Corporate Governance

A #MeToo Lesson for CEOs: Being a Creep Puts Stock Price at Risk

- Firms with most harassment complaints underperform: Study
- Academics combed through Glassdoor, Indeed employee reviews

The MeToo movement has cleansed several corporations of notorious sexual harassers. If that’s not enough to get creeps in the C-Suite and elsewhere in the company to amend their ways, here’s something else for them to consider: This type of behavior can do serious damage to the stock price.

Shares of U.S. firms that ranked in the top 2% for harassment complaints made online had returns in the following year that averaged about 20% below what would be expected based on the overall market’s performance and standard asset-pricing models, according to a new study from researchers at Canada’s University of Manitoba, York University and Laval University.

“The relationship between rank-and-file sexual harassment and company stock price is probably not evident to most CEOs, who may consider it merely a modest, if unpleasant, cost of doing business,” Professor Shiu-Yik Au of the University of Manitoba, a co-author of the study, said in a statement. “Our study strongly suggests otherwise.”

The issue caused an average of about $1.9 billion per year in damage among the companies that fell into the top 2% of harassment complaints and about $930 million for the companies in the top 5%, according to the paper presented last week at the American Accounting Association’s annual meeting. That makes the lost equity value a much larger potential cost to companies than sexual-harassment damages – which are capped by the federal government at $300,000 for big companies, the authors added. High numbers of harassment complaints were also associated with sharp declines in operating profitability and increases in labor costs.

The study raked through more than 1.6 million reviews posted on the websites Glassdoor and Indeed, which allow workers to submit assessments of their employers. It ranked about 1,100 companies based on the percentage of reviews that
specifically complained of sexual harassment, which was 0% for the majority of the firms but reached as high as 8.3%.

The data studied is from mid-2011 through 2017, before the height of the MeToo movement. That led the researchers to believe the complaints are a reflection of operational shortcomings at the companies, rather than a direct result of the actual complaints on the websites.

In other words, the market is pretty good at figuring out where the creeps are.

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