Managers' Diversity Experiences and Workforce D&I

Turk Al-Sabah*

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Abstract

Diversity and inclusion (D&I) has become a central focus for workers, organizations, and policymakers. Yet, little is known about what drives the significant variation in D&I across- and within-firms over time. This paper highlights the role of managers' diversity experiences, during formative years, in shaping their D&I attitudes. Companies tend to adopt more D&I policies and have a greater representation of minorities and women in the workforce when the CEO had a high early-life diversity exposure. Supporting a more causal interpretation, the diversity exposure effects depend on the level of integration in the CEO's community while growing up, and the CEO's control over firm policies. Moreover, using a difference-in-differences specification around plausibly exogenous CEO turnovers, to address the endogenous matching of CEOs to firms, provides consistent results.

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*Kenan-Flagler Business School, UNC-Chapel Hill. Email: Turk_Alsabah@kenan-flagler.unc.edu

1. Introduction

Over the last decade, there has been a rapid rise in the importance of diversity and inclusion (D&I) in the workplace. In 2020, a total of around $8 billion was spent by companies on D&I-related efforts, which is expected to double to $16 billion by 2026.[1] Despite its growing importance, attitudes towards D&I vary significantly both across- and within-companies over time. For example, in 2016, PayPal canceled its plans to open a new global operations center in Charlotte, following passage of a North Carolina law that prevents cities from creating non-discrimination policies based on gender identity. On the other hand, for many years, ExxonMobil failed to include sexual orientation or gender identity in its official non-discrimination policy. Meanwhile, many firms take a more neutral stance with the view that some D&I issues may be divisive and could alienate important stakeholders.

Understanding what drives the heterogeneity in workforce representation and labor diversity policies is important given that they are becoming essential factors for many employees and job seekers today. Moreover, D&I policies have the potential to limit workplace discrimination, which decreases lawsuit, retention, and turnover-related costs for companies. Finally, an extensive line of research shows that workforce and board diversity can have important firm-level implications.[2] Despite D&I's impact on firms and workers, little is known about the reasons behind its variation across- and within-firms over time.

This paper takes a step in that direction by focusing on the the relationship between managers' diversity experiences and labor D&I policies. Specifically, this paper examines how formative experiences, related to diversity, can shape the CEO's D&I attitudes, and consequently impact the

[1] https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-equity-and-inclusion-lighthouses-2023

[2] Prior studies examined implications related to firm risk (Bernile et al., 2018; Giannetti and Zhao, 2019), innovation (Gao and Zhang, 2017; Mayer et al., 2018; Griffin et al., 2021; Ma et al., 2022), and performance (Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Matsa and Miller, 2013; Kim and Starks, 2016; Hwang et al., 2018; Liu et al., 2023).

adoption of D&I policies and representation in the workforce. The focus is on CEOs as they are key factors in the determination of corporate policies (Bertrand and Schoar, 2003). In addition, heightened CEO activism related to D&I issues in recent years highlights the divergent views held by CEOs. These differences are expected to have a considerable impact on the level of diversity in firms, as managers and employees are influenced by the level of commitment and priority attached to D&I issues by the company's CEO.

Prior research in social psychology shows that early-life experiences play a crucial role in shaping an individual's personal traits (e.g., McCrae and Costa Jr, 1994; Roberts and DelVecchio, 2000). Attitudes toward D&I and discrimination, in particular, are heavily influenced by social experiences during formative years (e.g., Degner and Wentura, 2010; Raabe and Beelmann, 2011). Intergroup contact theory suggests that direct interactions between members of different racial or cultural groups can reduce prejudice and lead to positive attitudes (Allport, 1954; Pettigrew and Tropp, 2006). These effects can also extend to other groups that are not directly involved, consistent with the idea that intergroup contact broadens one's perspective, leading to less emphasis on in-group norms and more appreciation and openness to out-groups (Shook et al., 2016).

Recent work, however, has highlighted a key point: the effects of intergroup interactions are highly contextual i.e. the effects could be positive or negative depending on different factors such as the nature of the interaction (e.g., cooperative vs adversarial) and the frequency of interaction (e.g., Enos, 2014; Lowe, 2021). Therefore, in the context of CEOs, it is not a priori obvious how early-life exposure to community diversity shapes their attitude towards diversity, and consequently affect the adoption of D&I policies—a question I investigate in this paper.

To test this conjecture, I start by identifying the date of birth and hometown county of 1,963 U.S.-born CEOs in a sample of S&P1500 firms (non-financial and non-utility) from 1992 to 2018.

Next, using the Blau index, I construct a unique historical database of U.S. county-level racial and cultural diversity over the decennial census years from 1920 to 2000. Then, I measure the overall diversity index of the county as the average of the racial and cultural diversity indexes. Lastly, I combine these two datasets and measure CEOs' early-life diversity exposure based on the average diversity index of the CEO's hometown county over the two decennial census years closest to their 5th and 15th birthday (Nelson, 1993; Gathercole et al., 2004).

To measure firm D&I, I focus on two dimensions: (1) labor diversity policies, and (2) workforce diversity. Using KLD[3] data, the first measure is the overall firm D&I rating, which is largely based on D&I policies. Leveraging detailed resume-level data from Revelio Labs, which contains online professional profiles mainly from LinkedIn, the second measure is the minority and female representation in the company's workforce.

Consistent with intergroup contact theory, I find that CEOs' early-life diversity exposure is positively and significantly correlated with the level of D&I in firms. All else equal, companies adopt more D&I policies and have greater workforce diversity when the CEO grew up in a highly diverse community. When a firm's CEO had a high early-life diversity exposure, the D&I score is 3.3 percentage points (0.21 standard deviations) higher, on average. Moreover, the minority worker share is higher by 2.3 percentage points (0.19 standard deviations), on average, when the company's CEO grew up in a racially and culturally diverse community.

The magnitude of the effect of early-life diversity exposure on firm D&I scores is large. Compared with CEOs' race, which is significantly correlated with D&I ratings, I find that the effect of having a CEO with an early-life diversity exposure is roughly 50% of the effect of having a minority CEO. Moreover, relative to having a democratic-leaning CEO, the increase in the firm D&I score

[3]Kinder, Lydenberg, and Domini Research & Analytics (KLD) is an information intermediary that assesses the stakeholder relations of publicly listed firms. See Krüger (2015) for more information on the KLD database.

is roughly twice as large, on average, when the CEO had a high early-life diversity exposure.

All of the empirical specifications control for the CEO's education, gender, tenure, and age as well as the firm's size, age, and profitability. Moreover, the baseline tests include year, industry, and CEO cohort fixed effects. Including year fixed effects controls for different trends in D&I over time, while industry fixed effects account for notable variation in D&I across industries. Lastly, adding CEO cohort fixed effects, which are defined based on the CEO's birth-decade, controls for cross-generational variation in CEOs' attitudes towards D&I.

I perform several tests to alleviate endogeneity concerns related to omitted variables, which could drive the results. First, I control for observable factors that have been shown to be correlated with D&I in firms, but could also be correlated with diversity in the CEO's community while growing up. These factors include gender norms in the CEO's community, the CEO's political affiliation, the CEO's race, and the level of diversity in the HQ county or state.

Second, I include additional fixed effects to isolate the CEO diversity exposure channel from alternative explanations. CEOs' attitudes towards D&I initiatives could systematically vary depending on their hometown location. To disentangle the CEO diversity exposure channel from a location-based explanation, I include CEO hometown county fixed effects and exploit within-county variation in community diversity over time. Another selection concern is that companies that hire CEOs with high early-life diversity exposure could be inherently different from other companies. Moreover, unobservable omitted variables at the firm-level such as corporate culture can significantly affect a company's D&I score. To address these issues, I include firm fixed effects and find similar results, which shows that CEOs' early-life diversity exposure matters for D&I not only in the cross-section, but also within firms over time. Finally, the results are robust to the inclusion of industry-year fixed effects, which control for any time-varying trends in industry D&I.

The main challenge in studying the role of CEOs' early-life diversity exposure in impacting corporate D&I policies is that many CEO appointments represent highly endogenous events. Firms/boards may elect to simultaneously change the company's leadership and the company's D&I policies. This endogeneity in CEO appointments makes it difficult to establish whether increases in firm diversity reflect a causal channel where CEOs imprint their own values into firm's decisions, or reflect corporate board's decision to change the overall direction of the company. I alleviate this concern in three ways.

First, I show significant heterogeneity in the CEO's diversity exposure effects that is in line with a more causal interpretation of the results. Consistent with recent work highlighting the heterogeneity in the impact of intergroup contact (e.g., Enos, 2014; Lowe, 2021), I find that early-life exposure to community diversity has near-zero effects for CEOs who grew up in highly segregated counties. However, early-life diversity exposure is associated with significant increases in firm D&I if CEOs grew up in more integrated communities where they more likely had cross-racial or cross-cultural interactions. These results suggest an important point. Exposure to community diversity can impact the CEO's D&I attitudes, and hence the level of firm diversity, provided that CEOs grew up in communities where they more likely had frequent and positive intergroup interactions. Moreover, I show that the diversity exposure effects are increasing in the CEO's level of control over corporate policies.

Second, I use a difference-in-differences design around plausibly exogenous turnover events that involve a transition from a CEO with a low diversity exposure to a CEO with a high diversity exposure. Exogenous CEO turnovers represent turnovers due to deaths or sudden health issues. Given that firms are less likely to change their policies around exogenous turnover events (Fee et al., 2013), changes in D&I following these turnovers are more likely to be driven by incoming CEOs. The event study estimates show that, prior to the transition, there are no differential pre-

trends in the firm's D&I score. However, following the transition to a CEO with a high exposure to community diversity, I observe a significant increase in the firm's D&I score. Moreover, as high-diversity exposure CEOs spend more time in office, the increase in firm D&I score becomes much more apparent, consistent with CEOs imprinting their values with time. This pattern is less likely to show up if the adoption of D&I policies, after the appointment of CEOs with a high diversity exposure, reflect the intention of corporate boards to increase diversity in firms.

I also consider reversals, which involve an exogenous transition from a CEO with a high early-life diversity exposure to a CEO with a low early-life diversity exposure. The estimates from the event study show no significant pre-trends in the firm's D&I score prior to the turnover. Following the transition to a CEO with a low exposure to community diversity, I observe a decrease in the firm's D&I score. However, the drop in the firm's D&I score does not occur immediately since many D&I policies may already have been implemented. Over time, the firm's D&I score declines, which suggests that diversity becomes less prioritized during the tenure of the incoming CEO who had a low exposure to community diversity.

Third, I examine the impact of CEOs' early-life diversity exposure on other corporate social responsibility (CSR) policies that are rated by KLD. These categories include community, employee relations, environment, human rights, and product. If what I am capturing reflects corporate shifts towards more pro-CSR policies that coincided with the appointment of high-diversity exposure CEOs, then the effects should show up for other CSR policies as well. However, I find that the CEO diversity exposure effects are D&I-specific.

In the final part of the paper, I examine the implications of D&I for different firm outcomes, which has been the focus of a large set of papers in the literature. However, in many contexts, it is difficult to establish causality given the potential endogeneity of the measures of firm or board

diversity. To alleviate this concern, I rely on plausibly exogenous variation in firm D&I driven by changes in the CEO's early-life diversity exposure. Using CEOs' early-life diversity exposure as an instrument in two-stage least squares (2SLS) regressions, I find that D&I can spur innovation in firms. Moreover, I show that D&I is associated with lower financial risk, lower investments in physical assets, and higher SG&A expenses, which could come at the expense of firms. Consistent with D&I having both costs and benefits, I do not find evidence suggesting that firm profitability is affected by D&I.

My paper builds on the recent literature that studies the drivers of diversity in firms. Giannetti and Wang (2021) find that heightened public attention to gender inequality increases board gender diversity. Similarly, McLean et al. (2022) show that firms headquartered in more gender-egalitarian counties tend to have more female executives and directors. Moreover, Artiga González et al. (2022) show that size, age, and profitability are important factors that explain variation in corporate equality ratings across firms. I contribute to this literature by showing how CEOs' early-life diversity exposure impacts top-level executive diversity and the adoption of overall D&I policies, and drives real workforce D&I outcomes.

My paper is also complementary to Duchin et al. (2021), which finds that exposure to gender inequity in the family, school, and community, during the CEO's formative years, affects gender-related firm policies. My paper differs in three ways. First, I focus on CEOs' exposure to racial and cultural diversity while growing up. Second, I consider overall firm D&I, which includes many non-gender related aspects such as minority representation and disability inclusion. Third, I am relying on a different mechanism that is based on intergroup interactions rather than societal gender norms.

I also contribute to research that highlights the role of CEOs' early-life experiences in shap-

ing corporate policies. Malmendier et al. (2011) show that CEOs who grew up during the Great Depression rely more heavily on internal finance and are averse to debt. Moreover, Benmelech and Frydman (2015) find that CEO military experience is associated with more conservative financial policies. Bernile et al. (2017) find a non-monotonic relation between the intensity of CEOs' early-life exposure to fatal disasters and corporate risk-taking. Focusing on overall CSR, Cronqvist and Yu (2017) show that CEOs who experience the birth of a daughter spend more on CSR programs. Finally, Yonker (2017) provides evidence that CEOs who grew up near their firms are less likely to layoff local employees. I build on this literature by showing that CEOs' exposure to community diversity is an important early-life experience with important firm implications.

Finally, my paper relates to a large literature that explores how diversity impacts firms. Bernile et al. (2018) find that overall board diversity, based on gender, age, ethnicity, education, and expertise, leads to lower firm risk, while Giannetti and Zhao (2019) show that board ancestral diversity is associated with higher firm risk. Moreover, prior research finds greater innovation efficiency at firms with higher workforce diversity (Gao and Zhang, 2017; Mayer et al., 2018) or board diversity (Bernile et al., 2018; Giannetti and Zhao, 2019; Griffin et al., 2021; Ma et al., 2022). In terms of value or performance, most studies document that board diversity has a negative (Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Matsa and Miller, 2013; Hwang et al., 2018) or no effect (Farrell and Hersch, 2005; Giannetti and Zhao, 2019). Alternatively, Bernile et al. (2018) shows that overall board diversity is associated with higher value and better performance.

This paper extends this literature in that, while most of the prior literature has focused on board diversity, my measure captures D&I throughout the company (i.e. board-, executive-, and workforce-level). Moreover, I construct a novel measure of CEOs' early-life diversity exposure, which can be used as an instrument for firm diversity and could alleviate endogeneity concerns. Lastly, using CEOs' diversity exposure as an instrument, I find that, consistent with earlier work, D&I

is associated with greater innovation. Moreover, different from the prior literature, I find no effect on firm profitability, where the benefits of D&I are partly offset by increased SG&A costs at firms with higher D&I.

2. Data, Variables, and Sample

2.1. Sample Construction

I start with the universe of S&P 1500 firms in the merged Compustat and ExecuComp database for the years 1992 to 2018. Next, I exclude financial (NAICS 52,53) and utility (NAICS 22) firms. To identify CEOs in each firm-year, I use the indicator variable *CEOANN*, which identifies executives assuming the role of CEO in a given firm-year. Then, if *CEOANN* does not assign any CEO in a given firm-year, I rely on the CEO's starting date in office (*BECAMECEO*) to determine which executive was the CEO. Finally, firm-years with no CEO identified are dropped from the sample.

To obtain data on firm D&I ratings, I merge my sample with the KLD STATS database (now known as MSCI ESG STATS).[4] To a large extent, KLD uses publicly available information that is collected through customized press searches on corporate events related to workforce D&I. KLD also gathers data on corporate events related to the following stakeholder issue areas: community, corporate governance, employee relations, environment, human rights, and product. In each stakeholder issue area, KLD rates companies based on a defined set of indicator variables, which are either positive (strengths), or negative (concerns).

For each CEO in the merged sample, I manually search for the birthplace city, birth year, and high school attended (when available) using Marquis Who's Who and NNDB data. Given that many CEOs move to another place after birth, I also manually locate the CEO's hometown city

[4]To perform the merge, I first obtain firm *PERMCO* from the Compustat/CRSP merged database. Then, using firm *PERMCO*, I obtain the historical *CUSIPS* from CRSP. Finally, using the historical *CUSIPS*, I merge my sample with the KLD database.

by hand-collecting information from obituaries and other online sources using keywords such as "grew up", "raised", or "hometown". A CEO's hometown city is defined as the city where the CEO grew up i.e. spent most of childhood. Due to issues related to data availability, comparability, and bias, I drop all CEOs whose birth or hometown city is located in foreign countries or outside the contiguous US (e.g., Alaska and Hawaii).

Overall, I am able to identify the hometown city of approximately 50% of all CEOs with available information on their birthplace. For the remaining CEOs, following Bernile et al. (2017), I assume that the birth city is the hometown city.[5] Finally, I obtain data on CEO titles and race from ISS, and data on CEO education from Boardex. Missing data on CEO race and education is supplemented with manually-collected data from Marquis Who's Who and NNDB. Full details of the sample construction can be found in Appendix Table A1.

My final sample includes 1,963 CEOs, 1,219 firms, and 12,071 firm-year observations for the period from 1992 to 2018. These 1,963 CEOs make up around 40% of all CEOs in the merged ExecuComp-KLD sample. Compared with the typical firm in the merged ExecuComp-KLD sample, firms in my sample are significantly larger, use more leverage, and are more profitable (Appendix Table A2). Differences between the two samples are expected, as public sources are more likely to provide information on the birth or hometown city of CEOs heading large and well-known companies. This potentially limits the generalizability of the results. However, it is not apparent why sample differences should lead to bias in the observed relationship between CEOs' early-life diversity exposure and firm D&I within my sample.

[5] In Internet Appendix Table IA1, I find similar results when I limit the sample to CEOs for whom I am able to verify their hometown city.

2.2. Where Do Most CEOs Come from?

Since historical data from the census on community demographics is limited at the city-level, I map all CEOs' hometown cities to counties and identify CEOs' communities at the county-level. For cities that map into more than one county, I am taking the county where most of the city's population reside.[6] Figure 1A highlights the geographical distribution of the CEO's hometown counties, which cover all states in the contiguous US, except for Vermont. CEOs come from 610 different counties (shaded in blue), where counties shaded in darker (lighter) blue have a higher (lower) representation. Overall, approximately 64% of the US population resides in these 610 counties.

Figures 1B and 1C show the top 10 states and counties where most CEOs grew up, respectively. Around 35% of CEOs come from either New York (15%), Illinois (7%), Pennsylvania (7%), or Ohio (6%). From the top 10 states, counties such as Cook (IL), New York (NY), Los Angeles (CA), and Allegheny (PA) are among the most common CEO hometown counties. In Internet Appendix Figure IA1, I validate the hometown location of the CEOs by comparing the distribution of CEOs' hometown states in my sample with the sample in Bernile et al. (2017).

2.3. CEOs' Early-Life Diversity Exposure

2.3.1. County Diversity

Historical census data on community characteristics comes from IPUMS - National Historical Geographic Information System (NHGIS) (Manson, 2020) and Social Explorer.[7] Given that county boundaries change over time, I map county-level data from each decennial census year to 2010 county delineations using the geographical crosswalk provided by Eckert et al. (2020). Following a large literature in growth and political economics (e.g., Easterly and Levine, 1997; Alesina et al.,

[6] The only exception is New York City (NYC), which covers five counties: New York, Kings, Bronx, Queens, and Richmond. Demographic data for NYC is based on aggregated data of the population in the five counties.
[7] https://www.socialexplorer.com/explore-tables

2003, 2004; Montalvo and Reynal-Querol, 2005; Ottaviano and Peri, 2006), I measure county diversity based on the Blau index, which accounts for two main dimensions of diversity: richness (number of groups) and evenness (balanced distribution of individuals across groups) (Ottaviano and Peri, 2006). Moreover, this Herfindahl-based measure has a simple interpretation. Values of the index represent the probability that two individuals taken at random from the county's population represent different groups. For each decennial census year, the diversity of a given county, DIV_c, is computed as follows:

$$DIV_c = 1 - \sum_{g=1}^{G} \pi_{gc}^2$$

where π_{gc} is the share of group g from the total population in county c, and G denotes the number of different groups. By construction, the diversity of a given county (DIV_c) ranges between 0 and $\frac{G-1}{G}$, which occurs when a county's population is equally distributed among the different groups.

I focus on two aspects of a community's demographic diversity: racial and cultural diversity. Therefore, DIV_c, represents the county's racial or cultural diversity index. The racial diversity index is based on three different groups: White, Black, and Other. The cultural diversity index is based on two different groups: Native- and Foreign-born.[8] To ease the interpretation and to have a consistent scale, I re-scale the racial and cultural diversity index so that they range from 0 to 1.

The overall diversity of the county is measured by taking the arithmetic average of the county's racial and cultural diversity indexes. Figure 2 shows the median diversity index of all counties that were home to at least one CEO in the sample, over the decennial census years from 1920 to 2000. Counties shaded in darker (lighter) red have higher (lower) diversity. Counties with high diversity tend to be in California, New York, and southern states such as Louisiana and Florida. However, it

[8]The results are similar when I measure cultural diversity by breaking down the foreign-born population based on country of birth. This measure is not used as the baseline measure since data on country of birth is not available for each decennial census year.

is important to highlight how county diversity varies significantly over time (Table 1). For example, Los Angeles (CA) had a diversity index of 0.29 in 1940, which ranked it 174th among the 610 counties. However, in 1980, it had a diversity index of 0.71, where it ranked 9th among the 610 counties. Therefore, while CEOs may come from the same county, their early-life diversity exposure will vary depending on their birth year. In later tests, I exploit this variation by including CEO hometown county fixed effects to control for omitted time-invariant characteristics of the county.

2.3.2. Measuring Early-Life Diversity Exposure

Many studies have identified childhood and early adolescence (ages 5 to 15 years) as a time of heightened sensitivity to environmental influences and a time of important developmental advances that establish children's sense of identity (Eccles, 1999; Blakemore and Mills, 2014; Fuhrmann et al., 2015). Moreover, research in developmental psychology suggests that the formation of long-lasting memories starts at the age of 5 and that the age of 15 usually marks the end of the early adolescence formative period (Nelson, 1993; Gathercole et al., 2004).

Consistent with these studies, I compute the CEOs' early-life diversity exposure, *CEO DE*, by taking the average diversity index of the CEO's hometown county over the two decennial census years closest to their 5th and 15th birthday.[9] To identify CEOs with a high early-life diversity exposure, I create an indicator variable, *High-DE CEO*, which is equal to 1 if the *CEO DE* is in the top quartile of the distribution, and 0 otherwise. Alternatively, in Internet Appendix Table IA2, I consider other thresholds (e.g., top quintile or top decile) to identify CEOs with high exposure and also consider the effects of early-life diversity exposure based on the *CEO DE*, which is a continuous measure.

[9] Similarly, I construct the *CEO Racial DE* and the *CEO Cultural DE* by taking the average racial and cultural diversity indexes, respectively, of the CEO's hometown county over the two decennial census years closest to their 5th and 15th birthday.

2.4. Firm D&I

2.4.1. D&I Ratings

The KLD D&I ratings include a set of 14 indicator variables, where nine indicators represent strengths and five indicators represent concerns. An example of a D&I strength is *Disability*, which indicates whether the company has a superior reputation as an employer of the disabled. Alternatively, one of the diversity concerns is *Discrimination*, which assesses the severity of controversies related to a firm's workforce diversity. The full list and description of KLD's D&I strengths and concerns can be found in Appendix B.

The number of D&I strengths and concerns measured by KLD varies over the sample period. For example, from 1995-2009, KLD provided data on seven D&I strengths, whereas from 2012-2013, KLD provided data on three D&I strengths. This issue limits the comparison of total firm D&I strengths and concerns across years. However, such comparison is important given my interest in estimating the effects of CEOs' early-life diversity exposure on firm D&I policies both cross-sectionally and in the time series. To overcome this issue, I construct the firm's strengths (concerns) score, *D&I Strengths* (*D&I Concerns*), by scaling the number of D&I strengths (concerns) a firm has by the number of strengths (concerns) measured by KLD in a given year (see, e.g., Deng et al., 2013; Servaes and Tamayo, 2013; Lins et al., 2017).[10] For example, in 2006, Marriott International had six D&I strengths out of a maximum of seven, giving it a *D&I Strengths* score of 0.86 (=6/7). In the same year, it had two D&I concerns out of a maximum of three, giving it a *D&I Concerns* score of 0.67 (=2/3).

The net *D&I Score*, which represents the overall diversity measure for each firm, is computed by subtracting the *D&I Concerns* score from the *D&I Strengths* score. To ease the interpretation

[10] Given that it is independent of the CEO's actions, I exclude *CEO (DIV_STR_A)*, which indicates whether the CEO is a woman or a member of a minority group.

and to have a consistent scale with the *D&I Strengths* and *D&I Concerns* scores, I re-scale the net *D&I Score* so that it ranges from 0 to 1. To ensure the robustness of the results, in Internet Appendix Table IA3, I consider an unadjusted measure of overall firm diversity, *D&I Score (raw)*, which simply equals the total number of strengths minus the total number of concerns. Moreover, the results are robust to limiting the sample period to 1992-2010, which represents the period where most KLD indicators were available (Internet Appendix Table IA3).

Figure 3A highlights variation in D&I across industries. Companies in the natural resources and mining, construction, and transportation and warehousing sectors tend to have lower D&I scores, whereas firms operating in the retail, leisure and hospitality, and education and health services sectors usually have higher D&I scores. I validate KLD's *D&I Score* in two ways. First, I construct the variable, *Female Top-Executives*, which measures the percentage of top-compensated executives (non-CEO) that are women, as reported in ExecuComp. Figure 3B shows that *Female Top-Executives* exhibits similar patterns across industries. Second, in Figure 3C, I plot the percentage of female or minority employees across industries, based on US Equal Employment Opportunity Commission (EEOC) data in 2002.[11] I find consistent patterns in female or minority representation across industries, which provides suggestive evidence that KLD's *D&I Score* captures D&I in firms. Differences in D&I scores across industries may suggest that most of the variation in firm D&I is cross-sectional. However, within-firm variation in *D&I Score* makes up about 40% of the total variation in the sample, indicating that a significant amount of variation in *D&I Score* cannot be explained by time-invariant firm characteristics such as industry or culture.

KLD's D&I ratings include some indicators that focus on corporate board diversity. Shivdasani and Yermack (1999) highlight CEOs' involvement in the selection of new board members. Moreover, Lorsch and MacIver (1989) provide survey evidence suggesting that CEOs influence the appoint-

[11] EEOC data on workforce demographics by 2-digit NAICS industries is available starting from 2002.

ment of new directors. Therefore, I include indicators of board diversity in the baseline measure of overall firm diversity (*D&I Score*). However, to ensure the robustness of the results, in Internet Appendix Table IA3, I consider an alternative measure, *D&I Workforce Score*, which excludes board diversity indicators and includes diversity indicators solely related to a company's workforce.

2.4.2. Workforce Data

To measure workforce diversity, I use proprietary resume-level data from Revelio Labs. The data is mainly based on online professional profiles from LinkedIn. Revelio Labs provides detailed worker information including job title, company, location, position's start and end dates, seniority, education, gender (imputed), and salary (imputed). Moreover, Revelio predicts the probability of a worker belonging to the following racial groups: White, Black, Asian and Pacific Islander, Hispanic, Native, or multiple races. I define a worker as a minority if her probability of being a non-white worker is above 50%. After linking Revelio Labs data with KLD and Execucomp, I compute, for each firm-year, the *Minority Worker Share (%)* and *Female Worker Share (%)*.

2.5. Summary Statistics

Table 2 shows the summary statistics of key variables. Panel A considers CEO characteristics such as early-life diversity exposure, education, gender, and race. The mean (median) *CEO DE*, which ranges from 0 to 1, is 0.33 (0.32). On average, a CEO grew up in a county where 36% of women participated in the labor force (*Female LFPR*). Moreover, the average CEO was raised in a county where 19% of the population, 25 years or older, had some college education or more. As for other CEO characteristics, 34% of CEOs hold an MBA degree, 4% of CEOs are women, and 2% of CEOs come from a minority group. These statistics highlight the under-representation of women and minorities in CEO roles.[12]

[12]The percentage of minority CEOs is slightly understated given that foreign-born CEOs are excluded from the sample.

Panel B summarizes CEO characteristics by birth cohort. I group CEOs based on their birth year, which ranges between 1914 and 1984, into 4 cohorts: <1940, 1940-1950, 1950-1960, and >1960. Comparing across cohorts, the percentage of CEOs with a high early-life diversity exposure (*High-DE CEO*=1) is lower for the earliest cohort, as county diversity increased over time. Moreover, as one might expect, the female labor force participation rate and the percentage of the population with some college education or higher is increasing in the CEO's hometown county for later cohorts.

The summary statistics of firm and time-variant CEO characteristics are displayed in Panel C. On average, the firm's net *D&I Score*, which ranges from 0 to 1, is 0.52. As reported by ExecuComp, 8% of the top-paid executives (non-CEO) in a given firm-year are women, on average. The average (median) firm has a book value of assets of $10.6 ($3.1) billion, generates an annual return on assets of 5% (6%), and has a book leverage of 24% (23%). Turning to CEO characteristics, the average (median) tenure is 8.6 (6) years, while the average (median) age is 57 (57) years. Variable descriptions and sources can be found in Appendix C.

3. CEO Early-Life Diversity Exposure and Firm D&I

3.1. Baseline Results

In this section, I explore the relationship between CEOs' early-life diversity exposure and firm diversity. The outcome variable is the company's net *D&I Score*. The main variable of interest is *High-DE CEO*, which identifies CEOs who grew up in county-decades with high racial and cultural diversity. I control for the CEO's education, gender, tenure, and age. Moreover, I control for the firm's size, age, and profitability, as Artiga González et al. (2022) show that these factors are important predictors of corporate equality across firms.

All regressions include CEO cohort, year, and industry (two-digit NAICS) fixed effects. In-

cluding year fixed effects controls for recent trends towards D&I initiatives, while industry fixed effects takes into account notable differences in D&I across industries (Figures 3A, 3B, and 3C). Moreover, adding CEO cohort fixed effects, which are defined based on the CEO's birth-decade, controls for cross-generational variation in CEOs' managerial styles that could affect investments in firm diversity, such as conservative styles of CEOs who grew up during the Great Depression (Malmendier et al., 2011). There are eight cohorts in total, where the first cohort includes CEOs born between 1910-1920 and the last cohort includes CEOs born between 1980-1990. Standard errors are clustered at the firm-level. The results are displayed in Table 3.

Focusing first on the overall *D&I Score*, in column 1, I do not include any CEO or firm controls. I estimate a positive coefficient on *High-DE CEO*, statistically significant at the 1% level. In terms of the magnitude of the effect, when a company's CEO had a high early-life diversity exposure, the *D&I Score* is 3.3 percentage points higher, on average. This translates to roughly 0.21 (=0.033/0.16) standard deviations of the *D&I Score* distribution. Controlling for CEO and firm characteristics, I find similar results in column 2. Next, I separately examine the effects on the two components of the firm's net diversity score: *D&I Strengths* and *D&I Concerns*. The increase in the firm's diversity score is driven by both an increase in the *D&I Strengths* score (columns 3-4) and a decrease in the *D&I Concerns* score (columns 5-6). On average, the *D&I Strengths* (*D&I Concerns*) score is higher (lower) by 3.9 (2.2) percentage points when a firm has a CEO with a high diversity exposure.

To further decompose the effects on the firm's D&I score, in Figure 4, I regress each D&I strength and concern indicator on the *High-DE CEO* indicator.[13] Figure 4A focuses on D&I strengths and shows a consistent pattern. For all D&I strength indicators, the point estimate on *High-DE CEO* is positive. Turning to firm D&I concerns, Figure 4B highlights a similar pattern where CEOs' early-life diversity exposure is associated with a lower probability of having any D&I

[13] I focus on indicators that were available for the majority of the sample period.

concern, which include concerns related to workforce discrimination and under-representation of women and minorities. In summary, consistent with early-life exposure to community diversity affecting attitudes towards D&I, the impact of CEOs' diversity exposure is evident across all D&I strengths and concerns indicators.

3.2. Endogeneity Concerns

There are two main endogeneity concerns that could affect the baseline results. First, omitted variables that could potentially be correlated with both the CEO's hometown diversity while growing up as well as the firm's D&I score. Second, the endogenous matching of CEOs to firms, which makes it difficult to establish whether changes in firm's D&I policies reflect a causal channel where CEOs imprint their own values into firm's decisions, or reflect board's decision to change the overall direction of the company.[14]

To address the first concern, I control for additional factors that could affect the level of D&I in firms. These factors include other characteristics of the CEO's hometown county (e.g., female labor force participation and urban population), the CEO's race and political affiliation, and whether a firm is headquartered in a location with an employment non-discrimination act. Next, to alleviate concerns related to CEO-firm matching, I first show significant heterogeneous effects that are consistent with a more causal interpretation of the results. Exposure to community diversity matters more when the CEO grew up in county-decades with low segregation and when the CEO has more control over the firm's policies. Second, I use a difference-in-differences design around plausibly exogenous CEO turnover events and find consistent results. Finally, the CEO's diversity exposure effects are D&I-specific and do not extend to other CSR policies, which shows that changes in D&I are not driven by corporate shifts towards more pro-CSR policies that coincided

[14] CEO-Firm matching based on D&I preferences is consistent with the baseline results. However, the main concern is matching on other factors unrelated to the CEO's D&I attitudes.

with the appointment of the high diversity exposure CEO.

3.2.1. Omitted Variables

In Table 4, I alleviate concerns related to omitted variables by controlling for additional factors.[15] Panel A focuses on observable factors. Duchin et al. (2021) show that early-life gender imbalances faced by the CEO leads to a gender gap in capital allocation. To ensure that early-life gender imbalances are not driving my findings, I control for the female labor force participation rate in the CEO's hometown county (column 1). Similarly, in column 2, I control for other characteristics of the CEO's hometown county. Another plausible explanation is that changes in firm D&I are driven by minority CEOs who are more likely to come from diverse communities and hold pro-diversity views. In column 3, I include an indicator for the CEO's race, *Minority CEO*, which equals 1 if the CEO is not white, and 0 otherwise.

Di Giuli and Kostovetsky (2014) find that firms lead by democratic CEOs have higher CSR and diversity ratings. Since many of these CEOs likely grew up in diverse counties, I add an indicator variable, *Democratic CEO*, to control for the CEO's political affiliation (column 4). My results could also be driven by diversity in the company's headquarters (HQ) location, which may coincide with the hometown location of CEOs with high diversity exposure. In column 5, I include an indicator variable, *State ENDA*, to identify firms headquartered in state-years with an effective employment non-discrimination act based on sexual orientation or gender identity (Gao and Zhang, 2017). Finally, I include all of these potential omitted variables in column 6.

Across all columns, I continue to find that high CEO early-life diversity exposure is significantly associated with higher firm D&I scores, which alleviates endogeneity concerns related to the previous channels. Moreover, the magnitude of the effect is consistent with the baseline results, where a

[15] In all subsequent specifications, I include the set of controls in Table 3, but to conserve space, I do not report their estimates.

firm's *D&I Score* is 2.5-4.1 percentage points higher, on average, when the CEO spent childhood in a highly diverse community. Although these results take into account some of the main observable omitted variables, my findings can still be driven by unobservable omitted factors.

Panel B considers CEO hometown state fixed effects (columns 1-2) and CEO hometown county fixed effects (columns 3-4). Odd-numbered columns include CEO cohort, year, and industry fixed effects, while even-numbered columns include CEO cohort and industry by year fixed effects to control for time-varying cross-industry trends in diversity. Including CEO hometown state or county fixed effects is important for two reasons. First, CEOs' attitudes towards D&I initiatives could vary depending on their hometown state. For example, average D&I scores may be systematically higher for firms with CEOs who grew up in California. Second, a valid concern is that the hometown location is an important factor in the appointment of a CEO, as Yonker (2017) finds that firms are more likely to hire local CEOs. Therefore, the CEO diversity exposure effects may be attributed to unobservable time-invariant characteristics in the CEO's hometown location. Including CEO hometown county fixed effects exploits the within-county variation in diversity over time (Table 1) and disentangles the CEO diversity exposure channel from a location-based explanation.

Columns 1-4 show that, even after including CEO hometown state or CEO hometown county fixed effects, the relationship between CEOs' early-life diversity exposure and firm *D&I Score* is positive and statistically significant. While these findings alleviate concerns related to unobservable time-invariant omitted factors in the CEO's hometown county, they do not control for unobservable omitted variables at the firm's HQ location or at the firm-level such as corporate culture, which is predicted to have an effect on a company's diversity score.

Panel C considers HQ county fixed effects (columns 1-2) and firm fixed effects (columns 3-4). Odd-numbered columns include CEO cohort and year fixed effects, while even-numbered columns

include CEO cohort and industry by year fixed effects. Adding firm fixed effects is important since one of the main objectives of this paper is to explore how diversity in the CEO's community while growing up affects firm's D&I not just in the cross-section, but also in the time-series. Moreover, companies that appoint CEOs with a high early-life diversity exposure may be inherently different from other companies.

Columns 1-2 show that CEOs' early-life diversity exposure is positively and significantly associated with higher firm *D&I Score*, on average, after controlling for time-invariant characteristics in the firm's HQ county. Moreover, even when I include firm fixed effects and focus on within-firm variation over time (column 3), the *D&I Score* of the company is approximately 2.3 percentage points higher, on average, when the CEO grew up in a highly diverse community. Finally, column 4, which includes industry by year fixed effects, shows similar effects. Overall, the results are consistent with early-life diversity exposure influencing the CEO's D&I attitudes, which are being reflected by the D&I policies that are adopted by the company.

3.2.2. CEO-Firm Matching

3.2.2.1 Heterogeneous Effects

If CEOs with a high early-life exposure to community diversity are driving the adoption of D&I policies in firms, as opposed to these CEOs being matched to firms with high D&I potential, then they are more likely to do so if they grew up in integrated communities where intergroup interactions are far more common. Moreover, CEOs are more likely to imprint their values on the firm if they have greater control over corporate policies. In this section, I test for these heterogeneous effects by estimating an interaction model. All regressions include CEO cohort, year, and firm fixed effects. Figure 5 shows the results.[16]

[16]The tabular results are available in Internet Appendix Table IA4. To conserve space, I only report the coefficients of the interaction terms and the *High-DE CEO* indicator.

Between the birth year of the youngest CEO (1914) and the birth year of the oldest CEO (1984) in the sample, the US went through drastic changes that impacted the level of integration within communities. During the 1900-1939 period, often labeled as the segregation era, many new laws were passed in different states requiring legally segregated schools and transportation systems. However, in 1954, the *Brown v. Board of Education* supreme court case ruled that racial segregation of children in public schools is unconstitutional. This was followed by the landmark Civil Rights Act of 1964, which outlawed segregation. As a result, the frequency of intergroup interactions within a community is likely to be different for CEOs from different cohorts. For example, fixing the racial composition of a community, cross-racial interactions are expected to be far more common for CEOs from later cohorts.

In Figure 5A, CEOs are assigned into three cohorts: early, intermediate, or late, which include CEOs born before 1940, between 1940-1960, or after 1960, respectively. I find that early-life exposure to community diversity plays no role in the level of D&I in firms for CEOs belonging to the early cohort who grew up at times of greater segregation. However, the diversity exposure effects are considerable for CEOs from later cohorts. All else equal, for CEOs in the late cohort, exposure to a diverse community is associated with a 6.6 percentage points increase in the firm's D&I score. The impact of diversity exposure is lower for CEOs in the intermediate cohort where the increase in the firm's D&I score is 2.5 percentage points, on average.

Instead of conditioning on the CEO's cohort, in Figure 5B, I use the dissimilarity index to measure the level of White to Non-White racial segregation in the CEO's hometown county while growing up.[17] Values of the index, which ranges from 0 (complete integration) to 1 (complete

[17] For each county c, the index is computed as follows

$$\textit{Dissimilarity Index}_c = \frac{1}{2}\sum_{h=1}^{N}\left|\frac{w_h}{W_c} - \frac{nw_h}{NW_c}\right|$$

where w_h (nw_h) represents the number of Whites (Non-Whites) in tract h, W_c (NW_c) represents the number of Whites

segregation), represent the percentage of the White population who would have to move from one census tract in a county to another census tract in the same county to achieve an even countywide distribution of racial groups. Using a threshold similar to Massey and Denton (1993), CEOs are classified into a low, moderate, or high segregation group if the dissimilarity index of the CEO's hometown county while growing up is below 0.6, between 0.6-0.7, or above 0.7, respectively.

Consistent with the earlier results, Figure 5B shows that exposure to community diversity has near-zero effects for CEOs who grew up in highly segregated counties. On the other hand, the impact of early-life exposure to community diversity is highest for CEOs who grew up in counties with low segregation, where the increase in the firm's D&I score is around 7 percentage points, on average. Overall, the previous results suggest an important point. Diversity exposure could impact the CEO's D&I attitudes and hence the adoption of diversity policies in firms so long as the CEOs grew up in communities where they more likely had frequent and positive intergroup interactions. Put differently, if they grew up in communities with limited segregation and tensions or conflicts among community members from different racial or cultural backgrounds.

Finally, I test for differential effects based on the level of CEO power. If CEOs with a high exposure to community diversity are increasing diversity in firms, then they are more likely to do so if they have greater decision-making authority. Similar to Adams et al. (2005), Morse et al. (2011), Fracassi and Tate (2012), and Al-Sabah (2020), I create a CEO power index (*CEO Power*) that is equal to the sum of 3 indicator variables: *Chairman*, *Founder*, and *High Ownership*, where *High Ownership* identifies CEOs who own more than 1% of the firm's equity. CEOs are grouped into three categories: low, moderate, or high power if the CEO power index is 0, 1, 2 or 3, respectively. Figure 5C displays the results.

I find that early-life exposure to community diversity has a limited impact on a firm's D&I

(Non-Whites) in county c, and N is the number of tracts in the county.

score for CEOs with low power. However, the effect of CEOs' diversity exposure on a firm's D&I score is significant for CEO's with more control over the company's policies. For CEOs with high power, exposure to a diverse community is associated with 7.7 percentage points higher D&I score, on average. The impact of diversity exposure is lower for CEOs with moderate control where the average increase in the firm's D&I score is 3.4 percentage points.

In summary, the relationship between the diversity exposure of the CEO during childhood and firm D&I varies depending on several factors. High early-life diversity exposure is associated with larger increases in firm D&I if CEOs grew up in integrated communities where they more likely had cross-racial or cross-cultural interactions. Moreover, the diversity exposure effects are increasing in the CEO's level of control over firm policies. Overall, these results support a more causal interpretation where CEOs who were raised in diverse communities imprint their values and increase D&I in firms.

3.2.2.2 Exogenous CEO Turnovers

Fee et al. (2013) find strong evidence of significant policy changes when a new CEO takes the helm. However, these policy changes were concentrated on the sample of endogenous CEO departures i.e. forced turnover events. To alleviate such concerns, where increases in firm diversity could be driven by the endogenous matching of firms with CEOs with a high exposure to community diversity, I use a difference-in-differences design around plausibly exogenous turnover events. Unlike endogenous turnover events, where post-turnover changes may be driven by the company's plan to pursue a new direction, firms whose CEO departs exogenously are less likely to change their policies around the turnover event (Fee et al., 2013).

The difference-in-difference regression specification is as follows:

$$D\&I\ Score_{it} = \alpha + \beta\ Treated_i \times Post\ Exogenous\ Turnover_t + \lambda_i + \delta_t + \varepsilon_{it} \quad (1)$$

where i and t denote firm and year, respectively. *Treated* is an indicator variable that equals 1 if a firm has experienced an exogenous turnover from a CEO with a low early-life diversity exposure (*High-DE CEO*=0) to a CEO with a high early-life diversity exposure (*High-DE CEO*=1), and 0 otherwise. Plausibly exogenous CEO turnovers represent turnovers due to deaths or sudden health shocks.[18] *Post Exogenous Turnover* is the post treatment indicator, which equals 1 in periods following the exogenous transition from a low to a high diversity exposure CEO, and zero otherwise. Firm and year fixed effects are denoted by λ_i and δ_t, respectively.

Equation (1) will be estimated using an event study specification to ensure that firms switching to CEOs with a high exposure to community diversity are not on differential trents prior to the turnover, and to analyze the dynamic treatment effects. Following Acemoglu et al. (2022), I restrict treated firms to those that have never appointed a CEO with a high diversity exposure prior to the transition, and have only one event during the sample period.

Figure 6A plots the event study estimates. Prior to the transition, there are no differential pre-trends in the firm's D&I score. However, following the transition to a CEO with a high exposure to community diversity, I observe a significant increase in the firm's D&I score. This increase becomes much more apparent with time, where seven years after the CEO transition, the D&I score of treated firms increases by roughly 8 percentage points (0.5 standard deviations), on average. These findings highlight an important point. If the adoption of D&I policies, after the appointment of CEOs with high diversity exposure, reflect the intention of corporate boards to increase diversity in firms, then these patterns should not be observed. Therefore, the dynamic treatment effects support

[18] To identify the type of turnover that preceded the transition to a CEO with a high early-life diversity exposure, I rely on data from Eisfeldt and Kuhnen (2013), Peters and Wagner (2014), and Jenter and Kanaan (2015).

a more causal interpretation where CEOs are more likely to be able to imprint their values when they spend more time in office.

In Figure 6B, I consider reversals, which are less common throughout the sample period. In this case, *Treated* is an indicator variable that equals 1 if a firm has experienced an exogenous transition from a CEO with a high early-life diversity exposure (*High-DE CEO*=1) to a CEO with a low early-life diversity exposure (*High-DE CEO*=0), and 0 otherwise. The estimates from the event study show that prior to the transition, there are no differential pre-trends in the firm's D&I score. However, following the transition to a CEO with a low exposure to community diversity, I observe a decrease in the firm's D&I score. The drop in the firm's D&I score does not happen immediately given that many diversity policies may already have been implemented. Over time, the firm's D&I score declines, which suggests that diversity becomes less prioritized during the tenure of the incoming CEO.

On average, seven years after the CEO transition, the D&I score of treated firms decreases by approximately 4 percentage points (0.25 standard deviations). The effects of reversals on a firm's D&I score seem to be less pronounced, which is likely due to two reasons. First, similar to the reason that the firm's D&I score does not decline immediately, several D&I policies could be already adopted during the tenure of the departing CEO. Second, many D&I policies once implemented may be harder to terminate.

3.2.2.3 D&I vs. Other CSR Policies

To further disentangle the CEO's early-life diversity exposure channel from an alternative explanation where firms or corporate boards drive changes in D&I policies, I contrast the effects on D&I with the effects on other CSR policies. KLD ratings include a set of strengths and concerns indicators for the following CSR subcategories: community, employee relations, environment, human

rights, and product. I compute the net score for each CSR subcategory in a similar fashion to the firm's *D&I Score*. Figure 7 plots the coefficient on *High-DE CEO* along with the confidence interval from each regression. All regressions include CEO cohort, year, and firm fixed effects.

If the CEO diversity exposure effects that I am capturing reflect correlations between CEOs' exposure to community diversity and corporate shifts towards more pro-CSR policies, then the effects are more likely to show up for other CSR policies as well. However, Figure 7 shows that the effects of CEO's early-life diversity exposure are D&I-specific with no significant impact on other CSR policies. In summary, the results in this section support a more causal interpretation of the results where CEOs with a high early-life diversity exposure drive the adoption of D&I policies in firms.

3.3. Workforce Diversity

The previous analysis provides evidence that suggests CEOs' early-life diversity exposure impacts the adoption of labor D&I policies. However, it is still not clear whether these policies coincide with changes in hiring practices and increases in workforce diversity. In fact, Baker et al. (2022) document significant discrepancies between firms' commitment to DEI initiatives and their hiring practices. They find that "Diversity washers", i.e. companies that voluntary disclosed more commitments to DEI relative to their racial and gender diversity, tend to receive higher ESG scores. Moreover, a general criticism of rating providers is the significant divergence of ESG ratings (Chatterji et al., 2016; Berg et al., 2022). To alleviate these concerns, I leverage novel data from Revelio Labs to compute, for each firm-year, the fraction of U.S.-based workers who are non-white (*Minority Worker Share (%)*) and the fraction of U.S.-based workers who are female (*Female Worker Share (%)*). All regressions include CEO cohort, year, and industry fixed effects. Table 5 shows the results.

Consistent with the baseline findings, I find that high CEO early-life diversity exposure is significantly associated with a higher percentage of minorities in the company's workforce (Panel A). On average, when a firm's CEO had a high early-life diversity exposure, the fraction of minority workers is higher by 2.3 percentage points (0.21 standard deviations) (column 1). Next, I examine the effects on minority representation for different hierarchical levels.[19] Using Revelio Labs seniority metric, which consists of seven levels, I group workers into three categories: Entry/Junior (levels 1-3), Manager (level 4), and Director/Executive (levels 5-7). Columns 2-4 show that firms headed by CEOs who grew up in diverse communities tend to have a higher fraction of minority workers across all hierarchical levels. Moreover, the magnitude of the effect is similar across the seniority levels.

In Panel B, I repeat the analysis using the *Female Worker Share (%)* as the main outcome variable. In column 1, I find a positive and statistically significant relationship between the CEOs' early-life exposure to community diversity and the percentage of women in the company's workforce. The fraction of female workers is higher by 2.4 percentage points (0.15 standard deviations), on average, when the firm's CEO had a high diversity exposure while growing up. Similar to the effects on minority representation, the higher representation of women is observed at all levels: Entry/Junior, Manager, and Director/Executive levels.

4. Implications of D&I for Firms

In the final part of the paper, I examine the impact of D&I on different firm outcomes, which has been the focus of a large set of papers in the literature. However, in many contexts, it is difficult

[19] Revelio Labs assigns workers into one of the following seven seniority levels: (1) Entry level (e.g., Accounting Intern, Software Engineer Trainee, Paralegal), (2) Junior level (e.g., Account Receivable Bookkeeper, Junior Software QA Engineer, Legal Adviser) (3) Associate level (e.g., Senior Tax Accountant; Lead Electrical Engineer; Attorney), (4) Manager level (e.g., Account Manager; Superintendent Engineer; Lead Lawyer), (5) Director level (e.g., Chief of Accountants; VP Network Engineering; Head of Legal), (6) Executive level (e.g., Managing Director, Treasury; Director of Engineering, Backend Systems; Attorney, Partner), and (7) Senior Executive level (e.g., CFO; COO; CEO)

to establish causality given the potential endogeneity of the measures of firm or board diversity. To overcome this issue, I rely on exogenous variation in firm D&I scores driven by changes in the CEO's early-life diversity exposure. Using CEOs' early-life diversity exposure as an instrument in two-stage least squares (2SLS) regressions, I explore D&I implications for firm policies, innovation, and performance.

The instrumental variables estimation will rely on variation in the CEO's exposure to community diversity while growing up, which is predicted to impact the CEO's D&I attitudes, and hence the firm's D&I score. As predicted, across all models, the Kleibergen-Paap F-statistic from the first-stage regression exceeds 12, passing the weak instrument test and confirming the empirical relevance of CEOs' early-life diversity exposure as an instrument. However, the interpretation of the results will also depend on whether the exclusion restriction is not violated. For the exclusion restriction to be violated, any omitted variable that determines firm policies, innovation, or performance, must also be correlated with community diversity in the CEO's hometown county while growing up. Given that the diversity exposure is based on the percentage of minorities and foreign-borns in the particular county-decade where the CEO spent childhood, it is less likely to have a direct effect on an individual firm outcome, other than through the channel of firm diversity.

In all regressions, the firm's D&I score and firm outcomes are standardized to have a mean of 0 and standard deviation equal to 1. All regressions include CEO cohort, year, and industry fixed effects. For each specification, as in Table 3, the first stage (not shown for brevity) consists of regressing the *D&I Score* on the instrument (*High-DE CEO*) as well as all other controls.

4.1. D&I and Corporate Policies

One view in the economics and social psychology literature suggests that group diversity moderates group decisions (e.g., Moscovici and Zavalloni, 1969; Sah and Stiglitz, 1991). An alternative

view, however, suggests that group diversity could create conflict leading to more arbitrary and volatile decisions (Arrow, 1951). Moreover, whether group diversity leads to higher or lower volatility could depend on the type of diversity. For example, Bernile et al. (2018) finds that overall board diversity, based on gender, age, ethnicity, education, and expertise, leads to lower firm risk, while Giannetti and Zhao (2019) shows that board ancestral diversity is associated with higher firm risk. Using the instrumented *D&I Score*, which captures overall firm D&I, I analyze the implications for corporate financial and investment policies. Panel A of Table 6 reports the OLS results for comparison, while Panel B shows the second-stage IV estimates.

Focusing on Panel B, column 1 provides evidence consistent with firm D&I leading to lower financial risk. All else equal, companies with higher D&I rely less on debt capital. The effect of firm D&I on leverage is economically large. On average, a one standard deviation increase in the instrumented *D&I Score* is associated with a decrease in book leverage of 0.38 standard deviations.

Turning to investment policies, column 2 shows that companies with higher D&I scores tend to invest less in physical assets. On average, a one standard deviation increase in the instrumented *D&I Score* is associated with a reduction in capex-to-assets ratio of 0.39 standard deviations. On the other hand, all else equal, firms with higher D&I scores make larger R&D investments (column 3). A one standard deviation increase in the instrumented *D&I Score* is associated with an increase of 0.47 standard deviations in the R&D-to-assets ratio, on average.

Several KLD D&I indicators, especially strength indicators, represent policies that require additional spending. Examples of such policies include introducing programs to address work/life concerns and implementing innovative hiring programs for the disabled. Consistent with D&I policies requiring additional costs, column 4 shows that companies with higher D&I scores tend to spend more on SG&A expenses. On average, a one standard deviation increase in the instrumented

D&I Score is associated with a 0.45 standard deviations increase in the SG&A-to-assets ratio.

Across all models, the Kleibergen-Paap F-statistic from the first-stage regression is above 22. Compared with the OLS estimates (Panel A), the second-stage IV estimates of the relationship between firm diversity and different corporate policies are qualitatively similar. However, it is worth to note that the magnitudes are significantly larger than the OLS estimates, which suggests that the latter are downward biased.

4.2. D&I and Firm Innovation

The previous results show that firm D&I is associated with larger R&D investments. However, it is unclear whether D&I affects a company's innovation efficiency. A large literature establishes a link between group diversity and creativity (e.g., Hoffman and Maier, 1961; Stahl et al., 2010). Consistent with this view, several studies document that board diversity is associated with higher corporate innovation (e.g., Gao and Zhang, 2017; Bernile et al., 2018; Giannetti and Zhao, 2019; Griffin et al., 2021). Moreover, Gao and Zhang (2017) and Mayer et al. (2018) find that workforce diversity can spur firm innovation. In this section, I examine whether D&I impacts corporate innovation using plausibly exogenous variation in firm D&I scores driven by changes in the CEO's early-life diversity exposure.

Using data on patenting activity from Kogan et al. (2017), I consider four innovation measures based on patent counts and patent citations. First, the number of patents filed (and subsequently granted) by a firm in a given year. To capture the quality of the innovation output, my second measure is the number of citations across all patents filed by the firm in a given year.[20] Finally, the third and fourth measures of innovation are patents and citations per employee, respectively.

[20] Given that citations are received for many years after the creation of a patent, patents created during the latter end of the sample period have less time to accumulate citations compared with patents created in earlier years. To address this truncation bias, following Hall et al. (2001), I scale the citation count of each patent by the average citation count of all patents filed in the same year.

I use the natural logarithm of all innovation variables to account for the skewness of patent data. Panel A of Table 7 reports the OLS results for comparison, while Panel B shows the second-stage IV estimates.

Panel B provides evidence consistent with D&I leading to an increase in the quantity and quality of the firm innovation output. The magnitude of the estimated effects of D&I on the quantity and quality of innovation output is large. Columns 1-2 show that a one standard deviation increase in the instrumented *D&I Score* is associated with an increase of 0.49 and 0.52 standard deviations in the number of patents and the number of citations, respectively, on average. Moreover, columns 3-4 show that higher firm D&I is associated with an increase in the number of patents and citations scaled by the number of employees, respectively, on average.

Across all models, the Kleibergen-Paap F-statistic from the first-stage regression ranges between 12.59 and 12.63. Similar to the earlier results, the second-stage IV estimates of the relationship between firm diversity and firm innovation are qualitatively in line with the OLS results (Panel A). In summary, the results in this section provide evidence consistent with prior studies that document a positive relationship between organizational diversity and innovation.

4.3. D&I and Firm Profitability

Examining the effects of diversity on firm performance or value has been the focus of many studies in the literature. With a few exceptions, the majority of papers focus on board diversity and find either a negative (e.g., Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Matsa and Miller, 2013; Hwang et al., 2018) or no impact (e.g., Farrell and Hersch, 2005; Giannetti and Zhao, 2019) on firm profitability. On the other hand, Carter et al. (2003) and Bernile et al. (2018) find that board diversity is positively associated with firm profits.

The previous results, in Sections 4.1 and 4.2, suggest that firm D&I could have both benefits and costs. On one hand, D&I can enhance a company's innovative efficiency. On the other hand, all else equal, D&I is associated with lower financial risk, lower investments in physical assets, and higher SG&A expenses, which could come at the expense of firms. Using the instrumented *D&I Score*, I examine the implications for firm profitability. Table 8 shows the second-stage IV estimates and the OLS results for comparison.

I consider two measures of firm profitability: *ROA* (columns 1-2) and *ROE* (columns 3-4). Overall, I do not find evidence suggesting that firm profitability is affected by D&I. Similar to Giannetti and Zhao (2019), the results are consistent with D&I having both benefits and costs. Finally, the results show that the OLS estimates are slightly biased upwards, which highlights the challenges associated with endogneity bias in estimating the causal effects of firm diversity.

5. Conclusion

Recognizing its growing importance to employees, diversity and inclusion (D&I) in the workplace has received considerable attention in recent years. Despite this increased attention, attitudes towards workforce D&I varies significantly both across- and within-firms over time. While a large literature highlights D&I's impact on firms, little is known about what explains the variation in D&I. This paper takes a step in that direction by studying the role of formative experiences, related to diversity, in shaping the CEO's D&I attitudes.

Consistent with intergroup contact theory, I find that CEOs' early-life diversity exposure, measured based on a community's racial and cultural diversity, is an important factor for D&I in companies. All else equal, companies with CEOs who had a high early-life diversity exposure adopt more D&I policies. This relationship is consistent across D&I policies and is not driven by few specific policies. The intensity of the CEO's early-life diversity exposure effect on firm D&I varies

depending on several factors. High early-life diversity exposure is associated with larger increases in firm D&I if the CEO grew up in less segregated communities, and if the CEO has more control over firm policies.

CEOs' D&I attitudes, as proxied by their early-life diversity exposure, impact workplace diversity beyond just setting more D&I policies. High CEO diversity exposure is associated with a higher fraction of minority workers in the company's workforce. Moreover, firms headed by CEOs with a high ealy-life diversity exposure tend to have a higher representation of women in the workforce. These increases in workforce diversity are observed across different seniority levels. Overall, these results show that CEOs with a high early-life diversity exposure not only implement more D&I policies, but also increase diversity in the company's workplace.

Finally, I examine the impact of D&I on different firm outcomes. The main challenge in estimating the impact of D&I on firms is establishing causality given the potential endogeneity of the measures of firm or board diversity. To overcome this issue, I use plausibly exogenous variation in firm D&I driven by changes in the CEO's early-life diversity exposure. Using CEOs' early-life diversity exposure as an instrument in two-stage least squares (2SLS) regressions, I find that D&I can enhance a firm's innovation efficiency. Moreover, all else equal, D&I is associated with lower financial risk, lower investments in physical assets, and higher SG&A expenses, which could come at the expense of firms. Consistent with D&I having both costs and benefits, I do not find evidence suggesting that firm profitability is affected by D&I.

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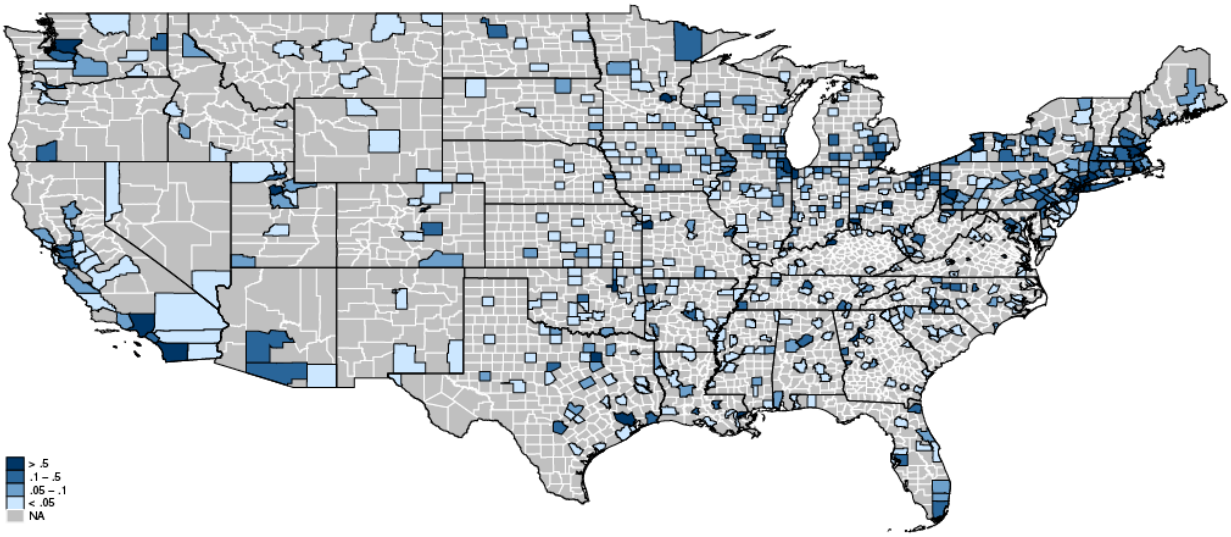
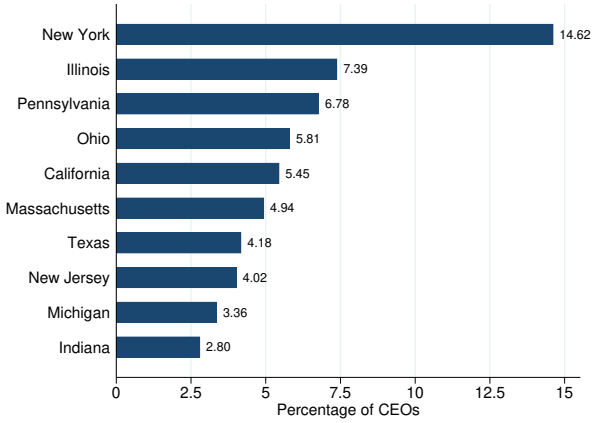
Figure 1: Where Do Most CEOs Come From?

The following figures provide information on the CEO's hometown counties and states. Figure A shows the percentage of CEO's that hail from each US county in the sample. Counties in gray have no representation. Counties in darker (lighter) colors of blue have a higher (lower) representation. Figures B and C show the top 10 represented CEO hometown states and counties, respectively.

(A) Geographical Distribution of CEO Hometown Counties



(B) Top 10 CEO Hometown States



(C) Top 10 CEO Hometown Counties

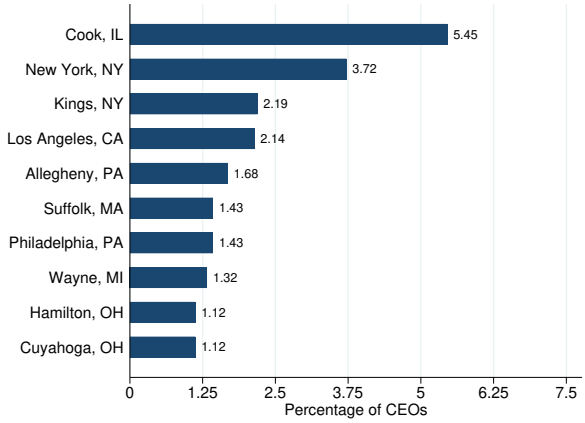


Figure 2: County Diversity

The following figure highlights variation in the median diversity index across all counties that were home to at least one CEO in the sample, over the decennial census years from 1920 to 2000. Counties in gray have no representation. Counties in darker (lighter) colors of red have higher (lower) diversity. See Section 2.3.1 for details on the computation of a county's diversity index.

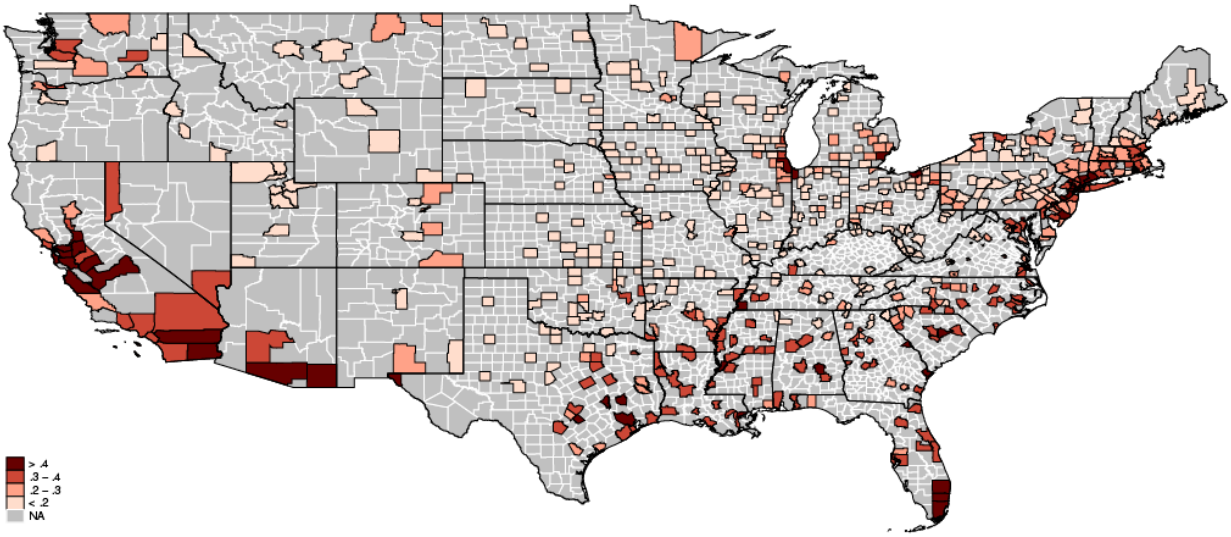
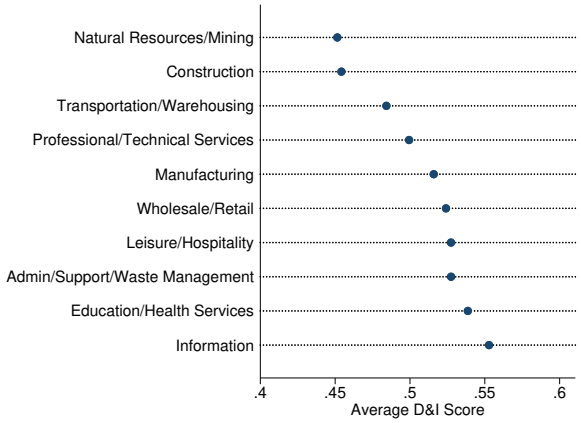


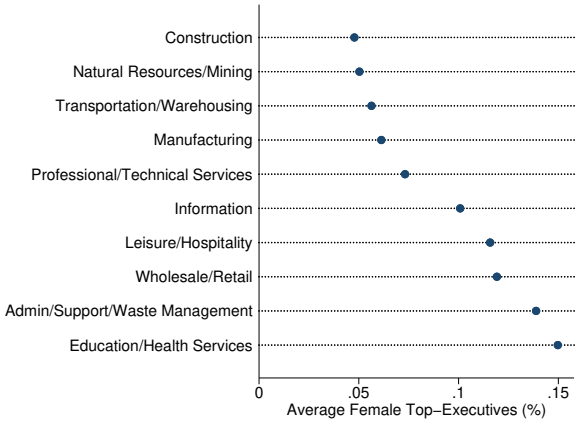
Figure 3: D&I Trends

The following figures provide information on D&I trends. Figure A (B) plots the industry average D&I score (percentage of top-compensated executives (non-CEO) that are women), computed over the sample period 1992-2018. Figure C plots the percentage of female or minority employees across industries, based on US Equal Employment Opportunity Commission (EEOC) data in 2002. Variable descriptions can be found in Appendix C.

(A) D&I by Industry



(B) Female Top-Executives by Industry



(C) Female/Minority Emp. by Industry

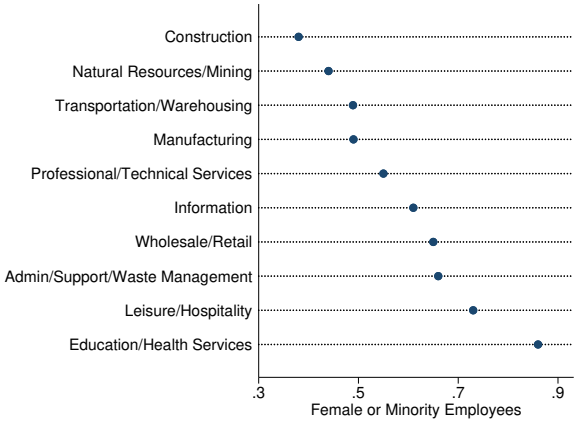
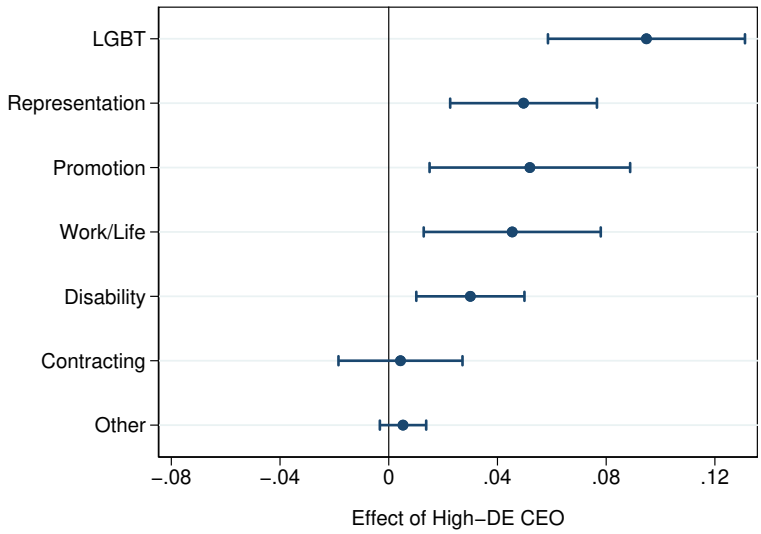


Figure 4: Decomposing D&I Scores

The following figures show the results of regressing each D&I strength or concern indicator on the *High-DE CEO* indicator. Figure A focuses on KLD's D&I strengths indicators. Figure B focuses on KLD's D&I concerns indicators. The description of each D&I indicator is available in Appendix B. Controls include all of the control variables in Table 3. Each regression includes CEO cohort, year, and industry fixed effects. Industries are defined at the two-digit NAICS level. The sample period varies depending on the data availability of each strength or concern indicator. The bars represent the 90% confidence intervals where standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C.

(A) D&I Strengths



(B) D&I Concerns

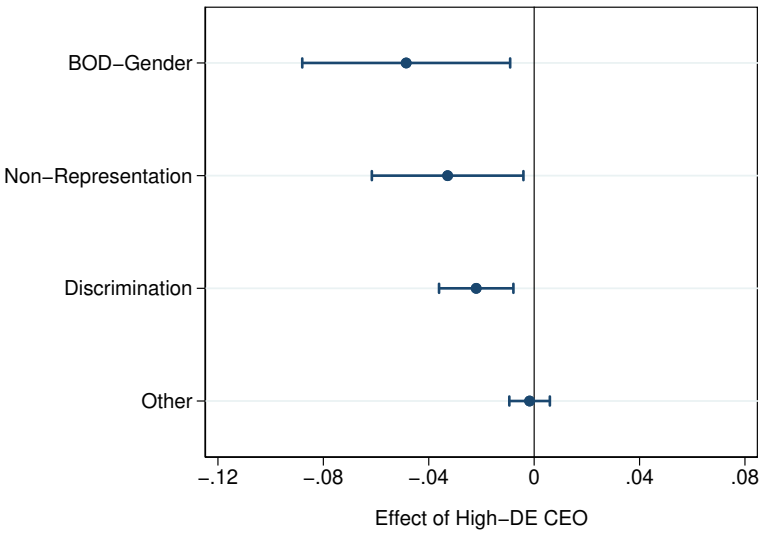
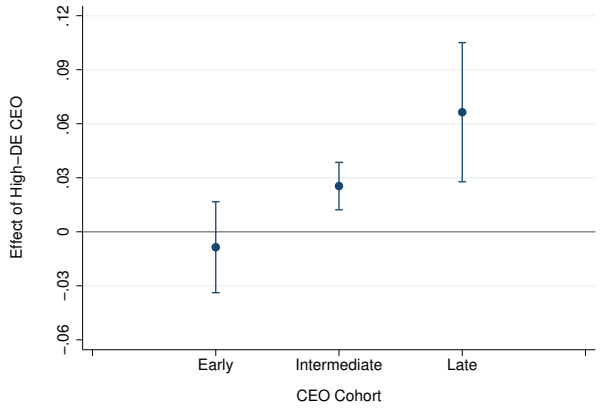


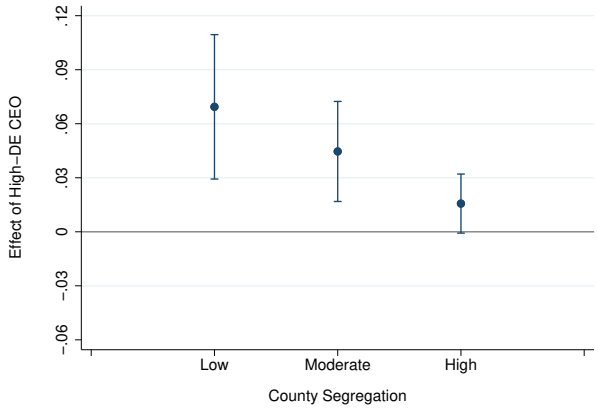
Figure 5: Heterogeneous Effects

The following figures show the results of estimating interaction models, which highlight the significant heterogeneity in the CEO's diversity exposure effects. The tabular results are available in Internet Appendix Table IA4. Figure A shows the effects by CEO cohort. CEOs are assigned into three cohorts: early, intermediate, or late, which include CEOs born before 1940, between 1940-1960, or after 1960, respectively. Figure B shows the effects by the level of segregation in the CEO's hometown county while growing up. CEOs are classified into a low, moderate, or high segregation group if the dissimilarity index of the CEO's hometown county while growing up is below 0.6, between 0.6-0.7, or above 0.7, respectively. Figure C shows the effects by the level of CEO power. CEOs are grouped into three categories: low, moderate, or high power if the CEO power index is 0, 1, 2 or 3, respectively. Controls include all of the control variables in Table 3. All regressions include CEO cohort, firm, and year fixed effects. The bars represent the 90% confidence intervals where standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C.

(A) CEO Cohort



(B) County Segregation



(C) CEO Power

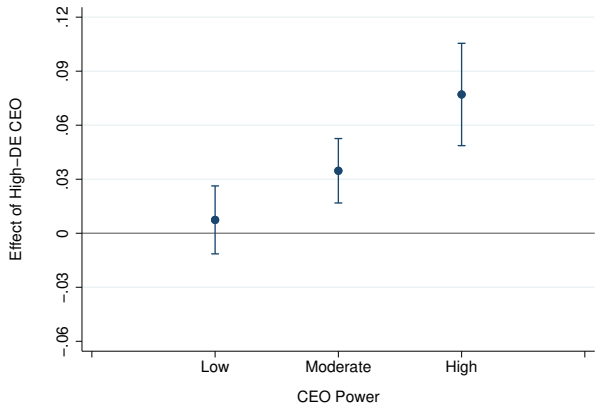
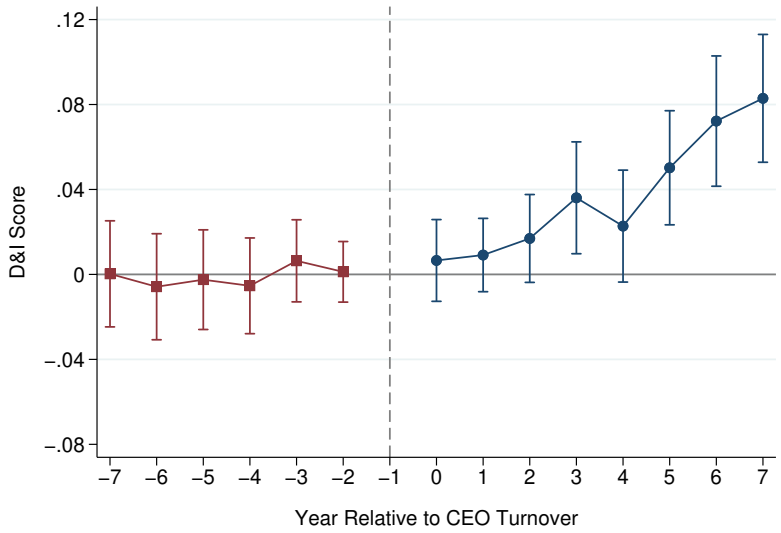


Figure 6: Exogenous CEO Turnovers

The following figures show the dynamic treatment effects of the difference-in-differences specification (Equation 1), which examines changes in firm D&I following an exogenous CEO turnovers. Figure A considers transitions from a CEO with a low early-life diversity exposure (*High-DE CEO=0*) to a CEO with a high early-life diversity exposure (*High-DE CEO=1*). Figure B considers reversals, which represent transitions from a CEO with a high early-life diversity exposure (*High-DE CEO=1*) to a CEO with a low early-life diversity exposure (*High-DE CEO=0*). Controls include all of the control variables in Table 3. The bars represent the 90% confidence intervals where standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C.

(A) Transitions from Low to High Diversity Exposure CEOs



(B) Transitions from High to Low Diversity Exposure CEOs

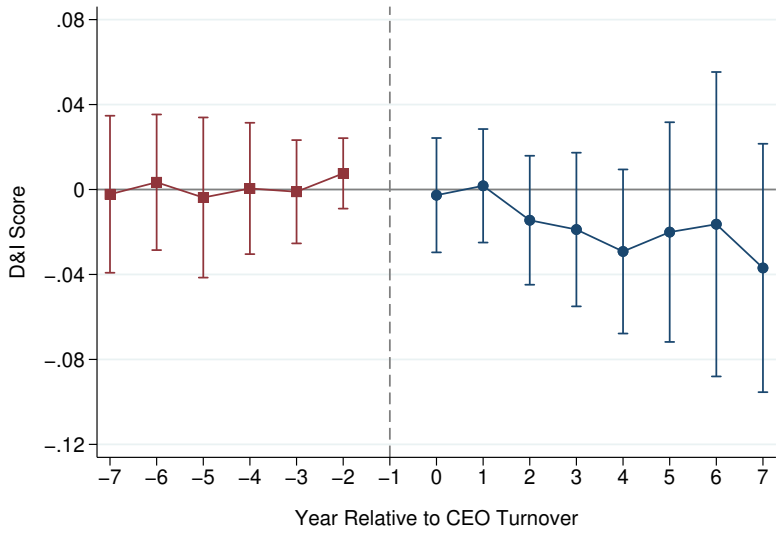


Figure 7: D&I vs. Other CSR Policies

This figure shows the results of regressing each CSR component score on the *High-DE CEO* indicator. I consider the following CSR categories: D&I, community, employee relations, environment, human rights, and product. Controls include all of the control variables in Table 3. All regressions includes CEO cohort, firm, and year fixed effects. The bars represent the 90% confidence intervals where standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C.

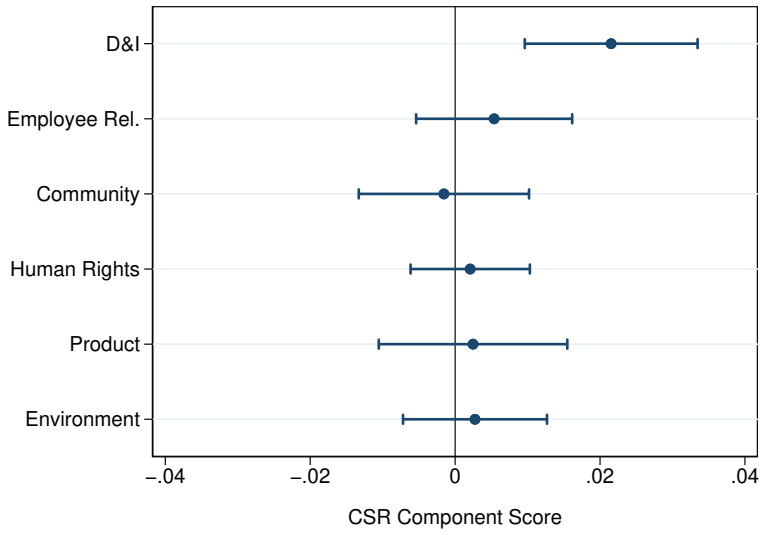


Table 1: County Diversity over Time

This table shows the variation in county diversity over time for the top 10 most represented counties that were home to at least one CEO in the sample. Each column lists the county's rank based on its diversity index, relative to all represented counties, in each respective decennial census year. See Section 2.3.1 for details on the computation of a county's diversity index.

	CEOs	**1920**	**1930**	**1940**	**1950**	**1960**	**1970**	**1980**	**1990**	**2000**
	pct	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Cook, IL	5.45	20	14	13	11	7	12	14	20	24
New York, NY	3.72	6	1	1	1	1	2	2	6	7
Kings, NY	2.19	31	6	3	4	5	3	3	3	2
Los Angeles, CA	2.14	158	159	174	138	36	20	9	4	5
Allegheny, PA	1.68	93	96	146	136	38	200	255	281	308
Philadelphia, PA	1.43	35	9	6	6	3	8	19	36	53
Suffolk, MA	1.43	27	21	15	43	11	14	16	15	13
Wayne, MI	1.32	21	5	7	7	6	10	26	47	69
Hamilton, OH	1.12	279	261	247	193	172	148	184	191	209
Cuyahoga, OH	1.12	30	22	18	17	9	42	49	72	109

Table 2: Summary Statistics

This table shows the summary statistics of key variables. The sample period is from 1992 to 2018. Panel A shows the summary statistics of different CEO characteristics. Panel B shows these summary statistics by CEO birth cohort. Panel C shows the summary statistics of different firm characteristics. Variable descriptions can be found in Appendix C.

Panel A: CEO Characteristics

	Mean	p25	Median	p75	SD	N
Early-Life Characteristics						
High-DE CEO	0.25	0.00	0.00	0.00	0.43	1,963
CEO DE	0.33	0.22	0.32	0.42	0.16	1,963
CEO Racial DE	0.27	0.08	0.22	0.40	0.21	1,963
CEO Cultural DE	0.39	0.14	0.38	0.60	0.26	1,963
Female LFPR	0.36	0.31	0.36	0.42	0.09	1,953
Some College or More (%)	0.19	0.12	0.17	0.23	0.09	1,953
Other Characteristics						
MBA Degree	0.34	0.00	0.00	1.00	0.47	1,963
Female CEO	0.04	0.00	0.00	0.00	0.20	1,963
Minority CEO	0.02	0.00	0.00	0.00	0.14	1,500

Panel B: CEO Characteristics by Birth Cohort

	<1940		**1940-1950**		**1950-1960**		**>1960**	
	Mean	N	Mean	N	Mean	N	Mean	N
Early-Life Characteristics								
High-DE CEO	0.16	493	0.29	595	0.29	568	0.23	307
CEO DE	0.29	493	0.35	595	0.35	568	0.31	307
CEO Racial DE	0.21	493	0.24	595	0.29	568	0.37	307
CEO Cultural DE	0.37	493	0.46	595	0.41	568	0.24	307
Female LFPR	0.28	483	0.33	595	0.39	568	0.48	307
Some College or More (%)	0.12	483	0.16	595	0.20	568	0.31	307
Other Characteristics								
MBA Degree	0.22	493	0.40	595	0.36	568	0.39	307
Female CEO	0.00	493	0.02	595	0.07	568	0.10	307
Minority CEO	0.00	322	0.01	495	0.04	454	0.03	229

Panel C: Firm and Time-Variant CEO Characteristics

	Mean	p25	Median	p75	SD	N
Firm Diversity						
D&I Score	0.52	0.48	0.50	0.57	0.16	12,071
D&I Strengths	0.14	0.00	0.00	0.17	0.23	12,071
D&I Concerns	0.11	0.00	0.00	0.33	0.18	12,071
Female Top-Executives	0.08	0.00	0.00	0.17	0.14	12,071
Firm Characteristics						
Book Assets (M)	10,577	1,183	3,115	9,591	22,262	12,071
Firm Age	33.09	15	29	48	21.29	12,071
ROA	0.05	0.03	0.06	0.09	0.08	12,071
M/B	3.45	1.65	2.55	4.10	4.03	12,071
Capex/Assets	0.06	0.03	0.05	0.08	0.06	12,003
Debt/Assets	0.24	0.10	0.23	0.34	0.17	12,022
R&D/Assets	0.02	0.00	0.00	0.03	0.04	12,071
Cash/Assets	0.12	0.02	0.07	0.18	0.14	12,065
CEO Characteristics						
CEO Tenure	8.60	3	6	12	8.25	12,071
CEO Age	57.17	52	57	62	7.54	12,071
CEO Power	0.97	0	1	1	0.79	7,732

Table 3: CEOs' Early-Life Diversity Exposure and Firm D&I

This table examines the relationship between CEOs' early-life diversity exposure and firm D&I. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

	D&I Score		*D&I Strengths*		*D&I Concerns*	
	(1)	(2)	(3)	(4)	(5)	(6)
High-DE CEO	0.033***	0.031***	0.043***	0.039***	-0.023***	-0.022***
	(0.007)	(0.007)	(0.011)	(0.010)	(0.007)	(0.007)
CEO-specific Variables						
MBA Degree		0.010*		0.005		-0.016**
		(0.006)		(0.008)		(0.006)
Female CEO		0.143***		0.215***		-0.071***
		(0.016)		(0.029)		(0.012)
Ln(1+CEO Tenure)		-0.003		0.002		0.008**
		(0.003)		(0.004)		(0.003)
CEO Age		-0.002**		-0.003*		0.002*
		(0.001)		(0.001)		(0.001)
Firm-specific Variables						
Ln(Assets)		0.031***		0.051***		-0.011***
		(0.002)		(0.004)		(0.002)
Ln(1+Firm Age)		0.014***		0.014**		-0.014***
		(0.004)		(0.006)		(0.005)
ROA		0.073**		0.089**		-0.057*
		(0.028)		(0.039)		(0.035)
M/B		0.002***		0.003***		-0.000
		(0.001)		(0.001)		(0.001)
CEO Cohort FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
N	12,071	12,071	12,071	12,071	12,071	12,071
R^2	0.13	0.25	0.14	0.28	0.15	0.17

Table 4: Endogeneity Concerns

This table considers potential endogeneity concerns related to omitted variables. The outcome variable is the firm's *D&I Score*. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: CEO, Community, and Firm HQ Characteristics

	D&I Score					
	(1)	(2)	(3)	(4)	(5)	(6)
High-DE CEO	0.028***	0.025***	0.030***	0.041***	0.028***	0.035***
	(0.006)	(0.008)	(0.007)	(0.008)	(0.007)	(0.010)
CEO-specific Variables						
High Female LFPR	0.023**					0.028**
	(0.009)					(0.012)
Ln(Population)		-0.000				-0.001
		(0.003)				(0.004)
Urban Population (%)		0.024				0.012
		(0.019)				(0.027)
Minority CEO			0.059***			0.061***
			(0.021)			(0.020)
Democratic CEO				0.024**		0.018*
				(0.010)		(0.010)
Firm-specific Variables						
State ENDA					0.026***	0.029***
					(0.006)	(0.008)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
N	12,000	12,071	10,277	7,622	11,907	6,878
R^2	0.26	0.26	0.26	0.27	0.26	0.28

Panel B: CEO Hometown State and County Fixed Effects

	D&I Score			
	(1)	(2)	(3)	(4)
High-DE CEO	0.028***	0.027***	0.036***	0.037***
	(0.008)	(0.008)	(0.014)	(0.014)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No
Industry FE	Yes	No	Yes	No
Industry × Year FE	No	Yes	No	Yes
Hometown State FE	Yes	Yes	No	No
Hometown County FE	No	No	Yes	Yes
N	12,071	12,071	12,071	12,071
R^2	0.27	0.30	0.39	0.42

Panel C: HQ Location and Firm Fixed Effects

	D&I Score			
	(1)	(2)	(3)	(4)
High-DE CEO	0.025***	0.021***	0.023***	0.022***
	(0.007)	(0.006)	(0.007)	(0.007)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No
Industry × Year FE	No	Yes	No	Yes
HQ County FE	Yes	Yes	No	No
Firm FE	No	No	Yes	Yes
N	12,061	12,061	12,071	12,071
R^2	0.33	0.38	0.59	0.61

Table 5: CEOs' Early-Life Diversity Exposure and Workforce Diversity

This table examines the relationship between CEOs' early-life diversity exposure and workforce diversity. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: Minority Representation

	Minority Worker Share (%)			
	(1) Overall	(2) Entry/Junior	(3) Manager	(4) Director/Exec.
High-DE CEO	0.023***	0.022***	0.025***	0.022***
	(0.007)	(0.007)	(0.008)	(0.007)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	10,407	10,380	10,217	10,229
R^2	0.24	0.23	0.21	0.18

Panel B: Female Representation

	Female Worker Share (%)			
	(1) Overall	(2) Entry/Junior	(3) Manager	(4) Director/Exec.
High-DE CEO	0.024***	0.025***	0.027**	0.032***
	(0.009)	(0.009)	(0.010)	(0.010)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	10,407	10,380	10,217	10,229
R^2	0.40	0.38	0.36	0.32

Table 6: D&I and Firm Policies

This table explores the relationship between D&I and corporate policies. Panel A shows the OLS results, while Panel B reports the second-stage IV estimates of the effect of D&I on different corporate financial and investment policies. For each specification, as in Table 3, the first stage (not shown for brevity) consists of regressing the firm's D&I score on the instrument (*High-DE CEO*) as well as all other controls. The Kleibergen-Paap F-statistic from the first-stage regression is reported for each specification. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: OLS

	(1) *Debt/Assets*	(2) *Capex/Assets*	(3) *R&D/Assets*	(4) *SG&A/Assets*
D&I Score	-0.069***	-0.032**	0.111***	0.160***
	(0.020)	(0.014)	(0.019)	(0.020)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	12,022	12,003	12,071	11,215

Panel B: IV (2nd Stage)

	(1) *Debt/Assets*	(2) *Capex/Assets*	(3) *R&D/Assets*	(4) *SG&A/Assets*
D&I Score (Instrumented)	-0.378*	-0.389*	0.468*	0.452**
	(0.221)	(0.203)	(0.242)	(0.193)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	12,022	12,003	12,071	11,215
IV F-stat	22.01	22.32	22.35	22.43

Table 7: D&I and Firm Innovation

This table explores the relationship between D&I and corporate innovation. Panel A shows the OlS results, while Panel B reports the second-stage IV estimates of the effect of D&I on corporate innovation. For each specification, as in Table 3, the first stage (not shown for brevity) consists of regressing the firm's D&I score on the instrument (*High-DE CEO*) as well as all other controls. The Kleibergen-Paap F-statistic from the first-stage regression is reported for each specification. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: OLS

	(1) *Ln(1+Pat)*	(2) *Ln(1+Cit)*	(3) *Ln(1+Pat/Emp)*	(4) *Ln(1+Cit/Emp)*
D&I Score	0.136***	0.139***	0.125***	0.120***
	(0.020)	(0.020)	(0.025)	(0.024)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	8,088	8,088	8,054	8,054

Panel B: IV (2nd Stage)

	(1) *Ln(1+Pat)*	(2) *Ln(1+Cit)*	(3) *Ln(1+Pat/Emp)*	(4) *Ln(1+Cit/Emp)*
D&I Score (Instrumented)	0.492*	0.521*	0.716*	0.708*
	(0.292)	(0.301)	(0.393)	(0.402)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	8,088	8,088	8,054	8,054
IV F-stat	12.63	12.63	12.59	12.59

Table 8: D&I and Firm Profitability

This table explores the relationship between D&I and corporate performance. Odd-numbered columns show the OLS results, while even-numbered columns report the second-stage IV estimates of the effect of D&I on firm profitability. For each specification, as in Table 3, the first stage (not shown for brevity) consists of regressing the firm's D&I score on the instrument (*High-DE CEO*) as well as all other controls. The Kleibergen-Paap F-statistic from the first-stage regression is reported for each specification. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

	ROA		*ROE*	
	(1) *OLS*	(2) *IV (2nd Stage)*	(3) *OLS*	(4) *IV (2nd Stage)*
D&I Score	0.041***		0.004	
	(0.016)		(0.013)	
D&I Score (Instrumented)		0.032		-0.030
		(0.193)		(0.129)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	12,071	12,071	12,071	12,071
IV F-stat		22.30		22.30

Appendix A: Sample Construction and Sample Characteristics

Table A1: Sample Construction

	# Firms	# CEOs	N
Merged ExecuComp and Compustat Database (1992-2018)	**3,866**	**8,403**	**52,685**
Financial and Utility Firms	−924	−1,759	−11,908
Unmatched firm-years in the KLD Stats Database	−578	−1,687	−13,487
Firm-years with missing diversity scores	−3	−22	−1,348
Firm-years with any of the following conditions:	−1,142	−2,972	−13,871
(i) Unavailable information on the CEO's hometown location			
(ii) CEO grew up outside the US			
= Final Sample	**1,219**	**1,963**	**12,071**

Table A2: Sample Characteristics

	Baseline Sample	**ExecuComp-KLD Sample**	**Difference in Means**	
	Mean	Mean	Difference	t-stat
Book Assets (M)	12,071	8,612	3,459***	4.62
Tobin's Q	2.096	2.112	-0.016	-0.65
Leverage	0.242	0.231	0.011***	3.08
ROA	0.053	0.044	0.009***	5.57
Capex	0.064	0.060	0.004***	3.63

Appendix B: KLD Diversity Strengths and Concerns

Strengths (0/1)	**Description**
CEO *(DIV_STR_A)*	The company's chief executive officer is a woman or a member of a minority group. *Source: KLD STATS*
Promotion *(DIV_STR_B)*	The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation. *Source: KLD STATS*
Representation *(DIV_STR_C)*	Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12 *Source: KLD STATS*
Work/Life *(DIV_STR_D)*	The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flextime. *Source: KLD STATS*
Contracting *(DIV_STR_E)*	The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses. *Source: KLD STATS*
Disability *(DIV_STR_F)*	The company has implemented innovative hiring programs; other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled. *Source: KLD STATS*
LGBT *(DIV_STR_G)*	The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees. *Source: KLD STATS*
URG Employment *(DIV_STR_H)*	This indicator is designed to assess a firm's efforts to promote diversity in its workforce. Factors affecting this evaluation include, but are not limited to, its effort to recruit women and minorities, and its participation in multi-stakeholder diversity initiatives. *Source: KLD STATS*
Other *(DIV_STR_X)*	The company has made a notable commitment to diversity that is not covered by other KLD ratings. *Source: KLD STATS*
Concerns (0/1)	
Discrimination *(DIV_CON_A)*	This indicator is designed to assess the severity of controversies related to a firm's workforce diversity. Factors affecting this evaluation include, but are not limited to, a history of involvement in discrimination-related legal cases, widespread or egregious instances of discrimination on the basis of sex, race, or ethnicity, resistance to improved practices, and criticism by NGOs and/or other third-party observers. *Source: KLD STATS*
Non-Representation *(DIV_CON_B)*	This indicator measures the diversity of a firm's workforce. Factors affecting this evaluation include, but are not limited to, the percentage of women and minorities in senior management. *Source: KLD STATS*
BOD-Gender *(DIV_CON_C)*	The company has no women on its board of directors. *Source: KLD STATS*
BOD-Minorities *(DIV_CON_D)*	The company has no minorities on its board of directors. *Source: KLD STATS*
Other *(DIV_CON_X)*	The company is involved in diversity controversies not covered by other KLD ratings. *Source: KLD STATS*

Appendix C: Variable Descriptions and Sources

Variable	Description and Source
High-DE CEO	An indicator that equals 1 if the *CEO Diversity Index* is in the top quartile of the distribution, and 0 otherwise. *Source: NHGIS/Social Explorer*
CEO DE	Average *Diversity Index* of the CEO's hometown county over the two decennial census years closest to the CEO's 5th and 15th birthday. *Source: NHGIS/Social Explorer*
CEO Racial DE	Average *Racial Diversity Index* of the CEO's hometown county over the two decennial census years closest to the CEO's 5th and 15th birthday. *Source: NHGIS/Social Explorer*
CEO Cultural DE	Average *Cultural Diversity Index* of the CEO's hometown county over the two decennial census years closest to the CEO's 5th and 15th birthday. *Source: NHGIS/Social Explorer*
Diversity Index	For each decennial census year, the overall diversity of a given county is equal to the arithmetic average of the county's *Racial Diversity Index* and *Cultural Diversity Index Source: NHGIS/Social Explorer*
Racial Diversity Index	For each decennial census year, the racial diversity of a given county is computed as follows: $$\textit{Racial Diversity Index} = 1 - \sum_{g=1}^{G} \pi_{gc}^2$$ where π_{gc} is the share of group g from the total population in county c, and G denotes the number of different groups. The index is based on three different groups: White, Black, and Other. The index is scaled by its maximum value so that it ranges from 0 to 1. *Source: NHGIS/Social Explorer*
Cultural Diversity Index	For each decennial census year, the origin diversity of a given county is computed as follows: $$\textit{Cultural Diversity Index} = 1 - \sum_{g=1}^{G} \pi_{gc}^2$$ where π_{gc} is the share of group g from the total population in county c, and G denotes the number of different groups. The index is based on two different groups: Native- and Foreign-born. The index is scaled by its maximum value so that it ranges from 0 to 1. *Source: NHGIS/Social Explorer*
Female LFPR	Average female labor share in the CEO's hometown county over the two decennial census years closest to the CEO's 5th and 15th birthday *Source: NHGIS/Social Explorer*
Some College or More (%)	The average percentage of the population, 25 years or older, in the CEO hometown county with some college education or more, over the two decennial census years closest to the CEO's 5th and 15th birthday, respectively. *Source: NHGIS/Social Explorer*
Population	The average population of the CEO's hometown county over the two decennial census years closest to the CEO's 5th and 15th birthday, respectively. *Source: NHGIS/Social Explorer*
Urban Population (%)	The average percentage of the urban population in the CEO's hometown county, over the two decennial census years closest to the CEO's 5th and 15th birthday, respectively. *Source: NHGIS/Social Explorer*
MBA Degree	An indicator that equals 1 if the CEO holds an MBA degree, and 0 otherwise. *Source: Boardex/Manual Collection*
Female CEO	An indicator that equals 1 if the CEO is female, and 0 if the CEO is male. *Source: ExecuComp*
Minority CEO	An indicator that equals 1 if the CEO is non-white, and 0 if the CEO is white. *Source: ISS/Manual Collection*
CEO Tenure	The number of years since the current CEO's starting date. *Source: ExecuComp*
CEO Age	CEO age in years. *Source: ExecuComp*

Variable	Description and Source
CEO Power	An index that is equal to the sum of 3 indicator variables: $$CEO\ Power = Chairman + Founder + High\ Ownership$$ where *Chairman* is an indicator that equals 1 if the CEO is also the chair of the board of directors, and 0 otherwise. *Founder* is an indicator that equals 1 if the CEO was also the CEO at least five years before the Compustat IPO date or the date a firm first appears in CRSP. *High Ownership* is an indicator that equals 1 if the CEO owns more than 1% of the firm's equity, and 0 otherwise. *Source: ExecuComp/ISS*
Democratic CEO	An Indicator that equals 1 if the CEO is affiliated with the democratic party, and 0 otherwise. Party affiliation is obtained from NNDB. For CEOs without a listed party affiliation in NNDB, a CEO is identified as a democrat if more than 50% of the CEO's total political contributions were to democrats. *Source: NNDB/FEC*
D&I Score	The overall diversity measure for each firm, computed by subtracting the *D&I Concerns* score from the *D&I Strengths* score. *D&I Strengths* (*D&I Concerns*) score is equal to the number of diversity strengths (concerns) scaled by the number of diversity strengths (concerns) measured by KLD in a given year. The net *D&I Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Community Score	Firm's overall community score, computed by subtracting the *Community Concerns* score from the *Community Strengths* score. *Community Strengths* (*Community Concerns*) score is equal to the number of community strengths (concerns) scaled by the number of community strengths (concerns) measured by KLD in a given year. The net *Community Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Employee Relations Score	Firm's overall employee relations score, computed by subtracting the *Employee Relations Concerns* score from the *Employee Relations Strengths* score. *Employee Relations Strengths* (*Employee Relations Concerns*) score is equal to the number of employee relations strengths (concerns) scaled by the number of employee relations strengths (concerns) measured by KLD in a given year. The net *Employee Relations Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Environment Score	Firm's overall environment score, computed by subtracting the *Environment Concerns* score from the *Environment Strengths* score. *Environment Strengths* (*Environment Concerns*) score is equal to the number of environment strengths (concerns) scaled by the number of environment strengths (concerns) measured by KLD in a given year. The net *Environment Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Human Rights Score	Firm's overall human rights score, computed by subtracting the *Human Rights Concerns* score from the *Human Rights Strengths* score. *Human Rights Strengths* (*Human Rights Concerns*) score is equal to the number of human rights strengths (concerns) scaled by the number of human rights strengths (concerns) measured by KLD in a given year. The net *Human Rights Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Product Score	Firm's overall product score, computed by subtracting the *Product Concerns* score from the *Product Strengths* score. *Product Strengths* (*Product Concerns*) score is equal to the number of product strengths (concerns) scaled by the number of product strengths (concerns) measured by KLD in a given year. The net *Product Score* is re-scaled so that it ranges from 0 to 1. *Source: KLD*
Female Top-Executives (%)	Percentage of top-compensated executives (non-CEO) that are women. *Source: ExecuComp*
Minority Worker Share (%)	Percentage of minority workers in the company's workforce. *Source: Revelio Labs*
Female Worker Share (%)	Percentage of female workers in the company's workforce. *Source: Revelio Labs*
State ENDA	An indicator that equals 1 for firms headquartered in state-years with an effective employment non-discrimination act based on sexual orientation or gender identity, and 0 otherwise. *Source: Manual Collection*
Assets	Total assets, in millions of dollars. *Source: Compustat*
Firm Age	Number of years since the firm's IPO (Number of years since CRSP listing if the IPO date is missing). *Source: Compustat/CRSP*
Cash/Assets	Cash and marketable securities divided by assets. *Source: Compustat*
Debt/Assets	Long-term debt plus debt in current liabilities, divided by assets. *Source: Compustat*
Capex/Assets	Capital expenditures divided by assets. *Source: Compustat*

Variable	Description and Source
R&D/Assets	Research and development (R&D) expenses divided by assets (If R&D is missing, it is set equal to 0). *Source: Compustat*
SG&A/Assets	Selling, general, and administrative expenses divided by assets. *Source: Compustat*
Patents	Number of patents filed (and subsequently granted) by a firm in a given year. *Source: Kogan et al. (2017)*
Citations	Number of citations across all patents filed by the firm in a given year. To address the truncation bias, following Hall et al. (2001), the citation count of each patent is scaled by the average citation count of all patents filed in the same year. *Source: Kogan et al. (2017)*
Patents/Emp	Number of patents per 1,000 employees. *Source: Kogan et al. (2017)/Compustat*
Citations/Emp	Number of citations per 1,000 employees. *Source: Kogan et al. (2017)/Compustat*
ROA	Earnings before extraordinary items divided by assets *Source: Compustat*
ROE	Earnings before extraordinary items divided by book value of equity *Source: Compustat*

Internet Appendix:

Managers' Diversity Experiences and Workforce D&I

Figure IA1: Data Validation

This figure plots the percentage of CEOs with hometown locations in each of the top 10 most represented states in Bernile et al. (2017). These states are New York (NY), Illinois (IL), Pennsylvania (PA), Ohio (OH), California (CA), Massachusetts (MA), New Jersey (NJ), Texas (TX), Missouri (MO), and Iowa (IA). Dark blue bars represent percentages from my sample. Light blue bars represent percentages from Bernile et al. (2017).

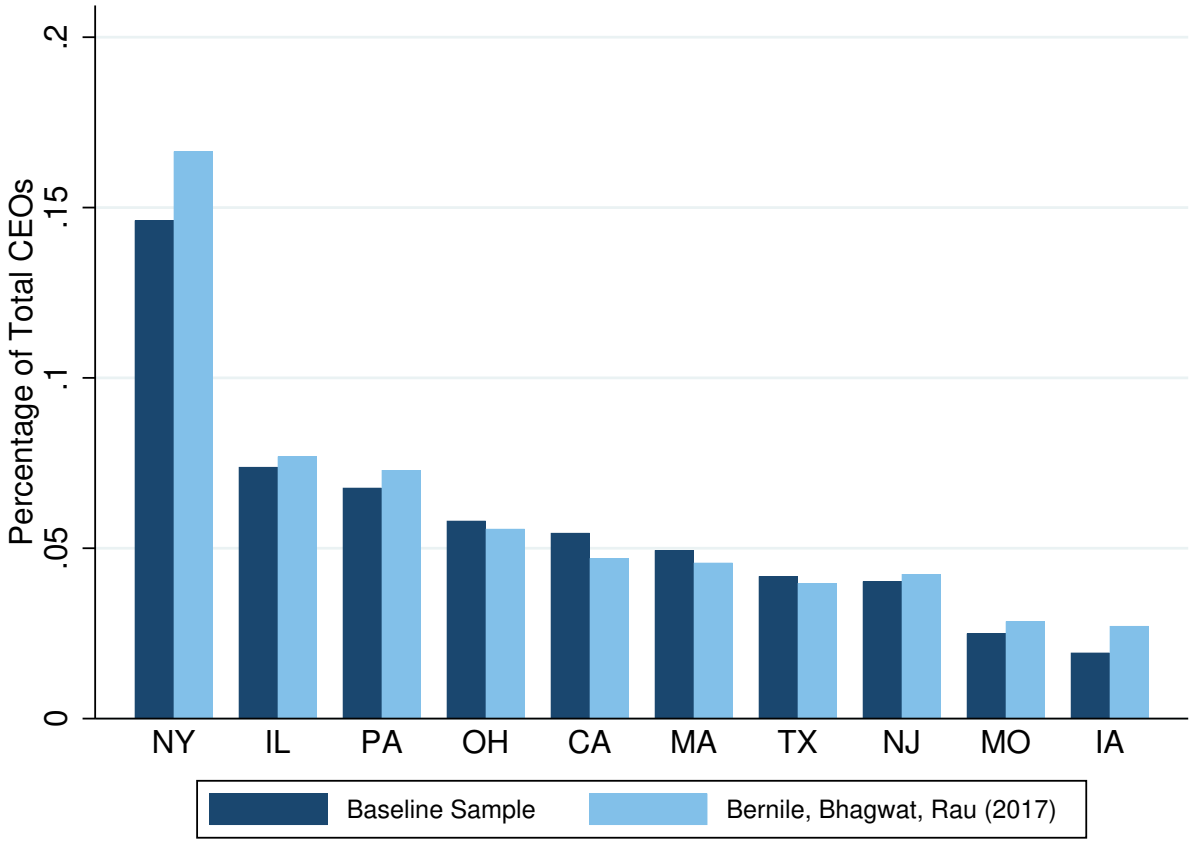


Table IA1: Excluding CEOs where Hometown Location is based on the Birth City

This table examines the effect of CEOs' early-life diversity exposure on firm D&I after excluding CEOs where hometown location is based on the birth city i.e. CEOs without available information on where they grew up. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

	(1) D&I Score	(2) D&I Strengths	(3) D&I Concerns
High-DE CEO	0.041***	0.051***	-0.032***
	(0.010)	(0.015)	(0.009)
Controls	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
N	6,686	6,686	6,686
R^2	0.28	0.30	0.18

Table IA2: Alternative Measures of CEOs' Diversity Exposure

This table examines the effect of CEOs' early-life diversity exposure on firm D&I after considering alternative thresholds to define high diversity exposure CEOs (Panel A) and using a continuous measure of diversity exposure (Panel B). In Panel A, I consider different thresholds to define CEOs with a high early-life diversity exposure. In the first, second, third, and fourth row, *High-DE CEO* equals 1 if the *CEO DE* is above the sample median, in the top tercile, in the top quintile, and in the top decile, respectively, and 0 otherwise. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: Alternative Thresholds to Define High Diversity Exposure CEOs

	D&I Score			
	(1)	(2)	(3)	(4)
High-DE CEO (Median)	0.019***			
	(0.005)			
High-DE CEO (Tercile)		0.022***		
		(0.006)		
High-DE CEO (Quintile)			0.031***	
			(0.007)	
High-DE CEO (Decile)				0.029***
				(0.011)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	12,071	12,071	12,071	12,071
R^2	0.25	0.25	0.25	0.25

Panel B: Continuous Measure of CEOs' Diversity Exposure

	D&I Score			
	(1)	(2)	(3)	(4)
CEO DE	0.094***			
	(0.018)			
CEO Racial DE		0.040***		0.045***
		(0.013)		(0.013)
CEO Cultural DE			0.046***	0.048***
			(0.011)	(0.011)
Controls	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	12,071	12,071	12,071	12,071
R^2	0.26	0.25	0.25	0.26

Table IA3: Alternative KLD D&I Measures and Sample Period

This table examines the effect of CEOs' early-life diversity exposure on firm D&I after considering other KLD D&I measures (Panel A) and excluding the post-2010 period (Panel B). The *D&I Score (raw)* is equal to the number of D&I strengths (*D&I Strengths*) minus the number of D&I concerns (*D&I Concerns*). The overall *D&I Workforce Score* is computed in a similar fashion as the baseline D&I measure, but excludes strengths and concerns indicators that are related to board diversity. Controls include all of the control variables in Table 3. Industries are defined at the two-digit NAICS level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

Panel A: Other KLD D&I Measures

	D&I Score (raw)			*D&I Workforce Score*		
	(1)	(2)	(3)	(4)	(5)	(6)
	Overall	*D&I Strengths*	*D&I Concerns*	*Overall*	*D&I Strengths*	*D&I Concerns*
High-DE CEO	0.302***	0.236***	-0.065***	0.032***	0.039***	-0.025***
	(0.060)	(0.053)	(0.020)	(0.008)	(0.011)	(0.008)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
N	12,071	12,071	12,071	10,322	10,322	12,071
R^2	0.29	0.31	0.19	0.31	0.42	0.12

Panel B: Excluding Post-2010 Period

	D&I Score			*D&I Workforce Score*		
	(1)	(2)	(3)	(4)	(5)	(6)
	Overall	*D&I Strengths*	*D&I Concerns*	*Overall*	*D&I Strengths*	*D&I Concerns*
High-DE CEO	0.031***	0.041***	-0.020***	0.035***	0.045***	-0.026***
	(0.006)	(0.009)	(0.007)	(0.008)	(0.011)	(0.010)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
N	8,959	8,959	8,959	8,718	8,718	8,959
R^2	0.22	0.31	0.14	0.19	0.31	0.09

Table IA4: Heterogeneous Effects

The following figures show the results of estimating interaction models, which highlight the significant heterogeneity in the CEO's diversity exposure effects. To conserve space, I only report the coefficients of the interaction terms and the *High-DE CEO* indicator. CEOs are assigned into three cohorts: early, intermediate, or late, which include CEOs born before 1940, between 1940-1960, or after 1960, respectively. CEOs are classified into a low, moderate, or high segregation group if the dissimilarity index of the CEO's hometown county while growing up is below 0.6, between 0.6-0.7, or above 0.7, respectively. CEOs are grouped into three categories: low, moderate, or high power if the CEO power index is 0, 1, 2 or 3, respectively. Controls include all of the control variables in Table 3 level. Standard errors are clustered at the firm-level. Variable descriptions can be found in Appendix C. (*** p<0.01, ** p<0.05, * p<0.10)

	D&I Score		
	(1)	(2)	(3)
High-DE CEO	-0.009	0.016	0.007
	(0.015)	(0.010)	(0.011)
High-DE CEO × Intermediate Cohort	0.034**		
	(0.017)		
High-DE CEO × Late Cohort	0.075***		
	(0.028)		
High-DE CEO × Moderate Segregation		0.029	
		(0.019)	
High-DE CEO × Low Segregation		0.054**	
		(0.026)	
High-DE CEO × Moderate CEO Power			0.027**
			(0.012)
High-DE CEO × High CEO Power			0.070***
			(0.020)
Controls	Yes	Yes	Yes
CEO Cohort FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
N	12,071	9,016	7,570
R^2	0.59	0.60	0.61