LGIM

04 May 2023

4 min read

How racial equity audits can tackle corporate inequality

By Clare Payn , Emma Cameron

We believe there's a clear business case for racial equity audits, which can help companies mitigate the risks of discriminatory practices and realise the opportunities of a more diverse workforce and customer base.

Shareholder proposals on racial equity audits have received heightened attention and increasing investor support in recent years.

Racial equity audits, or civil rights audits, are an important mechanism for a company's management and oversight of the risks associated with systemic racism.[1] There are many ways that systemic racism in a company can manifest as risks to the business, such as reputational risk and litigation risk due to failure to address harmful or biased products and practices, misalignment between corporate actions and brand values, and ignoring shareholder demand for greater transparency and equity. Additionally, discrimination and disparities in the workplace can undermine employee productivity and morale.

There are also many benefits to identifying and closing disparities within companies, starting with equalising earnings across race, ethnicity and gender. Within the US specifically, the knock-on effects of equal pay and opportunity would include an increase in state and federal tax revenues, a decrease in poverty rates, and an increase in GDP by approximately $7.2 trillion.[2]

In 2022, there were 19 shareholder proposals for racial equity audits within the US. In 2023, so far at least 24 racial equity audits have been proposed, many of which are being put forward at the same target companies as last year.

It's important to note that this is no longer a niche issue – support for each of these resolutions last year was in the double digits, reaching over 50% support for six of the proposals.[3]

The business case for racial equity audits

LGIM's view is that racial equity audits can be a positive tool for identifying and ameliorating racial inequities in a business. By looking across policies, practices and products, companies can start to understand potential blind spots and create solutions that benefit all stakeholders. A racial equity audit also provides an objective look at how a business is making progress towards its diversity commitments and can help a company develop a strategic plan to make progress on its diversity, equity and inclusion (DEI) goals in a way that aligns with the company's overall strategic objectives.[4]

Additionally, companies can start to work on eliminating any inequalities identified, whether these were created intentionally or not, that affect marginalised customers, employees or communities. While this mechanism can be viewed as a means of risk mitigation, we believe it can also ultimately unlock new opportunities for value creation for the business and the broader economy.

Conducting a racial equity audit is a smart business practice in the sense that companies are only relevant to the extent they serve and benefit the communities in which they operate. It is crucial to consider racial equity when developing products and services for an increasingly diverse customer base, in addition to an increasingly diverse workforce.[5]

It is particularly important that these audits are conducted using independent auditors with civil rights expertise. It is also crucial that the audit looks not just within the organisation's policies and practices, but at its products, services, supply chain and overall operations through the lens of racial equity.

Anti-ESG groups targeting racial equity audits

Along with others in the industry, we are aware of the increasing trend of 'anti-ESG' proposals being filed at US companies, masquerading as pro-civil rights, but in fact aiming to undermine social equality at the target company.

It's estimated by Responsible Investor that these proposals have increased by 60% versus this time last year, and it is a worrying trend for all those keen to promote ESG values at the businesses in which they invest.[6]

Part of the difficulty for investors is the way that these proposals are worded. By its own admission, the National Center for Public Policy Research (one such anti-ESG filer) words its policies specifically to mimic those of legitimate pro-ESG proposals.[7] Because of this, we believe investors need to add an extra layer of scrutiny when assessing shareholder proposals around racial equity audits to ensure their vote is not having an unintended consequence.

LGIM's voting intentions

At LGIM, we aim to support resolutions that improve transparency around inequalities, for example race and gender, and that enable shareholders to assess what actions companies are taking to address these inequalities.

We are encouraged to see an uptick in the number of shareholder proposals around racial equity audits, and we plan to support those that are not an attempt to micromanage the board.

Sources:

1. Systemic racism is discriminatory treatment of an ethnic group arising from systems, structures or expectations embedded within institutions or societies. Examples cited in Majority Action's Equity in the Boardroom report (2020) include racial disparities in lending and pay, and algorithmic discrimination in healthcare and hiring

2. The economic benefits of equal opportunity in the United States by ending racial, ethnic and gender disparities

3. Equity in the Boardroom, Majority Action

4. How Proactive Racial Equity Audits Can Increase Company Profits (bloomberglaw.com)

5. How Proactive Racial Equity Audits Can Increase Company Profits (bloomberglaw.com)

6. https://www.responsible-investor.com/anti-esg-proposals-up-60-percent-this-year-despite-low-support-in-2022/

7. Political proxies: conservative activists file record shareholder proposals (Financial Times)

ESG | Environment, Social and Governance | Politics | Responsible investing | Investment stewardship

Clare Payn

Senior Global ESG & Diversity Manager

Clare is responsible for the team's stewardship activities for the technology, media and utilities sectors. She communicates with companies, investors and other market participants on various ESG issues, with a specific focus on diversity and other social issues, and she chaired the UK's 30% Club Investor Group for three years. Clare sits on several internal and external committees focused on diversity and inclusion. With over 20 years' ESG experience, you could consider ESG to be her life, but Clare is also a committed runner and has a passion for fashion.

More articles by Clare Payn →

Emma Cameron

ESG Analyst, Stewardship & Sustainable Investing

Emma is an ESG Analyst at LGIM America. In her role, she supports the Investment Stewardship team in developing and running thematic Environmental, Social and Governance (ESG) engagement campaigns. Emma joined LGIM America in 2019 as a Rotational Analyst before becoming a Strategy Analyst where she would focus on client engagement and ensuring our solutions continued to successfully achieve clients' long-term objectives. Emma earned a Bachelor of Business Administration in Finance from the University of Miami in 2019.

More articles by Emma Cameron →

Related articles

ESG and long term themes

LGIM's voting intentions for 2023

Our voting intentions at upcoming shareholder meetings, including PPL, Pearson, Coca-Cola, Dish...

By Investment Stewardship team

05 May 2023

2 min read

ESG and long term themes

Active ownership: the G in ESG

Reinforcing our commitment to 'one share, one vote' and continuing to provide clear red lines on...

By LGIM

04 May 2023

3 min read

ESG and long term themes

The US Inflation Reduction Act: Europe's response

In the second part of our blog series on the Inflation Reduction Act, EU leaders have outlined a...

By Marija Simpraga

03 May 2023

3 min read

Learn more about our business

Legal & General Investment Management is one of the world's largest asset managers, with capabilities across asset classes to meet our clients' objectives and a longstanding commitment to responsible investing.

Find out more

Explore Trending topics

Active equity | ESG | Technology | Energy | ETF | Europe

Sign up for blog email alerts

Receive the latest articles in a weekly digest by registering via the email preference centre

Sign up here

Advisers and wealth manager

Institutional

Topics

Active fixed income

Active equity

Index

Liability driven investing

Multi-asset

Real assets

Solutions