

JUNE 2021

# Toward racial justice

Markers of corporate leadership in the United States

**Putnam Sustainable Equity team**  
**Investments for a Thriving Public®**

Not FDIC insured | May lose value | No bank guarantee

## Investing for a thriving world: Racial justice is a key consideration

We analyze corporate efforts toward racial justice within the Thriving Public category of our sustainable investing research framework. Our themes are highly interconnected and always evolving. Read more about our unique thematic research approach in our “Investing for a thriving world” white paper.



### Human health and wellness

Healthy individuals are a foundation of healthy society. Human health includes elements of preventive care, chronic disease treatment, and mental health support. Companies that support human health include conventional healthcare providers and holistic wellness businesses.

### Environmental health and resource stewardship

A healthy planet supports all human activity and is at risk from the effects of climate change, which are becoming more visible and acute. Many companies are preparing for climate resiliency while others are creating solutions to mitigate climate change and its impacts.

### Equity and access to opportunity and resources; efficiency and effectiveness of all systems

Healthy systems and societies are the connection between the health of individuals and the health of the planet. Our focus on topics such as diversity, equity, inclusion, and justice forms part of a broader theme called Equity and Ethos. We also consider access to information and opportunity.

Throughout 2020, a cascading series of pandemic-related challenges unfolded. We witnessed inescapable revelations about long-term systemic crises, including the planetary crisis of climate change and the social crisis of structural racism. These circumstances have brought suffering in many forms, and they have also set a foundation of possibility for urgent and overdue improvements.

In the wake of the killings of George Floyd, Breonna Taylor, Ahmaud Arbery, and many others, there has been more awareness of racial injustice in the United States. Corporate leaders, who may have been silent on these issues previously or delegated them to human resources departments, have become more vocal and active in their work to help create more equitable, inclusive, and just corporate settings. Corporate leaders can help to improve the overall health of our social system as well as their own organizations. These improvements, in turn, can potentially produce long-term financial and non-financial benefits.

As researchers and investors, we are keenly focused on investigating these changes and the potential benefits they could bring. When we analyze financially material and relevant sustainability issues, it is social issues, the “S” of ESG (Environmental, Social, and Governance), that have always been the hardest to measure. However, in many ways it is the human element of business that makes everything else possible. When we talk with CEOs, regardless of the type of business, their top priorities and concerns are consistently people-related: employees, customers, and communities.

Sustainable investing aims to take a more holistic view of corporate context and performance, with the premise that over the long term there is no such thing as an externality (a consequence not counted as a cost or benefit). We believe that management teams that are effective leaders on material sustainability issues or that are solving key sustainability challenges may also be more likely to create thriving businesses. Specifically, we believe that companies that demonstrate leadership in their contributions to a more just society might also benefit strategically and financially over the long term. This report explains our analytical approach to identifying companies showing leadership on the theme of racial justice.

By nature, analysis of systemic issues requires ongoing attention, and any one report does not render our research complete or conclusive. While we have learned from and been advised by numerous experts in the course of this work, we will continue to seek a more complete understanding, more effective engagement, and more relevant analytical approaches. I am grateful for our Sustainable Equity team and Equity Research team members who contributed to this report: Chelsea Agyiri, Sam Alpert, Shelby Centofanti, Stephanie Dobson, Kasia Ifill, and Kate Lakin.



A handwritten signature in yellow ink that reads "K. Collins".

**Katherine Collins, CFA, MTS**  
Head of Sustainable Investing

## SECTION 1

# Why is racial justice an essential issue for businesses and investors?

We outline key factors that motivate increased focus and action on racial justice from the private sector.

---

**Moral imperative.** Most of this report focuses on the business case for diversity, inclusion, and equity, and that business case is powerful. We note that our current hyper-politicized setting makes it easy to confuse enduring ethics with shallower forms of political correctness. However, the tangible logic of business benefit appears petty when compared with the deeper understanding of justice as a requirement for realizing our full potential as a society. Beyond the business case, in our view, justice is a goal worth pursuing because it is right.

**“Many executives, especially those who lead larger companies, recognize that an unjust system can create limitations, increase risk, and introduce system-wide fragilities that impede progress on all other dimensions.”**

**Systemic risk.** Additionally, many executives, especially those who lead larger companies, recognize that an unjust system can create limitations, increase risk, and introduce system-wide fragilities that impede progress on all other dimensions. In contrast, attention to inclusion and justice has the potential to expand opportunity, growth, and stability. Importantly, diversity alone is not the ultimate objective. Evidence shows that both individual and collective benefits expand as we move beyond diversity to improve equity, inclusion, and justice.

**Performance.** With respect to corporate performance, there is growing evidence that an inclusive work environment can be more effective. For example, separate studies by McKinsey and Boston Consulting Group (BCG) found strong links between diversity and corporate performance. McKinsey's report showed that more diverse leadership teams were associated with higher earnings before interest and taxes (EBIT) margins, and BCG's analysis showed that diverse management was associated with much higher innovation-based revenues, in addition to higher EBIT margins.<sup>1,2</sup> In particular, as the work of researcher Scott Page and others has demonstrated, there are often links between demographic diversity and cognitive diversity, a key ingredient in developing the problem-solving skills of a team. Cognitive diversity, which refers to the presence of different points of view and skill sets, brings added insights and abilities to the tasks at hand, and is especially important when the work involves navigation of complex problems or shifting operating conditions.<sup>3</sup> As with other forms of diversity, gaining the benefits of cognitive diversity requires not only the presence of different experiences and expertise, but also the creation of an operating environment that allows those differences to be expressed.

**Common sense.** On a more tactical level, there are also obvious business benefits to growing the potential pool of employees, customers, and partners. Diversity, equity, and inclusion are increasingly important to all of these constituents, with impact on company reputations, customer loyalty, and employee retention. We believe that all of these elements have clear links to long-term financial potential for businesses, especially for those that depend on human creativity, collaboration, and engagement. Therefore, for business leaders and investors, diversity, equity, and inclusion are of vital importance, in our view.

The particularly painful, acute, and persistent presence of injustice toward Black people in the United States warrants extra attention. Improving the health of our social system also means looking at the wide reach of structural racism and its effects on groups that include Hispanic, Asian, and Native American people. The Covid-19 pandemic and related outbreaks of violence have had an outsized impact in these communities. While not a focus of this paper, this awareness is part of our research framework and may be a topic for future commentary.

## SECTION 2

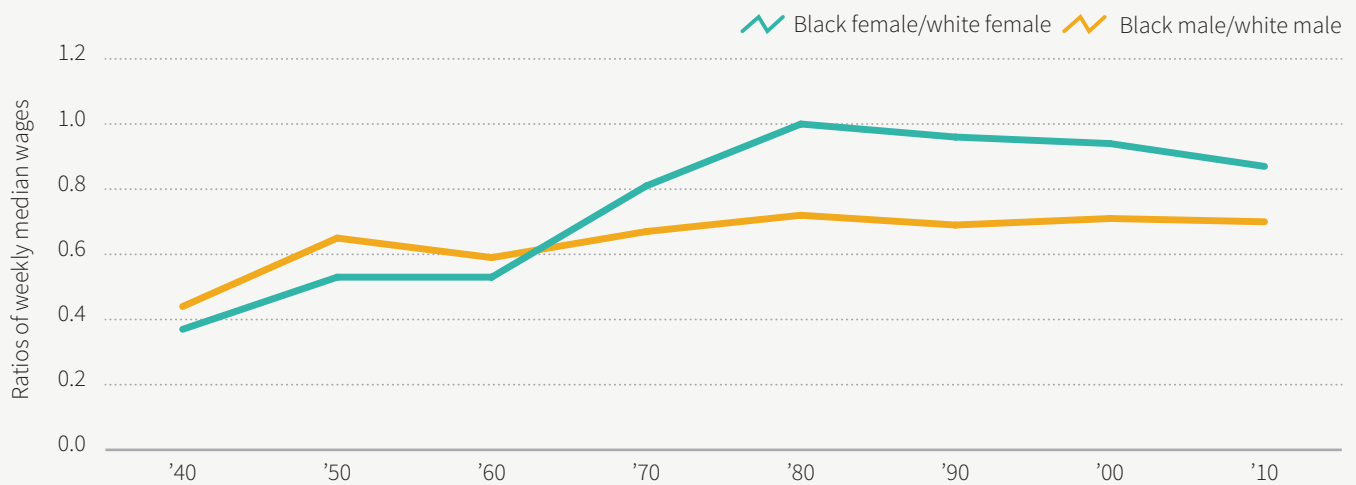
# Context, progress, and challenges

Within the short scope of this research paper, it is impossible to fully explore the deep and complicated roots of racial injustice in the United States. However, without acknowledging important historical elements, we cannot begin to comprehend our current challenges, nor the ingredients required for potential improvements.

### Examining the longer arc of history

Current injustice toward Black people in the United States is rooted in the horrific history of slavery, which is still poorly understood and taught in a limited way in many educational settings.<sup>4</sup> Structural racism has been reinforced in the post-Civil War era through cultural norms, unfair access to education, housing, and other resources, and policies such as redlining and discriminatory lending. All of these have a long arc of negative impact. Our current social setting is the result of hundreds of years of racial discrimination.

Racial disparity in U.S. median wage levels, 1940–2010



Source: National Bureau of Economic Research, Bayer and Charles, 2017.

Even when official policies change, bias persists and is evident in many different arenas. For example, educational disparities between Black and white people in the United States steadily narrowed from the late 1800s until about 1960, as access to education for Black Americans improved from near-zero levels at the start of that period. However, despite developments like the 1954 Supreme Court decision in *Brown v. Board of Education* and the passage of the 1964 Civil Rights Act, progress since that time has not continued or accelerated; rather it has stalled.<sup>5</sup> Similarly, income disparities meaningfully narrowed from the 1940s through about 1980. However, since then, progress has stalled for Black men and the negative gap has re-accelerated for Black women.<sup>6</sup> Also, stark disparities are seen in health data. For example, death rates from diabetes are twice as high for Black Americans than they are for non-Hispanic white Americans, and pregnancy-related mortality rates are more than three times higher for Black woman than for white women.<sup>7,8</sup>

Related to these other measures, and perhaps the most comprehensive economic indicator of the compounding element noted above, is the wealth gap. The wealth gap between Black and white households has persisted at stunningly high levels. Currently, median Black household wealth is less than 10% of median white household wealth.<sup>9</sup> In Boston, where many of our team members live, the difference is even greater: A 2015 study by the the Federal Reserve Bank of Boston, Duke University, and The New School showed median net worth for white households of \$247,500, while the same figure for Black households in the city was \$8. For Caribbean Black households in the area, this figure was \$12,000.<sup>10</sup>

### **“As of 2020, just four companies in the Fortune 500 had Black CEOs.”**

We see some of the same patterns within data on corporate leadership teams: As of 2020, just four companies in the Fortune 500 had Black CEOs, and as of 2018, just 9% of corporate board members were Black compared with 13% of the total U.S. population.<sup>11</sup>

### **Why has progress proven so elusive?**

Many observers note that there have been important improvements in numerous policies and processes over time, and yet, overall progress toward racial justice in the United States has been frustratingly slow. What factors contribute to this disconnect?

As noted above, an incomplete understanding of both past and present facts leaves a knowledge and awareness gap. And we know that racial bias is structural, embedded in all sorts of systems in interconnected ways. Even when this bias is acknowledged, it is hard to comprehend its complete impact: To paraphrase the writer David Foster Wallace, in the United States, this is the water in which we are swimming.

Modern information flows are both a help and a hindrance. Despite much broader access to information through current technologies, some of these same tools have contributed to the rising challenge of “filter bubbles,” where communities can become more fractured, fragmented, and polarized. Developments like social media platforms have created many new forums for exchange but have also made it harder to engage in public dialogue that is informed by shared understanding of facts combined with the richness of different lived experiences and points of view.<sup>12</sup>

Additionally, there is a disconnect between the characteristics of injustice, which is multidimensional, long term, and systemic, and our tools to address it, which tend to be narrowly focused, short-term, and tactical. Many efforts to address corporate diversity, for example, only focus on one issue or activity, such as recruiting new hires or one-time training sessions for managers, versus taking a more holistic and ongoing approach. Also, many well-intentioned activities have not been designed with an understanding of intersectionality, potential points of friction, or unintended consequences. Finally, many efforts lack the ongoing management focus and investment required for long-term success.<sup>13</sup>

## SECTION 3

# What is changing now?

While acknowledging the long duration and challenges presented by the injustice and structural bias described above, it is also clear that our current setting offers evidence of change and opportunity.

---

Analysis of complex social issues requires different tools than analysis of traditional financial metrics. When we analyze shifts that are longer term and more systemic in nature, a helpful framework is Donella Meadows' Leverage Points in a System, which illustrates the many layers and interconnections that are at work in any complex adaptive system.<sup>14</sup> Using the Meadows framework to inform our structural analysis, we highlight three major categories of change that are influencing current corporate focus on racial justice. At each level, we believe the potential benefits to businesses who lead on diversity, equity, inclusion, and justice are clear.

**Shift in ethos:** First, there is a shift in ethos — a growth in awareness, prioritization, and intention. Changes at this meta-level of a system are hard to quantify, and yet we do have clear signals that this ethos shift is underway within the U.S. business community. Company management teams have been much more vocal regarding the importance of both diversity and racial justice, and some important commitments have been made, though we do not yet know what the long-term impact will be. One indicator of this shift in ethos is the frequency with which diversity, equity, and inclusion are mentioned on corporate quarterly earnings conference calls, which rocketed to 40% of S&P earnings calls in mid-2020 and have persisted at a rate well above prior periods.<sup>15</sup>

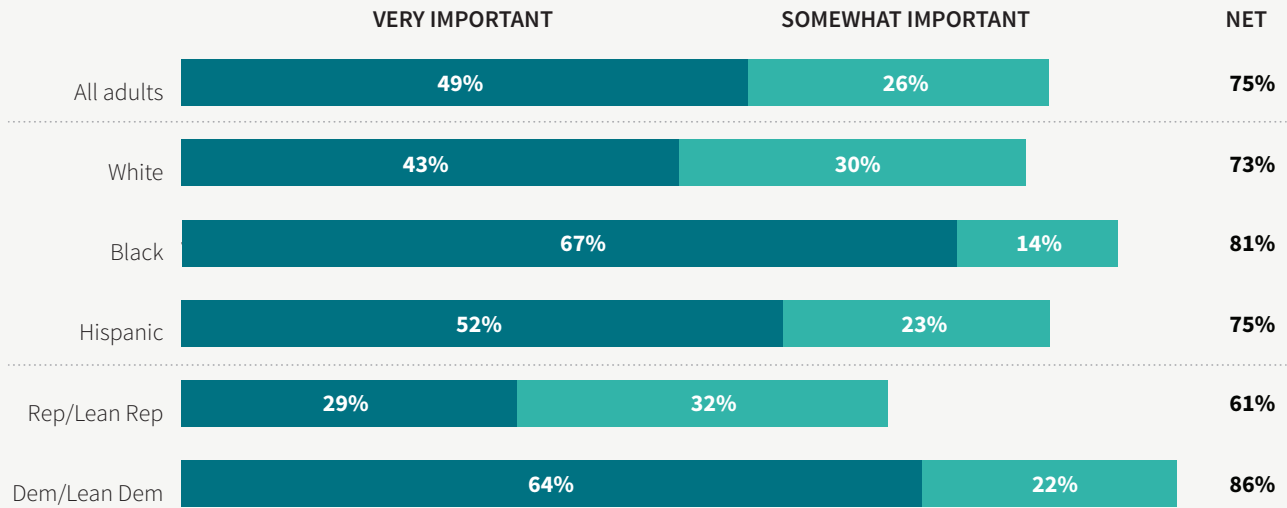
Additionally, employees are increasingly vocal regarding their expectations in the workplace: A 2019 Pew Research survey found that 75% of respondents agreed that it is important for companies and organizations to promote racial and ethnic diversity, and 64% credited diversity with having a positive impact on a country's culture.<sup>16</sup> Finally, customer expectations are also rising: The 2020 Edelman Trust Barometer reported that 63% of people expect companies to follow through with concrete action when they make general statements in support of racial equality.<sup>17</sup>

**“Black communities in the United States represent about \$1.4 trillion in buying power as of 2019, up nearly 50% in the past decade.”**



**A strong majority of Americans believe it is important for companies to promote workplace diversity**

(Percentage of respondents saying it is \_\_\_ for companies and organizations to promote racial and ethnic diversity in the workplace)



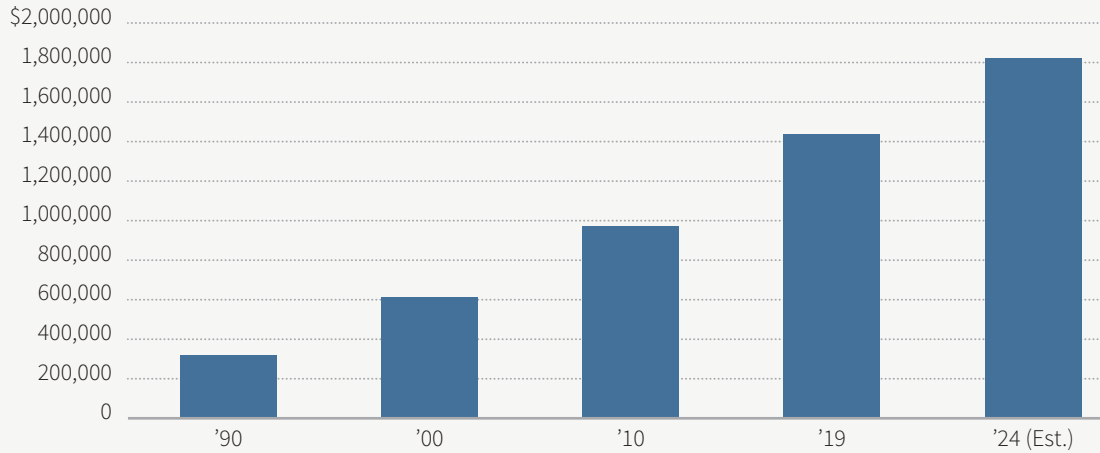
Note: Whites and Blacks include those who report being only one race and are non-Hispanic. Hispanics are of any race. This question was asked of a random half sample: estimates for Asians are included in the total but are not shown separately due to small sample size.

Source: Pew Research Center.

Survey of U.S. adults conducted January 22 to February 5, 2019. “Americans See Advantages and Challenges in Country’s Growing Racial and Ethnic Diversity.”

**Shift in demographics:** In the heart of our social and economic systems, the composition of participants has continued to develop as well. Communities, customers, and employees within the United States have all become more racially diverse over time, which brings opportunity for companies that are able to connect with the entire population and to benefit from its cumulative strengths. For example, over the next 10 years, only about one quarter of new entrants to the labor force in the United States will be white, and the proportion of Black workers will be growing at roughly four times the rate of white workers.<sup>18</sup> Additionally, Black communities in the United States represent about \$1.4 trillion in buying power as of 2019, up nearly 50% in the past decade.<sup>19</sup> Given this high and rising importance, companies that are more inclusive and connected are likely to be strategically advantaged.

### Growth in Black consumers' buying power in the U.S. (\$ millions)



Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, June 2019.

**Shift in tools and approaches:** As expertise and experience has continued to develop, we have seen advances in the types of tools and approaches available to address diversity and racial justice. Building upon the work of numerous social movements, nonprofit endeavors, lived experience, and academic research, company leadership teams now can draw upon a greater library of resources and expertise than in the past. At a tactical level, companies can now compare their employee data and racial justice commitments with peers, consult with NGOs and community organizations about best practices, review academic research on historical context, and confer with consultants who analyze management techniques. Most important, across all of these settings, corporate managers can listen and directly learn from Black leaders and communities.

**SECTION 4**

# How can we analyze corporate progress and leadership?

The tools for analyzing systemic social issues often do not map well to standard corporate disclosures. Though our analytical questions are focused on inclusion, belonging, and justice, the data we have to work with is mainly centered on diversity — a first step toward these more advanced goals.

---

Diversity, equity, and inclusion are important across many dimensions, including internal characteristics like age, race, gender, ethnicity, and sexual orientation and external characteristics like educational background, citizenship, religious or spiritual beliefs, socioeconomic status, and experience and expertise. Moreover, intersectionality means that none of these characteristics exist in isolation. Therefore, our analysis needs to avoid simplistic and reductionist “counting” exercises to reflect multidimensional reality.

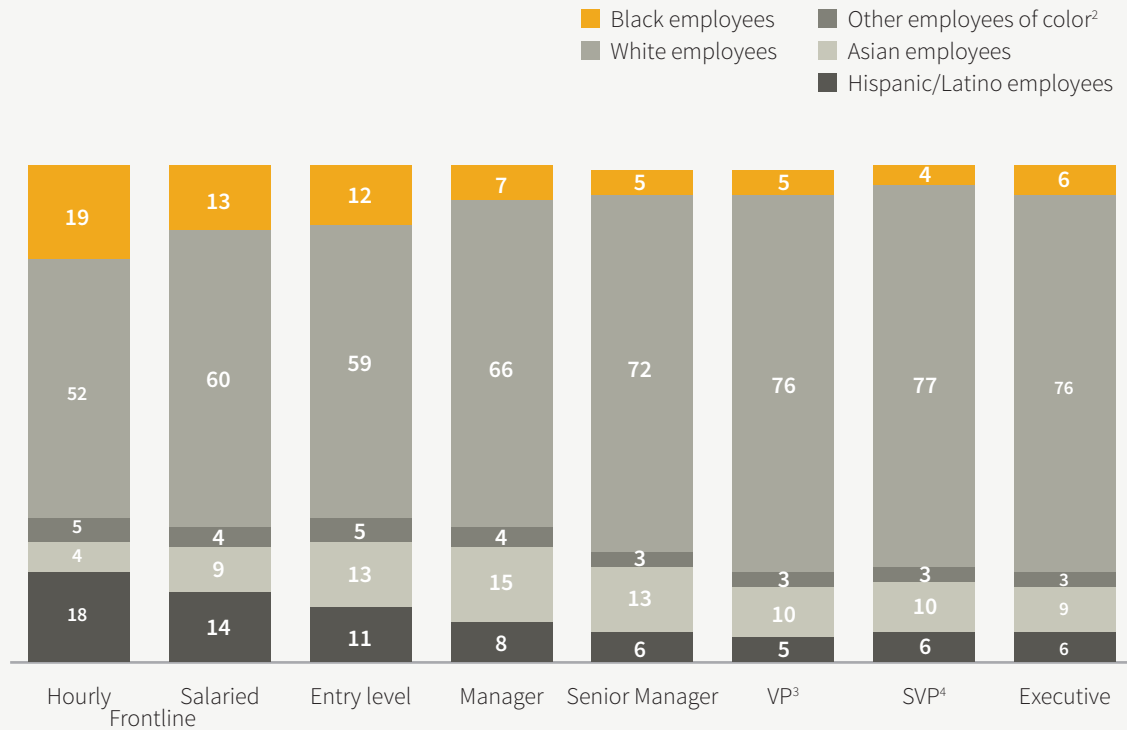
Though detailed information on racial diversity within corporations is not yet widely reported, there is a growing level of disclosure, attention, and action from many leading companies. Increased transparency is important because we know that at this point company leadership teams rarely reflect the composition of the communities they intend to serve. This disconnect is a consequence of systemic racism, and it contributes to perpetuating bias throughout our organizations, with negative implications for both business and society. On the other hand, our research indicates that companies that demonstrate leadership have potential to establish more effective teams, greater ease in recruiting, and stronger customer loyalty.

## Improvements in reporting and disclosure

For most U.S. companies, disclosure of diversity data is currently limited in both breadth and depth. According to Just Capital, only 6% of Russell 1000 companies disclose intersectional data that includes gender, race, and ethnicity, as of early 2021.<sup>20</sup> Even fewer provide detail on composition within different job functions or metrics that are trackable over time. In addition to improving performance on point-in-time metrics, companies have the opportunity to set clear commitments and goals, make policy improvements, and communicate with transparency.

A recent McKinsey study, based on a small but meaningful sample of large employers, gives us some clues regarding racial composition at various levels within the workforce, showing that representation for Black employees declines meaningfully for mid- to higher-level management positions, while representation on corporate boards is closer to that of the overall population.<sup>21</sup>

## Black employees are under-represented at senior management levels<sup>1</sup>



Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup> June 2020 snapshot, aggregate data across 23 companies.

<sup>2</sup> Includes Native Hawaiian, Pacific Islander, and Indigenous (e.g., Aboriginal, First Nation, Native American) employees and employees who identify as having two or more races.

<sup>3</sup> Vice President.

<sup>4</sup> Senior Vice President.

Source: 2021 Race in the Workplace Survey (n=24,842 employees); “Where are the Black CEOs?” *Fortune*, February 4, 2021, fortune.com; McKinsey analysis based on representative sample of U.S. employees across all demographics at companies participating in survey.

When we have more information, better questions and better actions can result. For example, a review of the data trends in the McKinsey study might shift a plan of action from being solely focused on equity in recruiting (the “pipeline challenge”) to also focusing on systemic improvements in manager development and performance assessment processes. Investors and corporate leaders benefit not only from a greater volume of data but also from better and more relevant information.

## Beyond structured data

Even when we have much more detail on composition of corporate teams, we know that narrowly defined metrics are never complete. For example, board and executive team diversity, the most widely available information today, is a small component that leads toward a more comprehensive examination of racial diversity throughout all parts of an organization.

This, in turn, is a step toward understanding vital but hard-to-quantify elements like corporate culture and inclusion.

As fundamental investors, we can assess other forms of information that provide valuable insights. Companies release a wide range of data, from annual reports and quarterly conference calls to proxy and regulatory information to published research and consumer advertising. Investors can analyze where diversity shows up in these communications and, just as importantly, how it shows up. Does management use legal language, strategic language, or personal language when discussing diversity? Does the CEO mention inclusion and justice without being prompted, and if so, in what context? Can we see belonging represented in the company's research protocols and marketing messages? Can we see the links between an organization's diversity commitments and its core business strategy?

Information outside of corporate sources is also valuable, and increasingly so. How do employees rate the company on public evaluation sites, or comment about their workplace on social media? What can government, nonprofits, and investigative media tell us about corporate culture? What are our own personal observations from interacting with management teams, customers, peers, and community members affected by the company? These complementary data sources are sometimes broad and structured and sometimes narrow and anecdotal, and we believe all of them contribute to the mosaic of more complete understanding.

We can also assess changes over time, in both quantitative and qualitative terms. Companies are evolving organisms, yet much of our structured data is static. It is useful to review how the people who make up a company have developed, and to compare progress across different professional functions, organizations, and industries.

**“Again, we note that assembling diverse teams is a start, and not the finish line.”**

Again, we note that assembling diverse teams is a start, and not the finish line. When research confirms progress regarding racial diversity, this is a first step toward equity; equity is a step toward inclusion; inclusion is a step toward belonging; and belonging finally starts to approach the ultimate goal, justice. As conditions progress along this continuum, the potential individual and collective benefits increase as well. Given their relevance as material business issues, we believe diversity, equity, and inclusion are important issues for all investors.

## SECTION 5

# Defining leadership as part of our investment research

Considering a “mental model” of indicators of corporate leadership can extend the analysis described in the previous sections to make it more helpful to our research.

---

### In our sustainable investment research at Putnam, we seek to identify corporate leadership across four key dimensions:

**Materiality:** Focus that is informed by thoughtful analysis of materiality and long-term business relevance

**Creativity and proactivity:** Action that goes beyond compliance or box-checking activity to demonstrate heightened commitment and potential benefit

**Transparency:** Goals that are specific, with candid and consistent reports of progress

**Impact:** Benefits that are meaningful both inside the company and beyond its corporate borders

### Translating leadership attributes in pursuit of racial justice

When we translate this general leadership framework to assess corporate activity in pursuit of diversity, equity, inclusion, and racial justice, we can further refine our assessment. By incorporating the insights from the research summarized in this publication, we note several characteristics of leadership that are specific to racial justice:

**Context relevant:** Strategy that is linked to the company’s specific sector, business, strategy, and setting, with consistency between internal commitments to employees, engagement of business partners and suppliers, and external messaging to customers, investors, or other stakeholders

**Multidimensional:** Action that reflects an understanding of the systemic nature of structural racism, going beyond a single area of intervention; for example, leading companies often include a mix of community engagement, broad-based internal training and education, involvement of suppliers and customers, and improvements in hiring, evaluation, and advancement-related processes

**Collaborative:** Engagement that includes partners who have different and complementary areas of expertise, across extended time periods and in forms that go beyond narrow transactional arrangements; in particular, partnership for racial justice that recognizes Black leadership and expertise

**Long term:** Commitment that is sustained over multiple years, with extensions and improvements over time, and with progress on completeness and transparency of reporting

## Company examples

The companies below represent just a few examples of certain elements of corporate leadership currently identified through our analytical framework. We look forward to analyzing progress and effectiveness for these and other corporate initiatives as they continue to develop. Company actions that exemplify some of the leadership characteristics noted above include:

**Microsoft (MSFT)**, in 2020, extended a wide range of commitments to diversity, inclusion, and support of Black individuals and communities with activity that represents more than \$1 billion in financial commitment. Internally, the company is investing an additional \$150 million in its own diversity and inclusion efforts, with a commitment to double the number of Black employees in senior positions in the United States by 2025. The company has introduced new and required training for all employees and has increased investment in career planning and talent development. These actions build upon Microsoft's ongoing DEI focus and disclosure of relevant data, which we believe has been superior to many peers. Extending influence beyond the company's own operations, Microsoft has created a partner fund for Black-owned business partners that plans to double the number of Black-owned suppliers by 2023, and is taking several actions that support depository institutions, nonprofits, and high schools that are led by Black individuals and/or serve Black communities.<sup>22</sup>

**Etsy (ETSY)**, the e-commerce platform, added a landing page for Black creators and their products during 2020, promoting Black-owned businesses. The company also has specific, public, and long-term diversity and inclusion goals, which include approximately doubling the percentage of Black and Hispanic employees in Etsy's workforce by 2023, ensuring that at least 50% of Etsy's small- and medium-sized enterprise suppliers are owned by women, minorities, or veterans by 2022, and defining key performance indicators and baseline data for marketplace diversity by 2021. Additionally, Etsy donated \$1 million to Equal Justice Initiative and other organizations in 2020.<sup>23</sup>

**Thermo Fisher (TMO)**, a diagnostic and medical supply company, recently began a partnership (The Just Project) with Historically Black Colleges and Universities (HBCUs) to help address the Covid-19 pandemic's impact on communities of color, which have been disproportionately affected. Thermo is providing testing systems to the member schools at no cost, and the company has also committed to hire 500 HBCU interns and graduates during the next three years.<sup>24</sup>

**Bank of America (BAC)** has announced a \$1 billion four-year commitment to strengthen communities of color, focused on those that have experienced a greater impact from the Covid-19 crisis. Areas of concentration will include health, including grants to expand testing and patient care; jobs training, reskilling, and upskilling; small-business support; and housing and community support through direct investments in Minority Depository Institutions. This expanded plan builds upon the company's \$100 million in donations to nonprofit partners and \$250 million commitment to lending for small and minority-owned businesses.<sup>25</sup>

**Specific company examples:** Company examples are intended to help illustrate Putnam's research process and should not be considered a recommendation or solicitation to purchase or sell the securities. Current investment themes and company examples were selected without regard to whether such themes, or relevant securities, were profitable and are intended to help demonstrate the investment process. The securities mentioned are not necessarily held by Putnam for all client portfolios. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. As with any investment, there is a potential for profit as well as the possibility of loss. A security may be selected for the portfolio based on factors other than the sustainability themes, metrics, and characteristics highlighted herein, and the analysis is not intended to be relied upon as a forecast or investment advice, and is not a recommendation, offer, or solicitation to buy or sell any securities or to adopt any investment strategy.

**Levi's (LEVI)** disclosed diversity metrics for its employees for the first time in early 2021, providing a level of detail that most peers do not. Like many companies, the more detailed assessment and disclosure shows limited racial diversity within upper management levels. Levi's has committed to a wide range of improved internal processes, including hiring a new head of Diversity, Inclusion & Belonging; strengthening its partnerships with HBCUs for pipeline and talent development; and changing key recruiting and retention strategies. The company will also proactively seek a new Black leader to join its Board of Directors, train 100% of leaders on anti-racism and racial equity, and will publish wage equity audits every other year.<sup>26</sup>

**Characteristics of leadership  
in advancing racial justice:**

- Context relevant
- Multidimensional
- Collaborative
- Long term

**Walmart (WMT)** has expanded action and reporting on diversity, equity, and inclusion, including disclosures on workforce representation by level of responsibility, gender, and ethnicity as well as promotion rates. For example, as of mid-2020, almost 12% of company managers are Black, and 18% of those promoted to manager have been Black associates. Company leadership is required to participate in training on inclusive leadership and mentorship. Building upon this progress, the company is extending focus on five key systems, with objectives on issues that include opportunities for minority suppliers and access to capital, access to health and education, and review of hiring practices for formerly incarcerated applicants. Additionally, the company has established a new center for racial equity that will lead some of the areas above and direct a \$100 million philanthropic commitment to complement the company's other initiatives.<sup>27</sup>



**SECTION 6**

# Conclusion

Researching racial justice in the private sector involves engaging with this complex issue using tools that often have a more narrow or tactical focus. Our framework for identifying markers of corporate leadership aims to more closely align with the systemic and multidimensional nature of the issues at hand.

---

During the past year in the United States, we have refocused attention on the centuries-long compounding of racial injustice and its painful and unacceptable implications for Black, Hispanic, Asian, and Native American people. These conditions have catalyzed and accelerated positive action across many parts of society, including the corporate sector. Our framework for analyzing corporate leadership typically includes assessment of materiality, creativity and proactivity, transparency, and impact. As mentioned earlier in this report, the characteristics of racial injustice are multidimensional, long term, and systemic. Therefore, our research framework identifies markers of corporate leadership in this area as including context relevance, multidimensional approaches, collaborative engagement, and long-term commitment.

At a company-specific level, corporate leaders in diversity, equity, inclusion, and justice have potential to develop more effective teams, improve recruiting and retention, and enhance customer reach and loyalty. Because of these connections, we believe racial justice is a relevant and vital topic for investors to consider. More broadly, as racial injustice is addressed, businesses in the United States could benefit from a healthier social structure and lower systemic risk. Most important, at the highest level, company leadership teams and investors have opportunities to contribute to more just social and economic systems, creating conditions where all participants can hopefully thrive and contribute to their fullest potential.

## Endnotes

- <sup>1</sup> McKinsey, “Why Diversity Matters,” 2015. <https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Why%20diversity%20matters/Why%20diversity%20matters.pdf>
- <sup>2</sup> Boston Consulting Group, “How Diverse Leadership Teams Boost Innovation,” 2018. <https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation>
- <sup>3</sup> See the research of Scott E. Page, including *The Diversity Bonus*, Princeton University Press, 2017 and *The Difference*, Princeton University Press, 2007.
- <sup>4</sup> Southern Poverty Law Center, *Teaching Hard History*, 2017. [https://www.splcenter.org/sites/default/files/tt\\_hard\\_history\\_american\\_slavery.pdf](https://www.splcenter.org/sites/default/files/tt_hard_history_american_slavery.pdf)
- <sup>5</sup> Claudia Goldin and Lawrence F. Katz, “The Race between Education and Technology,” Harvard University Press, 2008.
- <sup>6</sup> William J. Collins and Michael Q. Moody, “Racial Differences in American Women’s Labor Market Outcomes: A Long-Run View,” NBER working paper #23397, May 2017; Patrick Bayer and Kerwin Kofi Charles, “Divergent Paths: Structural Change, Economic Rank, and the Evolution of Black-White Earnings Differences 1940-2014,” NBER working paper #22797, September 2017.
- <sup>7</sup> United States Center for Disease Control, *National Vital Statistics Report*, Vol. 68, No. 9, Table 10, 2019.
- <sup>8</sup> United States Center for Disease Control, “Racial and Ethnic Disparities Continue in Pregnancy-Related Deaths,” 2019. <https://cdc.gov>
- <sup>9</sup> Moritz Kuhn et al. Federal Reserve Bank of Minneapolis, “Income and Wealth Inequality in America, 1949–2016,” June 2018. <https://www.minneapolisfed.org/research/institute-working-papers/income-and-wealth-inequality-in-america-1949-2016>
- <sup>10</sup> This is not a typo; the number from the study is \$8. Ana Patricia Muñoz et al. Federal Reserve Bank of Boston, “The Color of Wealth,” 2015. <https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx>
- <sup>11</sup> DeHaas D., Akutagawa, L., and Skip Spriggs. *Missing Pieces Report: The 2018 Board Diversity Census of Women and Minorities on Fortune 500 Boards*, Deloitte LLP, February 5, 2019. <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/missing-pieces-fortune-500-board-diversity-study-2018.html>
- <sup>12</sup> Eli Pariser, *The Filter Bubble*, Penguin Press, 2011.
- <sup>13</sup> Janice Gassam Asare, “What Do You Do When Your Diversity Efforts Lead to Greater Conflict?” *Forbes*, January 17, 2020.
- <sup>14</sup> Donella Meadows, “Leverage Points: Places to Intervene in a System,” 1997. <http://donellameadows.org/archives/leverage-points-places-to-intervene-in-a-system/>
- <sup>15</sup> <https://www.rbcinsightresearch.com/ui/main/report/f8d5434a-de56-454a-a9d4-f100f0245667>
- <sup>16</sup> Pew Research Center, “Americans See Advantages and Challenges in Country’s Growing Racial and Ethnic Diversity,” 2019. <https://www.pewsocialtrends.org/2019/05/08/americans-see-advantages-and-challenges-in-countrys-growing-racial-and-ethnic-diversity/>
- <sup>17</sup> Edelman Trust Barometer, 2020.
- <sup>18</sup> United States Bureau of Labor Statistics, “Civilian Labor Force by age, sex, race, and ethnicity.” <https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm>
- <sup>19</sup> Jeffrey M. Mumphreys, “The Multicultural Economy,” 2019. Selig Center for Economic Growth, University of Georgia.
- <sup>20</sup> <https://justcapital.com/news/a-small-fraction-of-corporations-share-diversity-data-but-disclosure-is-rapidly-on-the-rise/>
- <sup>21</sup> McKinsey, “Race in the Workplace: The Black Experience in the US Private Sector,” February 2021. <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/race-in-the-workplace-the-black-experience-in-the-us-private-sector>
- <sup>22</sup> Microsoft Racial Equity Initiative. <https://blogs.microsoft.com/blog/2020/06/23/addressing-racial-injustice/>
- <sup>23</sup> Etsy Social Impact reporting. <https://investors.etsy.com/impact-reporting/social-impact/default.aspx>
- <sup>24</sup> Thermo Fisher, *The Just Project*. <https://www.thermofisher.com/blog/connectedlab/the-just-project-facilitating-the-safe-reopening-of-hbcus/>
- <sup>25</sup> Bank of America company website. <https://about.bankofamerica.com/en/making-an-impact/helping-advance-racial-equality-and-economic-opportunity/>
- <sup>26</sup> Levi Strauss & Co. *Diversity & Inclusion report*. <https://www.levistrauss.com/work-with-us/life-at-lsco/diversity-inclusion/>
- <sup>27</sup> Walmart Culture, Diversity, and Inclusion report, FY2021 Mid-Year Report. [https://corporate.walmart.com/media-library/document/culture-diversity-and-inclusion-mid-year-report/\\_proxyDocument?id=00000174-735e-d28a-a7ff-f7df22a40000](https://corporate.walmart.com/media-library/document/culture-diversity-and-inclusion-mid-year-report/_proxyDocument?id=00000174-735e-d28a-a7ff-f7df22a40000)

## Members of our Sustainable Equity team and Equity Research team contributed to this report

Our sustainable investing team is part of the core equity team, and we integrate analysis of financially material ESG issues within our overall fundamental research. This integration yields a more complete understanding of companies. As investment managers, we believe that an effective, sustainable global economy is essential to the creation of potential long-term value.



**CHELSEA AGYIRI**

Analyst  
Investment Management



**SAMUEL J. ALPERT**

Analyst  
Investment Management



**KATHERINE COLLINS, CFA, MTS**

Head of Sustainable Investing  
Investment Management



**STEPHANIE DOBSON**

Portfolio Manager  
Investment Management



**KASIA IFILL**

Analyst  
Investment Management



**KATE LAKIN**

Director of Equity Research  
Investment Management

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon as research or investment advice regarding any strategy or security in particular. Any mention of specific securities is intended to help illustrate Putnam's research process and should not be considered a recommendation or solicitation to purchase or sell the securities. Potential market trends and opportunities were selected without regard to whether such trends and opportunities, or relevant securities, were profitable and are intended to help illustrate our investment and research process. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in a Putnam portfolio or that securities sold have not been repurchased. Any securities mentioned are not necessarily held by Putnam for all client portfolios.

This material is a general communication being provided for informational and educational purposes only. It is not designed to be investment advice or a recommendation of any specific investment product, strategy, or decision, and is not intended to suggest taking or refraining from any course of action. The opinions expressed in this material represent the current, good-faith views of the author(s) at the time of publication. The views are provided for informational purposes only and are subject to change. This material does not take into account any investor's particular investment objectives, strategies, tax status, or investment horizon. Investors should consult a financial advisor for advice suited to their individual financial needs. Putnam Investments cannot guarantee the accuracy or completeness of any statements or data contained in the material. Predictions, opinions, and other information contained in this material are subject to change. Any forward-looking statements speak only as of the date they are made, and Putnam assumes no duty to update them. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those anticipated. Past performance is not a guarantee of future results. As with any investment, there is a potential for profit as well as the possibility of loss.

**Sustainable Equity Investing:** Our approach to sustainable equity investing incorporates fundamental research together with consideration of sustainable environmental, social, and economic development impact. We believe that companies whose products and services produce positive environmental, social, and economic development impact also often demonstrate potential for strong financial growth. In selecting each investment, we consider the extent to which a company's products or services may provide solutions to forward-looking sustainability needs, creating positive impact in environmental, social, and economic development areas. We believe that analysis of sustainability factors is best utilized in combination with a strong understanding of a company's fundamentals (including a company's industry, geography, and strategic position). Relevant issues vary by sector, geography, asset class, and specific company context. Therefore, we use fundamental research of ESG factors that is tailored to specific sectors, locations, asset classes, and companies. Our approach to sustainability analysis is deeply intertwined with the fundamental research process. We use company disclosures, non-governmental organization or government disclosures, public

data sources, and independent third-party data as inputs into our analytical processes. In some cases, measurement of a company's environmental, social, or economic development impacts will align with the United Nations Sustainable Development Goals, and we will consider the metrics reported through this or a similar framework. Our investment approach aims to include fundamental analysis of product and service benefits regardless of the reporting mechanism. While we may consider independent third-party data as a part of our analytical process, we perform our own independent analysis of issuers and do not rely on third-party screens.

This material or any portion hereof may not be reprinted, sold, or redistributed in whole or in part without the express written consent of Putnam Investments. The information provided relates to Putnam Investments and its affiliates, which include Putnam Investment Management, LLC, The Putnam Advisory Company, LLC and Putnam Investments Limited®. U.S.-registered mutual funds are distributed by Putnam Retail Management.

Issued in the United Kingdom by Putnam Investments Limited®. Putnam Investments Limited is authorized and regulated by the Financial Conduct Authority (FCA). For the activities carried out in Germany, the German branch of Putnam Investments Limited holds a permit as a financial investment broker in accordance with Sec. 34f para. 1 sentence 1 no. 1 of the German Trade Ordinance and is registered under the registration number D-F-160-77N8-19 in the publicly available broker register. Putnam Investments Limited is also permitted to provide cross-border investment services to certain EEA member states. In Europe, this material is directed exclusively at professional clients and eligible counterparties (as defined under the FCA Rules, or the German Securities Trading Act (Wertpapierhandelsgesetz) or other applicable law) who are knowledgeable and experienced in investment matters. Any investments to which this material relates are available only to, or will be engaged in only with, such persons, and any other persons (including retail clients) should not act or rely on this material.

Prepared for use with wholesale investors in Australia by Putnam Investments Australia Pty Limited, ABN 50 105 178 916, AFSL No. 247032. This material has been prepared without taking account of an investor's objectives, financial situation and needs. Before deciding to invest, investors should consider whether the investment is appropriate for them.

Prepared for use in Canada by Putnam Investments Canada ULC (o/a Putnam Management in Manitoba). Where permitted, advisory services are provided in Canada by Putnam Investments Canada ULC (o/a Putnam Management in Manitoba) and its affiliate, The Putnam Advisory Company, LLC.

This material is prepared by Putnam Investments for use in Japan by Putnam Investments Japan Co., Ltd. ("Putnam Japan"). Putnam Japan is registered with Kanto Local Finance Bureau in Japan as a financial instruments business operator conducting the investment advisory and agency business, and is a member of Japan Investment Advisers Association. This material is prepared for informational purposes only, and is not intended as a solicitation to invest in any securities or other financial product in Japan, or to enter into with Putnam Japan an investment advisory contract or a discretionary investment management contract.

**A world of investing.®**

