

Sexual Harassment Training Laws and Its Impact on ESG

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Abstract and Background

- Background: Got involved in doing research via the IEN case study competition working with Betty Mittelstädt on ESG shareholder engagement on sexual harassment at Starbucks
- Purpose: See the effectiveness of state policies. If there is a correlation between state-mandated sexual assault training programs and ESG scores

Introduction

- ESG as a growing field in investing.
 - Global ESG assets surpassed \$30 trillion in 2022 and are on track to surpass \$40 trillion by 2030
- Sexual Harassment prevention training is an underexplored area impacting ESG scores.
 - Thirty eight percent of all women and fourteen percent of men have reported experiencing sexual harassment at work (Kearl, Johns, & Raj, 2019).

Why are we doing this, what's our contributions

- Sexual harassment is still a taboo topic
- With ESG scores we can measure the impact of Sexual Harassment Training
- Conscientious investors can make better decisions using ESG scores
- Impact on Policy:
 - By showing that Sexual Harassment Training Laws do impact ESG scores, policy makers can implement policy such as:
 - Lower interest rate loans for companies with high ESG scores
 - Tax incentives for companies with high ESG scores

Defining Sexual Harassment

- Under U.S. Equal Employment Opportunity Commission Sexual Harassment is defined by its impact, not its intent.
 - unwelcome sexual advances
 - requests for sexual favors,
 - verbal or physical harassment of a sexual nature
 - Inappropriate statements
 - lewd gestures
 - leering behavior
 - sexually explicit jokes, emails, or texts
 - offensive objects or images.

The Problem of Sexual Harassment

- Turnover
 - Targets of harassment were 6.5 times as likely as non-targets to change jobs (McLaughlin, Uggen, Blackstone 2017)
- Increased Absences
 - Those who reported having been harassed or bullied at work in the previous years were 1.7 more likely to have two weeks off work than those who had not (Khubchandani, Price 2015)
- Reduction of Productivity
 - Estimate an average cost through lost productivity of \$22,500 per person working in a team affected by harassment (Wilness et al. 2007)

The Data – Fixed Effects Model

- 4 different ESG variables as dependent variables
 - Equal opportunities and non-discrimination
 - Gender distribution
 - Policy on non-discrimination
 - Measures to promote equal opportunities and diversity
- Independent Variables Include
 - Financial
 - RoA, Z-Score, Total Assets, Mark Cap, Net Inc, Beta 1yr, Operation Cash, Total Revenue, Total Liability, Asset Turnover, Levered free cash flow, Loss, Selling General Adm Expense, Long Term Investments, Capital expenditures
 - Corporate Governance:
 - SH Law in Firm Headquarter, Female CEO, Female CFO, Female Board Members (%), Board of Directors Size, Independent Board Members (%), Board Member Age (Avg)
- ISS ESG database is source for all dependent variables. Compustat Exec comp is source for all corporate governance variables. S&P Capital IQ database is source for financial independent variables.

Fixed Effects model

$$y_{it} = \alpha + \beta X_{it} + \gamma Z_i + u_{it}$$

$$\begin{aligned} \text{ESG} = & \beta_0 + \beta_1 \cdot \text{IQ_RETURN_ASSETS} + \beta_2 \cdot \text{IQ_Z_SCORE} + \beta_3 \cdot \\ & \text{IQ_TOTAL_ASSETS} + \beta_4 \cdot \text{IQ_MARKETCAP} + \beta_5 \cdot \text{IQ_NI} + \beta_6 \cdot \\ & \text{IQ_BETA_1YR} + \beta_7 \cdot \text{IQ_CASH_OPER} + \beta_8 \cdot \text{IQ_TOTAL_REV} + \beta_9 \cdot \text{BJA} + \beta_{10} \cdot \\ & \text{IQ_TOTAL_LIAB} + \beta_{11} \cdot \text{IQ_ASSET_TURNS_CS} + \beta_{12} \cdot \text{IQ_LEVERED_FCF} + \\ & \beta_{13} \cdot \text{Loss} + \beta_{14} \cdot \text{IQ_SGA_SUPPL} + \beta_{15} \cdot \text{MTB} + \beta_{16} \cdot \text{IQ_LT_INVEST} + \beta_{17} \cdot \\ & \text{IQ_CAPEX} + \epsilon \end{aligned}$$

VARIABLES	(1) Equal opportunities and non-discrimination	(2) Gender distribution	(3) Policy on non-discriminatio n	(4) Measures to promote equal opportunities and diversity
Sexual Harassment Laws	0.443*** (0.0285)	0.467*** (0.0230)	0.108*** (0.0271)	0.417*** (0.0176)
Return on Assets (ROA)	-0.00604*** (0.00118)	-0.00346** (0.00162)	-0.00476*** (0.00169)	-0.00458*** (0.00152)
Altman Z-score	0.000570 (0.00157)	0.000106 (0.00219)	0.00295 (0.00243)	-0.00291 (0.00248)
Total Assets	1.26e-07** (5.86e-08)	1.77e-07** (8.05e-08)	-5.11e-09 (8.16e-08)	1.58e-07** (6.78e-08)
Market Capitalization	2.10e-07 (1.79e-07)	3.34e-07* (1.89e-07)	1.36e-07 (2.05e-07)	-2.54e-08 (1.28e-07)
Net Income	-9.77e-07 (2.97e-06)	1.23e-05*** (3.87e-06)	-1.31e-05*** (3.98e-06)	-1.68e-06 (2.82e-06)
1-Year Stock Volatility	-0.0115 (0.0126)	-0.0356** (0.0152)	-0.0124 (0.0172)	-0.00340 (0.0119)
Operating Cashflows	1.70e-06 (3.16e-06)	-6.72e-06** (2.64e-06)	2.15e-06 (3.36e-06)	8.10e-07 (2.49e-06)
Total Revenue	3.76e-07 (4.26e-07)	1.75e-06*** (5.72e-07)	-2.10e-09 (5.65e-07)	2.66e-06*** (4.45e-07)
Book Journal Adjustments	0.254*** (0.0141)	0.278*** (0.0201)	0.216*** (0.0201)	0.429*** (0.0178)
Total Liabilities	-0.0227 (0.0333)	0.0817* (0.0454)	0.0377 (0.0471)	-0.0335 (0.0404)
Asset Turnover	-0.0598*** (0.0149)	-0.142*** (0.0214)	0.0302 (0.0218)	-0.154*** (0.0177)
Levered Free Cashflows	0.0892 (0.0549)	0.0347 (0.0729)	0.00236 (0.0774)	-0.136 (0.0848)
Loss	0.00500 (0.0206)	0.0348 (0.0248)	0.0284 (0.0283)	0.0450** (0.0202)
Selling, Gen, & Adm Expense	0.0130 (0.0578)	0.177** (0.0829)	-0.103 (0.0827)	0.173** (0.0739)
Market-to-Book Ratio	0.00594 (0.00475)	0.00993 (0.00659)	-0.0191*** (0.00680)	0.00729 (0.00593)
Long-Term Investments	0.0425 (0.0600)	-0.0474 (0.0959)	-0.00490 (0.0916)	0.00493 (0.0760)
Capital Expenditures	0.136 (0.232)	0.376 (0.286)	-0.167 (0.321)	0.162 (0.267)
Constant	1.473*** (0.190)	0.943*** (0.285)	2.279*** (0.275)	0.337 (0.233)
Observations	5,343	7,771	6,269	6,843
Number of company_id	2,727	2,909	2,833	2,701

Note: Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Key Findings

- Asset Turnover Ratio
 - Gender Distribution & Measures to promote equal opportunities and diversity
 - Industry specific: Retail, Restaurants, and wholesale distribution
- Book Journal Adjustments
 - The positive correlation indicates that proper financial adjustments are associated with better transparency and adherence to ESG standards.
- Mandatory Sexual Harassment Training laws had a statistically significant impact on chosen ESG metrics:
 - Equal Opportunities and non-discrimination
 - Gender distribution
 - Policy on non-discrimination
 - Measures to promote equal opportunities and diversity

Implication of Results

- Implication
 - Sexual Harassment training does have an impact on Sexual Harassment at a company (specific) has impact and what are we using to measure the impact
 - Help implement sexual harassment training
 - Help investors

Limitation

- Currently are using data from a single source
 - However in the process of merging CapitalIQ ESG data in our research
- There are transparency issues when it comes to ESG and how it is collected
- Potential missed variables

Conclusion

- Preliminary Findings suggest that there is a strong correlation between sexual harassment laws and ESG scores
- Adding more to the analysis will help deepen and strengthen our results

Potential New Variables

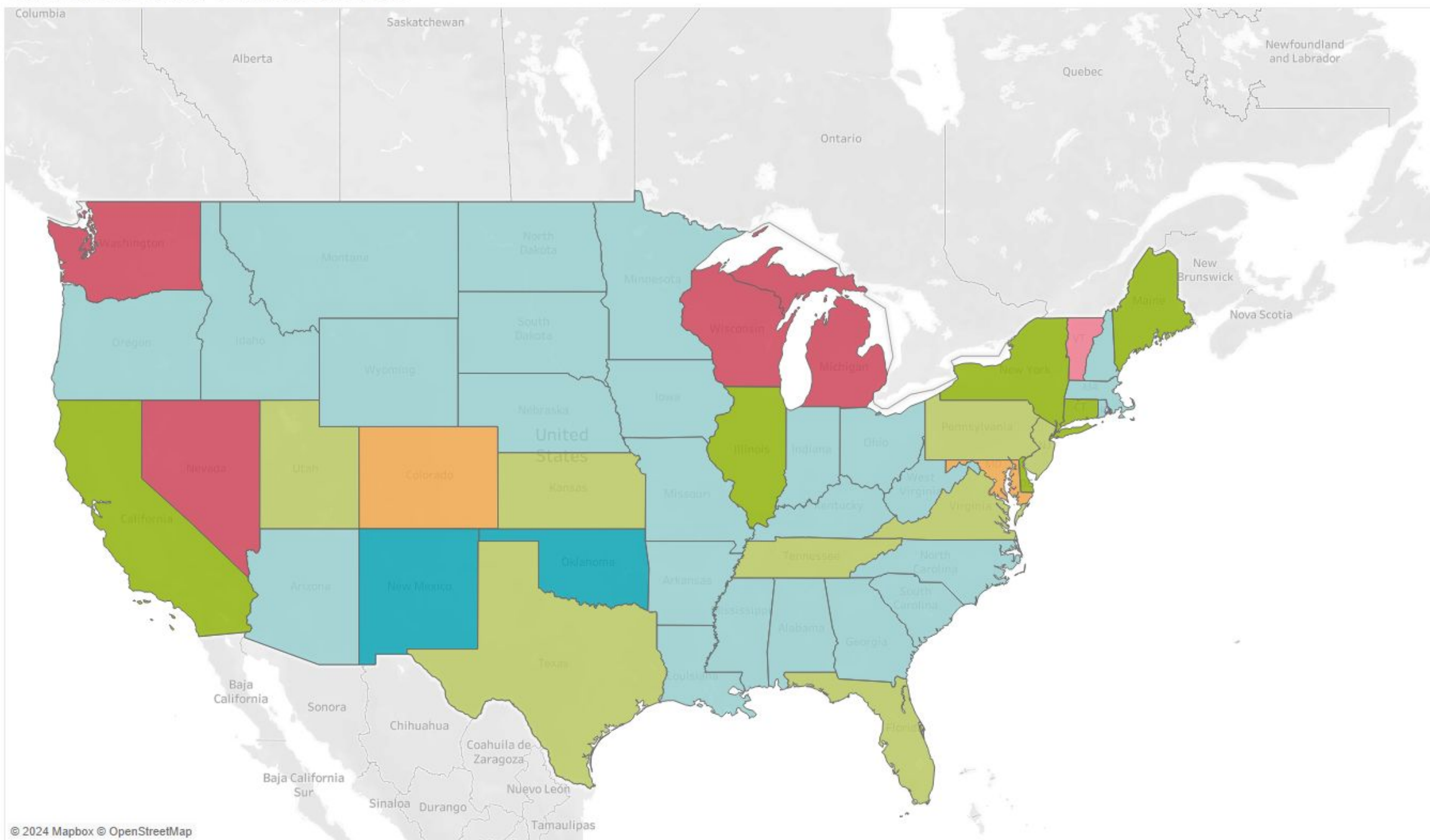
- Corporate governance variables (diversity of board)
- Women Labour Force Participation Rate
- Electoral Results
- Industry Sector by State
- Median Women Income
 - Median Women's income as a % of Men

Mandates

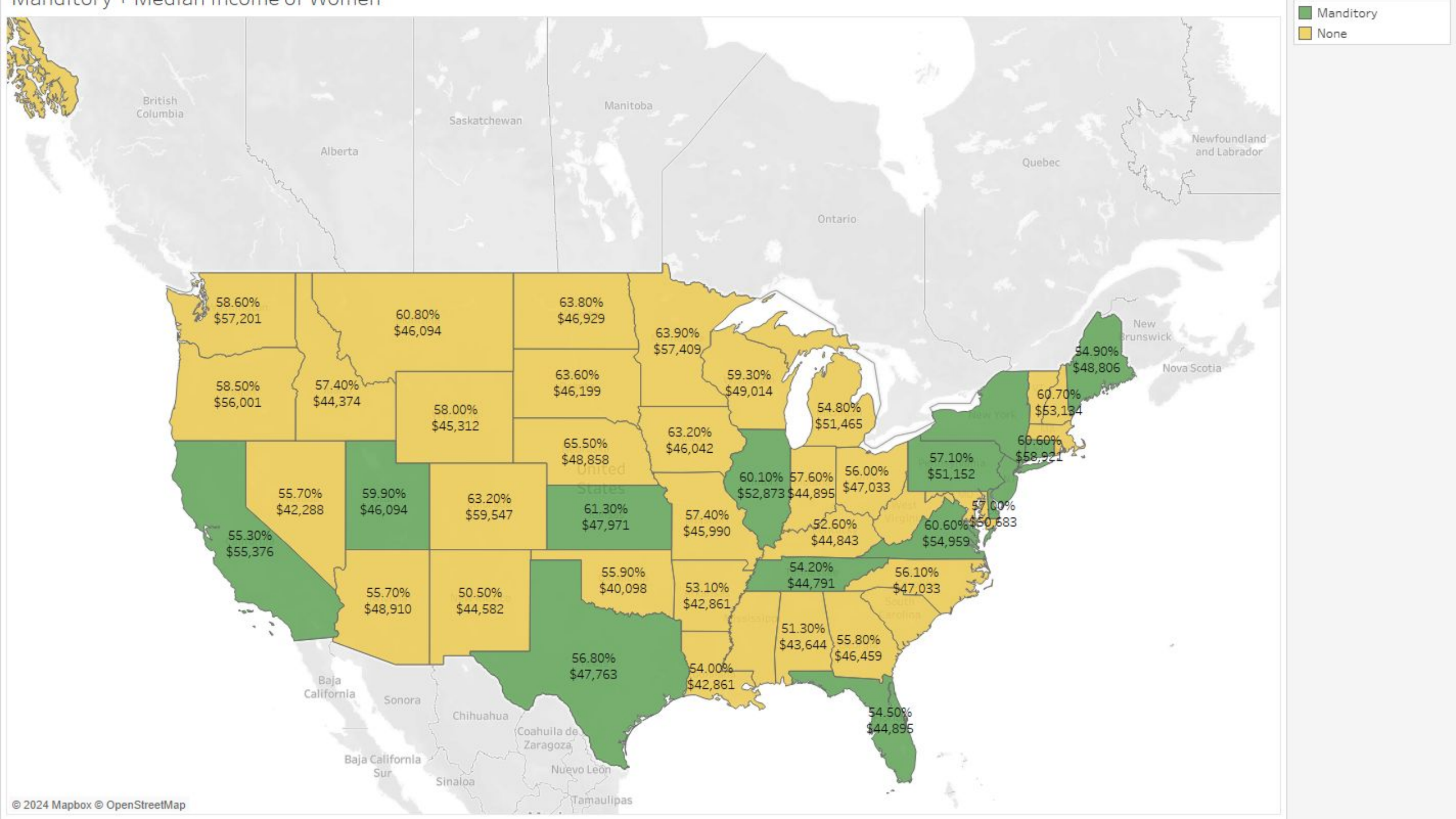
Restrictions	Electorial (4 years, Presidential)					Grand Total
	Blue	Light Blue	Light Red	Purple	Red	
Mandatory	5	1				6
Mandatory (Limited)	2	1		1	4	8
None (Encouraged)	2	2				4
None (Highly Recommend..)	1					1
None (Limited)	1				1	2
None (Recommended)	6		4	2	15	27
None (Strongly Recomme..)	2					2

Restrictions	Electorial (4 years, Presidential)					Grand Total
	Blue	Light Blue	Light Red	Purple	Red	
Mandatory	7	2		1	4	14
None	12	2	4	2	16	36

States with Sexual Assault Restrictions



- Restrictions
- Mandatory
 - Mandatory (Limited)
 - None (Encouraged)
 - None (Highly Recommended)
 - None (Limited)
 - None (Recommended)
 - None (Strongly Recommended)



■ Mandatory
■ None



Q&A