IS DEI DEAD OR ALIVE THIS PROXY SEASON?

Stakeholders may press pause on diversity pressure as political pressure rises.

By Domenick deRobertis

OVER RECENT TIMES, the acronym DEI has become inescapable—and corporate life is no exception. That's obvious from the numbers, with research by WorldatWork finding that 83 percent of organizations have embraced diversity, equity and inclusion policies.

Yet, with the U.S. Supreme Court ruling against DEI in 2023, and Americans lately electing a president fiercely opposed to the underlying ideology, corporate diversity schemes now look increasingly fragile. That's certainly reflected by the many multinationals retreating from DEI, with some investors moving the same way.

Although that could have vast consequences from disclosure to diversity, it's too early to wave DEI goodbye, not least given how far it's already burrowed into corporate structures. Factor in continued boardroom bickering over how fast to abandon DEI programs, to say nothing of uncertainty in some circles about its ultimate business efficacy, and this remains a highly contested space—one requiring deep expertise to navigate successfully.

Is DEI dead?

DEI's apparent eclipse is clear from the policies of America's biggest brands. The Walt Disney Company, McDonald's Corporation, Ford and Walmart are just four of the corporate giants to soften their diversity stances for 2025, with other firms moving in the same direction. One example is John Deere, which last year announced it would no longer sponsor "social or cultural awareness" events. Another is Molson Coors, with the brewer aiming to cut supplier diversity quotas and DEI training.

These high-level changes also can be traced across some major investors and proxy advisors. A case in point is BlackRock. In December, the money manager tweaked its voting guidelines, removing recommendations that boards should hit diversity levels of 30 percent. Quotas for women and other underrepresented groups were also nixed. In February, proxy advisor ISS stopped considering diversity as a factor for U.S. corporate boards.

Beyond these headline changes, it's increasingly apparent that a decline in DEI could have a deep practical impact around how firms relate to proxies. Consider, for instance, the fraught question of disclosure. In 2021, lobbying from issuers and investors led to a change at Nasdaq, whereby listed companies were expected to disclose the racial and ethnic makeup of their boards.

But with the rule slapped down in court, corporate leaders may now be under less pressure from shareholders. That's doubly true when you factor in a new executive order signed by Trump on January 21 that relieves government contractors from filing EEO-1 reports detailing their ethnic and gender diversity.

If that could make life easier for executives in boardroom battles, particularly when dovetailed with specialized help, there are signs that diversity could take a hit in the compensation space, too. Once again, the figures here are telling. Research published in January found that the use of DEI metrics to assess performance has slumped since 2023. Another recent study reports that barely two-thirds of S&P 500 firms use DEI measures in executive pay, a fall from 75 percent in 2023. A case in point is Walt Disney, which in February announced it has replaced diversity and inclusion as a standalone metric in setting executive pay.

Subtlety is needed

Factor in the broader cultural context here—when the commander in chief calls diversity efforts illegal, C-Suites can't help but notice—and it's tempting to imagine that DEI proposals will continue to flounder.

In truth, the situation is rather more complex. In the first place, and notwithstanding the growing confidence of conservative shareholders such as the National Center for Public Policy Research, there are signs that pro-DEI proposals aren't declining because they're unpopular—but rather because corporates have fully embraced DEI already. With all but 2 percent of S&P 500 boards now boasting minimum diversity levels of 30 percent or more, there's little need for diversity-conscious shareholders to keep pushing further.

The language of DEI demands equal subtlety. Proxy statements are often vague, and corporates must understand exactly what they're signing up for. Compensation committees, for their part, can craft diversity targets covering everything from staff demographics to the company-wide spread of DEI schemes, even as a focus on gender or race can lead to wildly different results and expectations.

If all this means executives must continue taking DEI seriously—and secure advice from industry veterans on how to proceed—there are other tensions too. Although the music has surely changed—for example, directors from Apple to Costco have urged investors to reject anti-DEI proposals—other firms, such as Walmart, face shareholder revolts over plans to roll back diversity, with a majority of investors nationwide expected to ignore the anti-DEI backlash.

Examine the detail and even BlackRock is rather less forthright than the headlines imply. It may have scrapped specific quotas, but the investment outfit still reserves the right to oppose the board on a case-by-case basis.

To put it differently, this whole area remains a culture-war minefield—and that's before you consider the conflicting evidence about whether diversity strategies ultimately help or hinder a firm's financial well-being. Although studies suggest DEI can make companies more adaptable, the long-running Boeing saga hints this isn't always the case.

Whatever the president might wish, in short, DEI is here to stay—at least for the moment. That, it goes without saying, heralds more controversy and more opportunities for proxy votes to go wrong for embattled leaders. Not that the situation is hopeless. Companies with robust shareholder engagement can anticipate and head off problems at the ballot box.

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