> Friday, May 5th, 2023
14:30 - 16:00
ACCOUNTING

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘DOES DISCRIMINATION AGAINST EMPLOYEES HARM MANAGEMENT’S CREDIBILITY?’

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ABSTRACT

We examine whether managers of firms which are caught discriminating against employees, as measured by sanctions against the firm by the Equal Employment Opportunity Commission (EEOC), lose credibility with financial markets. We measure credibility based on the market reaction to management earnings forecasts. We find a significant reduction in the market response to management earnings forecasts after discrimination violations, both relative to the same firm pre-violation, and relative to firms in the same industry. This drop in credibility occurs for harassment-related violations, but not for pay-related violations, consistent with a higher reputational penalty to violations which do not have an obvious cost-reduction benefit to the firm. Credibility reduction is concentrated in more significant discrimination cases: those with media coverage, higher penalties, and with multiple employees affected. The effect is also stronger for managers of firms which are likely to have stronger prior reputations: those with a higher percentage of female directors, a higher percentage of minority directors, and those with higher corporate social responsibility scores. Overall, our results indicate a significant credibility loss for managers who oversee firms during discrimination violations, particularly for larger violations and for managers who have more reputational capital to lose.

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