Legitimacy, Backlash, and the Instability of Corporate DEI

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ABSTRACT:

This study aimed to examine how symbolic and sustained patterns of firm DEI signaling related to organizational legitimacy and financial outcomes across sociopolitical cycles. Using a three-phase shared mental model approach, three trained coders gathered data from approximately 1,000 corporate reports. The data was run through a longitudinal panel model and cross-lagged panel model with random intercepts for analysis. The findings suggested that consistent DEI signaling contributed to organizational legitimacy, however these effects did not significantly impact short-term financial performance and were not moderated by sociopolitical context. These results contribute to legitimacy and signaling theory by suggesting that the value of DEI may lie more in durability and credibility than in immediate financial gain. Overall, this study highlights that the significance of DEI may be found less in short-term gains and more in the resilience and trust built through sustained commitments.

I. Introduction

Over the past decade, corporate commitments to diversity, equity, and inclusion (DEI) have become both highly visible and deeply contested (Murray & Bohannon, 2025; Telford, 2025). Many Fortune 500 companies have expanded DEI infrastructures such as appointing Chief Diversity Officers, issuing diversity reports, and elevating women and minorities into leadership ranks as response to social movements and stakeholder pressure. But all these efforts have shown that they have not evolved linearly. For instance, research has shown that they fluctuate in cycles of expansion and retrenchment that mirror broader political and cultural dynamics (Agathocleous et al., 2024). Following moments of crisis or social mobilization, such as the #MeToo and Black Lives Matter movement, organizations often amplify DEI rhetoric and reporting. However, as public attention fades or political opposition intensifies, many of these same companies retreat from earlier pledges, downsize DEI departments, or reframe diversity as a purely merit-based concern. For instance, it is evident through President Donald Trump's White House statement on January 20, 2025 that DEI is being perceived in politics as wasteful and giving preference to certain groups rather than as progressive, which was its original intention (The White House, 2025). Furthermore, the public perception of DEI has become more negative as skepticism of DEI programs by certain groups and concerns on the overemphasis of DEI rises (Minkin, 2024). By this, public and political perception of DEI programs have greatly impacted its implementation.

These oscillations highlight how DEI serves simultaneously as a moral commitment, a legitimacy strategy, and an organizational risk mitigation strategy. Theoretical perspectives such as institutional and legitimacy theory (DiMaggio & Powell, 1983) suggest that organizations adopt DEI practices to maintain social approval and stakeholder confidence, especially when legitimacy is threatened. However, as social role and glass cliff theories demonstrate (Eagly, 1987; Ryan & Haslam, 2005), these symbolic responses often position marginalized leaders at the front lines of reputational crises, producing fragile or temporary gains. Consequently, DEI engagement in corporate contexts may not reflect sustained transformation but rather reactive adaptation to shifting external pressures.

Despite extensive discourse surrounding DEI, empirical evidence linking these patterns to organizational outcomes remains inconsistent. Research has documented the reputational and relational value of DEI initiatives, yet findings on financial performance are mixed and often methodologically constrained by missing data, measurement inconsistency, or the overreliance on cross-sectional designs (Roberson, 2019). In particular, leadership diversity and board composition data which are key indicators of substantive DEI are frequently incomplete or self-reported, limiting statistical power and interpretability in traditional regression or structural equation models (Behlau et al., 2024). Consequently, current methods offer limited insights into how DEI initiatives change throughout sociopolitical cycles.

Furthermore, although it is increasingly acknowledged that DEI engagement is not linear but occurs in cycles, often escalating during sociopolitical crises and diminishing as interest declines, empirical studies rarely examine these temporal variations or clarify their consequences for organizational legitimacy and performance (Ross et al., 2025). Most existing research evaluates DEI at a single point in time, obscuring the distinction between reactive signaling and genuine integration. Addressing this gap, the present study adopts a longitudinal perspective to examine how the stability (or volatility) of DEI infrastructures across shifting contexts shapes organizational legitimacy and financial outcomes.

To address these limitations, this study adopts longitudinal growth modeling to capture how DEI infrastructures evolve across time and under varying social conditions. We examine Fortune 500 firms between 2014 and 2024, and trace how DEI engagement fluctuates across political administrations, social movements, and market cycles. We test whether companies exhibiting resilient DEI architectures such as those maintaining structural support through employee resource groups (ERGs), detailed disclosures, and diverse leadership pipelines, demonstrate stronger and more stable financial outcomes than *reactive firms* whose engagement rises only under scrutiny.

In doing so, this paper makes three contributions. First, it empirically documents the instability of corporate DEI as a patterned response to social and political volatility. Second, it advances theory by identifying organizational resilience as a mechanism linking DEI infrastructure to legitimacy and performance. Third, it contributes methodologically by employing robust analytic techniques to analyze DEI engagement.

II. Theoretical Rationale

Over the past decade, corporate DEI has gone through several distinct waves shaped by social, political, and economic forces (see Table 1 for a summary). The first cycle (2010-2015) was defined by a compliance-oriented approach, with DEI initiatives largely housed in HR and focused on legal risk management (McKinsey & Company, 2020). A second cycle (2016-2020) emerged as public awareness of racial and gender inequities grew and DEI became more visible in corporate branding, recruitment efforts, and reporting records (McKinsey & Company, 2023). This period was also marked by increasing politicization: the Trump administration's rhetoric and framed DEI as a partisan issue, leading to the Executive Order 13950, which restricted diversity training for federal contractors (Dinsmore & Shohl LLP, 2024; The White House, 2020). At the same time, social movements including #MeToo in 2017 and the resurgence of Black Lives Matter in 2020 after George Floyd's accelerated corporate DEI commitments, prompting organizations to articulate public stances, set representation goals, and increase transparency (McKinsey & Company, 2023).

A third, shorter cycle (2020-2022) followed the racial justice protests of 2020, when corporations rapidly expanded DEI infrastructures, issued public pledges, and invested in leadership diversification. This expansion, however, was fragile. Beginning in 2022, a fourth cycle (2022-present) has been characterized by retrenchment, driven by economic pressures, litigation risk, and political backlash against so-called "woke capitalism" (FSG, 2023). Many companies have responded by scaling back explicit DEI programming or rebranding roles under broader "inclusion" or "belonging" frameworks (Diversity.com, 2025).

Table 1

Timeline of Corporate DEI

Time Period	**DEI Era**
2010-2015	Compliance Era

	- DEI driven by legal and regulatory mandates
2016-2020	Politicization - DEI framed as a controversial issue
2020-2022	Resurgence - Surge of DEI efforts after issues related to race and gender
2022-present	Retrenchment - Scaling back or rebranding DEI as a whole

Note. Our data is from 2014 and on, therefore, we begin our corporate DEI timeline towards the end of the compliance era

Taken together, these cycles (i.e., compliance, politicization, resurgence, retrenchment) reflect how DEI has become not only a moral or organizational concern but a reflection of how corporations negotiate legitimacy in polarized cultural and political environments (Catalyst, 2025). These cycles underscore that DEI is not merely about values or compliance but about organizational legitimacy in shifting socio-political environments.

The Oscillation of DEI Support

Empirical research suggests that firms tend to adapt their DEI (diversity, equity, and inclusion) signaling, defined public communication about organizational movement towards or away from DEI practices, based on fluctuations in external pressure and sociopolitical attention (Connelly et al., 2011; Ross et al., 2025). Following, or even during, social movements and crises, organizations often amplify symbolic commitments through press releases, annual reports, or public statements to restore legitimacy and demonstrate alignment with stakeholder expectations (King & Soule, 2007). These reactive actions are typically with the goals of short-term signaling rather than substantive, structural reform in light of maintaining legitimacy and the possible reputational risk in volatile social environments (King & Soule, 2007; Ross et al., 2025).

From a signaling perspective, DEI communication functions as a way for firms to convey the company culture, values, and strategies to their market and shareholders (Li et al., 2025; Sands & Ferraro, 2025). In this way, signals are more credible and effective when they are sustained and difficult to imitate (Connelly et al., 2011). Conversely, inconsistent signaling may be perceived as symbolic compliance and viewed as an empty and insincere commitment. As organizational legitimacy is rooted in stakeholders' judgment of firm actions, its alignment with social norms and expectations as well as the strength and consistency of DEI signaling are likely to shape their and market impression around firm organizational legitimacy (Suchman, 1995). Consistent signaling can embed DEI within a firm's perceived identity, supporting cognitive legitimacy and reinforcing moral and pragmatic legitimacy as stakeholders are able to see firm responsiveness to their concerns (Diez-Martin et al., 2013).

Firm responsiveness has important implications for legitimacy. Reactive signaling may help organizations repair legitimacy in the short term but can undermine credibility if stakeholders view this shifting of commitments as opportunistic (Deephouse & Carter, 2005). In contrast, firms that maintain consistently high levels of DEI signaling over time may foster legitimacy more effectively as this hints at stable organizational values and strategic coherence. As a result, consistent signaling roots itself within firm culture and decision-making.

Research on diversity and organizational outcomes further supports the importance of sustained signaling. Meta-analytic and review studies emphasize that the link between diversity and performance is contingent on contextual and processual moderators (e.g., information elaboration, inclusive climates, strategic alignment) that emerge through ongoing organizational commitment rather than reactive efforts (Joshi & Roh, 2009; Roberson et al., 2017). Thus, consistent DEI engagement builds the organizational infrastructure needed for diversity related practices to translate to credible signals, stakeholder trust, and legitimacy.

Given this, DEI signaling can be understood with two key dimensions: its average level over time and its temporal stability. Higher average levels of signaling increase the importance of DEI within a firm's identity which in turn strengthens commitments and (typically) aligns with stakeholder expectations. Alongside this, lower temporal variability enhances signal credibility by conveying reliability and authenticity to stakeholders and the market. Therefore, stakeholders are more likely to have the impression of greater organizational legitimacy from firms that maintain consistent and extensive DEI signaling and integration.

> ***Hypothesis 1:*** Firms that exhibit higher average levels of DEI signaling over time will demonstrate higher organizational legitimacy than firms with lower average levels of DEI signaling.

Building on the previous notion that sustained and credible DEI practices contribute to organizational legitimacy, the following postulates that organizational legitimacy impacts firm performance. Increased organizational legitimacy, rooted in stakeholder and market expectations of firm alignment with social norms and values, often leads to improved organizational performance. This is due to the increased stakeholder, customer, and investor support that firms with more developed organizational legitimacy gain as a result of reduced reputational risk (Suchman, 1995; Deephouse & Carter, 2005). In this way, enhanced support strengthens a firm's competitive position and contributes to more stable financial outcomes.

Furthermore, legitimacy acts as an important indicator of accountability and social responsibility which helps show stakeholders and future investors how the firm may be allocating resources and capital (Woodward et al., 1996). As a result, stakeholders are willing to engage, invest, and advocate for the firm, strengthening their financial durability and competitive position among other firms. On the other hand, legitimacy deficits can cause reputational issues and financial uncertainty.

Empirical research supports this relationship. Studies about governance and organizational reputation show that firms perceived as credible and accountable tend to experience higher firm value and more stable financial performance, especially when legitimacy is supported by institutionalized mechanisms (e.g., board practices), suggesting that durability and integration matter more than episodic disclosures (Carter et al., 2003; Richard et al., 2004). Furthermore, meta-analytic work and reviews further indicate that organizational practices that involve stakeholder trust, strategic alignment of firms with social norms, and fostering inclusive climates contribute to performance outcomes and are closely related to legitimacy (Joshi & Roh, 2009; Roberson et al., 2017).

Beyond external perceptions, legitimacy also enhances internal organizational functioning. Firms with high legitimacy are more likely to sustain employee engagement, cooperation, and commitment, which in turn improve productivity and innovation capacity (Dowling & Pfeffer, 1975; Wuestewald, 2021).

> ***Hypothesis 2:*** Organizational legitimacy will be positively associated with firm financial performance.

Building on this link between organizational legitimacy and firm performance, legitimacy can be understood as a key mechanism through which DEI signaling influences financial outcomes. DEI-related actions shape how stakeholders evaluate a firm's alignment with social expectations, which influences perceptions of legitimacy. When firms consistently signal commitment to DEI, they are more likely to be viewed as credible and aligned with stakeholder values, strengthening organizational legitimacy.

In contrast, inconsistent or highly variable DEI signaling may undermine these perceptions by creating ambiguity about the firm's true commitments. For instance, a climate of inclusion and routine DEI practices reduces interpersonal bias and conflict and enables diverse members to contribute fully, such that inclusive climates moderate the relationship between diversity, organizational legitimacy, and financial outcomes (Nishii, 2013).

For instance, research on corporate diversity programs finds that sustained structural interventions (task forces, targeted recruiting, mentoring tied to promotion pathways) are consistently linked to measurable progress (Kalev et al., 2006; Dobbin & Kalev, 2016).

Taken together, this literature suggests that organizational legitimacy functions as a critical pathway linking organizational DEI practices to firm financial performance. When firms are perceived as credible, consistent, and aligned with stakeholder and market expectations, they are better positioned to turn this social approval into tangible financial advantages.

> ***Hypothesis 3a:*** Organizational legitimacy will mediate the positive relationship between firms' average levels of DEI signaling and subsequent financial performance.
>
> ***Hypothesis 3b:*** Organizational legitimacy will mediate the negative relationship between variability in DEI signaling and subsequent financial performance.

Furthermore, institutional and signaling theories suggest that organizations communicate DEI initiatives to convey conformity when legitimacy is threatened (Connelly et al., 2011). In turn, reactive signaling is aimed towards improving common gaps in firms related to demographic representation, extent of inclusive practices, and metrics (i.e., employee feedback). However, internal stakeholder research shows that when DEI initiatives are perceived as symbolic rather than substantive, they undermine trust, legitimacy, and confidence in organizational commitments (Pittman, 2025). As a result, firms that rely heavily on symbolic rather than substantive DEI actions risk undermining legitimacy and trust among stakeholders, as inconsistent communication creates perceptions of insincerity.

On the other hand, firms enhance their performance when they hold DEI practices consistent due to the byproducts of employee engagement, creative capacity, and organizational legitimacy (Nishii, 2013). For instance, fostering employee engagement through practices like ERGs and other employee networks. When institutionalized, aligned with strategy, and resourced, they support retention, talent development, and knowledge flows that are plausibly linked to longer-term financial performance (Welbourne & McLaughlin, 2013; Foldy, 2019).

The degree to which DEI consistency translates into firm performance, however, depends heavily on the context. Corporate DEI signaling is often responsive to external pressures and historical patterns suggest it follows social and political cycles rather than a linear progression. For instance, the Compliance Era (2010-2015) linked DEI primarily to regulatory requirements, while between 2016-2020, DEI became increasingly politicized. Following the 2020 racial justice protests, firms entered a period of Resurgence (2020-2022) marked by widespread DEI pledges and public statements, yet this momentum slowed during the Retrenchment phase (2022-2025) as organizations scaled back or rebranded DEI initiatives amid political backlash and shifting priorities (see Table 1). These fluctuations suggest that most companies are largely reactive, increasing DEI signaling in response to social crises and then reducing it as external pressure diminishes (Williams, 2023).

For this reason, it is interpreted that political and social environments shape how DEI initiatives are perceived and rewarded. In supportive climates where public policy, regulation, and societal sentiment align with inclusion goals, organizations experience consistent DEI legitimacy, attract diverse talent, and gain reputational benefits that enhance performance. In contrast, in politically hostile climates, DEI efforts may draw scrutiny or backlash, diminishing their positive impact on performance and increasing reputational risk (Perski, 2025). Empirical evidence indicates that macro-political and institutional conditions alter the strength of the diversity-performance relationship. For instance, diversity's positive effects on performance have been found to intensify following political and social transformations (Marquis & Qian, 2014). Similarly, variation in national and institutional contexts moderates how DEI and ESG initiatives influence firm outcomes (Jonsen et al., 2021).

Importantly, when sociopolitical support for DEI is heightened, normative expectations surrounding inclusion become more institutionalized and salient, increasing stakeholder scrutiny of organizational behavior (Suchman, 1995). Under such conditions, variability in DEI signaling may be interpreted as opportunistic or insincere, thereby weakening signal credibility and amplifying legitimacy penalties (Connelly et al., 2011).

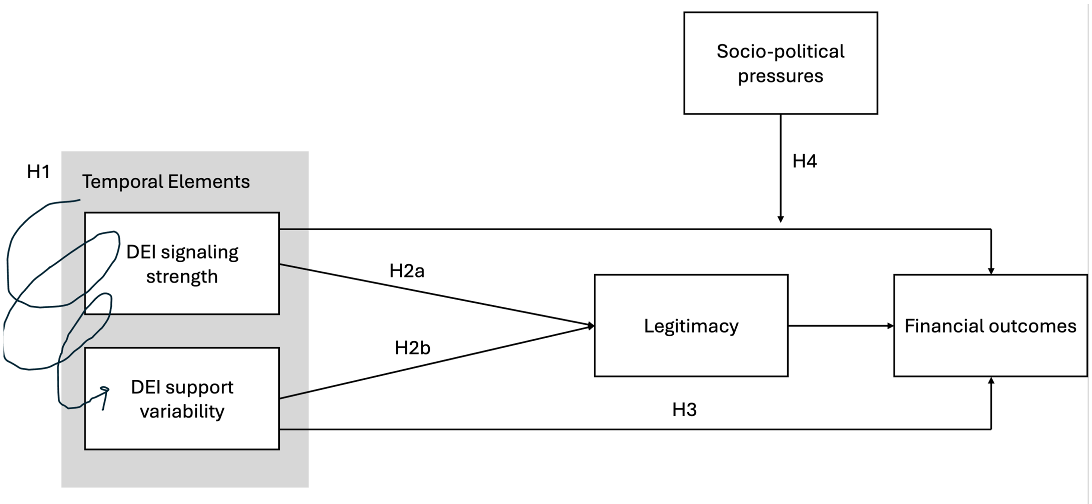
> ***Hypothesis 4a***: The positive relationship between firms' average levels of DEI signaling and organizational legitimacy will be stronger during periods of heightened sociopolitical support for DEI than during periods of lower support.

> ***Hypothesis 4b:*** The negative relationship between variability in DEI signaling and organizational legitimacy will be stronger during periods of heightened sociopolitical support for DEI than during periods of lower support.

While it is difficult to predict the relationship between DEI and financial outcomes, the aforementioned set of hypotheses aim to provide a basis for understanding the volatility (i.e., temporal trends), legitimacy (i.e., DEI-related actions), and contingencies (i.e., socio-political pressures) of this relationship. Figure 1 illustrates these hypothesized relationships.

Figure 1

Hypothesized Model



III. Methods

Sample and Sources of Data

To investigate the relationship between corporate DEI signaling and financial outcomes, we assessed DEI practices using 11 years of data from financial reports and publicly available information of the top and bottom 50 Fortune 500 firms as of 2024. The search for reports was conducted in Google Search Engine using a priority list of reports following: DEI Report, ESG/ Impact Report, Sustainability, Environmental, Corporate Governance Report, Proxy/ Integrated Annual Report, or Annual Report. Specifically, we would input "Company Name" DEI report and if a report corresponding to this did not pop up within the first few links, the next report was searched. There was a preference in using pure DEI reports, however, with the recent rescaling of DEI, we had to resort to using other published reports like ESG reports. As a result, only 3.9% of reports coded were DEI reports; 12.7% were ESG reports, 41.9% were corporate governance reports, 8.6% were proxy or integrated annual reports, and 32.9% were annual reports.

Additionally, Fortune 500 was used to monitor firm financial data and if the firm did not appear on the list, then their financial data was omitted from consideration.

The final data set included 100 firms from Fortune 500 (50 from the top and 50 from the bottom) over the span of 11 years, resulting in the analysis of approximately 1,000 reports. These companies were chosen to provide a wide range of financial performances to help thoroughly illustrate the relationship between financial performance and the various variables surrounding DEI. However, an important note, around 29 firms ranging over the decade analyzed did not have any data due to firms being defunct, starting up, or experiencing transition phases such as company mergers.

Coding Process

The coding process follows a three-phase shared mental model approach, beginning with collaborative coding to align evaluations and refine schemes (Table 2). The collaborative coding process included partner and group weekly consensus meetings to address discrepancies and ensure uniform interpretation and application of coding rules when reviewing firm reports. Discrepancies and typos were marked and then used in the interrater reliability check. Once a 95% interrater reliability was reached, there was less partner coding and more individual coding while maintaining group coding.

Table 2

Coding Procedure

Step	**Description**
Number of Coders	Three trained researchers were working on this full-time over the summer
Reports Coded Collaboratively	Reports (*N*= 175) coded together to refine coding scheme and establish consistency

Consensus Process	Everything was independently coded then collectively discussed until the team achieved a 95% reliability across the raters prior to independent coding
Interrater Reliability	Three trained researchers were working on this full-time over the summer
Independent Coding	Conducted once reliability threshold reached
Discrepancy Resolution	Resolved through consensus discussions among coders

More specifically, we started off coding 15 firms as a group and 85 firms with a partner for articles in the year 2024. We then transitioned to coding 10 firms as a group, 15 firms in partners, and 75 firms individually for articles in the year 2023 after very strong interrater reliability was reached. Once 95% interrater reliability was reached, the process transitioned to coding 10 firms as a group and 90 firms individually for articles in the years 2021 through 2014.

A total of 1000 company reports were coded by three trained researchers using a standardized coding scheme (see Appendix Figure A1 for a sample and important distinctions). These procedures were implemented to systematically maintain coding accuracy.

Measures

DEI Signaling. DEI Signaling was composed of DEI framing, messaging, and quantifiable DEI commitments. (a) DEI framing was analyzed categorically by the tone the firm used in their reporting when addressing DEI: 1= marketing tone, 2= cultural tone, or 3=hybrid of the two. (b) DEI messaging was scored on a 5-point Likert scale where 0 represented no DEI statement present while 4 represented strategic DEI messaging integrated into a business mission with specific data or goals. (c) Quantifiable DEI commitments were determined by whether there was any statistical data given (1) or not (0)---i.e. “50% increase in racial leadership composition.” This was then used to determine DEI signaling and its trend where 1 represented the movement away from DEI, 2 represented reforming DEI, 3 represented maintaining current DEI principles, and 4 represented furthering DEI efforts.

DEI Trends. DEI Trends captured directional changes in firms' DEI engagement across time. Unlike the signaling intensity measure, which reflects the strength and content of DEI communication within a given year, the trend variable assessed whether the firm's DEI efforts were expanding, remaining stable, being reformulated, or being reduced relative to prior years. Each firm-year observation was coded into one of four mutually exclusive categories based on changes in disclosed programming, language, resource allocation, and structural commitments:

Temporal Elements. DEI consistency was measured by quantifiable DEI commitments, defined as some type of explicit, measurable commitment made by the firm (e.g. statistical goal). The trend in this variable indicates that a greater number of firms made some commitment to either maintaining or furthering DEI in the years of 2021 and 2022 with steady declines both before and after this period. Importantly, the decline following 2022 was more pronounced than the growth leading up to 2021. For example, quantifiable DEI commitments decreased by approximately 30% between 2023 and 2024, whereas they increased by approximately 20% between 2020 and 2019. When examining a two-year window on either side of the peak years of DEI commitments, this asymmetry suggests that the external backlash against DEI after 2022 was stronger than the encouragement that accompanied its rise before 2021. More broadly, this pattern also suggests that firms respond more quickly to negative criticisms than to positive social pressure.

Organization Legitimacy. The organizational legitimacy was operationalized by the coding of firms' quantifiable DEI disclosures. Specifically, we focus on whether firms consistently report measurable DEI commitments, such as numeric targets, progress metrics, or formally stated initiatives across reporting periods. A firm that repeatedly discloses quantifiable DEI indicators is inferred to exhibit higher DEI legitimacy, as such disclosures signal institutionalization rather than symbolic or ad hoc engagement.

Consistency in quantifiable disclosure is central to this operationalization: firms that maintain a value of one (i.e., the presence of measurable DEI commitments) across years demonstrate durability and commitment, whereas firms that alternate between disclosure and non-disclosure signal lower or unstable legitimacy. This approach treats legitimacy not as a function of rhetorical variation or framing, but as an outcome inferred from sustained, observable, and verifiable organizational practices.

This internal measure aligns with external evidence from Kurtzberg and Ameri (2024), who show experimentally that stakeholders attribute greater sincerity and trust to organizations that provide specific, concrete DEI information rather than vague or compliance-oriented statements. Taken together, our operationalization captures DEI legitimacy as a function of measurability and consistency, consistent with legitimacy theory's emphasis on institutionalization and credibility.

Financial Outcomes. Financial outcomes were operationalized using both the raw values of revenue and the profit of the company. However, revenue demonstrated very little within-firm variance across years, as it is largely determined by overall company size and market position. Consequently, profit was retained as the primary financial outcome due to greater year-over-year variability.

Data Analyses

To test our hypotheses, a longitudinal panel design using 11 years of firm-level data (2014-2024). Given the hierarchical nature of our data consisting of years nested within firms, the statistical analysis approach consisted of several steps. First, descriptive statistics and zero-order correlations among study variables were examined. The intraclass correlations (ICCs) for example were calculated to determine the proportion of variance attributable to stable between company differences vs within-company fluctuations over time. This informed the selection of profit rather than revenue as the primary financial outcome for hypothesis testing, as profit demonstrated greater within-company variance (ICC for revenue = 0.86; ICC for profit = 0.59).

Furthermore, cross-lagged panel models with random intercepts (RI-CLPM; Hamaker et al., 2015) were utilized to examine within-firm relationships, while at the same time accounting for unobserved time-invariant heterogeneity. The RI-CLPM separates stable between-company differences (random intercepts) from within-company fluctuations over time, ensuring that cross-lagged coefficients reflect change processes rather than stable company characteristics.

The RI-CLPM breaks down each observed score for firm *i* at time *t* as follows:

For DEI signaling:

$$\mathrm{DEITrend}_{it} = \mathrm{RI\_D}_{i} + \mathrm{d}_{it}$$

For Public DEI messaging (Legitimacy):

$$\mathrm{PDM}_{it} = \mathrm{RI\_P}_{i} + \mathrm{p}_{it}$$

where $\mathrm{RI\_D}_i$ and $\mathrm{RI\_P}_i$ are random intercepts and d_{it} and p_{it} are within-company components representing year to year deviations from each firm's own average.

The within-company components were modeled with autoregressive paths (capturing inertia or carry-over from year $t-1$ to year t) and cross-lagged paths (testing directional predictions from one construct to the other). Under the stationarity assumption, all autoregressive and cross-lagged parameters were constrained to be equal across all 11 waves to preserve parsimony and model identifiability, except where explicitly relaxed for moderation testing (H4).

Formally, the within-company process was specified as:

$$d_{it}=a\cdot d_{i(t-1)} + cl_{pd}\cdot p_{i(t-1)} + \varepsilon_{dit}$$

$$pit= b\cdot p_{i(t-1)} + cl_{dp}\cdot d_{i(t-1)} + \varepsilon_{pit}$$

where:

- a = autoregressive stability of DEI signaling (within-firm inertia)
- b = autoregressive stability of PDM (within-firm inertia)
- cl_{dp} = cross-lagged effect of DEI signaling (t−1) on PDM (t): focal path for H1
- cl_{pd} = reverse cross-lagged effect of PDM (t−1) on DEI signaling (t): reverse causation

For H2 and H3, the RI-CLPM was extended to include standardized profit (Prof_ *z*) as an additional outcome variable. Moreover, for H4, stationarity constraint on the focal cross-lagged path was relaxed, allowing it to vary across three defined sociopolitical periods based on the outcome year when PDM was measured: Low support (2016, 2024), Medium support (2015, 2017-2019, 2023), and High support (2020-2022). Moderation was therefore tested via two complementary approaches: (a) a Wald test of the contrast between high-support and low-support cross-lagged coefficients, and (b) a Satorra-Bentler scaled likelihood-ratio test comparing the period-varying model against the fully constrained (stationary) model from H1.

All models were estimated using maximum likelihood with robust standard errors (MLR) and full information maximum likelihood (FIML) to handle missing data. Model fit was evaluated using multiple indices following established benchmarks: Comparative Fit Index (CFI) and Tucker-Lewis Index (TLI) > .95 were considered to indicate good fit. For the Root Mean Square Error of Approximation (RMSEA), values < .06 indicated good fit (Hu &Bentler, 1999).

IV. Results

Descriptive statistics for all study variables are presented in Table 3. DEI signaling (DEI Trend), was positively correlated with Legitimacy (PDM; r=.85, p<.001) and profit (r=.09, p<0.01).

Table 3

Descriptive Statistics and Zero-Order Correlations Among Study Variables

Variable	**N**	**M**	**SD**	**ICC**	**Skew**	**1**	**2**	**3**	**4**	**5**
1. DEI Signaling (DEITrend)	1,071	2.83	1.09	—	−0.70	—				
2. DEI Framing (DEI-framing)	1,068	2.54	0.94	.73	−0.63	.82***	—			
3. Legitimacy (PDM)	1,069	2.23	1.39	.69	−0.55	.85***	.83***	—		
4. Revenue (log)	1,046	10.19	1.56	.860	0.05	.28***	.28***	.28***	—	
5. Profit (log)	1,046	6.41	4.15	.590	−2.34	.09**	.09**	.10***	.35***	—

Note. N = company-year observations with valid data. ICC = intraclass correlation coefficient (proportion of variance due to stable between-firm differences). Variables 1-3 scored on 0-4 ordinal scales. Variables 4-5 log-transformed for modelling; raw means shown: Revenue M = $72,217M (SD = $93,928M), Profit M = $6,136M (SD = $12,804M). ICC for DEI Trend and DEI Framing estimated from null multilevel models. Correlations computed with pairwise complete observations. ** p < .01 *** p < .001.

Hypothesis 1: DEI Signaling and Legitimacy

First, table 4 shows significant shifts in DEI signaling: DEI signaling, framing, and legitimacy. Organizations increased their efforts substantially from 2016 to 2020, but recent reporting shows a marked decline, with 2024 disclosures resembling 2016 levels.

Table 4

Descriptives of DEI Signaling, Framing, and Legitimacy Over Time

Variables	**2016**	**2020**	**2024**	**Results**
DEI Signaling	2.55[a]	3.42[b]	2.60[a]	$F(2,189)= 28.9, p<.001$
DEI Framing	2.23[a]	3.04[b]	2.40[a]	$F(2,194)= 23.2, p<.001$
Legitimacy	1.69[a]	2.90[b]	2.08[a]	$F(2,190)= 26.9, p<.001$

Hypothesis 1 was tested at both the between-company and within-company levels. At the between-company level, the random intercepts of DEI signaling and legitimacy were strongly and positively correlated ($r = .99$, $SE= 0.04$, $p <.001$), indicating that firms with generally higher DEI communication also enjoy generally higher Public DEI Messaging. At the within-company level, the cross-lagged path from DEI signaling to legitimacy was positive and significant ($B=0.241$, $SE=0.067$, $p<.001$, $\beta=.223$; 95% CI [0.110, 0.373]). The reverse cross-lagged path (Legitimacy → DEI signaling) was also significant ($B=0.141$, $SE = 0.048$, $p=.003$, $\beta=.164$). Thus, when a firm increases its DEI signaling above its own average in a given year, it experiences a significant increase in legitimacy the following year. This provides strong support for Hypothesis 1.

Hypothesis 2: Legitimacy and Financial Performance

Hypothesis 2 predicted that organizational legitimacy (PDM) would be positively associated with subsequent firm financial performance (profit). The within-company cross-lagged path from legitimacy to next-year profit was not significant ($B=0.015$, $SE=0.014$, $p = .283$, $\beta=.054$; 95% CI [−0.01, 0.04]). The reverse path (profit → legitimacy) was also non-significant ($B=-0.074$, $SE=0.077$, $p=.341$, $\beta=-.048$). Therefore, Hypothesis 2 was not supported; changes in perceived legitimacy do not predict immediate year-over-year changes in profitability nor did profitability predict legitimacy.

Hypothesis 3: Mediation by Legitimacy

Hypothesis 3 proposed that organizational legitimacy will mediate the positive relationship between firms' average levels of DEI signaling and subsequent financial performance. Similar to the results from H1 and H2, the cl_{dp} remained positive and significant (B=0.332, SE=0.059, p<.001), while the cl_{pf} path remained non-significant (B=0.014, SE=0.019, p=.455). Hence, the indirect (mediated) effect was not significant (B=0.005, SE=0.006, p=.457, β=.017). The direct path from DEI signaling to profit (cl_{df}) was also non-significant (B=0.010, SE=0.018, p=.571), and the total effect of DEI signaling on profit (direct plus indirect) did not reach significance (B=0.015, SE=0.014, p=.301). Thus, Hypothesis 3 was not supported; there was no evidence that legitimacy mediated the relationship between DEI signaling and financial performance over a one-year lag.

Hypothesis 4: Moderation by Sociopolitical Period

Hypothesis 4 predicted that the relationship between DEI signaling and legitimacy would be stronger during periods of high sociopolitical support for DEI (2020-2022) relative to periods of low support (2016, 2024). Moderation was assessed via a Wald test directly compared the high-support and low-support cross-lagged coefficients. The contrast $diff=cl_{dp\_high}-cl_{dp\_low}$ was not significant (B=0.011, SE=0.065, p=.867, β=.022), indicating that the DEI → legitimacy effect did not differ statistically between high- and low-support periods. Additionally, a Satorra-Bentler scaled likelihood-ratio test compared the period-varying model against the fully constrained (stationary) model from H1. The test yielded no significant improvement in fit for the period-varying model ($\Delta\chi2$=0.056, Δdf=2, p=.973). Inspection of the period-specific coefficients revealed that the DEI → legitimacy path was significant across all three periods: Medium support (B=0.244, SE=0.068, p<.001), Low support (B=0.231, SE=0.084, p=.006), and High support (B=0.242, SE=0.078, p=.002). The consistency of these estimates across periods, combined with the non-significant contrast and LRT, indicated that the sociopolitical environment did not moderate the within-company effect of DEI signaling on perceived legitimacy (see Table 5). Therefore, Hypothesis 4 was not supported.

Table 5

RI-CLPM Within-Firm Path Estimates: Hypotheses 1-4

Path	B	SE	z	p	95% CI_L	95% CI_U	Sig.
DEI auto-regression [DEI(t−1) → DEI(t)]	0.243	0.065	3.73	<.001	0.115	0.371	***
PDM auto-regression [PDM(t−1) → PDM(t)]	0.182	0.057	3.16	.002	0.069	0.294	**
DEI → PDM (focal path, H1)	**0.241**	0.067	3.60	<.001	0.110	0.373	***
PDM → DEI (reverse path)	0.141	0.048	2.93	.003	0.047	0.235	**
PDM auto-regression [PDM(t−1) → PDM(t)]	0.307	0.047	6.57	<.001	0.216	0.399	***
Profit auto-regression [Profit(t−1) → Profit(t)]	0.191	0.091	2.10	.036	0.013	0.369	*
PDM → Profit (focal path, H2)	**0.015**	0.014	1.07	.283	−0.012	0.041	**ns**
Profit → PDM (reverse path)	−0.074	0.077	−0.95	.341	−0.226	0.078	ns
DEI → PDM (path a)	0.332	0.059	5.58	<.001	0.215	0.449	***
PDM → Profit (path b)	0.014	0.019	0.75	.455	−0.023	0.051	ns
Indirect effect a × b focal path, H3)	**0.005**	0.006	0.74	.457	−0.008	0.017	**ns**
Direct effect DEI → Profit	0.010	0.018	0.57	.571	−0.025	0.045	ns
Total effect DEI → Profit	0.015	0.014	1.04	.301	−0.013	0.043	ns
DEI → PDM: Low support (2016, 2024)	0.231	0.084	2.75	.006	0.066	0.396	**

DEI → PDM: Medium support (2015, 2017-2019, 2023)	0.244	0.068	3.60	<.001	0.111	0.377	***
DEI → PDM: High support (2020-2022)	0.242	0.078	3.11	.002	0.090	0.394	**
High vs. Low contrast (Wald test, focal: H4)	**0.011**	0.065	0.17	.867	−0.116	0.138	**ns**

Note. All models estimated via Random Intercept Cross-Lagged Panel Model (RI-CLPM; Hamaker et al., 2015) using MLR estimation and FIML for missing data (N = 100 firms, 11 annual waves, 2014-2024). B = unstandardized coefficient; SE = robust standard error; z = z-statistic; CI_L = 95% confidence interval (Lower Limit); CI_U = 95% confidence interval (Upper Limit). Focal hypothesis paths are highlighted in bold black. H4 moderation tested by relaxing stationarity on the DEI → PDM cross-lag across sociopolitical periods; the Wald test compares the High vs. Low contrast. LRT = Satorra-Bentler scaled likelihood-ratio test comparing the period-varying model against the stationary H1 model. ns = not significant. * p < .05 ** p < .01 *** p < .001.

Exploratory Analysis

At the leadership level, companies diversify boards or elevate women executives during moments of crisis, only to regress when conditions normalize. There has been a steady incline in racial leadership diversity since 2017. Gender diversity, however, has fluctuated across the past decade (see Figures 2 and 3). One explanation for this divergence is that racial diversity may be easier to signal through token appointments or different compositional changes as there are many more racial subgroups than gender subgroups. These practices allow firms to show progress without fundamentally redistributing power. By contrast, gender diversity appears to be more contested, with appointments often tied to high-profile crises or public pressure, followed by retrenchment once attention fades.

Figure 2

Mean Leadership Racial Diversity 2014-2024

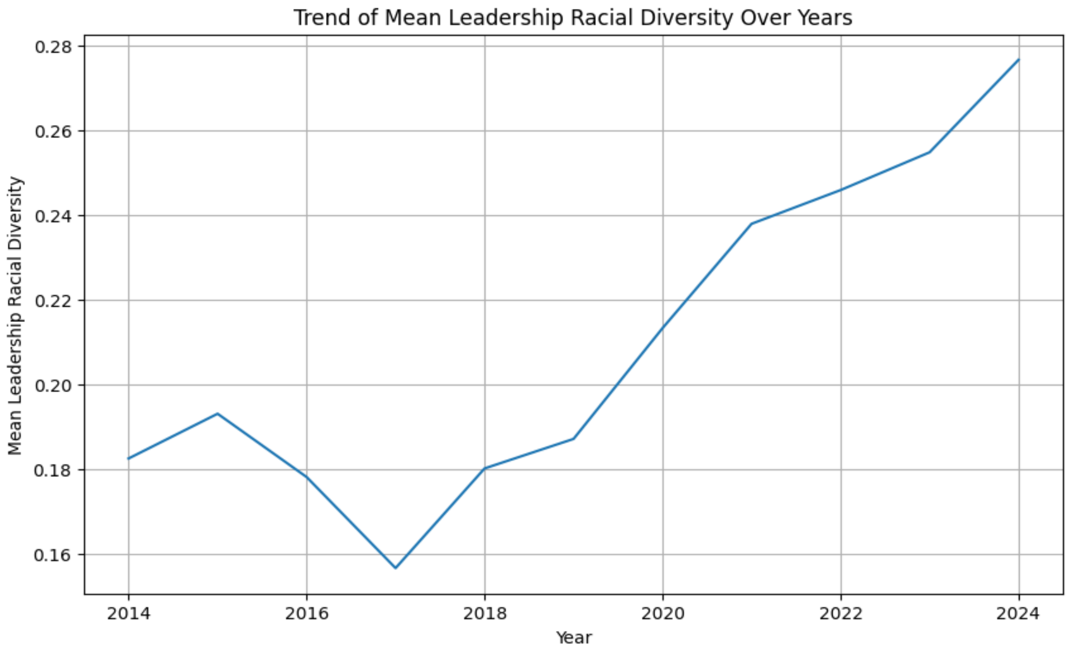


Figure 3

Mean Leadership Gender Diversity 2014-2024

The descriptive data highlight these limits. Only an average of 42% of the companies disclosed leadership diversity (top firms 51%, bottom 34%). Representation of women and racial minorities remained low. Racial diversity increased gradually from 2017 onward, but from a small base, while gender diversity rose and fell repeatedly, never establishing a stable upward trajectory. This pattern suggests that progress is fragile, with racial diversity easier for firms to signal symbolically than gender diversity, which continues to oscillate with external pressures.

At the organizational level, symbolic gestures without structural change generate volatility in reputation, investor trust, and employee morale. Specifically, a regression analysis revealed that report type was significantly related to the presence of employee resource groups ($\beta = 0.20$, $p = .037$) and firm revenue ($\beta = .28$, $p = .043$). ERGs were positively related to revenue ($\beta = .22$, $p = .012$) with a non-significant indirect effect of report type on revenue being in the positive direction ($\beta = .05$, $p = .121$), suggesting partial mediation. ERGs contribute but do not fully account for the relationship between reporting and revenue.

Furthermore, companies that consistently maintain their DEI commitments, rather than shifting with political cycles, are better positioned to achieve stable financial performance and reputational resilience. The top 50 financially performing companies reported higher levels of DEI framing ($M = 2.57$, $SD = 0.82$) and public messaging ($M = 2.20$, $SD = 1.27$) compared to the bottom 50 financially performing companies in both areas ($M = 1.88$, $SD = 0.96$; $M = 1.17$, $SD = 1.28$, respectively). These findings suggest that the top companies communicated DEI more effectively and consistently than their counterparts, $t(95) = 3.85$, $p < .001$, $t(95) = 4.00$, $p < .001$. Thus, by contrast, symbolic or politically reactive DEI, e.g., short-term spikes in public messaging without deep structural change, tends to produce volatility in outcomes and weaker long-term diversity gains.

V. Discussion

Taken together, this study advances understanding of how corporate engagement with DEI relates to organizational legitimacy under conditions of sociopolitical contestation. Rather than treating DEI as uniformly beneficial or harmful, the findings demonstrate that its legitimacy effects are contingent, context-sensitive, and shaped by how stakeholders interpret both the action and its intent. This changes the discussion around DEI from whether it matters to when, how, and for whom it matters, offering a more precise and holistic account of corporate social engagement in polarized environments.

Theoretical Implications

From a theoretical standpoint, this study furthers legitimacy theory as a more conditional and dynamic view of how legitimacy is constructed. Prior work assumes organizations are rewarded when their actions align with socially endorsed values, however, the study findings show that alignment becomes less straightforward when underlying values themselves are contested (Dowling & Pfeffer, 1975). As a result, legitimacy becomes a sign of stability and consensus surrounding norms, rather than functioning purely as conformity to norms.

As DEI becomes increasingly politicized, its meaning shifts from a broadly accepted signal to a more contested and ambiguous one (Ng et al., 2025). This finding extends prior research by showing that legitimacy judgements are shaped not only by whether firms align with societal expectations, but also by how stable and widely shared those expectations are. In doing so, the study reinforces the view that legitimacy as a socially constructed evaluation of a firm, rather than simply a result of firm behavior. Additionally, there is an uncertainty surrounding mediating effects of legitimacy, linking DEI to firm financial performance. Although prior research emphasizes the role of legitimacy in shaping stakeholder perceptions, the lack of a significant mediating effect suggests that legitimacy alone may not be enough to show the connection between DEI signaling and measurable financial performance (King & Soule, 2007). This finding proposes that a more complex model may be necessary, especially one that includes stakeholder trust, employee engagement, and customer perception as alternative mediators (Budur & Poturak, 2021; Palacios-Florencio et al., 2018; Yousf & Khurshid, 2024). By doing so, the study refines our understanding of the pathways through which socially oriented pathways influence firm performance.

The non-significant moderating effect of periods of heightened sociopolitical on the relationship between DEI signaling and organizational legitimacy suggests that stakeholder perceptions of DEI efforts are more stable across sociopolitical contexts than previously theorized. Rather than being highly sensitive to external shifts, stakeholder perceptions seem to be deeply rooted in firm credibility and consistent firm behavior (Guido, 2024). This finding suggests that legitimacy may be constructed more locally and relationally than assumed, tying together the relative influence of institutional environments and of firm-specific signals.

To complement these findings, our exploratory analysis places some of the observed oscillation in gender diversity while a more gradual rise in racial diversity was shown. Accordingly, this suggests that the two dimensions of DEI operate through distinct mechanisms and are subject to different social and political pressures. Gender diversity at the leadership level appears particularly vulnerable to symbolic, reactive appointments that track external crises rather than sustained strategic commitment. Racial diversity, while showing more consistent growth, also remains susceptible to tokenistic signaling, particularly given the broader number of racial subgroups that can be represented without meaningfully redistributing organizational power.

The mediation analysis involving ERGs and the revenue comparisons between top- and bottom-performing firms further reinforces the study's central argument: the durability and structural depth of DEI commitment matters more than the presence or amplitude of DEI signals. ERGs serve as an intermediary mechanism through which DEI reporting may translate into modest financial gains, yet their partial mediating role underscores that structural programs alone are insufficient without consistent, credible organizational legitimacy. The revenue gap between firms that communicate DEI effectively and consistently versus those that engage in politically reactive messaging aligns with previous legitimacy work (e.g., Pittman, 2025) as symbolic DEI initiatives will undermine legitimacy. Together, these exploratory patterns suggest that firms navigating contested DEI environments are best served not by intensifying public messaging during high-pressure moments, but by maintaining structural commitments (e.g., ERGs, transparent leadership diversity reporting, and stable DEI framing) that build reputational resilience over time.

Limitations and Future Research

Prior to hypothesis testing, the data was examined for completeness. Leadership gender diversity and leadership racial diversity variables were found to have 70% missing observations and were therefore unusable for primary analyses. In retrospect, this data could have cemented our claims about substantive and symbolic commitments as increases in the hiring of certain demographic groups following social movements is a common pattern that follows symbolic commitments (Germain et al., 2019).

The operationalization of legitimacy was binary in nature posing challenges for mediation tests. Measuring legitimacy as a binary variable (legitimate vs. not legitimate) oversimplifies a continuous and multidimensional construct. In practice, firms can be perceived on a scale as more or less legitimate across different stakeholders and public contexts, which a binary model does not account for. This loss of variation reduces the amount of information available in the mediator, which makes detecting mediator effects more challenging. Additionally, because binary mediators require nonlinear modeling, the decomposition of total effects into direct and indirect components is harder, making the results more difficult to interpret.

Additionally, legitimacy is operationalized as a uniform construct, implicitly assuming homogeneity in stakeholder evaluations of DEI initiatives. However, this overlooks the likelihood of heterogeneous stakeholder reactions, as different groups possess distinct interests, values, and expectations that shape their perceptions. As a result, this simplification may neglect meaningful variation in how legitimacy is constructed across stakeholder groups, potentially leading to biased or incomplete interpretations of our findings due to differing stakeholder pressures (Colleoni et al., 2024).

Building on these limitations, future research would benefit from employing a continuous or multi-item scale to measure legitimacy, rather than a binary model, in order to better capture mediating effects and heterogenous stakeholder responses. Nagy and colleagues (2017) developed a legitimacy threshold scale that categorizes firms across stages of development. This nine-item self-assessment tool distinguishes between pre-legitimacy (six items aimed at external resource attainment) and post-legitimacy activities (three items aimed at internal resource management). Adapting such a scale to the context of DEI initiatives could provide a more nuanced and holistic understanding of legitimacy, enabling researchers to recognize variation in stakeholder perceptions and its role as a mediating mechanism.

Future research should also incorporate more comprehensive data on board, leadership groups, and employee demographics to strengthen the analysis. By expanding these variables, we can conduct a robust evaluation of whether corporate DEI initiatives reflect substantive change or symbolic commitments. In particular, tracking shifts in the hiring of specific demographic groups following major social movements could help clarify these distinctions, as prior research suggests increases often align with symbolic responses to social events rather than sustained structural change (Westphal, 2023). By integrating this additional data, future studies could more definitely assess the depth and longevity of organizational commitments to diversity, equity, and inclusion.

VI. Conclusion

This study aimed to examine how patterns of firm DEI signaling related to organizational legitimacy and financial outcomes across shifting sociopolitical contexts. The findings suggested that consistent DEI signaling contributed to organizational legitimacy, however these effects were not moderated by sociopolitical contexts and did not significantly impact short-term financial performance. These results contribute to legitimacy and signaling theory by suggesting that the value of DEI may lie more in durability and credibility than in immediate outcomes, or short-term financial performance in the context of this study. Practically, the findings suggest organizations may benefit from approaching DEI as a sustained institutional commitment rather than a symbolic response to external pressures. Overall, this study highlights that the significance of DEI may be found less in short-term gains and more in the resilience and trust built through long-term commitments.

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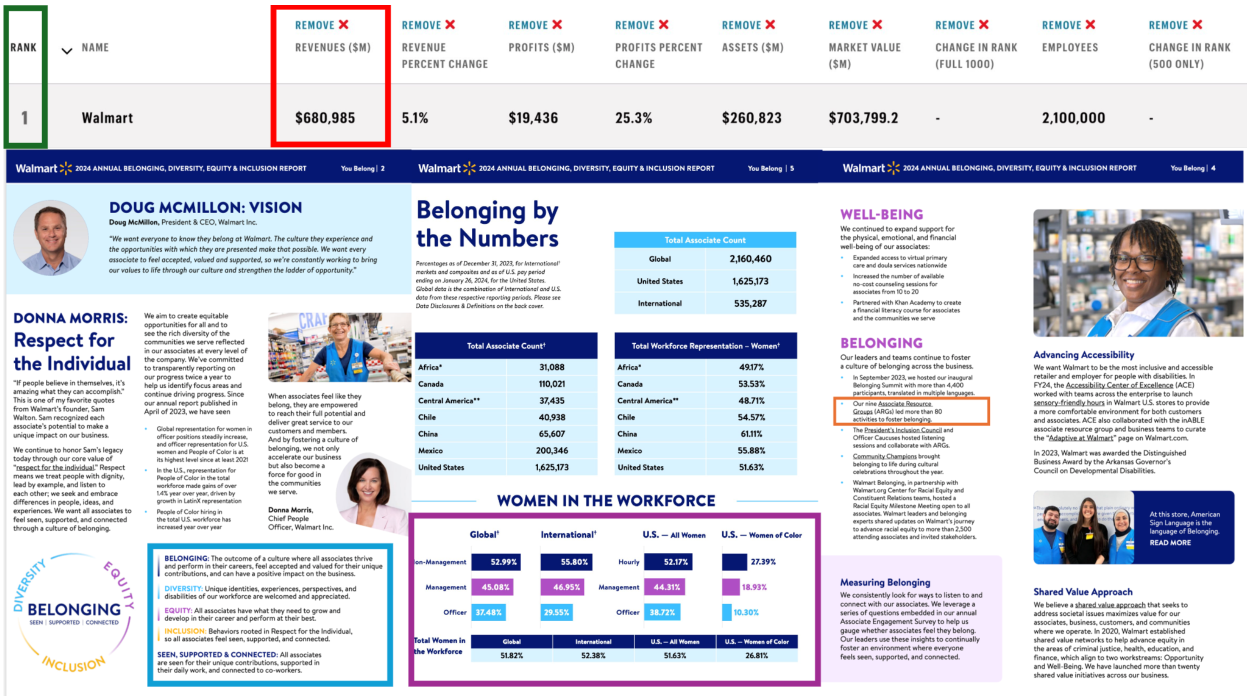
Appendix

Figure A1

Illustrative Figure Demonstrating Data Extraction when Coding



Note. Colored boxes represent the different coding constructs. Green represents top/bottom, red represents raw revenue, orange represents ERG presence, blue represents DEI signaling, and purple represents leadership composition. Board data is made up only of existing members, not nominees. Leadership demographics is made up of data for the US only, not global or international. Molding DEI initiatives, employee training centered around DEI, and company culture based on employee feedback are considered a 4 for DEI trend rather than a 3.