DEI Policies and Practices' Effect on Sustainability Performance: An Ethical Leadership Perspective

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Abstract: Multicultural and heterogenous society has prompted policymakers and regulators to prioritize creation of a diverse, equitable, and inclusive economic environment. In addition, noticeable increase in companies' focus for ethical actions is driven to improve corporate performance and to build stakeholders' confidence and trustworthiness. Hence, the aim of this paper is to investigate the effect of ethical leadership related to diversity, equity and inclusion (DEI) policies and practices on sustainability performance. Considering the interdisciplinary nature of this relationship, the research integrates a holistic theoretical framework. Governance theories explain the equilibrium between managers' behavior and stakeholders' expectations, economic theories describe the understanding of resource allocation for strategic decisions, while social theories provide evidence regarding human behavior and culture in sustainable companies. The present study utilizes the Diversity and Inclusion Score (DIS), provided by the LSEG methodology, to present the integrated DEI policies and practices. Muchmore, specific mechanisms of corporate governance related to board cultural diversity, board gender diversity, and executive gender diversity extend the measurement of DEI policies and practices. Sustainability performance is assessed through environmental, social and governance (ESG) score. The data are collected from Thomson Reuters Eikon database for non-financial international companies, during the 2020-2024 period. A final sample of 4,163 company-year observations is used to respond to three research hypotheses. Fixed effects robust regressions are employed to emphasize the impact of integrated and specific diversity-oriented policies and practices on ESG performance. Results indicate significant positive influence of DEI policies and practices on sustainability performance. Muchmore, the moderating effects included in analysis show that irrespective of the specific corporate governance mechanisms of diversity, the presence of integrated DEI policies and practices reduces the positive and significant impact on companies' sustainability performance. The robustness test emphasizes the positive influence that various pillars of DIS have on ESG performance. With a multi-layered approach, this study contributes to academic and practical understanding by promoting diverse and inclusive leadership as a key corporate governance mechanism that enhances sustainability performance.

Keywords: Ethical leadership, Sustainability performance, Corporate governance mechanisms, DEI policies and practices

1. Introduction

Sustainability and diversity, equity, and inclusion (DEI) have been crucial social issues in recent years, as society's attention has been increasingly focused on matters related to creating an inclusive environment that generate not only economic growth but also social benefits. According to James, Davis and Alqaseer (2024) survey, 94% of companies included DEI aspects in their sustainability reports given the attention it has garnered among a large category of stakeholders. As a result of this increasing attention, companies have prioritized the enhancement of DEI practices within their organizations, including active initiatives that improve their corporate social responsibility. Consequently, a growing number of stakeholders are now devoting greater attention to sustainability concerns, with a particular focus on promoting inclusive culture within the leadership structure of companies in which they invest (Baker et al., 2024). The purpose of this study is to discuss the way ethical leadership may be enhanced by adopting DEI policies and practices to significantly contribute to improving corporate sustainability performance.

Despite the importance of controversial and actual sustainability topics, few studies in the field of corporate governance and accounting have considered the importance of DEI policies and practices in enhancing ESG performance. Researchers have mainly investigated the impact of board gender and cultural diversity on ESG performance, focusing on the banking sector (Paolone et al., 2024), or covering only one region (Donkor, Trireksani & Djajadikerta, 2023). Most of the previous literature that analyses the impact of diversity and inclusion on sustainability performance focuses either on a specific country, or a specific industry (Tumewang et al., 2024), leaving a gap in considering the global perspective and specific dimensions of workplace diversity and inclusion.

Hence, to fill the existing gap and contribute to the imminent literature on exploring the impact of DEI initiatives on ESG performance in the corporate governance research field, this study measures and analyses whether the overall diversity-oriented policies and practices, abut also specific corporate governance diversity mechanisms have positive impact on sustainability performance. The results highlight that companies that have an ethical leadership willing to promote DEI policies and practices tend to enhance their sustainability performance. The study contributes to current knowledge by extending the analysis to include multiple measures of diversity aspects, reflecting various corporate governance mechanisms. It contributes to the academic and practical understanding of how a more diverse and inclusive corporate culture is important for ensuring long-term sustainability goals. This study also provides important insights for businesses, stimulating practical reflections into the role that diverse and inclusive-oriented practices and policies may play in ensuring long-term sustainability goals.

The rest of the paper is organized as follows. Section 2 covers an overview of the existing literature on the relation between DEI and ESG performance, emphasizing underling theories and development of the research hypotheses. Section 3 presents the research approach, describing data collection and processing, while the key findings are debated in Section 4. Section 5 provides an overview of the findings, limitations, and directions for future research.

2. Literature Review and Research Hypotheses

Following the implementation of the Paris Agreement on Climate Change (2015) and the adoption of the 2030 Agenda for Sustainable Development (UN, 2015), companies started to pay more attention to ESG practices and social implications, aligning their operational activity with sustainability objectives. Recently, this globalized society acted as a force in understanding that sustainability is not limited to protecting the environment, but also to create fair social practices that promote DEI (Alhazemi, 2025).

The importance of DEI of corporate board members has become an aspect of particular importance nowadays, creating an important factor in attracting new investors and increasing the sustainable performance of a company (Alhazemi, 2025; Tumewang et al., 2024; Monteiro et al., 2023). Considering that the role of leaders is to provide guidance in ensuring the achievement of strategic objectives, being responsible for resource allocation optimization and for promoting the companies' long-term value, it is essential to ensure a diverse membership in the board of directors. Ethical leadership has a crucial role in enhancing corporate social responsibility by promoting a sustainable work environment, where diversity and inclusion represent core values that foster ethical behaviour and sustainability performance (Alhazemi, 2025; Rabbani et al., 2024).

The business initiative to shape an integrated culture that promotes DEI is based on both social and economic motivations (Monteiro et al., 2023). From the economic perspective, the adoption of a culture that promotes DEI will enhance corporate performance. From the social perspective, board diversity ensures the equity and inclusion of all social groups. Cultural and gender diversity may develop an integrated business environment, able to support enhanced stakeholders' interests. The insurance of diversity only to comply with policies and attract new investors, but without proactively supporting DEI practices, will result in neither financial outcomes, nor the expected social benefits (Baker et al., 2024). Thus, considering the interdisciplinary nature of the DEI practices, it is crucial to investigate their impact on sustainable performance within a complex theoretical framework underpinning both economic and sociological perspectives (Paolone et al., 2025; Odriozola, Blanco-González & Baraibar-Diez, 2024). The implication of a more diverse and inclusive board on ESG performance is outlined under economic theories that describe the understanding of resource allocation for the decision-making process, while sociological theories provide evidence regarding human behavior, culture, as well as social responsibility. *Stakeholder theory* is linked to corporate sustainability, because it focuses on effective corporate governance mechanisms implemented in order to respond to all stakeholders' interests, while *legitimacy theory* indicates company's commitment to DEI policies and practices to demonstrate its social responsibility and to legitimize their inclusive practices to gain stakeholders' confidence (Rabbani et al., 2024). Creating an inclusive culture that promotes diversity representation, equal opportunities and inclusion represents actions of ESG practices that are designed to meet the needs of a wider category of stakeholders (Alhazemi, 2025). *Resource dependence theory* and *resource-based view theory* describe the impact of a heterogenous board on the decision-making process due to their diverse value, perspectives, qualifications and experiences (Paolone et al., 2024; Rabbani et al., 2024). *The upper echelons theory* states that corporate leaders influence organizations' outcomes and their strategic objectives through personal behavior, skills and experience (Orazalin & Baydauletov, 2020), while *social identity theory* shows how individuals' interactions and behavior are influenced by the different socio-cognitive categories and how each person tends to adhere to the group with similar aspirations and motivations, having the same socio-economic characteristics (Donkor, Trireksani & Djajadikerta, 2023; Suciu, Noja & Cristea, 2020). From this perspective, board of directors' members, with similar social attributes better respond to managerial directions, leading to greater efficiency when performing tasks, thereby contributing to improved performance (Suciu, Noja & Cristea, 2020). Consequently, social-identity theorists argue that the board of directors may lead to miscommunication issues and conflict of perspectives, due to different cultural backgrounds (Saha et al., 2024; Donkor, Trireksani & Djajadikerta, 2023).

Underpinning the complex aspects of diversity, extant literature demonstrates that gender and culture are the most important categories that influence the sustainable performance of companies, considering various legislative efforts to ensure the female representation in corporate boards and the establishment of subsidiaries in various locations around the world, forcing companies to face different local cultures (Paolone et al., 2025; Paolone et al., 2024). Tumewang et al. (2024) and Monteiro et al. (2023) present the positive impact that diversity, inclusion and people development or workplace controversies have on overall ESG performance, as well as for the social performance.

The increased evidence on the importance of DEI in ensuring higher level of ESG performance has motivated this research. It aims to respond to the wide recognized gap of narrow-focused studies related to either the impact of only board diversity on ESG or the impact of diversity and inclusion on other corporate performance measures. A limited number of studies conduct research on the importance of DEI practices on ESG performance analysing mainly financial companies (Tumewang et al., 2024). Prior literature (Rabbani et al., 2024; Donkor, Trireksani & Djajadikerta, 2023) that focused on board diversity emphasise that to further understand diversity, equity, and inclusion phenomena, more in-depth analyses of DEI policies and practices across different inter-continental contexts evaluating the impact of different cultural and legal environments should be conducted in association with ESG performance. Hence, this research answers three research hypotheses:

> ***RH1.*** *The diversity-oriented policies and practices measured with Diversity and Inclusion Score are positively associated with sustainability performance.*
>
> ***RH2.*** *The diversity-related mechanisms of corporate governance are positively associated with sustainability performance.*
>
> ***RH3.*** *The joint effect of diversity-oriented policies and practices and diversity-related mechanisms of corporate governance is negatively associated with sustainability performance.*

3. Research Methodology

The initial sample designed for this empirical study consists of worldwide listed companies included in the Refinitiv Eikon database, limiting the period to the years 2020 until 2024, in order to delineate the complex crisis period. The Refinitiv Eikon platform has been selected due to the comprehensive coverage of various measures related to corporate sustainability. Further, to avoid potential biases generated by specific guidelines, companies activating in the financial industry were excluded from the sample (references). Another constraint was to include only those companies with no missing data for the dependent, independent, and control variables. After eliminating the extreme values based on 1% and 99% percentile, the sample was narrowed down to a total of 4,136 company-year observations.

Table 1 summarizes the variables included in the empirical study with description details. These variables are further used in a quantitative approach establishing the validity of the research hypotheses.

Table 1: Variables of the study

Variables	Code	Description
Dependent variables		
ESG Score	ESG	Refinitiv ESG Score is an overall company score based on the self-reported information in the environmental, social and corporate governance pillars.
Independent variables		
DIS rating	DIS	Refinitiv Diversity Inclusion Rating is an overall score of a company based on reported workforce information that define diverse and inclusive workplaces.
DISDiversity	DIS_DIV	Diversity category measures a company's commitment and effectiveness towards maintaining gender diverse workforce and board member cultural diversity.
DISInclusion	DIS_INC	Inclusion category measures a company's commitment and effectiveness

Variables	Code	Description
		towards effective life-work balance, a family friendly environment and disability inclusion.
DISControversies	DIS_CON	Controversies category accounts for the negative impact workforce controversies have on the company.
BoardCulturalDiversity	BCD	Percentage of board members that have a cultural background different from the location of the corporate headquarters.
BoardGenderDiversity	BGD	Percentage of female on the board.
ExecutiveGenderDiversity	EGD	Percentage of female executive members.
	Control variables	
BoardSize	BS	The total number of board members at the end of the fiscal year.
CEODummy	CEO_D	Does the CEO simultaneously chair the board or has the chairman of the board been the CEO of the company?
IndependentBoardMembers	IBM	Percentage of independent board members as reported by the company.
AverageBoardTenure	ABT	Average number of years each board member has been on the board
BoardSpecificSkills	BSS	Board Specific Skills, Percent
Return on asset	ROA	Financial performance measures as profit after taxes scaled by total assets
LnSales	LnS	Natural logarithm of sales
LnTotalAssets	LnTA	Natural logarithm of total assets
LEV	LEV	Total liabilities divided by total assets
ACCSTDDummy	ACCSTD_D	1 if companies adopted IFRS, 0 otherwise

The diversity-related mechanisms of corporate governance included in this analysis as independent variables, were also used in previously research (Tumewang et al., 2024; Paolone et al. 2024) and refer to: board cultural diversity, board gender diversity, executive committee gender diversity. These variables complement the overall score (DIS-Diversity and Inclusion Score) measuring the DEI policies and practices.

A general regression model is designed in accordance with previous studies (Tumewang et al., 2024; Paolone et al. 2024). The generic equations (1), (2) as well as the equation including the moderating effect of diversity and inclusion policies and practices (3), tested with robust fixed effects multiple regression, using STATA18 software, are presented as follows:

$$ESG_{it} = \beta_0 + \beta_1 DIS_{it} + \beta_2 ControlVariables_{it} + \mu_{it} + \varepsilon_{it}, \quad (1)$$

$$ESG_{it} = \beta_0 + \beta_1 BCD_{it} + \beta_2 BGD_{it}, + \beta_3 EGD_{it} + \beta_4 ControlVariables_{it} + \mu_{it} + \varepsilon_{it}, \quad (2)$$

$$ESG_{it} = \beta_0 + \beta_1 DIS_{it} + \beta_2 BCD_{it}, + \beta_3 BGD_{it} + \beta_4 EGD_{it} + \beta_5 DIS\_BCD_{it} + \beta_6 DIS\_BGD_{it} + \beta_7 DIS\_EGD_{it} + \beta_8 ControlVariables_{it} + \mu_{it} + \varepsilon_{it}, \quad (3)$$

where all variables are explained in Table 1, i is the company and t is the time period, μ_{it} refers to year, industry, and country fixed-effects, and ε_{it} is the error term.

To validate and support the robustness of the results, an alternative regression analysis is performed by excluding executive management characteristics. Differences are investigated, compared with the estimations displayed in Equations (1) and (2).

4. Results and Discussion

4.1 Descriptive of Data

The final sample of 4,136 observations that met the filters for cleaning the data is statistically analysed first by using descriptive statistics.

Table 2: Descriptive statistics

Variables	Mean	Std. Dev.	Skew.	Kurt.
Dependent variables				
ESG	64.996	15.358	-0.518	2.854

Variables	Mean	Std. Dev.	Skew.	Kurt.
Independent variables				
DIS	56.607	7.92	0.275	3.151
DIS_DIV	40.756	13.313	-0.01	2.447
DIS_INC	33.804	19.199	0.735	3.259
DIS_CON	98.519	5.323	-3.609	14.861
BCD	26.553	22.656	1.607	4.92
BGD	29.469	13.554	-0.254	2.648
EGD	19.624	15.277	0.564	3.178
Control variables				
BS	10.327	3.119	0.64	3.513
CEO_D	0.272	0.445	1.024	2.048
IBM	60.414	24.711	-0.333	2.456
ABT	6.84	3.226	1.272	5.579
BSS	45.124	20.277	-0.023	2.578
ROA	0.046	0.067	-0.151	4.793
LnS	21.995	1.708	-0.204	3.443
LnTA	22.629	1.644	0.005	2.662
LEV	0.575	0.186	-0.288	2.695
ACCSTD_D	0.703	0.457	-0.889	1.79

Note: This table presents the descriptive statistics for the variables included in the statistical and econometric analysis.

The descriptive statistics of the dependent, independent, and control variables are shown in Table 2. Results illustrate that companies report ESG performance with an above-average mean score of 64.996, focussing more on reporting social (68.137) then governance (63.631) aspects, indicating the commitment of companies to sustainable practices. The DIR scores, overall and decomposed by the three pillars, indicate that, in general, companies prioritize 56.607% of the workforce information that defines diverse and inclusive workplaces practices, 40.756% of a company's policy to drive diversity and equal opportunity (DIS_DIV), 33.804% of company's sense of belonging and absence of discrimination (DIS_INC), and 98.519% of company's working conditions controversies (DIS_CON) pillars. The cultural diversity of the board (BCD) emphasizes that, on average, 26.553% of board members of the sampled companies are international, with different cultural background compared to the location of the corporate headquarters. Analysing the board commitment to gender diversity (BGD) it can be observed that the mean value of 29.469 is slightly higher compared to board cultural diversity (BCD), indicating that, on average, almost 30% of the board members are female directors. The proportion of female executives (EGD) shows that on average only 19.624% of the executive leadership team are women. Regarding control variables that refer to the characteristics of the board of directors, the following results can be observed: the average size of the board is about 10 directors, with a maximum of 20 members and a minimum of 4; on average, these boards have only 60.414% independent directors and in 27.2% of cases, the chairman does not hold the CEO position at the same time. The average share of directors with specific skill is 45.124%, while the tenure of the board members is on average 6.84 years.

In line with Wen et al. (2023), skewness and kurtosis indices are used to validate further econometric analysis. Results lay within the recommended ranges (-3.00 to 3.00, for skewness, and -8.00 to 8.00, for kurtosis), except for DIS_CON variable, that was winsorized at 1% level before being used in regression analysis.

4.2 Research Hypotheses Validation

To discuss and validate the research hypotheses, Table 3 presents the results of FE robust panel regressions for overall DEI score, but also for specific diversity-related mechanisms of corporate governance on sustainable performance. Model 1 examines the impact of diversity-oriented policies and practices measured with Diversity and Inclusion Score on ESG performance (RH1), Model 2 examines the impact of ethical leadership measured by diversity-related mechanisms of corporate governance (RH3), while Model 3 presents the impact of the joint effect on ESG performance of all DEI policies and practices considered in this study, using DIS as moderating variable. The year, industry and country fixed effects were considered. Furthermore, in order to correct for the presence of heteroskedasticity and autocorrelation in standard errors, the regression models were implemented using the robustness check included in STATA codes. The results of the regression estimations testing the three research hypotheses are presented in Table 3.

Table 3: Robust panel regression analysis for verifying the research hypotheses

VARIABLES	RH1	RH2	RH3
	DV: ESG	DV: ESG	DV: ESG
DIS	0.287***		0.451***
	(9.171)		(6.538)
BCD		0.047***	0.042
		(3.094)	(0.605)
BGD		0.078***	0.350***
		(3.585)	(3.435)
EGD		0.050***	0.139
		(3.279)	(1.423)
DIS_BCD			-0.000
			(-0.205)
DIS_BGD			-0.005***
			(-2.953)
DIS_EGD			-0.002
			(-1.074)
BS	-0.317***	-0.261**	-0.286**
	(-2.759)	(-2.291)	(-2.529)
CEO_D	-2.360***	-2.477***	-2.364***
	(-3.981)	(-4.090)	(-4.004)
IBM	0.092***	0.094***	0.089***
	(6.575)	(6.438)	(6.180)
ABT	-0.095	-0.015	-0.038
	(-0.802)	(-0.122)	(-0.323)
BSS	0.055***	0.058***	0.054***
	(4.385)	(4.492)	(4.377)
ROA	-4.633*	-5.202**	-4.504*
	(-1.873)	(-2.076)	(-1.805)
LnS	0.516	0.618	0.547
	(1.235)	(1.470)	(1.299)
LnTA	1.099	1.176	1.045
	(1.323)	(1.470)	(1.262)
LEV	0.058	0.124	0.292
	(0.028)	(0.058)	(0.142)
ACCSTD_D	-3.418**	-5.022**	-3.025**
	(-2.178)	(-2.035)	(-2.225)
Constant	10.802	18.475	-1.684
	(0.588)	(1.019)	(-0.090)

VARIABLES	RH1	RH2	RH3
	DV: ESG	DV: ESG	DV: ESG
R-squared	0.155	0.125	0.173
Observations	4,163	4,163	4,163
Number of companies	1,653	1,653	1,653
Year fixed-effect	Yes	Yes	Yes
Industry fixed-effect	Yes	Yes	Yes
Country fixed-effect	Yes	Yes	Yes

Note. Robust t-statistics in parentheses, *** p<0.01, ** p<0.05, * p<0.1

The positive and significant impact of diversity-oriented policies and practices, as well as diversity-related mechanisms of corporate governance on ESG score confirms that companies which prioritize workforce diversity and inclusion also tend to increase the level of ESG performance reported. A positive and significant impact of DIS on ESG (β=0.287, p<1%) confirms that companies which prioritize an inclusive environment that promotes equal opportunities also tend to increase the sustainability performance measured with ESG score, validating the *RH1*. Similarly, Tumewang et al. (2024) demonstrate that diversity and inclusion policies and practices implementation may be considered a channel through which companies enhance ESG performance, becoming more oriented towards society and improving corporate governance mechanisms.

Findings also support the *RH2* with positive and significant impact of ethical leadership measured by diversity-related mechanisms of corporate governance: BCD (β=0.047, p<1%), BGD (β=0.078, p<1%), and EGD (β=0.050, p<1%) on ESG performance. Similar results are obtained by Paolone et al. (2025), Paolone et al. (2024). These findings are aligned with *stakeholder theory* and suggest that diversity and inclusion-oriented policies and practices, including different cultural representation, as well as a higher proportion of female on boards and on executive level could drive companies to become more socially and ethically engaged to serve the interest of a wide range of stakeholders. The fact that board gender diversity and executive gender diversity positively influence ESG performance, support the premise of *upper echelon theory*, which predict that female representation is more likely to ensure an ethical approach to implement effective sustainable initiative that promote DEI policies and practices (Orazalin & Baydauletov, 2020).

The moderating role of DIS on board diversity and sustainability performance nexus is tested (*RH3*), results suggesting that the presence of DIS policies and practices reduces the positive effect of board diversity on firms' sustainability performance. The regression analysis reveals a statistically significant negative impact of the interaction effect of DIS_BGD (β= - 0.005, p<1%) on ESG performance. This empirically demonstrates that the joint effect of BGD and DIS significantly reduces ESG performance and has important implications for *social identity theory* showing that a diverse representation could generate a convergence of perspectives leading to miscommunication issues and reducing social cohesion (Donkor, Trireksani & Djajadikerta, 2023). The findings show that enhanced diversity and inclusion policies and practices doesn't exert a significant moderating effect on ESG–BCD relationship and on ESG–EGD relationship. These results show that irrespective of the measures of board diversity (i.e., BCD, BGD or EXG), the presence of DIR practices reduces the positive significant effect of board diversity on firms' sustainability performance. The negative impact that joint effect of DIS and BCD, BGD, EGD has on ESG can be explain throw the social identity theory that posits that diversity can lead to inability to comprehend the perspective of others, reducing the board monitor capacity (Saha et al., 2024; Donkor, Trireksani & Djajadikerta, 2023). The negative interaction could reflect the presence of tokensim, where companies make symbolic initiatives to meet diversity and inclusion targets (more women or underrepresented social categories in boardrooms), without acting in order to actively support and create an inclusive environment (Baker et al., 2024). These assumptions are in line with *resource-based view theory* and *institutional theory* by emphasizing that companies fail to value diversity as a strategic resource that may generate long term performance, but also by the fact that they symbolically comply with DEI policies and practices to respond to normative pressure and not to effectively implementing them in ESG strategies (Paolone et al., 2024; Odriozola, Blanco-González & Baraibar-Diez, 2024). Similar results were also obtained by Paolone et al. (2025) and Paolone et al. (2024) when analyzing the joint effect of board and executive gender and cultural diversity on ESG performance. While the impact of board cultural diversity and board/executive gender diversity analysed separately enhance ESG performance, the interaction effects between these two diversity variables seems to negatively impact the ESG performance.

4.3 Robustness Tests

To validate the results, the models applied for testing the research hypotheses are performed based on robust regressions, in line with prior literature (Tumewang et al., 2024). Muchmore, alternative models' specifications are used to strengthen the reliability of the findings. Thus, three complementary econometric models are estimated by subsequently replacing DIS score with each of the three pillars (Diversity, Inclusion, and Controversies).

Table 4: Robustness checks results

VARIABLES	DV: ESG	DV: ESG	DV: ESG	DV: ESG
DIS_DIV	0.138***	0.142***		
DIS_INC	0.055***		0.059***	
DIS_CON	0.011			0.023
BCD	0.016	0.017	0.045***	0.046***
BGD	0.047**	0.047**	0.078***	0.078***
EGD	0.021	0.021	0.050***	0.050***
BS	-0.267**	-0.270**	-0.256**	-0.263**
CEO_D	-2.296***	-2.349***	-2.419***	-2.473***
IBM	0.091***	0.095***	0.091***	0.094***
ABT	-0.020	-0.013	-0.022	-0.015
BSS	0.056***	0.057***	0.057***	0.058***
ROA	-5.106**	-4.936**	-5.433**	-5.094**
LnS	0.613	0.653	0.573	0.626
LnTA	1.015	1.050	1.129	1.187
LEV	-0.141	-0.028	0.001	0.119
ACCSTD_D	-3.629**	-4.319**	-4.313**	-4.918**
Constant	15.603	16.906	18.427	15.760
R-squared	0.167	0.156	0.137	0.125

Note: The regressions of the alternative were run with robust fixed effects integrated in STATA 18. Year, industry and country fixed effects were also included. *** p<0.01, ** p<0.05, * p<0.1

Results presented in Table 4 provide additional support to the initial findings, emphasizing the positive and significant impact of diversity and inclusion policies and practices on ESG performance. A positive and significant impact of diversity and inclusion score on ESG confirms that companies which prioritize an integrated culture of DEI also tend to increase the level of ESG policies and practices reported. The positive influences of diversity and inclusion on the ESG score are also found by Monteiro et al. (2023), emphasizing that companies that develop diversity and inclusion practices are more likely to improve social performance. Tumewang et al. (2024) report similar insights on a sample of Islamic and conventional banks. The positive but insignificant impact of workspace controversies on ESG shows that there is no robust evidence of a meaningful relationship between DEI workplace - related controversies and ESG score. Contrary, Monteiro et al. (2023), emphasizes a negative and significant causality between controversies and social performance. Hence, these results are in line with stakeholder theory, showing that company's commitment to maintaining an inclusive environment and a gender and culturally diverse leadership could enhance sustainability performance and firm attractiveness to sustainable-oriented stakeholders (Alhazemi, 2025).

5. Conclusions

This empirical study examines the impact of diversity, equity and inclusion on sustainability performance from a holistic perspective, integrating both the specific and integrated diversity-oriented policies and practices and diversity-related mechanisms of corporate governance to emphasize the importance of an ethical and diversity-oriented leadership. Thus, it shows how companies may strategically apply DEI policies and practices to promote social inclusion and to enhance ESG performance.

Despite the extant research that explores the impact of diversity and inclusion on sustainability performance, most of these studies concentrate on presenting the impact of board gender or cultural diversity without taking into consideration the impact of DEI policies and practices on sustainability performance for non-financial companies. In order to fill the gap regarding less explored dimensions related to DEI-ESG nexus, the original contribution of this study focuses on presenting a comprehensive approach on the complexity of DEI concept, considering both board diversity characteristic, and integrated diversity and inclusion policies and practices.

The main findings illustrate that companies that prioritize ethical leadership through fair representation of diverse and inclusive workforce tend to increase their attention to sustainable social actions. These ethical practices foster an integrated culture that supports underrepresented social categories by adopting robust DEI policies and practices, contributing to increased attention on social responsibility that enhance ESG performance. The moderating effect of DIS on the board diversity-ESG performance nexus indicates that while diversity and inclusion policies and practices and leadership diversity (BGD, BCD, EGD) exert individually positive effect on ESG performance, their interactive influence has a negative impact on sustainable outcomes. This negative interaction may reflect a symbolic compliance with normative pressure, where ethical leadership and DEI policies and practices coexist without being supported and integrated in organizational culture, representing only DEI targets that attract new investors. The underlying theories are validated by the findings illustrating that diversity and inclusion policies and practices influence ESG performance. While each economic and sociological theory provides a distinct lens of the adoption of DEI policies and practices, together they foster the importance of an integrated ethical culture that strategically enhances ESG performance.

Although this study sheds new light on the research of diversity and inclusion in sustainability reporting, limitations may refer at the short time frame analysis (2020 - 2024 period), as well as the limited amount of data reported for the year 2024. Moreover, another limitation may be attributed to the fact that ESG score is the single variable used for sustainability performance measurement.

Future research may extend the investigation by including an in-depth analysis of the influence of DEI policies and practices on each ESG pillars. An extended time frame may allow comparison analyses between different periods, offering a comprehensive overview of the social movements that influenced the adoption of DEI practices and policies. Muchmore, a comparative analysis on regions to identify the effects of country-level policies and practices on the DEI-ESG nexus.

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