



**UNIVERSITY  
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# **Integration of Recruitment-Based DEI into the Social Pillar of ESG Reporting**

An Organisational Perspective

Management and Organization, Pori Unit

Bachelor's thesis

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Pori

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## **Bachelor's thesis**

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### **Abstract**

The term 'sustainability' contains many elements, such as environmental, social, and economic issues. Nowadays, individuals around the world have started to pay more attention to how organisations function, and simply being profitable is not enough anymore. Social responsibility is also seeing a rise in awareness, and organisations are more likely to face scrutiny from stakeholders, if they do not follow guidelines and regulations. As a response to these guidelines and regulations, organisations publish yearly Environmental, Social, and Governance (ESG) reports. Social sustainability is a component of the social pillar in ESG, which covers matters such as employee well-being, human rights and Diversity, Equity, and Inclusion (DEI).

Recruitment-based DEI are practices used during recruitment processes or that support them in order for diverse applicants to have an equal chance at getting a position in an organisation. Practices include equal employment opportunity (EEO), inclusive job advertisements and diversity management. These practices bring advantages such as better relations with employees, competitive advantage, and individual benefits. Yet, there are also challenges, including diversity washing, overuse of recruitment-based DEI and a gap between minority and majority groups. These are then reflected in the social pillar of ESG, which discloses an organisation's attempts at sustainability. Stakeholders view the pillars as interconnected, meaning all of them need to be equally considered. However, research shows that the social pillar has not received the same attention as the environmental and governance pillars. This is due to a limited understanding of the social pillar itself and of social sustainability metrics.

The objective of this thesis is to analyse the factors underlying the level of integration of recruitment-based DEI into the social pillar of ESG, as well as the benefits and challenges this integration brings to organisations. The literature identifies five factors underlying the integration of recruitment-based DEI into the social pillar of ESG: culture and strategy, societal pressure in relation to the challenges of the social pillar, different DEI engagement types, stakeholder pressure, and signalling.

Based on the literature, culture and strategy and stakeholder pressure are the two external factors most strongly associated with the level of integration. Regarding internal factors, the DEI engagement type appears to play the most central role, as it is also linked to signalling, culture and strategy. As for the second question, the benefits and challenges of integrating recruitment-based DEI are tied to the integration level. The most important benefits include improved relationships with various stakeholders and better organisational performance. The challenges on the other hand are mostly a result of diversity washing. This is caused by a gap, where statements do not match real actions, which then negatively affect how they are perceived.

**Keywords:** DEI (diversity, equity, inclusion), ESG (environmental, social, governance), recruitment, social pillar (S), stakeholders, integration factors

## Kandidaatintutkielma

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### Tiivistelmä

Vastuullisuuden käsite sisältää monia asioita, kuten ympäristöllisiä, sosiaalisia ja taloudellisia seikkoja. Nykypäivänä ihmiset ympäri maailmaa ovat alkaneet kiinnittämään enemmän huomiota siihen, miten organisaatiot toimivat, eikä pelkkä kannattavuus enää riitä. Myös tietoisuus sosiaalisesta vastuusta on kasvussa, ja organisaatiot joutuvat helpommin sidosryhmien tarkkaillun kohteeksi, jos ne eivät noudata ohjeita ja säännöksiä. Vastauksena näihin ohjeisiin ja säännöksiin organisaatiot julkaisevat vuosittain ympäristöön, sosiaaliseen ja hyvään hallintotapaan (ESG) liittyviä raportteja. Sosiaalinen vastuullisuus on osa ESG:n sosiaalista ulottuvuutta, joka kattaa asioita kuten työntekijöiden hyvinvoinnin, ihmisoikeudet, sekä monimuotoisuuden, yhdenvertaisuuden ja inklusion (DEI).

Rekrytointiin perustuvat DEI-toimenpiteet ovat käytäntöjä, joita sovelletaan rekrytointiprosessien aikana tai tukevat niitä, jotta monimuotoisilla hakijoilla olisi tasavertaiset mahdollisuudet saada työpaikan organisaatiosta. Käytäntöihin kuuluu yhtäläiset työmahdollisuudet (EEO), inklusiiviset työpaikkailmoitukset sekä monimuotoisuuden johtaminen. Nämä käytännöt tuovat etuja, kuten paremmat suhteet työntekijöihin, kilpailuetua sekä yksilöllisiä hyötyjä. Haasteitakin on kuitenkin olemassa, kuten monimuotoisuuspesu (engl. diversity washing), rekrytointiin perustuvan DEI:n liiallinen käyttö sekä kuilu vähemmistö- ja enemmistöryhmien välillä. Nämä näkyvät sitten ESG:n sosiaalisessa ulottuvuudessa, joka tuo ilmi organisaation pyrkimyksiä kestävän kehityksen alalla. Sidosryhmät pitävät näitä ulottuvuuksia toisiinsa liittyvänä kokonaisuutena, tarkoittaen, että kaikkia niitä on otettava tasapuolisesti huomioon. Kuitenkin tutkimukset osoittavat, ettei sosiaalinen ulottuvuus ole saanut yhtä paljon huomiota kuin ympäristön ja hallinnon ulottuvuudet. Tämä johtuu sosiaalisen ulottuvuuden sekä sosiaalisen kestävyuden mittareiden rajallisesta ymmärtämisestä.

Tämän tutkielman tavoitteena on analysoida rekrytointiin perustuvan DEI:n integraation tason taustalla olevia tekijöitä ESG:n sosiaalisessa ulottuvuudessa sekä tarkastella tämän integraation tuomia hyötyjä ja haasteita organisaatioille. Kirjallisuus tunnistaa viisi rekrytointiin perustuvan DEI:n integraation taustalla olevaa tekijää ESG:n sosiaalisessa ulottuvuudessa: kulttuuri ja strategia, yhteiskunnallinen paine suhteessa sosiaalisen ulottuvuuden haasteisiin, erilaiset DEI-sitoutumisen tyypit, sidosryhmien paine sekä signaali.

Kirjallisuuden perusteella kulttuuri ja strategia sekä sidosryhmien paine ovat kaksi ulkoista tekijää, jotka ovat vahvimmin yhteydessä integraation tasoon. Sisäisten tekijöiden osalta DEI-sitoutumisen tyypit näyttävät olevan keskeisin, sillä se linkittyy myös signaaliin, kulttuuriin ja strategiaan. Toisen kysymyksen osalta rekrytointiin perustuvan DEI:n integroinnin edut ja haasteet liittyvät integraation tasoon. Tärkeimmät hyödyt sisältävät paremmat suhteet erilaisiin sidosryhmiin ja parempi organisaation suorituskyky. Sen sijaan haasteet johtuvat pitkälti monimuotoisuuspesusta. Tämä johtuu ristiriidasta, jossa puheet eivät vastaa todellisia tekoja, mikä puolestaan vaikuttaa kielteisesti siihen, miten ne koetaan.

**Avainsanat:** DEI (monimuotoisuus, yhdenvertaisuus, osallisuus), ESG (ympäristö, sosiaalinen, hyvä hallintotapa), rekrytointi, sosiaalinen ulottuvuus (S), sidosryhmät, integraatiotekijät

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# 1 Introduction

## 1.1 Background of the Study

Sustainability has been the focus of attention, especially in the last few years. Sustainability covers many issues, all the way from how products and services are made to what are the working conditions of employees. Consumers, one stakeholder group, are especially paying attention to how organisations operate, which influences their consumer behaviour. Regarding social sustainability, consumers focus most on ethically produced items and labour laws. (Forbes 2024.) This drives organisations to maintain a responsible image by following laws regarding corporate responsibility. As a result, the importance and meaning of corporate sustainability have seen a rise, particularly when it comes to reporting it.

There are various ways of reporting an organisation's commitment towards sustainability, but one of the most commonly used reporting framework is the Environmental, Social, and Governance (ESG) report (Newell 2023, 454). ESG quantitatively analyses organisations' engagement with sustainability and social issues (Khamisu & Paluri 2024, 1). Due to sustainability concerns, ESG reporting has become increasingly mandatory in multiple countries, which has compelled organisations to address their level of sustainability (Fan & Tahmasebi 2026, 1). Because of this rise, there are many studies discussing the importance of ESG reports for stakeholders, investors, firm reputation, and so on (de la Fuente & Velasco 2024, 3).

The second pillar of ESG reports is the social pillar (S). The social pillar focuses on practices towards the employees of an organisation, such as gender equality, employee rights, and reducing inequality (Gidage 2025, 6; Dreifert & Rigotti 2026, 120; Lokuwaduge & Heenetigala 2017, 445). One reason why the social pillar of ESG is especially relevant is due to ongoing social inequality issues, such as wage gaps between genders and racial discrimination. Social inequality is still very present in modern society, and because of that researchers are invested in studying it further. (Alm Andreassen 2021, 1.)

In addition to the topics above, the social pillar also addresses Diversity, Equity, and Inclusion (DEI). DEI serves a great purpose, since the world and especially working environments are constantly changing. This leads to organisations being more diverse. (Park et al. 2025, 67.) Essentially, DEI intends on giving advantages to people who are part of a minority group or are socially disadvantaged (Li et al. 2024, 2750). Especially nowadays, DEI practices focus on a range of aspects, including gender, ethnicity, sexual orientation, and age (Newell & Marzuki 2024, 478).

According to Levi and Fried (2025, 172), organisations have progressively started implementing DEI into their activities. For example, one research revealed that in Australia 77 % of ASX (Australian Securities Exchange) 200 companies have integrated DEI into their ESG reports, which indicates an increase in its importance (Alahakoon et al. 2024, 263).

DEI can be a part of many organisational functions, particularly in human resource management (HRM), and its purpose is to establish a diverse, equal, and inclusive organisational culture (Li et al. 2025, 2747). One way of increasing an organisation's diversity pool is by recruiting individuals from different backgrounds. According to Levi & Fried (2025, 176), organisations have made more efforts to recruit individuals from minority groups. Because the focus is heavily recruitment-based, this thesis will examine recruitment-based DEI practices in more depth.

When it comes to organisational integration, there is no single definition for it since the meaning may change depending on the context. However, generally the term 'integration' refers to "the action or process of combining two or more things in an effective way" (Cambridge dictionary definition). This general definition of the term applies to this thesis as well, since the focus is on the factors underlying the integration level of recruitment-based DEI into the social pillar of ESG reports and their role in it. However, this is not limited to only combining recruitment-based DEI and ESG. According to Roberson (2025, 65), when recruitment-based DEI is integrated into organisational functions, organisations become stronger in the sense that their performance and organisational culture improve. This integration is then concretised in ESG reports.

## **1.2 Thesis Questions and Structure**

Even though recruitment-based DEI practices and their integration into ESG reports might be seen as a self-evident thing by some people, there is only a minimal amount of literature studying their relationship. There is, however, a large range of literature that studies these topics separately, and which also supports their theoretical combination. Their combination is also supported by the fact that organisations include Diversity, Equity, and Inclusion (DEI) into their ESG reports, which establishes their relationship. Since these research topics have been studied separately but not together, there is a gap in the research, to which this thesis aims to find an answer. Thus, the research questions are the following:

- 1. What factors underlie the integration level of recruitment-based DEI into the social pillar of ESG?*
- 2. What benefits and challenges does this integration bring to organisations?*

Narrowing the thesis topic and questions have multiple reasons. Most of the literature focus on these issues from an organisational point of view. The original aim in this thesis was to examine DEI regarding HR in general, but it was determined that HR is too broad for a bachelor's thesis, which is why it was then narrowed down to only recruitment practices. Additionally, diving too much into ESG as a whole would not bring much more value to this thesis, since DEI is not equally distributed between all ESG pillars, having the strongest and most direct impact on the social pillar (Gidage 2025, 6). Another interest why this was narrowed down to only the social pillar was due to the little attention it has received compared to other pillars (Newell & Marzuki 2024, 476; Newell 2023, 454).

This thesis is conducted as a literature review; thus, sources will be based on peer reviewed academic articles and research studies. The literature focuses on themes like implementation of DEI in HR practices (incl. recruitment), ESG reporting and (social) sustainability. Databases such as the University of Turku's Volter, the University of Tampere's Andor, and Google Scholar were used to search for academic articles and research studies. Academic articles were also found through the bibliographies of other used literature in this thesis. In addition to these, Zotero was used to manage the large number of sources used for this thesis.

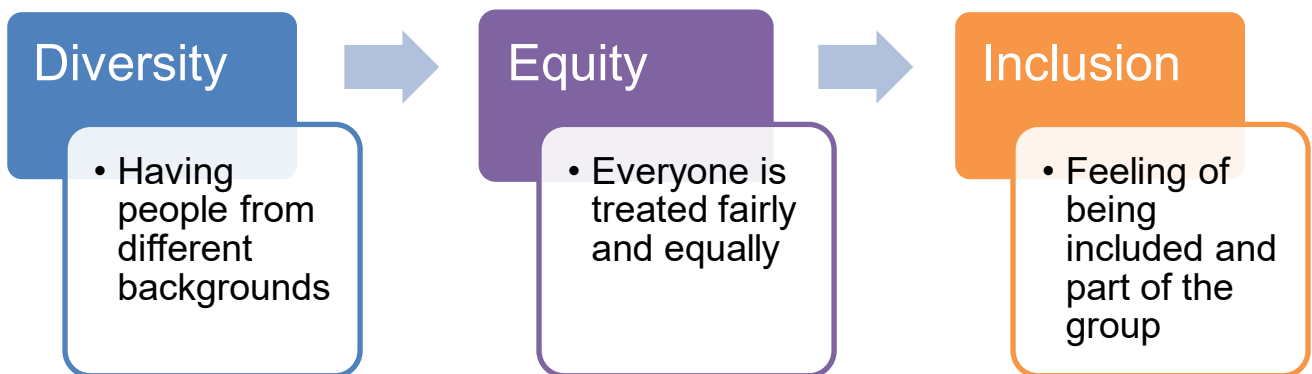
The second chapter will discuss the definitions of DEI and recruitment, how DEI is visible in recruitment processes and why it is important and what might be the organisational limitations of DEI in recruitment. The third chapter will then discuss the role of ESG as a reporting framework, what the social pillar is and the challenges of ESG reporting from the perspective of the social pillar. The fourth chapter will combine the theory of the two previous chapters and discuss what factors underlie the level of integration of recruitment-based DEI practices into the social pillar of ESG reports, the benefits it brings as well as limitations to it. The final chapter will summarize the thesis and discuss the results. In addition, possible limitation of the thesis and further studies will be examined.

## 2 Recruitment-Based Diversity, Equity, and Inclusion (DEI)

### 2.1 Theoretical Foundation of DEI and Recruitment

#### 2.1.1 Diversity, Equity & Inclusion (DEI)

Diversity, equity, and inclusion (DEI) as a whole places emphasis on representing minority groups in an organisation and creating a unified organisational culture (Iyer 2022, 3; Alahakoon et al. 2024, 271; Gündemir et al. 2024, 1; Park et al. 2024, 66). At the same time, it reflects organisational principles and standards, whether they are positive or negative (Castillo et al. 2024, 44; Mogilski et al. 2025, 1174). Those values are observable from annual reports, but also from day-to-day activities, such as board diversity and recruitment practices. When addressing DEI, one must acknowledge the fact that the concept is rather broad. According to Baker et al. (2024, 1667), DEI does not focus only on certain concerns or traits, but rather takes various backgrounds and environments into consideration, such as ethnicity, gender, age, etc.



**Figure 1** Components of DEI (Mogilski et al. 2025, 1175-1176; Bernstein et al. 2019, 396)

Figure 1 shortly describes the function of each DEI component, starting from diversity, then equity and lastly, inclusion. Diversity (D) is the first aspect of DEI. The term has many definitions depending on the context. However, a general view of the term is that in an organisation there are employees from different backgrounds, varying between minority and majority individuals (Mogilski et al. 2025, 1175; Bernstein et al. 2019, 396; Alahakoon et al. 2024, 268). This is also known as demographic diversity, where individual traits are visible, such as sex, race, or age (Park et al. 2024, 68; Yadav & Lenka 2020, 903). When diversity is understood differently among peers,

it may affect decision-making processes, as some individuals' interests may be overlooked. (Mogilski et al. 2025, 1175). Park et al. (2025, 68) pointed out diversity serves as a source of learning, for example through knowledge sharing, but also as a challenge in the form of employee integration.

Even though equity (E), is the second letter that is part of the acronym DEI, it was only later on added into it (Levi & Fried 2024, 173). Similarly to diversity, equity as a term has different definitions. One view is that equity focuses on ensuring that all employees in an organisation have fair and equal access to possibilities (Mogilski et al. 2025, 1176). Furthermore, Bernstein et al. (2019, 396) elaborate that the objective of equity practices is to fix inequalities in an organisation. These inequalities are most present in compensation, status and authority (Levi & Fried 2024, 173). Compared to diversity, which focuses more on 'personal' backgrounds, equity's focal point is an individual's social backgrounds, which can refer to one's wealth or status. Therefore, equity's pursuit is that there would not be systematic distinctions between groups of different social status. (Bernstein et al. 2019, 396.)

The last component of DEI is inclusion (I). Inclusion can be considered to be diversity that ensures all employees are included in an organisation (Levi & Fried 2025, 173). While diversity mainly aims at having individuals from diverse backgrounds in an organisation, inclusion's objective is to make those individuals feel like they are part of the organisation (Bernstein et al. 2019, 396; Castillo et al. 2024, 46; Shore et al. 2011, 1265, 1267). Inclusion can be further defined as how employees think that an organisation undertakes actions to make them feel included, safe, and respected in work groups (Shore et al. 2011, 1268; Mogilski et al. 2025, 1176). This implies that inclusion is viewed as a link for all DEI components and is a critical element in organisational practices.

Even though DEI is generally seen as an important aspect in an organisation, different events can increase its impact. Some events, such as #MeToo and Black Lives Matter, have made stakeholders such as investors and consumers increase their recognition of DEI initiatives (Cai et al. 2024, 2162; Nittrouer et al. 2025, 190). Such large campaigns put pressure on organisations to address community needs and responsibilities (Gidage 2025, 17). Pre-existing organisational diversity helps organisations address issues like these at a more efficient rate than competitors. Another alternative on addressing these issues is not only incorporating DEI into smaller, individual processes, such as recruitment, but overall into the organisation's strategy (Roberson 2025, 62).

### 2.1.2 Recruitment as a Process

Human Resources (HR) includes many functions, one of them being recruitment (syn. 'hiring'). According to Jepsen and Grob (2015, 163), recruitment is the most evident HR operation, which aims at retaining skilled, potential employees. Alm Andreassen (2021, 2) furthermore discusses how recruitment is one of the major practices that creates inequality amongst individuals.

Recruitment is a complicated process, and depending on the organisation, it may involve numerous steps. From the beginning, job advertisements message what qualities an organisation prefers in a candidate and thus, who will be interested in applying. (Alm Andreassen 2021, 1.)

Since recruitment processes include numerous steps, one may assume that they also include a great deal of communication inside organisations and between organisations and job applicants. During the process, recruiters communicate what skills and educational backgrounds they are looking for, whereas applicants communicate their competences, abilities, and knowledge to the recruiter (Koivunen et al. 2015, 3). Recruitment can be seen as some sort of 'bargaining' process, where both sides offer and seek something from the other. However, usually recruiters may already have in mind the type of employee they want, and this is where they apply targeted recruitment. Targeted recruitment is used when recruiters search for potential employees that match with the organisation's strategies. This usually happens towards the end of the recruitment process, where both the candidate and the organisation assess each other's fit. (Casper et al. 2013, 312.) This, however, does not always lead to positive outcomes. According to Koivunen et al. (2015, 4), recruiters may act as gatekeepers, since they have the power to decide who gets a position. This can be seen as unfair since recruiters may gatekeep other candidates from getting the position due to their vision of the 'right candidate'.

Another important distinction of recruitment processes is that they are time consuming and expensive to organisations. Because of these recruiters pursue to find the best candidate in the most efficient way possible. Mistakes are avoided, since they are not cheap and again, are time consuming. Not only that, but mistakes may also affect an organisation's image (Mahjoub & Kruyen 2021, 107, 119.) The costs of recruitment processes are notably visible when using private employment agencies (syn. recruitment firm). Private employment agencies manage the recruitment processes for the customer organisation (Koivunen et al. 2015, 8). The only thing they do not usually do is choose the candidate who gets the job. That is the customer organisation's job. Now that DEI and recruitment as a process have been discussed, it is time to examine different recruitment-based DEI practices and their advantages and challenges.

## 2.2 Recruitment-Based DEI Practices

DEI can present itself in many ways during the recruitment process. One such form is equal employment opportunity (EEO). With the help of EEO, minority individuals are more likely to apply for a job position, since the risk of discrimination is lowered. (Alahakoon et al. 2024, 263; Syed & Kramar 2009, 640.) This practice is not limited to only recruitment but goes on how new employees are treated and when giving them promotions (Alahakoon et al. 2024, 268). Thus, recruitment-based DEI practices are only the beginning when it comes to integrating DEI at a deeper organisational level. EEO communicates to job applicants that DEI is an integral part of recruitment processes, and when they apply and/or are hired into the organisation, they have a positive view of it and can truly feel included (Alahakoon et al. 2024, 267). In addition, targeted recruitment, which was discussed in the last section, may include DEI practices. Targeted recruitment is part of affirmative action programs, which pursue to give individuals an equal chance at employment. Employers evaluate applicants equally, and recruitment practices intend on hiring individuals from diverse groups. (Nittrouer et al. 2025, 195.)

Another form of DEI practices in recruitment processes is inclusive job advertisements. When individuals are looking for a new job, they quickly decide whether they want to apply or not based on the language used in the advertisement. Mahjoub and Kruyen (2021, 112) describe that the primary objective of job advertisements is to attract job applicants about an open position and encourage them to apply. As a result, the language and wording used in job advertisements can either attract or discourage candidates to apply, which will also reflect in the hiring decision (Castillo et al. 2024, 47-48). So, if the language is discriminatory towards one's gender or skin colour, it may give a negative portrayal of the organisation (Mahjoub & Kruyen 2021, 116). Thus, through job advertisements organisations signal that they take diversity matters seriously and do their best at avoiding discrimination (Alm Andreassen 2021, 1). This type of signalling method can encourage both minority and majority candidates (Mahjoub & Kruyen 2021, 117).

The use of DEI practices starts by writing diverse, equal, and inclusive job descriptions, but these practices extend beyond descriptions. They need to be present throughout the whole recruitment process, and after hiring decisions. That way, the candidate pool is wider and the attraction towards a position remains throughout the process. (Nittrouer et al. 2025, 188-189; Castillo et al. 2024, 61.) Job interviews can be used as an example here. During an interview, recruiters may be refrained from asking the candidate questions about their personal traits, unless they are genuinely relevant to the position in question. This is done by having structured interviews, where recruiters use the same

question bank for all candidates (Nittrouer et al. 2025, 193). The list of possible practices is long and can be different depending on the phase of recruitment. However, within recruitment, DEI practices are often characterized as selection-based, with a focus on engaging minority groups (Roberson 2025, 63).

Recruitment-based DEI practices are not always directly linked to the recruitment process itself but may influence how it will be later conducted. These practices are part of diversity management. Diversity management is a model that focuses on building strategy for organisations, which includes how it recruits and retains employees from different backgrounds and makes the working environment inclusive for them. (Ayoko & Fujimoto 2023, 986; Yadav & Lenka 2020, 903.) The idea behind diversity management is that by having different individuals in an organisation, employees feel more valued, and their knowledge and skills are used to enhance organisational performance (Syed 2009, 641). Other practices include cross-cultural training and team-building activities (Yadav & Lenka 2020, 921). These practices are typically used by recruiters during the hiring process, but they may also be used by other employees when onboarding new hires and sharing knowledge with them. According to Yadav and Lenka (2020, 921), diversity management practices have been proven to increase results in personnel diversity.

In addition to diversity management, organisations adopt DEI practices through other approaches, such as employee training. Employee training teaches employees to detect bias and inequalities in working environments and how to change those behaviours. Later, those teachings are utilized in recruitment processes, where recruiters decide who they will hire. (Beckert & Koch 2025, 544; Iyer 2022, 2.) According to Castillo et al. (2024, 48), another practice is to have search committees and pay for professional development training, so that recruiters hire more diversely. Usually, symbolic practices seek to improve an organisation's reputation, and may include reporting value statements on their sites or reports and responding positively towards diversity. Symbolic practices can be considered beneficial, but only when adopting concrete practices as well. (Levi & Fried 2025, 175, 179.)

### **2.3 Organisational Advantages of Recruitment-Based DEI**

Having outlined some recruitment-based DEI practices, this sub-chapter will focus on the advantages those practices bring. This is also the first instance where stakeholders come in. Based on an organisation's values, actions, and statements, stakeholders may react either positively or negatively towards them. By communicating recruitment-based DEI practices to external stakeholders, organisations portray their commitment towards corporate responsibility (Beckert &

Koch 2025, 541; Koch et al. 2025, 2; Wickham et al. 2025, 6265). When these practices are concretely implemented, organisations strengthen their reputation and market value (Treepongkaruna et al. 2024, 4220; Beckert & Koch 2025, 538). Job applicants are one stakeholder group. When an organisation recruits diverse individuals, they show to these stakeholders where they stand regarding recruitment-based DEI.

Not only are DEI practices relevant to external stakeholders, but they also impact the people inside an organisation and how they view things. Nittrouer et al. (2025, 195) describes how organisational culture has a great impact when implementing DEI practices in an organisation. An open and acceptive culture may enhance the use of recruitment-based DEI. The results of a positive organisational culture are observable even after the recruitment process has officially ended, where individuals have joined an organisation. In practice, this means that employees are more willing to share their knowledge with newcomers and generally their behaviour towards them is more positive (Allen et al. 2025, 6). In addition, DEI practices decrease individuals' biases and increases their awareness about physically diverse traits, such as race and gender, through open communication (Levi & Fried 2025, 173; Allen et al. 2025, 9).

The scenarios mentioned above are things that can happen before or after the recruitment process, but there are also benefits that happen during the process itself. For example, according to Cai et al. (2024, 2159), organisations that have some sort of diversity objective tend to recruit more diverse applicants. In addition to hiring more diverse individuals, recruitment-based DEI practices can influence individuals in how they will respond to an open position (Ng & Burke 2005, 1197; Alahakoon et al. 2024, 265). Bringing people with diverse backgrounds does good for organisations, for example with their reputation, but also in how they function. Organisations that have DEI in their functions, such as recruitment, think more broadly and possess more innovative skills, which bring competitive advantage to organisations (Gidage 2025, 3; Wickham et al. 2025, 6260).

As it was just mentioned, another benefit of having DEI in recruitment processes is their competitive advantage in the long run. Competitive advantage may be brought through intangible assets. According to Wickham et al. (2025, 6262), intangible assets are expertise and capabilities that cannot be measured, because of their non-physical form. In this case organisational workers are intangible assets since their knowledge and abilities cannot be measured. These intangible workers with their skills and knowledge are retained through recruitment (Baum et al. 2016, 4140). Mahjoub and Kruey (2021, 117) argue that having racially diverse employees provides the means for

organisations to gain competitive advantage, meaning that recruitment-based DEI has a crucial role. This is backed up by Yadav and Lenka (2020, 901-902), who discuss that having workers from diverse backgrounds provides significant advantages, since every individual possesses rare information and insights. This implies that DEI isn't only beneficial for individual employees, but for the organisation as well. Mahjoub and Kruyen (2021, 117) strengthen this argument by noting that having a diverse workforce is crucial for organisations, especially if and when they take part in international operations.

Research indicates that competitive advantage has a positive effect on organisational performance. However, DEI in recruitment is beneficial at the individual level as well. In some cases, these individual-level benefits may also extend to the organisational level. Companies may be required by state policies to include recruitment-based DEI for hiring processes' outcomes to be advantageous for minority individuals. Yet they can also include policies to make existing employees feel safer as well. (Nittrouer et al. 2025, 194.) Although this may not seem directly related to recruitment or DEI, such signalling provides a positive impression that individuals from different backgrounds are welcomed. This of course is a benefit at the individual level, but at the organisational level these benefits consist of better belongingness, freedom to express ideas, thoughts, and suggestions and generally the organisational culture improves, which boosts the organisation's attractiveness (Allen et al. 2025, 16; Nittrouer et al. 2025, 194; Baum et al. 2016, 4146). Gidage (2025, 6) furthermore discusses how recruitment-based DEI practices, such as inclusive recruitment, are connected to matters such as employee well-being, which reflect in organisational practices.

## **2.4 Organisational Challenges of Recruitment-Based DEI**

The previous section discussed what benefits recruitment-based DEI brings to organisations. However, one must also consider that DEI may also bring challenges with it. One of the biggest challenges focuses on diversity washing. Diversity washing refers to the process where there is a disparity between an organisations targets and their real-world practices. This comes out in the form of not following the targets. If revealed, stakeholders may perceive that organisations are only pretending to be sustainable. (Beckert & Koch 2025, 542; Koch et al. 2025, 8.) As it was already established, DEI is exceptionally critical in recruitment, as that is where new and diverse talent is retained. Diversity washing relating to recruitment is especially damaging because that influences future activities as well. Even if recruited, minority employees might reconsider their fit in an organisation, if the organisation does not follow through with its DEI or diversity targets (Allen et

al. 2025, 9). Beckert and Koch (2025, 542) describe the consequences of diversity washing as follows:

“Unlike greenwashing, which primarily damages external perceptions of an organization’s credibility or reputation, diversity-washing directly undermines the very principles of inclusion, equity, and social justice that organisations claim to uphold”

Another issue regarding DEI in recruitment is the fact that it either is not followed throughout the whole process or not properly. Mahjoub and Kruyen (2021, 116) discuss that even when there are rules against discrimination when writing job advertisements, recruiters might still use discriminatory language in them. This is also observed by Calluso and Devetag (2024, 114), who argued that despite there being a significant increase in some areas of DEI, discrimination in recruitment processes still exists. Another similar issue focuses on how organisations may use some DEI practices during the recruitment process, yet don’t necessarily result in any actual DEI outcomes (Alahakoon et al. 2024, 264). Furthermore, Castillo et al. (2024, 46) discuss about how inclusion only has an effect when it is genuinely embedded into an organisation’s system and supports people from minority groups. In terms of recruitment, this highlights that employees hired into an organisation need to be accepted and integrated into the work group for the term to retain its meaning.

The examples above showed what happens when DEI is not truly embedded into an organisation’s recruitment functions and processes. However, there has also been discussion about how “overusing” DEI brings harm to an organisation and how it is perceived by stakeholders, especially inside the organisation. Some individuals from majority groups (e.g., white people, heterosexuals) might perceive that an organisation having DEI practices in organisational functions to be in a way harmful to them. This threat can furthermore cause opposition and backlash from these groups. (Nittrouer et al. 2025, 190, 191; Gündemir et al. 2024, 3.) These groups of people might for example consider that having DEI confines them from having a say in decisions (Nittrouer et al. 2025, 191). Another consequence related to this is that these groups might consider that minorities are given unfair advantages due to the ‘equity’ dimension of DEI (Allen et al. 2025, 2).

According to Gündemir et al. (2024, 1), it is important to understand why some might not see DEI practices as beneficial, including recruitment-based DEI. As discussed above, some organisations might focus too much on having DEI in their recruitment functions, which causes individuals of majority groups to feel inferior. This can furthermore lead to stereotyping and discriminatory attitudes towards minority individuals (Park et al. 2025, 68). This ‘distinction’ between the two

groups may form a gap between them, although their end target is the same. However, according to Allen et al. (2025, 3), employees simply discriminating minority individuals is not how the problem should be viewed. Lee (2023, 11) continues by stating that workplace backlash aims to maintain existing workplace hierarchies, in which inequalities are embedded.

Overuse of DEI poses some other issues. According to Cai et al. (2024, 2189), if an organisation uses recruitment-based DEI unreasonably in their recruitment processes, they might not consider possible candidates that have the right skills just because they are part of a majority group. This can reflect on current employees as well. They might generate the idea that if an organisation is now hiring new employees purely based off the fact that they are part of a minority group, they have also been hired just because of that. For example, if a man and woman apply for the same position in an organisation, the organisation might be inclined to hire the woman applicant in order to follow its DEI targets. However, if she was picked solely for the reason of having more women employees, the man, who might have been experience-wise a better applicant, loses an opportunity. Consequently, that may lead to them questioning their skills and suitability in the organisation. (Wickham et al. 2025, 6261.) This suggests that in some places DEI practices can be effective, while in others not so much (Treviño & Balkin 2026, 5).

There is also the issue of DEI only being a symbolic practice and not actually followed through. According to Levi and Fried (2025, 178), all organisations have some sort of symbolic practices. Symbolic practices were shortly discussed, stating that they are one way an organisation has DEI in its functions. But what are symbolic practices actually? Levi and Fried (2025, 175) gave as examples portraying minority groups on websites or recruiting based only on clear minority traits. Although hiring minority individuals is one of the multiple things DEI aims at, only hiring based on those traits brings us back to the issue stated above, where majority groups feel as if they are not treated adequately. There are other consequences as well. One is that having symbolic DEI practices, whether they are recruitment-based or not, can lead to people accusing the firm of not “walking the walk”. A second issue, more focused on symbolic diversity training (which may also have an impact on recruitment-based DEI), is that social research can be misinterpreted. (Levi & Fried 2025, 179, 180.)

## 3 Environmental, Social, and Governance (ESG)

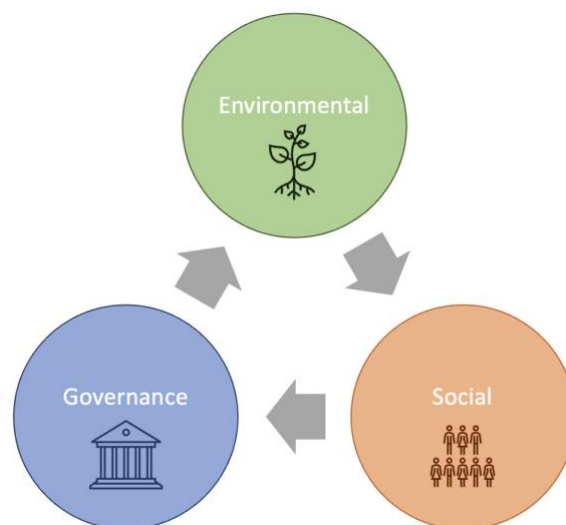
### 3.1 ESG as a Reporting Framework

In recent years multiple sustainability issues arose around the world, such as climate change, societal issues and need for resources (Staniškienė & Stankevičiūtė 2018, 708; Fan & Tahmasebi 2026, 3). Consequently, these issues have raised peoples' awareness about the need to be sustainable. Especially in the business world sustainability has become an integral topic. Through sustainability, some organisations have even started defining their business strategies and success (Treepongkaruna et al. 2024, 4218; Baid & Jayaraman 2022, 1279). But how can organisations prove their willingness to being sustainable? This is achieved through sustainable reports, and a well-known reporting framework is ESG (Fan & Tahmasebi 2026, 3; Khamisu & Paluri 2024, 1).

ESG represents Environmental, Social, and Governance, and ESG reports discuss how organisations tackle these three issues and how they report them (Khamisu & Paluri 2024, 2; Tahat & Hassanein 2024, 5; Darnall et al. 2022, 1214, 1216). According to Galbreath (2013, 531), ESG came up in the 70s, when environmental and social aspects started to interest investors. Depending on countries, ESG can be either mandatory or voluntary. Usually, bigger organisations are required to disclose their ESG actions, while in other instances voluntary disclosure of ESG gives organisations some choices regarding what and how they report their information. (Khamisu & Paluri 2024, 1, 2.) However, having a clear set of rules or laws can make organisations disclose more things in their reports, and therefore, making stakeholders understand the disclosed information better (Khamisu & Paluri 2024, 8). But, according to Yu et al. (2018, 988), voluntary ESG disclosure is gaining more popularity.

Not only is ESG mandatory for most organisations, but it has also generally gained more popularity over the years. Some of the reasons behind this 'popularity' are stakeholders and the United Nations Sustainable Development Goals. (Tahat & Hassanein 2024, 1.) In addition to these, also shareholders, investors, and employees have shown growing concerns towards ESG reporting (Yu et al. 2018, 987; Gidage 2025, 1). As a result, ESG's importance has seen a rise in the business world (Newell & Marzuki 2024, 475). While reporting an organisation's sustainability might be seen as time and resource consuming, there has been noted some benefits. If an organisation is evidently invested in being sustainable and their ESG performance, it can result in competitive advantage and enhanced financial achievements (Treepongkaruna et al. 2024, 4218). Baid and

Jayaraman (2022, 1282-1283) add that positive ESG performance can improve an organisation's reputation and its value.



**Figure 2** Environmental, Social, and Governance (ESG) pillars, adapted from the Corporate Finance Institute (30.6.2022)

As the name itself might give out, the three pillars of ESG discuss different issues that organisations face and report. Figure 2 depicts the relationship between the three pillars. The environmental (E) pillar focuses on what effect do organisational activities have towards the environment (e.g., carbon levels and responses towards climate issues) (Fan & Tahmasebi 2026, 3; Newell & Marzuki 2024, 477; Khamisu & Paluri 2024, 2; Galbreath 2013, 530). The social (S) pillar then focuses on what effect do organisations have on social systems, such as human rights and equality (Fan & Tahmasebi 2026, 3; Galbreath 2013, 530). The social pillar will be discussed more in depth in the next section. Finally, the governance (G) pillar focuses on how organisations are managed, how they tackle corruption and how they associate with their shareholders (Galbreath 2013, 530; Newell & Marzuki 2024, 477; Clément et al. 2025, 93). Figure 2 shows how all three ESG pillars are interconnected and do not function as individual pillars. Therefore, when organisations do compose their ESG reports, they need to incorporate all pillars in them.

One reason why ESG reporting is important to organisations is due to different stakeholders. The stakeholder theory emphasizes that organisations must take into consideration all its stakeholders in addition to shareholders. (Galbreath 2013, 532; Khamisu & Paluri 2024, 5; Lokuwaduge & Heenetigala 2017, 441; Gidage 2025, 3.) Lokuwaduge and Heenetigala (2017, 441) define a stakeholder as a person who can either influence or be influenced by an organisation's actions. In the case of ESG, some stakeholders are employees, investors, and customers (Lokuwaduge &

Heenetigala 2017, 439). According to Stocker et al. (2020, 2072), it is not only important to identify an organisation's stakeholders, but it must also form and maintain a mutual relationship for it to succeed. In addition, its aim is that both organisations and their stakeholders have similar principles and values (Tahat & Hassanein 2024, 3). Because of this fact and the need to comply with stakeholder expectations, organisations pursue to have sustainable practices, and disclose them in sustainable reports, such as ESG (Kumar et al. 2020, 1020).

Usually financial reports interest shareholders, while sustainability reports, such as ESG, are more for the organisations' other stakeholders (Lokuwaduge & Heenetigala 2017, 441). At the same time, it is good to note that an organisation's actions that are reflected into its ESG reports is not limited only to its inside functions, but stakeholders might also view how the organisation's suppliers are functioning. If ethically or morally wrong matters appear, such as the use of child labour in the organisation's supplier, it might also affect the organisation in addition to the supplier. (Stocker et al. 2020, 2073.) These statements show that stakeholders are an integral part of organisations, due to which more focus has been directed towards engagement with them (Stocker et al. 2020, 2071). This is also evident in academic research, since stakeholder theory is the most common theory featured in ESG studies (Khamisu & Paluri 2024, 14).

However, ESG should not be considered a reporting tool solely for other stakeholders, but for shareholders (or investors) as well. Based on an organisation's sustainability performance, shareholders decide whether they want to invest in it or not (Clément et al. 2025, 92-93). This is reinforced by Yu et al. (2018, 1002), who argue that ESG provides nonfinancial information for shareholders that then offers them additional knowledge about investment decisions. Therefore, non-financial reporting is used to establish ESG indicators and reports, which help both stakeholders and shareholders assess an organisation's sustainability performance (Galbreath 2013, 530; Darnall et al. 2022, 1215-1216).

ESG does pose some issues, especially when it comes to how all pillars are considered. De la Fuente and Velasco (2024, 3) discuss how not all ESG pillars are taken into account the same way in organisations, which results in not giving enough effort when dealing with sustainability issues. This unequal attention is especially visible with the social pillar, which will be discussed more in depth in the next section. This issue is not only visible in how organisations discuss their sustainability issues, but also when it comes to ESG studies. It has been shown that studies usually focus on only one ESG pillar instead of studying them together. However, they should be seen as being interconnected and are not isolated from one another. (Galbreath 2013, 530.) De la Fuente

and Velasco (2024, 3, 18) argue that when all pillars are equally considered, it might show that organisations' leaders are being serious about improving their value, while focusing on only certain pillars leaders are only addressing personal goals. As already mentioned and depicted in Figure 2, the three pillars are interconnected and need to be examined together. The second issue focuses on measurability. Organisations struggle with generating sustainability metrics that give reliable information (Lokuwaduge & Heenetigala 2017, 439). When combining these two issues, an organisation's ESG report cannot be as easily proven to be true (Cai et al. 2024, 2164).

To better understand ESG, it can be analysed through an example. For this, Ford's Integrated Sustainability and Financial Report from 2025 will be used as an example. In short, the report discusses different areas of sustainability, and clearly distinguishes the three pillars of ESG. Right at the beginning, it is claimed that different reporting frameworks were used to compose the report, including the Global Reporting Initiative (GRI) and United Nations Sustainable Development Goals (UN SDGs) and (Ford 2025, 4). At the beginning of each ESG pillar, the report gives an overview of what they include. With the environmental pillar (E), the report discusses their aspirations, including reaching carbon neutrality in 2050 the latest, and have the UN SDG's that fall under that category, for example 12: Responsible Consumption and Production and 13: Climate Action (Ford 2025, 43). With the social pillar (S), they included sourcing materials that are produced responsibly, and the SDGs include 5: Gender Equality and 10: Reduced Inequalities (Ford 2025, 93). Finally, the governance pillar (G) discusses their aim at being transparent and honest, and the included SDGs include 8: Decent Work and Economic Growth and 11: Sustainable Cities and Communities (Ford 2025, 131).

### **3.2 The Social Pillar of ESG**

The social pillar (S) of ESG was briefly discussed in the last section, and here it will be discussed more in detail. Among other things, the social pillar focuses on diversity, equality/equitability, and inclusion (Newell & Marzuki 2024, 478; Kumar et al. 2020, 1019; Khamisu & Paluri 2024, 2). Even though 'equality', 'equitability' and 'equity' differ as terms and in their meaning, they both have the same goal, which is fairness, therefore making them an integral part of the social pillar. Other areas focus on organisational issues that affect societies (Fan & Tahmasebi 2026, 3; Baid & Jayaraman 2022, 1285). These issues include employee and societal well-being (Dreifert & Rigotti 2026, 120). Because the social pillar's importance is increasing, organisations need to be more socially sustainable (Liang et al. 2025, 83-84, 147-148). The social pillar of ESG is the most in

contact with both internal and external stakeholders. These stakeholders include customers and employees. (Tahat & Hassanein 2024, 5.)



**Figure 3** Components of the Social Pillar (S) (Corporate Governance Institute)

Some other issues concerning the social pillar are depicted in Figure 3 above, which were derived from the Corporate Governance Institute. Safe working conditions and fair pay are a part of labour standards. Avoiding discrimination and respecting human rights are also very relevant, and they need to be addressed in order to prevent possible risks. (Corporate Governance Institute.) There are laws that prevent organisations from engaging in anti-discriminatory practices, giving employees equal chances in different situations, for example recruitment (Liang et al. 2025, 159). Diversity and inclusion (part of DEI), aims at valuing every employee in an organisation. Diversity and inclusion goals are reached by implementing practices in different organisational functions. Lastly, community engagement aims at organisations supporting communities through different practices, such as volunteering. (Corporate Governance Institute.)

Corporate social responsibility (CSR) is a part of organisational disclosure. According to Clément et al. (2025, 93), CSR concentrates on how organisations' actions have an impact on society, similarly to the social pillar of ESG. This includes numerous aspects, such as stakeholder expectations and how it is integrated into organisational functions. However, it should be emphasized that CSR is a framework for organisational sustainability, while ESG provides measurable data on sustainability

practices. This means that it is not directly a part of ESG, but organisations are encouraged to adopt both practices, since they complement each other. (Corporate Governance Institute 2026.) An issue with CSR is its measurability. Even though organisations try to disclose their engagement towards CSR, it is hard to actually measure it, which therefore can have an impact on the organisation's credibility. (Galbreath 2013, 538.) More about the issues regarding measurability will be discussed in short.

Although all pillars of ESG should be equal, there has been evidence that the social pillar is not as well recognized as the environmental and governance pillars, and there are some reasons for that. The main issues around the pillar include its definition/interpretation, content, and measurement (Staniškienė & Stankevičiūtė 2018, 708, 718; Baid & Jayaraman 2022, 1290, 1293; Jepsen & Grob 2015, 161). Also, when it comes to ESG scores, according to Clément et al. (2025, 95), the social pillar does not have the same influence in comparison to the environmental or governance pillars. Baid and Jayaraman (2022, 1284) argue that even issues like DEI and human rights are emerging nowadays, the significance of the social pillar is still unclear. They continue by adding that the countries' differences in social issues and unreliable ESG data are reasons for this lack of clarity. However, Newell and Marzuki (2024, 479) argue that some social pillar issues in ESG reports have seen an improvement in the real estate sector.

As it was mentioned, one issue regarding the social pillar is its lack of metrics. This lack of metrics has been one of the causes for the constrained visibility of the social pillar. (Newell & Marzuki 2024, 476.) Perhaps this issue is also one of the reasons why the pillar is considered to be the weakest out of all ESG pillars (Staniškienė & Stankevičiūtė 2018, 708). Newell and Marzuki (2024, 476) emphasize that more social pillar metrics need to be evolved, in order to understand it better and implement in reports. The good news to this is that metrics will most likely appear in the future (Newell & Marzuki 2024, 480). This problem can be noticed in Ford's sustainability report as well. The DEI-section of the report discusses many things related to DEI, such as talent acquisition, employee feedback, equal pay, benefits, and so on (Ford 2025, 112-114). However, it is to be noticed the fact that there are no metrics included, for example the proportion of women in the workforce or metrics related to employee health and safety. Only under the governance (G) section, do they have a table, where the percentage of board of directors and corporate officers is divided between men, women, and minorities (Ford 2025, 135). While there are issues regarding the metrics of the S pillar, Staniškienė and Stankevičiūtė (2018, 710) emphasize that having social sustainability metrics build organisational value, especially when employees' own views are included.

The next chapter will aim at analysing the thesis' two research questions by combining the theory of recruitment-based Diversity, Equity, and Inclusion (DEI) and Environmental, Social, and Governance (ESG) reports. The five factors underlying the level of integration of recruitment-based DEI into the social pillar will first be discussed, after which the focus will shift to the benefits and challenges this integration brings.

## 4 Integration of Recruitment-Based DEI Practices into ESG Reports

### 4.1 Factors of Organisational Integration

Organisational integration covers many things, depending on the context. In the context of this thesis, it indicates how much recruitment-based DEI practices are integrated into the social pillar of ESG and what factors affect the level of integration. The first factor is a combination of organisational culture and strategy. In terms of recruitment-based DEI, organisational culture strongly influences how these practices are developed (Treviño & Balkin 2026, 1; Koch et al. 2025, 2). When organisations integrate DEI at all levels, from the top management to operations, it functions as a strategic tool. Especially when that strategy is long-term, DEI generates a culture that supports its integration into the social pillar of ESG. (Baid & Jayaraman 2022, 1284.) Moreover, Lokuwaduge and Heenetigala (2017, 438) argue that integrating sustainability as part of organisational strategy is positively addressed in ESG reports. Going back to competitive advantage, it has been determined that it is part of organisational strategy. This involves carrying out recruitment-based DEI, which is then manifested in the social pillar (S) of ESG. Gidage (2025, 5) emphasizes that the integration of recruitment-based DEI into the social pillar can be understood as a strategic tool for organisations. Thus, culture plays a pivotal role. The more the organisational cultures understand the need for DEI as a strategy, the more thoroughly that is integrated into reports as well.

“Achieving an equitable, just, and inclusive society requires the commitment of a wide range actors, particularly those in the business sector” (García-Sánchez et al. 2024, 7022)

The quote above emphasizes that organisations have a central role in following DEI-related matters, it is not something optional, but essential. From an organisational point of view, this means that DEI practices need to be present throughout the whole employee cycle in an organisation. This is reinforced by Lokuwaduge and Heenetigala (2017, 438), who state that organisations have a responsibility towards the society, and therefore, their employees. With recruitment-based DEI practices, organisations need to demonstrate that they make use of these tools by reflecting what they mean to the organisation through the social pillar of ESG. Yu et al. (2018, 1002) suggest that regulators should encourage organisations to disclose more information. While in theory this is ideal, in practice the negligence of the social pillar, due to its restricted understanding and lack of metrics, poses issues. Thus, the second factor affecting the integration process is the relationship

between societal pressure and challenges of the social pillar. This double-edged relationship puts a strain on organisations, since societies demand transparent recruitment practices, yet the restrictions of the social pillar may diminish its meaning.

It has been determined that stakeholders have a central role regarding recruitment-based DEI, ESG, and especially the social pillar. According to Gidage (2025, 5), stakeholders trust organisations more when they truly integrate DEI into their functions, which applies to recruitment-based practices as well. It was discussed that some organisational stakeholders are job applicants, minority employees and customers. Another stakeholder group is composed of regulators, which have a great impact. García-Sánchez et al. (2024, 7024) suggest that regulators require organisations to disclose DEI information as part of the social pillar of ESG. This information includes equal recruitment conduct. These ‘official’ stakeholders therefore put more pressure on organisations to disclose their recruitment-based DEI practices into the social pillar. When ESG disclosure is more transparent, other stakeholders have also the chance to review the organisation’s statements with its true actions (Darnall et al. 2022, 1216-1217; Yu et al. 2018, 990). However, other stakeholders, such as customers, may not necessarily understand complex ESG disclosure wording, which gives organisations some leeway in what they disclose. Therefore, the type of stakeholders regulates how much organisations integrate recruitment-based DEI practices into the social pillar.

The third factor focuses more deeply on the integration level itself. This is discussed by Treviño and Balkin (2026, 2-3), who recognize four DEI engagement types: diversity sceptics, adaptors, innovators, and leaders. Even though they mainly focus on diversity and DEI, the engagement types give insight on how much organisations are willing to disclose in their reports, what they report and how they report it. Figure 4 depicts the shift between the four different engagement types, from diversity sceptics to diversity leaders.



**Figure 4** DEI Engagement Types (Treviño & Balkin 2026)

Firstly, diversity sceptics, do not truly integrate recruitment-based DEI practices into their functions. Best case scenario, the practices might be symbolic, or the bare minimum required by law. Then again, diversity adaptors seem to want to include DEI into their functions and they do

have DEI values, yet they fail to integrate them into their strategy. Next, diversity innovators, take it a step further, but they face challenges as well. They are forward-thinking, but when organisational norms and culture are not aligned with their DEI values, that poses an issue. Lastly are the diversity leaders. They essentially have what the other diversity engagement types do not: proactive DEI culture and strategy. They view DEI as an integral part of their operations and long-term achievements. (Treviño & Balkin 2026, 2-3.) This proposes that the degree of recruitment-based DEI integration into the social pillar of ESG relies on the level of organisational engagement. While diversity sceptics integrate recruitment-based DEI practices into the social pillar of ESG minimally, mere symbolic or diversity washing level, diversity leaders are considerably more visible in their disclosure.

Signalling is the last factor affecting the integration level of recruitment-based DEI into the social pillar of ESG. Signalling is part of an organisation's recruitment functions, more specifically part of recruitment materials. Generally, these recruitment materials are job advertisements. (Alahakoon et al. 2024, 264.) As it was previously discussed, these signals give a message to individuals that organisations desire to have a diverse workforce. This means that organisations pursue to recruit individuals from different backgrounds. (Baum et al. 2016, 4143, 4146; Koch et al. 2025, 7.) These signals help candidates compare their own and the organisational values, weighing how similar they are. Because of this, recruiters attempt to use language that identifies with the values of candidates. (Baum et al. 2016, 4141; Ng & Burke 2005, 1198.) The more the signals reach the target group, the higher the probability is that those individuals are hired. Positive signals mean that recruitment-based DEI practices have reached their target. These are consequently integrated into the social pillar, where they are shaped as social sustainability practices, specifically regarding equal employment opportunities (EEO). On the other hand, when signals are weak, less diverse individuals apply for an open position, meaning recruitment-based DEI practices failed, which then poorly reflects in ESG reports. That information is then not necessarily integrated, and the benefits of recruitment-based DEI are left out, which also affects credibility (Koch et al. 2025, 7). Thus, signalling results affect the level of integration.

## **4.2 Benefits of Integrating Recruitment-Based DEI into the S Pillar of ESG**

There are various factors affecting how much organisations integrate their recruitment-based DEI practices into the social pillar of ESG. When these practices are properly integrated into ESG, they bring multiple benefits for organisations (Calluso & Devetag 2024, 103). The first benefit is the increase in ESG performance. When recruitment-based DEI scores see an improvement, they are

associated with better ESG performance. (Gidage 2025, 14, 23.) Not only does ESG performance see an improvement, but organisations see also an improvement in their financial performance (Kumar et al. 2020, 1020; Yadav & Lenka 2020, 902; Lokuwaduge & Heenetigala 2017, 439). A more diverse workforce employed, and improved employee training practices result in better ESG performance in the social pillar's view, but also the other pillars. Nittrouer et al. (2025, 196) state that employee training is more effective when it is integrated into DEI strategy. Thus, Gidage (2025, 25) claims that DEI is not just something preferable, but a fundamental driver for organisational performance.

Now it is time to dive back into the integration process as a strategic tool for organisations. According to Gidage (2025, 25), DEI is not something nice-to-have, but something that organisations must include. He claims that having a better understanding of DEI and its relationship with ESG, organisations have the possibility to have more sustainable practices. This can be seen for example when addressing environmental questions and supporting social sustainability. (Gidage 2025, 4.) When organisations have a better understanding of recruitment-based DEI as part of organisational strategy, they are more aware of what they do and how they report it. This understanding comes up especially in the social pillar of ESG, where its importance and legitimacy increase. In the end, where ESG disclosure is better, also organisational practices get better (Khamisu & Paluri 2024, 6). Better performance is a positive result of a well-structured organisational recruitment-based DEI strategy. This fosters the idea that integrating recruitment-based DEI into the social pillar of ESG is essential for long-term achievements (Roberson 2025, 63).

The third benefit of integrating recruitment-based DEI into the social pillar of ESG reports is the impact it has on an organisation's current and future employees. According to Jepsen and Grob (2015, 169), an organisation's most important resource are its employees. Employees are also intangible assets, which means that their knowledge cannot be measured as tangible assets. Li et al. (2025, 2750) argue that having recruitment-based DEI in the workplace is advantageous for employees and makes the organisations attractive. When an organisation is attractive, it fosters the hiring of new and diverse talent. This is most visibly done through job advertisements. The inclusion of DEI into job advertisements firstly attracts individuals, and they may perhaps even apply for the position (Alahakoon et al. 2024, 265). When minority applicants apply and get hired for a job, this shows in the social pillar as well. Organisations use this information as evidence for their commitment to recruitment-based DEI, for example through employee metrics. Not only this, but it has been shown that organisations that disclose their recruitment-based DEI statements do

have the tendency to hire more people from different backgrounds, especially before disclosure (Cai et al. 2024, 2159). Dreifert and Rigotti (2026, 120) even emphasize that having an employee aspect in ESG reports makes it more credible.

The fourth benefit focuses on the relationship between organisations and stakeholders. According to Stocker et al. (2020, 2072), stakeholders who are involved in organisational activities are more likely to support them, which in turn enhances organisational sustainability. Therefore, when stakeholders are engaged in organisational activities, this gives organisations an incentive to enhance their sustainability practices, in this case relating to recruitment-based DEI. When organisations are more transparent in their ESG reports, it forms a trusting relationship with stakeholders (Tahat & Hassanein 2024, 12; de la Fuente & Velasco 2024, 3). Stakeholders are even more pleased when all ESG pillars are considered. Since the social pillar has the most issues from all the pillars, focusing on its contents, especially on DEI practices, shows a true commitment towards ESG in its entirety. (de la Fuente & Velasco 2024, 18.) As a result, it establishes a stronger relationship between organisation and stakeholders.

The final benefit comes from having women as members on organisations' boards. Women are considered to take sustainability matters more seriously than men, including matters of social sustainability. As a result, boards that have women as members in them in addition to men tend to be more sustainable and make ethical choices. (Tahat & Hassanein 2024, 2; García-Sánchez et al. 2024, 7023.) This applies to recruitment-based DEI as well, since according to García-Sánchez et al. (2024, 7034), DEI scores see an improvement when there are also women on boards. This suggests that by employing recruitment-based DEI practices, organisations are more likely to disclose them in their social pillar. Thus, this may indicate that women are more prone to being diversity leaders. This is positively reflected in ESG in the form of better credibility (Tahat & Hassanein 2024, 3, 8, 12; Khamisu & Paluri 2024, 9). This should not be limited to organisational boards only. According to Tahat and Hassanein (2024, 2), organisations that are more gender diverse tend to be more transparent in their ESG reports.

### **4.3 Limitations of Integrating Recruitment-Based DEI into the S Pillar of ESG**

Most organisational matters come with some challenges and/or limitations as well. This is also the case when integrating recruitment-based DEI into the social pillar of ESG reports. The first challenge related to the issue of diversity washing. Organisations that engage in diversity washing gain better ESG scores, yet this action can mislead their investors and stakeholders. Furthermore, this form of diversity washing which leads to better ESG scores is caused by exaggerated DEI

statements regarding employee diversity. (Baker et al. 2024, 1661-1662, 1701.) For example, when a qualified minority applicant is not accepted for a position, yet the organisations give a picture that they recruit individuals from different backgrounds, it can be considered a form of diversity washing. This discrepancy between communication and real actions is what leads to diversity washing (Koch et al. 2025, 2; Beckert & Koch 2025, 547). Beckert and Koch (2025, 550) emphasize, that diversity washing is somewhat more personal than other forms of CSR-washing since it contains features regarding one's characteristics. This indicates that the consequences are also more severe, since this affects individuals at a personal level.

However, stakeholders cannot be indefinitely deceived. When they discover that an organisation is not fully committed to its recruitment-based DEI practices, this leads to consequences (Beckert & Koch 2025, 549). Organisations can pretend to be committed towards recruitment-based DEI practices in their functions and to their integration into the social pillar of ESG. However, these are often empty claims that do not aim at truly being socially sustainable, but rather serve as a tool to only enhance organisational reputation. Eventually, these come to light to stakeholders when such claims are not actually followed through. When diversity washing comes to light, the consequences can diminish organisational reputation. (Beckert & Koch 2025, 542; Koch et al. 2025, 2.) Not only does it cause reputational harm, but stakeholders' trust in the organisation also decreases (Treepongkaruna et al. 2024, 4220). Furthermore, social media has a significant influence on everyday actions, and organisations can be easily exposed of their unethical practices, and in some instances, it has even led to boycotts. In 2019, Cynet Systems, an IT staffing firm, faced controversy after publishing a job advertisement where it distinctively preferred Caucasian applicants (BBC 29.4.2019). This shows how easily even one single advertisement can cause a bigger incident, when recruitment-based DEI statements do not align with real actions. This eventually is negatively reflected in the social pillar of ESG.

Continuing on the topic of organisational reputation, organisations may be inclined to resort to other activities. As it was discussed, organisations have in some cases a gap between their ESG obligations and actual practices (Cai et al. 2024, 2159). If some information in ESG reports could potentially bring harm to organisations, they have the tendency to leave that information completely out or underreport it. This means that organisations are inclined to report only what benefits them and leave damaging information out. (Lokuwaduge & Heenetigala 2017, 447.) With recruitment-based DEI, they may leave out EEO practices from their social pillar section, as it may damage their reputation. As it was also mentioned, some organisations may also be inclined to highlight things that are not true, further engaging in diversity washing (Baker et al. 2024, 1698). They may include

DEI-related pictures, while in reality organisational diversity is limited (Beckert & Koch 2025, 542). According to Cai et al. (2024, 2161), organisations may be more likely to disclose a diversity statement in their ESG reports if they have faced some type of sustainability regulatory punishment. While this might seem like an attempt to be more sustainable citizens, some organisations may use this more as a tactic rather than being truly honest. This shows that from the social pillar's view, ESG reports may include recruitment-based DEI practices only as a symbolic measure (Alm Andreassen 2021, 3).

As previously determined, the social pillar is not easy to define or measure. DEI (including recruitment-based) faces similar issues. Some organisations are prone to using ambiguous language when discussing their recruitment-based DEI commitment (Baker et al. 2024, 1665). Ambiguous language does not help when discussing the definition and measurement of the social pillar. This furthermore reflects on ESG reports, where information may vary, be misleading and vague (Darnall et al. 2022, 1217; Cai et al. 2024, 2164). This information may include policies with no true objectives (Baker et al. 2024, 1683). Thus, it could mean an organisation stating that it wants to have a more diverse workforce, but not actually applying recruitment-based DEI practices in its recruitment processes. This is furthermore aggravated by the fact that organisations are not obligated to include any diversity metrics about their employees. This makes it easier for them to indulge in diversity washing activities, where they claim to be diverse, but not actually do anything towards that goal. (Cai et al. 2024, 2163.) With recruitment-based DEI, this means that organisations may not actually include any statistics regarding how many minority individuals they hire. Alternatively, when statistics are present, they usually represent only the number of employees that are part of a minority group. Roberson (2025, 63) suggests coming up with tools that collect DEI-related data, measure it and use it for progress analysis.

## 5 Conclusions

### 5.1 Key Findings and Discussion

The purpose of this thesis was to analyse what factors underlie the integration of recruitment-based diversity, equity, and inclusion (DEI) into the social pillar of environmental, social, and governance (ESG) reports from an organisational point of view. In addition, this thesis analysed what this integration brings to organisations, benefits, and challenges to be exact. According to Calluso and Devetag (2024, 103), organisations are turning into more diverse environments nowadays, meaning that there are more people from different backgrounds under one roof. Even so, social inequality still occurs, especially towards minority groups (Iyer 2022, 2). As a response to this, different stakeholder groups expect organisations to address the issue of inequality (Alm Andreassen 2021, 2).

This thesis first studied the connection between DEI and recruitment practices. The main target in a recruitment process is to hire the best suited candidates, and according to Roberson (2025, 62), this is one of organisation's most important priorities. This process also gives job applicants the chance to get the position that they have wished for. Recruiters need to consider that the workforce is becoming more diverse, and that is why they need to seek possible employees from various groups (Ng & Burke 2005, 1195). But because discrimination exists in organisations, recruitment-based DEI practices are needed (Roberson 2025, 62). Usually, applicants are discriminated against their race or ethnicity (Calluso & Devetag 2024, 105). Other discriminatory traits relate to the applicants' age, gender, and sexuality. In order to prevent discrimination against applicants, stakeholders require organisations to address the issue of anti-discrimination (Beckert & Koch 2025, 538). This brings additional pressure on organisations, since stakeholders have a great impact on how they are viewed. In addition to stakeholders, different events across time have had an impact on DEI's emergence in organisational functions (Nittrouer et al. 2025, 196).

Recruitment-based DEI is part of the social pillar of ESG. The pillar poses issues, specifically when it comes to comparing it to the other two pillars, E and G. Those issues relate to its terminology and understanding, but also its lack of metrics. (Baid & Jayaraman 2022, 1284.) The lack of metrics is present with recruitment-based DEI as well, where they remain at superficial levels. This, combined with the overall issue of ESG reporting of not acting on its claims, stakeholders have a more difficult time evaluating organisations' performance (Cai et al. 2024, 2158; Darnall et al. 2022, 1216).

The first thesis question was: *What factors underlie the integration level of recruitment-based DEI into the social pillar of ESG??* Generally, higher level of disclosure equals better reporting quality, with some exceptions of course, such as diversity washing. According to Darnall et al. (2022, 1217), organisations that follow ESG-related guidelines more carefully tend to be more credible. Together with this, five different factors were presented that underlie the integration level of recruitment-based DEI into the social pillar of ESG: culture and strategy, societal pressure in relation to the challenges of the social pillar, stakeholder pressure, different DEI engagement types, and signalling. These factors all underlie and shape the level of integration in different ways. Culture and strategy are seen as a driver for increased integration. Societal pressure against the challenges of the social pillar instead complicates the process, since two issues demand to be handled simultaneously. Stakeholders, along with societal pressure, demand organisations to disclose their DEI engagement in the social pillar of reports. This way, organisations also manage their reputation (Cai et al. 2024, 2163). While these are external factors, the type of diversity engagement and signalling are internal factors. DEI engagement types focus on what people inside an organisation believe in and what they wish to disclose. This reflects somewhat in signalling methods, since that is where organisations provide job applicants with critical information not only about the job they apply for, but about the organisation as well.

With recruitment-based DEI, organisations enhance their credibility when including actual practices that have been done to foster better recruitment results and metrics to show their level of diversity. These are then brought up in the social pillar of ESG reports. Nittrouer et al. (2025, 188) and Syed (2009, 647) do bring up that while DEI has not yet reached every target, organisations still have seen enough progress to say that employees from various backgrounds can truly be a part of the culture. Figure 5 summarises below the five factors underlying the integration level, and what they result in.

Culture & strategy	Societal pressure vs. challenges of S pillar	Stakeholder pressure	DEI engagement types	Signalling
<ul style="list-style-type: none"> <li>• Integrating recruitment-based DEI across all levels → becomes part of culture &amp; strategy</li> <li>• Stronger understanding of DEI → more greatly reflected in ESG reports</li> </ul>	<ul style="list-style-type: none"> <li>• Organisations are responsible for employees, especially regarding human rights</li> <li>• Hard to prove, since the S pillar is not completely clear → "double-edged relationship"</li> </ul>	<ul style="list-style-type: none"> <li>• Trust increases, when recruitment-based DEI is integrated into the S pillar</li> <li>• regulators might require more disclosure than other stakeholders → type of stakeholder influences what organisations communicate</li> </ul>	<ul style="list-style-type: none"> <li>• Four different types: diversity sceptics, adaptors, innovators &amp; leaders</li> <li>• Sceptics' practices largely symbolic, leaders incorporate practices into strategy</li> </ul>	<ul style="list-style-type: none"> <li>• DEI visible in recruitment materials → signalling commitment towards diversity</li> <li>• Positive signals lead to better results. Negative signals are left out → credibility decreases</li> </ul>

**Figure 5** Factors underlying the integration level of recruitment-based DEI into the social pillar of ESG

The second question was: *What benefits and challenges does this integration bring to organisations?* The factors above underlie what benefits and challenges the integration of recruitment-based DEI into the social pillar of ESG bring to organisations. The benefits range from better relationship with both internal (employees) and external (consumers, regulators) stakeholders to better organisational performance. As a result of these, organisations are more effective and perform better (Yadav & Lenka 2020, 902). Better reputation and better trust from stakeholders should be seen as a driver as well for organisations to integrate recruitment-based DEI into the social pillar (Beckert & Koch 2025, 541). As a result, these benefits have made organisations recruit more individuals from minority groups (Casper et al. 2013, 313). Mahjoub and Kruyen (2021, 107) confirm this by adding that now organisations are paying more attention when recruiting individuals, since they are seen as a valuable resource for organisational achievements.

On the other hand, most of the challenges of integration heavily focus on the theme of diversity washing. This happens because organisations disclose recruitment-based DEI practices that in reality are not followed through. This is serious, since individuals may feel that they are not noticed, or that they are used just as a symbolic tool for reputational purposes only. That is why organisations need to find ways to assimilate different individuals, especially from minority groups, into an organisation (Shore et al. 2011, 1263). That way, organisations can truthfully include those practices into the social pillar. Sometimes, that truth is not necessarily positive. No organisation is flawless, meaning that not always those practices are followed through. It is necessary to include that information as well, even though in the short term, it isn't beneficial. However, that is a better alternative than to leave a gap in the report, and for stakeholders to find out about it from another source. And finally, the metrics issue. Even though it is not mandatory, organisations need to come up with recruitment-based DEI metrics for the social pillar to give a more comprehensive and credible disclosure, in order for them to be truthfully evaluated.

## **5.2 Limitations and Future Research Possibilities**

As any other thesis or research, this one has its own limitations as well. The articles that were used in this thesis discussed topics such as DEI, recruitment, and ESG separately. Articles that would combine at least two of the topics above were limited, and because of that, many statements had to be pieced together. This of course may raise questions regarding credibility. Gidage (2025, 1) confirms this by saying that the effect of DEI in ESG reports has not yet been studied enough, neither theoretically nor empirically. García-Sánchez et al. (2024, 7036) also emphasize that most

of the literature addresses organisations disclosing their sustainability information, while DEI-related information is not addressed as much.

Another relevant limitation to this thesis regards the different components of both DEI and ESG. Park et al. (2025, 73) pointed out in their study that from all the articles that they studied, most of them focused on the diversity component of DEI, while DEI as a whole was studied in only 10 articles (out of 621 articles). This came up in this thesis as well. Many of the articles focused on only one aspect of DEI, which in most cases was diversity, which brings its own limitations. A similar limitation is noticed in ESG as well. According to Galbreath (2013, 531), the majority of research/articles explore only one component of ESG, while ESG studied as a whole is not so common. This is a continuation to the fact that out of all ESG pillars, the social pillar is the least studied.

These limitations should not be seen just as limitations, but as an opportunity for researchers to study this topic more. Future studies or research could focus more extensively on recruitment-based DEI's and ESG's relationship with one another, and what impact they have on each other. Because literature materials are somewhat limited, the studies could have a more empirical approach rather than theoretical. This thesis gives an insight about two topics that are widely studied separately and unites them to form a whole. Not only does it combine information for future studies, but it also identifies relevant factors that impact the level of integration. Thus, another possible research study could give a deeper insight on these factors. A final research possibility focuses on the factors affecting the integration level. This thesis discussed what the factors are. However, the factors were analysed separately, when in reality most of them are more or less intertwined with one another, such as culture, strategy, engagement types and signalling. Thus, future research could study the factors' relationship with one another, and what consequences they may result in, based on how well they are taken into consideration.

As a conclusion, integrating recruitment-based DEI into the social pillar of ESG has a meaningful impact for organisations, when done correctly. It shapes employees' views regarding changing environments, making them understand the need for a more diverse workforce. Especially since nowadays financial performance cannot be the only drive for organisations. ESG has been around for decades, yet now it has gained popularity. The social pillar is especially starting to get more attention from organisations and researchers alike, which brings us to believe that the pillar is going to evolve in the following years. Likewise, recruitment-based DEI and DEI in general are being addressed more. Integrating recruitment-based DEI truthfully rather than symbolically into the

social pillar of ESG will make it easier for organisations to reach long-term performance, strategy, and stakeholder trust.

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## Appendices

### Appendix 1. Notice Regarding the Use of Artificial Intelligence

I have used generative artificial intelligence during the thesis writing project. Here, I will discuss the AI tools that I have used and for what context, in accordance with the guidelines of the Turku School of Economics. OpenAI ChatGPT (GPT 5.2 -version) was the only AI tool that was used during the process. Artificial intelligence was mainly used for grammatical purposes. However, in the beginning, I used it for some topic ideas regarding DEI and sustainability. ChatGPT gave some general ideas, but in the end, the topic as it is now is based off of my own knowledge and scope.

As mentioned, AI was mainly a support tool for grammatical questions. I am not a native English speaker, and therefore, do not possess a full English vocabulary. AI was asked to give synonyms for different words or short phrases, using the following prompt: *Can you give me a synonym for the phrase “as it was determined...”?* Some options for this question were *“as was established”*..., *“as was concluded...”* and *“based on the findings...”*. For some synonyms, the AI gave some short instructions as to what context each synonym fits best. Another common grammatical question that I have asked AI related to my sentence structures. Sometimes, when individual sentences seemed a little silly, I pasted them and used the following prompt in ChatGPT: *“(\*pastes sentence\*). Is this grammatically correct?”* I used the answers to correct singular grammatical errors, while keeping my own personal touch.

In some cases, articles include very formal, academic text that is occasionally difficult to understand. I came across that problem every now and then, and asked ChatGPT to simplify the meaning of the quote in question or ask what the quote meant. With the help of the simplified or explained answer, I better understood when individual quotes were relevant in my text and when they should not be included. I want to note that the simplified or explained answers that were given by AI were not used as such in my thesis, but rather were used only as a tool to improve my understanding of the information. Thus, I have not used AI to formulate text for this thesis.