEI policies (Garvey & Swan 2010; Buallay 2019).

Methodology

To examine how the stock market responded to DEI rollback announcements, this study uses an event study framework — a standard approach in finance for measuring whether a specific corporate event shifts firm value by comparing actual returns against what would normally be expected.

Each firm's event date corresponds to the day it publicly announced changes to its DEI policies. From there, abnormal returns (AR) are calculated by subtracting the expected return from the actual return. Because a market benchmark index was not available in this dataset, expected returns are estimated using a mean-adjusted model: each firm's own average daily return over the 250 trading days preceding the event window serves as its expected, "normal" return. This is a simpler approach than a market or market-model benchmark, since it does not separate firm-specific reactions from broader market-wide movements during the same period.

These abnormal returns are then summed into cumulative abnormal returns (CAR). The event window spans from day -3 to day +3 around each announcement, capturing both short-term pre-announcement investor positioning and the immediate post-announcement market reaction. A negative CAR after the event would suggest investors read DEI rollbacks as bad news — a signal that reduced perceived firm value.

Data

The sample includes 20 publicly traded U.S. firms that announced DEI rollbacks and the descriptive statistics of the sample are reported in table 1. For each firm, the dataset covers daily stock returns, expected returns, abnormal returns, and cumulative abnormal returns across the full (-3, +3) window. The firms span several industries — technology, financial services, consumer products, industrials, and retail — and include companies such as Accenture (ACN), Amazon (AMZN), AT&T (T), Bank of America (BAC), BlackRock (BLK), Boeing (BA), Caterpillar (CAT), Citigroup (C), Google (GOOG), Home Depot (HD), and IBM, among others. To capture firm-level differences, the dataset also includes industry classification, firm size (measured by annual sales revenue), and profitability (measured by annual earnings per share).

Table 1: U.S. firms with DEI rollbacks

Firm	Industry	Revenue ($ millions)	EPS	CAR
Accenture	Technology Services	69670	11.44	0.0083
Amazon	E-commerce / Consumer Retail	716920	5.53	-0.0162
AT&T	Telecommunications	121000	1.49	-0.0862
BOA	Financial Services	107420	3.21	-0.006
Blackrock	Asset Management / Financial Services	24220	42.01	0.012
Boeing	Aerospace & Defense	69200	-18.36	-0.0094
Booz Allen Hamilton	Government Services / Consulting	11300	4.59	-0.0574
Caterpillar Inc	Industrial Machinery	64900	22.05	0.1061
Citi	Financial Services	79000	3.25	-0.0608
Constellation Brands	Beverages / Consumer Staples	10200	9.39	0.0288
Cracker Barrel	Restaurants / Consumer Discretionary	3600	1.8	-0.0038
Ford	Automotive	185000	1.46	0.0088
Harley-Davidson	Automotive / Transportation	5900	3.44	-0.0013
Tractor Supply	Retail / Consumer Discretionary	14800	2.04	-0.0716
Goldman Sachs	Financial Services	54000	40.54	0.0081
Google	Technology Services	350000	8.04	-0.0813
Home Depot	Home Improvement Retail	15900	15.11	0.0479
IBM	Technology Services	69200	6.43	0.0534
John Deere	Agricultural Machinery	51600	25.62	0.0532
Kohl's	Department Store Retail	15300	2.85	-0.2648

Results

Table 2 reports average cumulative abnormal returns (CAR) from event day -3 through day +3. Across the seven-day window, average CAR was negative on every single day, ranging from -1.02% on day -3 to -1.66% on day +3, with the lowest point of -1.98% occurring on day -2.

Table 2: Average Cumulative Abnormal Returns (CAR)

Event Day	Average CAR
-3	-1.02%
-2	-1.98%
-1	-1.62%
0	-1.76%
1	-1.19%
2	-1.89%
3	-1.66%

By day +3, average CAR sits at approximately -1.66%, indicating that DEI rollbacks were associated with a measurable, if modest, decline in shareholder value across the sample. Unlike a sharp drop concentrated at the announcement date, the pattern here is more uneven: CAR is already negative three days before the announcement and fluctuates throughout the window rather than declining steadily. This shape is consistent with two possible explanations that this study cannot fully distinguish between: investor anticipation or information leakage ahead of the formal announcement, or — given the mean-adjusted benchmark used here — broader market-wide movements during the sample period (mid-2024 through 2025) that are not separated out from firm-specific reactions. A market-adjusted or market-model benchmark, which nets out contemporaneous market-wide returns, would be needed to determine how much of this drift is attributable specifically to the DEI rollback announcements versus general market conditions during this period.

Figure 1 plots the CAR trajectory across the event window. The persistently negative CAR across all seven days, rather than a single sharp break at day 0, reinforces that the market reaction — to whatever extent it reflects firm-specific news — was not concentrated narrowly around the announcement itself.

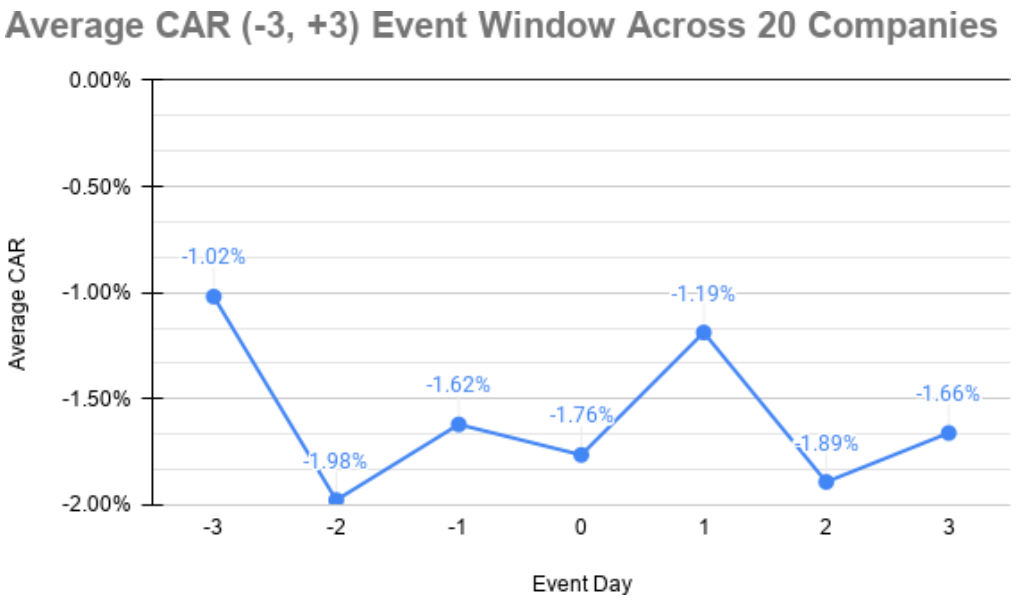


Figure 1: Average CAR (-3,+3) Event Window Across 20 Companies

Taken together, the result of this event study using a mean-adjusted benchmark suggests a strong negative average market reaction across the sampled firms over the (-3, +3) window. The result supports the notion that investors disapprove the DEI rollbacks in corporate America.

Conclusion

In conclusion, this study provides empirical evidence on how financial markets evaluate corporate diversity, equity, and inclusion (DEI) initiatives amidst a shifting regulatory landscape. By employing an event study methodology around the wave of post-2025 executive orders and subsequent corporate rollbacks, the findings demonstrate that investors react negatively to the dismantling of DEI programs. These results challenge the premise that DEI initiatives are purely costly or symbolic endeavors, suggesting instead that markets perceive DEI commitment as value-enhancing—or its abrupt removal as a reputationally and operationally risky move. Ultimately, this research bridges the gap between political corporate strategy and market valuation, offering critical empirical insights for corporate leaders navigating DEI commitments and policymakers evaluating the broader economic implications of regulatory intervention.

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