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Proxy Voting Guidelines for External Managers

Topic: Social Issues
Subtopic: Report on Diversity, Equity, and Inclusion
Approved: March 1, 2021

Description:

Resolutions on this topic ask companies to report on strategies and policies that seek to promote diversity, equity, and inclusion in their workforces.

Topic background:

Progress on diversifying the workforces of American companies and fostering equitable and inclusive work environments, while steady, has also been slow, and significant barriers to career progress remain for female employees, employees from underrepresented minorities, and others. Concerned by the slow progress, and concerned as well by specific business risks to companies whose diversity, equity, and inclusion efforts are lagging, proponents of shareholder resolutions have consistently focused on issues related to diversity, equity, and inclusion in recent years. To date, a majority of such proposals have focused on workforce diversity and on gender-, race-, and/or ethnicity-based pay disparities¹ – reflecting, in the first instance, persistent pay disparities between college-educated men and women in the U.S. workforce, with men consistently out-earning women, and, in the second, the continuing preponderance of white men in company leadership ranks.² More broadly, the challenge of achieving diversity, equity, and inclusion in the workplace encompasses many elements of personal identity, including (following EEOC language) disability, gender, sexual orientation, race, religion, and age. Forms of inequitable and/or discriminatory treatment include:

- Pay disparities along lines of gender, race, or other elements of personal identity outlined above.
- Abuse, harassment, and the fostering of a hostile work environment along lines of gender, race, and other elements of personal identity outlined above.
- Inequity and discrimination in recruitment, hiring, promotion, and mentoring in workforce policies, practices, and outcomes.

Companies that make significant progress on workforce diversity, equity, and inclusion may reap business benefits. Along these lines, companies have a broader role in society, related to the well-being of stakeholders including employees, customers, and communities. A commitment to diversity, equity, and inclusion efforts can benefit not only such stakeholders, but also companies themselves, through means such as enhanced reputation, increased attractiveness to talented employees, heightened positive brand recognition, and increased attractiveness to potential host communities. In contrast, publicized instances of workplace discrimination can damage a company's reputation and present costly legal and financial risks that impact share value.

JPMorgan Chase, for instance, settled three discrimination suits totaling over \$80 million between 2017 and 2019, and Home Depot has paid out over \$100 million in similar suits since the late 1990s. Financial and tech companies have also faced increased shareholder pressure regarding pay equity along lines of gender, race, and/or ethnicity.¹

Improving workforce diversity, equity, and inclusion requires proactive policies and programs. Publishing workforce composition data is a key step, as it helps companies and investors track progress as companies seek to increase diversity in hiring, promotion, retention, and mentorship. Progress is further accelerated by measuring the effectiveness and outcomes of workplace practices for achieving diversity, equity, and inclusion across multiple dimensions of the workplace experience. For example, a number of major companies, including Intel, Symantec, and Citigroup, have set goals for raising the percentage of women and underrepresented minorities in their workforces.

Considerations for voting:

As a globally prominent research university engaged in educating the next generation of citizens and leaders, Harvard University is committed to diversity, equity, and inclusion along multiple dimensions. As noted on a Harvard College website, this commitment “is rooted in a fundamental belief that engaging with unfamiliar ideas, perspectives, cultures, and people creates the conditions for dramatic and meaningful growth” and that the University community “is strengthened by the diverse perspectives, interests, and identities of its members.”³ Given these principles, we believe that it is in an organization’s best interests to embrace a commitment to workforce diversity, equity, and inclusion, and to ground that commitment in strategies and tactics that yield measurable progress in these areas.

- Given the emerging business benefits of fostering diversity, equity, and inclusion in the workplace, as well as the material risks of lagging on these issues, we recommend support for reasonable, well-constructed proposals requesting reporting on company employee diversity and a company’s policies and goals for improving diversity, equity, and inclusion along multiple dimensions of the workplace and work experience.
- Reporting on workforce composition may usefully contribute to transparency and risk assessment in areas that are central to a company’s business.
 - We believe that the long-term benefits of measurable, reported attention to workforce diversity, equity, and inclusion, including reputational benefits and attractiveness to new employees, outweigh the potential for near-term reputational or competitive risks from reporting on shortcomings and challenges.
- Reasonable, well-constructed proposals requesting reports on diversity, equity, and inclusion practices, policies and goals, and board oversight over such matters, are unlikely to impose an undue burden, given that companies are already required to track such data.
- In considering such proxies, we recommend considering whether a company’s practices appear to diverge from its stated policies.

Illustrative examples of votes:

1. Vote in support of resolutions that request a company, at reasonable expense and excluding proprietary information, to publish an annual report on the composition of its workforce by race and gender, preferably in accordance with the Equal Employment Opportunity Commission (EEOC) defined categories.
2. Vote in support of resolutions that request a company, at reasonable expense and excluding proprietary information, to report on the effectiveness of diversity, equity, and inclusion efforts, as reflected in any goals, metrics, and trends related to the promotion, recruitment, and retention of protected classes of employees and/or on the board's assessment of the company's diversity, equity, and inclusion efforts, including the process that the board follows for assessing the effectiveness of any such programs.
3. Vote against resolutions that seek to set quotas or prescribe particular pathways to improve workplace diversity, equity, and inclusion or that are not related to the company's long-term financial sustainability.

Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in “Overview of Harvard University’s Proxy Voting Guidelines for External Managers” (follow [link](#) to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution’s specific request and contextual information about the relevant company and its approach to the issue.

¹ Harvard University’s proxy voting guidelines include one on gender-, race-, and/or ethnicity-based pay disparities, can be downloaded [at this link](#).

² Georgetown University Center on Education and the Workforce, “Women Can’t Win,” 2018 (https://1gyhoq479ufd3yna29x7ubjn-wpengine.netdna-ssl.com/wp-content/uploads/Women_ES_Web.pdf).

³ <https://college.harvard.edu/life-at-harvard/diversity-inclusion>