

Polarizing Corporations: Does Talent Flow to “Good” Firms?

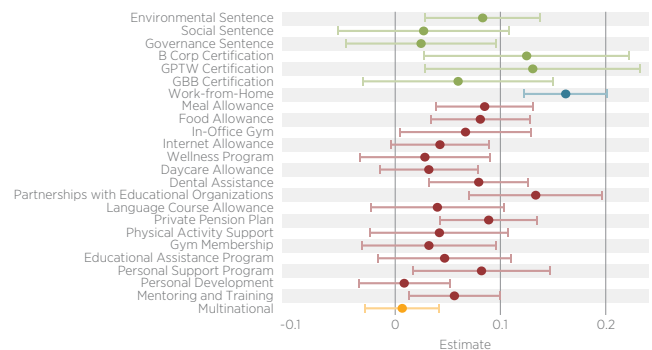
Based on BFI Working Paper No. 2023-147 “Polarizing Corporations: Does Talent Flow to ‘Good’ Firms?” by Emanuele Colonnelli, Chicago Booth; Thomas Rauter, Chicago Booth; Olivia Xiong, Chicago Booth; Tim McQuade, Berkeley Haas; and Gabriel Ramos, Imperial College London

Jobseekers prefer companies that demonstrate ESG practices, with the strongest preferences among those who are highly educated, white, and politically liberal. The adoption of ESG practices increases total economic output and worker welfare, and widens the wage gap between skilled and unskilled workers.

Recent research from UChicago economists has documented the tremendous rise in the pressure that corporations face to do “good” not just to shareholders, but to society at large. This shift has placed the environmental, social, and governance (ESG) practices of corporations in the spotlight. In parallel, a growing body of academic work studies how employees consider nonmonetary attributes—such as the organization’s mission and values—when making employment decisions. In this paper, the authors study whether and how corporate ESG practices affect talent allocation.

The authors study this question in the context of Brazil, where they conduct a field experiment in collaboration with Catho, the largest job-matching platform in Latin America. They create hypothetical job postings where they manipulate traits such as ESG disclosures and certifications as well as other firm characteristics. Catho then invites jobseekers to rate a set of job postings under the incentive that their responses will be used to match them to a set of real job postings. The authors use jobseekers’ responses to estimate individual preferences for ESG by comparing their ratings across different jobs, and find the following:

Figure 1 • Granular ESG Signals and Nonwage Amenities on Job-Seeker Interest



Note: This figure shows estimates (measured in terms of regression coefficients) of how much respondents value different attributes of companies. The estimates are indicated by dots and the horizontal lines show 95% confidence intervals.

- Jobseekers have a strong preference for ESG. They value the ESG signal as equivalent to about 10% of average wages. ESG signals are comparable to private pension plans and more important than most other nonwage amenities, including working for a multinational company, various food and medical allowances, and professional development programs, in eliciting interest from jobseekers. ESG is about 60% as effective as work-from-home arrangements in eliciting interest from jobseekers.

- These effects are strongest for companies that have an ESG certification (in particular, B Corporations, a common designation from the organization B Lab) and for those with positive environmental practices. By contrast, there is no statistically significant effect on average for signals of positive social or governance practices.
- Preferences for ESG are concentrated among highly educated, white, and politically liberal individuals. In contrast, there are no differences by gender or age.

Building on these results, the authors next assess how these dynamics impact the broader labor market. They combine their estimates with rich matched employer-employee administrative data (from the Brazilian Ministry of Labor) to measure how ESG impacts the distribution of skilled and unskilled labor across different firms, wage differentials between different demographics, allocative efficiency, and worker welfare. They find the following:

- Compared to a counterfactual without ESG, ESG adoption increases total output by roughly 0-0.7% by improving the allocative efficiency of the economy.

- ESG adoption also increases the wage differential by roughly 0-4% relative to a baseline economy with no ESG. This effect arises because introducing ESG leads to a more allocatively efficient distribution of labor across firms and increases the total wage bill in the economy. This increase primarily accrues to skilled workers, as they tend to value ESG more and therefore respond more to its introduction.
- Finally, ESG increases total worker utility on the order of 0-5% relative to the baseline economy. This increase arises from the direct benefit workers receive from working for socially responsible companies, as well as general benefits due to increases in allocative efficiency.

These results have practical implications for corporate recruiting strategies and suggest that signaling ESG activities and organizational values in job postings can help firms attract talent in an increasingly values-driven job market. Furthermore, the study points to the importance of accounting for distributional effects when considering the adoption of ESG and related policies of corporations and governments alike.

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NO. 2023-147 · NOVEMBER 2023

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