

The Why – Season 3

Episode 5 – Why companies don't always reveal employee data

Katie Pisa [00:00:06.320]

Hello and welcome to The Why Podcast from London Business School, where we dive deep into the big questions shaping our work and world, and of course, we ask, 'why?' For years, conversations about workforce diversity have been held without the one thing we all needed: real, comparable, firm-level data. To help us understand what this data shows and what it means for transparency, accountability, and the future of workplace equity, I spoke to Rachel Flam, Assistant Professor of London Business School, and co-author of 'Behind the Curtain of Workforce Diversity'. Rachel, it's great to have you here on The Why today.

Rachel Flam [00:00:41.480]

Thank you so much for having me, Katie.

Katie Pisa [00:00:43.040]

Rachel, I want to talk to you about your research on reporting diversity, and you've said that the data set changes the conversation because it finally allows researchers to look inside firms, not just at the industries or regions they operate in. Can you talk us through why this release of EEO-1 reports was such a landmark?

Rachel Flam [00:01:01.680]

Absolutely. So typically, researchers would have had to rely on aggregate data. So it is broken down, for example, by county, by year, things like that, but getting to actually look within a specific firm and use firm-specific data to examine these questions is something that's very new.

Katie Pisa [00:01:24.800]

And for listeners who've never seen an EEO-1 report, what exactly does it measure?

Rachel Flam [00:01:30.520]

Yes, so what they provide is a breakdown by job type. So anything from executives, service workers, technicians, there's 10 different job types. And then it provides the aggregate data on employee breakdown by race. So the number of Black employees, Hispanic employees, Asian employees, all broken down, as well as gender. So male and female employees.

Katie Pisa [00:01:54.840]

Okay, there are 10 categories in the report?

Rachel Flam [00:01:57.000]

10 different kind of job types.

Katie Pisa [00:01:59.680]

So starting from entry level up until executive level.

Rachel Flam [00:02:02.200]

Yes, yes.

Katie Pisa [00:02:03.240]

And why were these reports so difficult to access before 2023?

Rachel Flam [00:02:08.600]

So we actually, being able to have these, we owe a lot to reporter Will Evans at the Centre for Investigative Reporting. And so what they had done is they asked for, I think, seven companies, big tech companies that were also government contractors. They asked for just a small subset to see what's the diversity data. I think they asked the companies, the companies refused, and then they went to the government and asked for it under a FOIA request.

Katie Pisa [00:02:36.040]

And these are big tech companies, names that we would know.

Rachel Flam [00:02:38.160]

Yes, yes. And the companies declined, saying it was a trade secret. So then they sort of said, this doesn't seem like something that's a trade secret. Why would your diversity data be a trade secret? And this sort of snowballed into, as they asked and were denied, eventually asking for all the EEO-1 reports for all government contractors, first for 2016, then adding on years as the years went by and they weren't able to have the response answered. Went through the legal system and then in 2023, a court ordered, okay, this is not something that you can just deny. You need to release for everyone that does not specifically object. So companies were given an option to object. And we find that looking at the largest public firms, we find maybe about a third of them objected. But not everyone did. And maybe not all of them even knew about it. There's a concurrent paper that suggests that they did some surveys and some companies didn't even know that this was happening. So we get a more broad –

Katie Pisa [00:03:38.280]

It brought about awareness as well as perhaps fairness too.

Rachel Flam [00:03:41.760]

Yes, and just knowing that a lot of these companies maybe even weren't sure that they knew that their data was being disclosed tells us it's a little bit more representative.

Katie Pisa [00:03:51.520]

Well, great for them for bringing this to light and I guess it was well timed with your research as well.

Rachel Flam [00:03:57.160]

Yes, so we had a conversation with Will, actually, because we found out about this, and we kind of followed up with him to see where they were at in the process. And then just followed along until it finally was released.

Katie Pisa [00:04:10.280]

So his request of seven tech companies then led to your getting the information from 19,000 firms.

Rachel Flam [00:04:17.280]

Yes, so he wasn't willing to let it go. They went through the legal route and eventually – yes, this huge data set is just because one reporter and his organisation were bulldogs about it basically.

Katie Pisa [00:04:30.840]

A huge accomplishment for him, but then also a massive help to you as well.

Rachel Flam [00:04:35.360]

Yes, a great step forward for the academic community as well.

Katie Pisa [00:04:39.720]

Thanks for explaining that. When you saw the full data set for the first time, what surprised you the most?

Rachel Flam [00:04:45.880]

Yes, I think what surprised us wasn't that there were gaps between lower-level employees or upper-level employees or upper-level employees and the population, but really just seeing how stark they were was something that was surprising. And also seeing how they differed. So we find, for example, that for women, this gap begins really more at the executive level. So when we look from lower-level employees to middle management,

there's not as big of a gap there for women. Whereas for minorities, that's where that gap really starts to widen and then even stronger as we go further up there.

Katie Pisa [00:05:17.960]

So for women, it hits as they go up.

Rachel Flam [00:05:21.200]

Up the chain, further up the chain. yes, whereas racial minorities seem to see the gaps earlier.

Katie Pisa [00:05:25.480]

It's across the board for minorities.

Rachel Flam [00:05:27.880]

Yes.

Katie Pisa [00:05:29.040]

Before this release, what were the limitations of studying diversity through public filings? I guess what you said a minute ago, there just wasn't much data.

Rachel Flam [00:05:37.320]

Yes, and I think one thing we think about a lot as researchers is if we have some voluntary data, there's probably a reason why those firms chose to give that out or not. So even though there were some firms that were giving the state out publicly, we don't know if those firms are representative of what we really see overall because as we find in the paper, those are the firms that have better diversity metrics. So it's hard to say, oh, we have a set of voluntarily disclosed information that looks pretty good, but we know that all the ones that aren't disclosing probably look worse and we don't know what they look like – until we had this data.

Katie Pisa [00:06:11.840]

Sure, so you can make assumptions, but there was nothing there to back it up before.

Rachel Flam [00:06:15.680]

Exactly.

Katie Pisa [00:06:17.000]

And where did the most striking representation gaps appear?

Rachel Flam [00:06:20.720]

I think for us, looking at Black employees, we see that 65% of firms actually employ less than 5% Black employees at middle management. And as we move up to executives, over 85% of firms employ less than 5% Black executives.

Katie Pisa [00:06:35.320]

So it gets worse as you go up.

Rachel Flam [00:06:37.440]

As you continue to go up, yes.

Katie Pisa [00:06:38.960]

Yes, that's really a shocking statistic. And one that there was probably not much light shed on before. I mean, this backs it up with data and it's obviously why your research is so important.

Rachel Flam [00:06:49.680]

Yes, and I think especially at the executive level, that's something that's often observable. We know who the executives of particularly public firms are, but going down deeper into that middle management, which is where we find those gaps exist mostly for racial minorities. That's where they begin. Being able to see that is very new.

Katie Pisa [00:07:07.200]

So I want to talk to you now about disclosure and who shares, who doesn't, and why that matters. This is where your findings become particularly revealing. Only 6.4% of public companies in your sample voluntarily disclosed their EEO-1 reports before the court-ordered release. Why do you think disclosure is so uncommon? And what predicts whether firms choose to be transparent?

Rachel Flam [00:07:30.640]

Yes, I think the broader conversation about having an interest in companies' diversity is something that probably ramped up a little bit more after our sample. So when we look at the 2016 to 2020, it's a conversation that people are having. But I think particularly in the US, it became a little bit bigger conversation in society starting 2020 onward. And so some of it maybe that there wasn't as much pressure on companies as much demand. So what we find is definitely the gaps for minorities in particular is what predicts disclosure. So the better companies are disclosing and sharing that. But we also find, for example, larger firms are more likely to disclose. And those are the firms that maybe had more pressure from investors or customers or other stakeholders in terms of we want to know what you're doing around diversity.

Katie Pisa [00:08:21.600]

I was going to say, does that naturally, when it's a larger organisation, maybe they're just more apt to be aware of these issues.

Rachel Flam [00:08:30.120]

Yes, just more public facing, right? You have a lot more voices talking about Apple than some small startup.

Katie Pisa [00:08:36.320]

Yes, so therefore they're already going to be more conscientious about it, perhaps.

Rachel Flam [00:08:40.800]

Potentially.

Katie Pisa [00:08:42.280]

Okay, so what relationship did you find between a firm's diversity and its likelihood of voluntarily disclosing that data?

Rachel Flam [00:08:50.040]

Yes, so what we find is that, particularly for minority representation, the firm's representation relative to, for example, the management to a promotion pool in place that could reasonably be promoted to management, as well as their composition relative to industry and geographical benchmarks, strongly predicts the likelihood of disclosure. So kind of as I was alluding to earlier, it's the firms that have better metrics, they're the ones that are willing to share those publicly. The ones that have lower metrics – less likely to share.

Katie Pisa [00:09:21.560]

So in the past, before this research, lots of companies who were doing better, for example, were reporting things – was that skewing our public opinion of – I mean, it's always been an issue, right? Diversity, and it's a very hot topic at the moment for various reasons that we might touch on. But so, in the past, we just assumed anyone reporting it probably was making more effort to have a diverse workplace. So I guess it's logical. But now, again, we have the data, which proves things. Why does racial diversity and management emerge as a strong predictor of disclosure while gender diversity does not?

Rachel Flam [00:10:00.800]

I think there's a couple of reasons that we talk about. So the first is that there is just less of a gap. So looking at female employees relative to middle management, from the promotion pool, it's close to one. So the gap isn't really appearing there, whereas moving up to executives is where we start to see sort of the glass ceiling. Another thing is that just the variation across firms in female representation is less varied. So there's not as much of a difference firm to firm as there is for racial minorities, where we see not only that gap happening at the middle management level, but also just bigger differences between firms. And some of them are employing largely above the average, largely below the average, whereas for women, they cluster a little bit more towards the mean.

Katie Pisa [00:10:50.040]

Okay, in your research too, you had lots of interesting charts and graphs on different minorities. So you focus on Black, Hispanic, and Asian, and that varies quite a bit too, doesn't it? Can you talk a little bit about that?

Rachel Flam [00:11:04.720]

Yes, so what we see, and I think this bears out kind of in our disclosure, is that the largest gaps appear to be for Black and Hispanic employees. We actually see, over time, a narrowing of the gap for Asian employees. So there's sort of a bright spot there, where it seems like parity is becoming a little bit more common, whereas for Black and Hispanic employees, that level of the gap is persisting over time, and there's not as much of an increase in or an improvement over time.

Katie Pisa [00:11:35.360]

Rachel, when did the U.S. require EEO-1 reporting? When did it come about?

Rachel Flam [00:11:40.440]

So it actually first was required in 1966. So following Civil Rights Act, it became mandatory reporting for firms with over a hundred employees.

Katie Pisa [00:11:49.240]

So you would think that because it's been going on for quite a long time now, that there wouldn't be these gaps, but there obviously is still a lot of work to be done. But you benchmark firms in three ways: industry peers within firm comparisons and geographic diversity. What do those benchmarks reveal?

Rachel Flam [00:12:09.880]

Yes, so what we do within the firm is the way that we're able to look at this with the new data. We look at the share of middle managers relative to what we call the promotion pool. So that's actually something that's defined by the EOC, that's kind of a set of the workers that could likely be promoted to management. So that allows us within the firm to look at here's a reasonable set of what's the diversity of potential promotions, and then looking at actual promotions that occur. So that gives us, I think, a very firm-specific idea of where that gap kind of appears. We also look though outside of the firm. So looking at industry, for example, we find manufacturing, for example, is more male-dominated – that I don't think surprises anyone. But then if we look at, okay, here's one manufacturing firm A compared to manufacturing firm B, then we can make some within-industry comparisons that holds a little bit of those industry norms. And then finally, we look at geography. So I think that allows us to say, here's the geographic regions. Of course, we know the US is very large. There are different levels of diversity in different areas. And so that allows us to look a little bit at like, we don't have, for example, we're missing education data. That would be something that would be helpful. But we can say, here's what the population looks like in the areas where this firm operates. What does diversity look like relative to that?

Katie Pisa [00:13:34.040]

Okay. I think I noticed some of your maps, and it showed California and Texas having more diversity, which we know one would expect if there's more of a Hispanic population there, for example – is that accurate?

Rachel Flam [00:13:47.280]

And just a larger state, right? Yes, and just allowing that benchmark, I think, gives us – if we have a company that's operating in Texas and has no Hispanic employees, that would be shocking, right?

Katie Pisa [00:13:59.440]

Yes.

Rachel Flam [00:13:59.720]

Because we know that the population of that state has a lot of Hispanic potential workers. So getting to that with the geographic benchmarks lets us look not just within the firm or with the firm and its competitors, but actually the population.

Katie Pisa [00:14:14.840]

Okay. Do your findings suggest firms are strategically withholding information they believe would reflect poorly on them? I mean, you said that before, that people aren't reporting because they know maybe they're not meeting the diversity in the workplace that they should be. And maybe they've tried and they just, maybe it's not their fault, but you tend to find they don't report for a reason.

Rachel Flam [00:14:39.280]

Yes. I think what we find is definitely consistent with strategic behaviour, right? So one thing we think about end disclosure in my area is whether a firm doesn't share because they don't know it. Maybe they're in doubt with the information, or whether they don't share because they don't want to. And other reasons, of course. But I think what we know in this setting is that they prepare this every single year. So it's not a knowledge problem. A firm, the executive could pull this at any time and look at what their diversity looks like using these reports because every year they're required. So what we find is in the absence of them not having the information, which we know isn't true, and seeing this behaviour where the less diverse ones are more likely to withhold, I think that's consistent with strategic decision-making.

Katie Pisa [00:15:26.840]

Of course. Of course. Have disclosure patterns changed since your study period ended?

Rachel Flam [00:15:32.120]

Yes. So our sample goes 2016 to 2020. And in those years since then, there actually has been an increase in voluntary EEO-1 disclosure.

Katie Pisa [00:15:43.400]

And what do you think that is?

Rachel Flam [00:15:45.040]

So it could be public pressure. It could be that, I mean, this release has put a lot of public firms' data out there. So if it's already there, maybe it's better to just continue disclosing. So this data, for example, came out in 2023, halfway through the year. And from '23 to '24, there's a couple of practitioner studies that have looked at this. So one of them looks at the S&P 500, and they see a 32% increase in EEO-1 disclosure from 2023 to 2024. So on the rise, which I think is good news, just for transparency and for accountability.

Katie Pisa [00:16:20.280]

I want to talk to you about why firm-level factors matter. Your findings show that industry, geography, and time explain about 60% of the variation in diversity across firms, which leaves a big 40% driven by something else. So what's happening inside firms that external factors alone can't explain?

Rachel Flam [00:16:40.040]

Yes, I think this is where future research could dig more into this, because we really kind of look at the external disclosure, and we don't dig as much into what's driving it at the firm level, which I think is something that is important to look at in future work. But it's a lot of things that maybe are difficult to measure, like culture. You don't know if the firm is interested in promoting diversity, or if they're agnostic about it, or if they're opposed to it. And so I think that cultural aspect is something that's very important that future work could use this data and try to get at. We also don't know – some of it could be employee choice as well, so we can't rule that out. We haven't examined that closely. But there's definitely, I think, firm-level factors that promoting diversity and mentorship and training in these sorts of programs that could be helpful.

Katie Pisa [00:17:31.560]

So we are moving in a positive direction, you think?

Rachel Flam [00:17:34.520]

I think so. I mean, I think as an accounting researcher, I think transparency is really key. And so seeing this increase in more transparency, more accountability to investors, the general public, I think is something that certainly can help affect change.

Katie Pisa [00:17:50.400]

Okay. And why is this important for how we interpret companies' public diversity claims? So talk a little bit about that. Companies want to portray themselves as diverse. They know it's good for them, but tell me a little bit more about that.

Rachel Flam [00:18:05.240]

Yes, I think what we see here is being able to sort of look at the underlying reality versus just claims. So it's easy, I think, to claim that we want to foster diversity. We want to support our less-diverse employees. So I think all of those things are easy to say. But looking at the hard numbers and whether there are changes to what we were able to see by looking at this new data that we have.

Katie Pisa [00:18:31.320]

Fantastic. Does this challenge the idea that diversity outcomes are purely the result of labour market constraints?

Rachel Flam [00:18:39.160]

I think it does, because what we see is that it's not just within X industry, this is what the diversity looks like. We see variation at that firm level and seeing that – if it was a labour market, we would expect that that would be largely explained by things like industry, geography, even time. And so the fact that we find that that doesn't explain everything, that

there is this firm-level variation, I think tells us that there's more that explains that than just a labour force shortage.

Katie Pisa [00:18:31.320]

There's more to the story. I want to next talk to you about the managerial gap. A major theme in your paper is this, the managerial gap, the point in which the hierarchy where representation for racial minorities drops sharply. Why is first and middle-level management such a critical layer when we talk about diversity?

Rachel Flam [00:19:29.800]

Yes, I think that it's very easy to focus on the top level. Executives, boards, there have been a lot of –

Katie Pisa [00:19:37.400]

Is that purely because there are so few of them as well?

Rachel Flam [00:19:40.080]

And they're still public facing, right? But there's been, for example, proposed regulations that a board has to have a certain level of diversity or a certain level of women or racial minorities. And those are things that are easy, I think, for a firm to comply with by hiring someone because maybe it's one person that they need to add. But if we want to think about more pervasively throughout the organisation, is it going to be the representation at the manager for a frontline worker? So does my manager, when I go to work, do I have someone that shares my background that I can see or is it all a racial majority? I think something like that, it's more pervasive and it's harder to address, right? It requires real substantial change.

Katie Pisa [00:20:27.200]

Sure. And I suppose playing devil's advocate here, if someone could say, well, I'm just hiring the person who came to me who's best for the job, like maybe seeking out more diverse people, they could simply say, well, it's harder to find. Maybe they're not digging deeply as

they should. But I guess my point is, I was speaking to another academic here who was looking at the lack of females at the executive level. It was often the case in certain places. There just weren't any female candidates for the role of CEO, for example, in a certain industry. So I mean, I guess we have to look at both sides of it overall, hoping that diversity will improve. But sometimes it's not always perfect.

Rachel Flam [00:21:09.720]

Yes, absolutely. And I think it's difficult to say, is this gap persisting because a firm just chooses not to? That's a pretty extreme statement. I don't think that's a thing we could say. But I think what we were able to do with our data by looking at this pool of employees that could reasonably be promoted gives us a little bit more of an answer to, well, there's just no one that could be hired because we see that gap between here's who could be promoted and here's who is. Again, can't ascribe any specific meaning to a firm's choices because, of course, many, many factors influence promotion and hiring. But seeing that, I think, gives us a little bit of, there are potentially people who could be promoted where the managerial pool looks a little bit more like the employees they're managing.

Katie Pisa [00:22:01.200]

Okay. You talked earlier about how certain minorities just don't move up the ranks. They get to a level and then that's it. Is that what you mean when we talk about promotion pool and moving on into first-level management? Is that where it stalls or is it middle management? Where does this promotion pool, lack of promotion pool, I should say, where does this happen? Where are things stalling?

Rachel Flam [00:22:29.760]

Yes. So this is where we see that from that promotion pool into middle management is where we see the largest gap starts to appear. Yes, particularly for racial minorities. Whereas for women, we see that gap appears more going into the executive level.

Katie Pisa [00:22:44.036]

This all leads to a really important question, which is what conversations should companies be having that they are not?

Rachel Flam [00:22:51.360]

Yes. I think that especially because we see this gap for racial minorities occurring at lower levels, I think that tells us that this conversation doesn't need to just happen looking at boards and executives. But it needs to become more of a part of the corporate culture of considering, are we being thoughtful? Are we being fair when we're considering promotions? Make sure that there's training, mentorship, things like that for lower-level employees to rise to that level of middle management. And it's something that has to really reshape a corporate culture, right? Because it's not just we need to look at this at the top level, it has to be pervasive.

Katie Pisa [00:23:30.128]

And in your time in doing this research, have you seen any companies where you felt like the corporate culture shifted or changed? Or do you think it's a longer process?

Rachel Flam [00:23:42.108]

I couldn't name any things specifically. I mean, we definitely do see in the aggregate some improvement over time, particularly for Asian employees is where we see that. But I think just looking at the broader conversations that are happening in society, I think it's something that is becoming more front of mind.

Katie Pisa [00:24:01.088]

Definitely. Where do you see the next frontier of research now that this data set exists?

Rachel Flam [00:24:08.198]

Yes, there's lots of questions that would be really interesting to answer. I think what we do in our paper is really looking at the disclosure choice and looking at how does this information go from within the firm to out in the public? And what are the reasons for that? But I think now that we have this data looking into the firm, there's a lot of questions that could be answered getting exactly to kind of the conversations we've been having about corporate culture, any things that a company does that are associated with improvements

or deteriorations in these gaps. And so I think getting a little bit more into company-specific practices that promote disclosure, these sorts of things would be super important.

Katie Pisa [00:24:49.108]

So at the end of every Why podcast, we have one signature question that we ask our faculty. And I want to ask you, Rachel, why should organisations rethink the way they approach diversity and disclosure today? And what's one practical step they can take to make the reporting more transparent, meaningful, and fair?

Rachel Flam [00:25:08.028]

Yes, I think that the landscape is continuing to evolve – of disclosure. And like we talked about earlier, more and more companies are taking what I would suggest is the big practical step of just disclosing a report that you prepare every year. So it's already done, you have access to it.

Katie Pisa [00:25:26.008]

There's nothing to hide, and therefore, it's going to criticise you.

Rachel Flam [00:25:58.218]

Yes, so knowing that you have this data, a firm could easily add that to their disclosure. And we're seeing that happen more and more. Hopefully, eventually, we'll see even a full disclosure regime. But I think that's a simple practical step that could be taken that we know is already information that's available. And it wouldn't be a lot of additional work, anything like that. And I think we'll continue to see more. So for example, the lawsuit that prompted the release of these reports in the first place, continued to kind of move through the courts. And just earlier this year, the ruling was in favour of the reporter that had filed it. And I think there's a chance that even more firms may have this data released, which I think will continue to prompt. If there's an opportunity or a chance of release, why not go ahead and disclose it pre-emptively?

Katie Pisa [00:26:20.098]

Fantastic. Thanks for all your advice. And perhaps you'll be researching more in this space as years go on.

Rachel Flam [00:26:26.088]

Hopefully, yes.

Katie Pisa [00:26:27.138]

Okay. Thank you for all your work, for this really enlightening conversation and sharing all your important findings with us from your research. And we really appreciate it. Thanks for joining us for The Why Podcast today.

Rachel Flam [00:26:37.248]

Thank you for having me.

Katie Pisa [00:26:39.208]

And thank you for joining us on The Why. We'd love to hear your thoughts. Should diversity reporting be mandatory, and would it change your view of the companies you work for and invest in? Drop us a comment on Spotify or YouTube and use the #TheWhyPodcast to join the conversation. And don't forget to follow and subscribe so you never miss an episode. And if you're hungry for more ideas from London Business School faculty and beyond, head to london.edu/think.