LGBTQ WORKPLACE INCLUSION BEFORE AND AFTER OBERGEFELL V. HODGES: ASSOCIATION WITH TOBIN'S Q AND ROA

Benjamin P. Foster
University of Louisville

Andrew S. Manikas
University of Louisville

Dianna C. Preece
University of Louisville

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Abstract

Diversity and inclusion advocates claim organizations benefit from diversity. Diversity is purportedly associated with many positive outcomes such as increased creativity, reduced turnover, increased productivity, a broader talent pool from which to choose, improved employee performance, increased innovation, potentially new customers and, ultimately, higher profits. Many studies support that claim, finding evidence that diversity is associated with higher company returns and market values. We examine if the association of company LGBTQ-benefits and policies with corporate returns and market value changed in the years around the 2015 Supreme Court ruling in *Obergefell v. Hodges* that legalized same-sex marriage nationally. The Corporate Equality Index (CEI), calculated and

reported by the Human Rights Campaign (HRC.org 2020a), is used as a proxy for the level of company LGBTQ inclusiveness and support. The CEI is meant to provide a tool to rate U.S. businesses on their treatment of LGBTQ employees, investors and consumers, thereby focusing on a different aspect of diversity than simply defining diversity based on gender and/or race and ethnicity. Results indicate that higher HRC CEI ratings appear to be associated with higher Tobin's q, a measure of long-term corporate performance. We find similar results for three time periods, pre-*Obergefell*, during the Supreme Court decision year, and post-*Obergefell*. These results indicate that diversity policies toward the LGBTQ community are associated with higher company market value, regardless of how uniformly US law has regarded same-sex marriage.

INTRODUCTION

Diversity and inclusion advocates claim organizations benefit from diversity. A range of benefits are touted, including increased creativity, reduced turnover, increased productivity, higher employee engagement, faster/better problem solving, a broader talent pool from which to choose, improved employee performance, increased innovation, potentially new customers and, ultimately, higher profits (Zojceska, 2018). While not in total agreement regarding whether diversity is good or bad for firms, many studies support that claim, finding evidence that diversity enhances companies' returns and market values.

In this study, we examine if the nationwide legalization of same-sex marriage by the Supreme Court in *Obergefell v. Hodges* in 2015 changed the association of company LGBTQ-benefits and policies with corporate returns and market value. We use the Corporate Equality Index (CEI), calculated and reported by the Human Rights Campaign (HRC.org, 2020a), as a proxy for the level

of company LGBTQ inclusiveness and support. The CEI is meant to provide a tool to rate U.S. businesses on their treatment of LGBTQ employees, investors and consumers. The CEI, discussed in more detail below, provides a rating for both firms who voluntarily apply to be rated, and firms that do not apply. In our opinion, this makes the CEI less biased than other ratings that result only from data supplied by firms or employees. The CEI also focuses on a different aspect of diversity than simply defining, as many studies do, diversity based on gender and/or race and ethnicity.

Our results indicate that a commitment to LGBTQ diversity and inclusion, as measured by high HRC CEI ratings, appears to be associated with higher Tobin's q, a measure of long-term corporate performance. This result is similar for three time periods, pre-*Obergefell*, during the Supreme Court decision year, and post-*Obergefell*. Throughout the three sample time frames, companies that have policies recognized as inclusive to the LGBTQ community have higher market values (Tobin's q) compared to their peers. These results indicate that benefits flow from diversity toward the LGBTQ community, regardless of how uniformly US law has regarded same-sex marriage.

The next section of this paper discusses the motivation for our study, particularly in regard to prior research. The following section discusses research methods, including a description of the HRC's CEI and the regression models used to examine financial performance. We then present results of our study and offer conclusions.

MOTIVATION AND LITERATURE REVIEW

The resource-based view (RBV) of the organization emphasizes the importance of organizational resources and their capabilities in achieving a sustained competitive advantage (Barney, 1991). Diversity of views and perspectives within firms can be an important resource for firms in competitive environments. However, how to define diversity and how it should be measured is problematic. Prior research often examines gender (e.g., Sanan,

2016) and race (e.g., Richard et al., 2007) as the only measures of diversity. These measures are used for a variety of reasons, but is often, in academic literature at least, driven by the availability of data on firm race and/or gender measures. Often, again because of data availability, authors also focus on diversity at the board of director's level of the firm. An often overlooked, but important indication of a company's commitment to diversity is how its policies and practices embrace inclusiveness toward, and support for, employees, customers, investors and/or suppliers who identify as lesbian, gay, bisexual, transgender, and questioning/queer (LGBTQ).

LGBTQ employees, customers, and suppliers may offer a competitive firm resource, contributing to the firm in several ways, and improving firm productivity and performance. As of 2018, approximately 11 million people in the US identify as lesbian, gay, bisexual or transgender, with nearly 10 million of the 11 million actively employed. In 2018, approximately 25% of LGBTQ workers reported being discriminated against due to sexual orientation or gender identity and approximately one half of those people said it negatively affected their work environment (National LGBTQ Workers Center, 2018). However, the rights of LGBTQ citizens have progressed steadily in the US in the last two decades. For example, "Don't Ask, Don't Tell," was repealed in 2011, allowing gay and lesbian members of the armed forces to serve openly in the military.

In a more drastic change, same-sex marriage was legalized in 2015 throughout the United States and its territories. Same-sex marriage had been established by voter initiatives, court rulings, or law in 36 states plus the District of Columbia and Guam by 2015. However, many states actively fought against same-sex marriage, amending their constitutions in 2004 to define a marriage as a union between one man and one woman (e.g., Arkansas, Georgia, Kentucky, Michigan, Oregon and others). Just a little over a decade later, *Obergefell v. Hodges*, a landmark decision regarding the fundamental right to marry, was decided by the Supreme Court on June 26, 2015 (U.S. Supreme Court, 2015). The case was the

culmination of several federal district court cases filed between January 2012 and February 2014 regarding the right to marry in states such as Kentucky, Michigan, Ohio and Tennessee.

Since that Decision, acceptance and support for the LGBTQ community has become more mainstream, even in states that fought hard against it. Also, legal measures against discrimination toward LGBTQ community members have increased. Prior to the *Obergefell* decision, not only had many states provided rights to same-sex couples, some companies were already acting as leaders in providing LGBTQ-friendly benefits and policies. Because diversity has been shown to benefit the market value of firms in prior research (e.g., Terjesen et al., 2016), we believe companies engaging in LGBTQ related diversity will also outperform their peers.

Much of the diversity literature related to LGBTQ policies focuses on human resource issues. Little research has examined LGBTQ diversity and firm performance specifically, though the body of knowledge is increasing. For example, Pichler, Blazovich, Cook, Huston and Strawser (2017) used the MSCI ESG STATS database for years 1996 through 2009, to examine the financial performance and market values of firms with LGBTQ supportive policies. They find that the presence of LGBTQ supportive policies is associated with higher market values, productivity and profitability. The results are magnified for firms engaged in higher levels of research and development (Pichler et al., 2017).

Related research, including Johnston and Malina (2008), Wang and Schwarz (2010), and Shan, Fu and Zheng (2017), focus on the same measure we do, the Human Rights Campaign Foundation (HRCF) Corporate Equality Index (CEI) scores. These scores rate firms on their LGBTQ policies. The HRCF published the first CEI in 2002. Johnston and Malina examine the market reaction to the announcement of the firms' scores on the inaugural CEI. They examine several competing hypotheses based on societal views of LGBTQ policies in 2002. One view is that shareholder value may be negatively impacted by the announcement due to public backlash. An alternative view, espoused by proponents of LGBTQ workplace

equality, is that good corporate citizenship reflected in LGBTQ-friendly policies will increase shareholder value. The authors conclude that, at worst, a LGBTQ-friendly workplace in 2002 was value neutral and did not damage shareholder wealth.

Wang and Schwarz (2010) examine changes in firms' standardized CEI scores from 2002 to 2005, and the relation between the score change and the standardized market value of the firms' stock prices. The authors find a positive relationship between an increasing CEI score and the following year's standardized stock price, implying more progressive management of LGBTQ issues, as proxied by an increasing CEI score, improves shareholder wealth. Likewise, a 2017 study conducted by Shan, Fu and Zheng, also examine the impact on firm performance of CEI as one aspect of corporate social responsibility (CSR). The authors, using data from 2002 – 2006, find that firms with a higher CEI have higher stock returns, market valuations and productivity.

Main Variable of Interest and Research Questions

We use the HRC CEI as a proxy for a company's support for diversity related to the LGBTQ community. The HRC clearly promotes the importance of creating diverse and inclusive workplaces, as evidenced in this passage from their 2018 report (Human Rights Campaign, 2018, p2).

> It's no surprise that many top-scoring businesses are also top-performing businesses. They know that creating inclusive workplaces and communities where their employees can thrive is an investment in their own competitive edge. That's why LGBTQ-inclusive workplace policies are becoming the norm in the U.S., and having an impact around the globe. Today, more than 90 percent of CEI-rated businesses have embraced both sexual orientation and gender identity employment protections for their U.S. and global operations.

The HRC developed the CEI to measure employers on four key criteria (Human Rights Campaign, 2018, p8):

1. Non-discrimination policies across business entities.
2. Equitable benefits for LGBTQ workers and their families.
3. Internal education and accountability metrics to promote LGBTQ inclusion competency.
4. Public commitment to LGBTQ equality.

The HRC invites large US employers to participate in the CEI. These employers are identified via several sources, including *Fortune* magazine's 1,000 largest publicly traded businesses. Any private-sector, for-profit employer with 500 or more full-time U.S. employees can request to participate in the CEI even if it is a privately held company. Each business is sent a web-based survey, which also includes links to sample policies and other guidance from the HRC. If the employer has participated in a CEI survey in the past, the survey is first sent to the individuals responsible for the prior submission. Otherwise, surveys are sent the chief executive officer (CEO) or managing partner of the firm, as well as the highest-level "executives responsible for human resources, diversity, communications or community engagement when it was possible to obtain their contact information." (Human Rights Campaign 2018, p9)

Staff at the HRC supplement self-reported information provided from the firm's self-report survey information with these three sources of data (Human Rights Campaign, 2018):

1. Internal Revenue Service 990 tax filings (reviewed for any business foundation's gifts to anti-LGBTQ groups).
2. Case law and news accounts regarding findings of discrimination and corporate responsibility and the LGBTQ community at-large.

3. Individuals that report information to the HRC Foundation.

Further, *Fortune* 500-ranked businesses that do not respond to multiple CEI survey invitations are evaluated independently and have designated unofficial ratings. This is done by the HRC to provide the general public with accurate information on these large employers, and to ensure that the CEI represents a true peer benchmark for firms.

Support for same-sex marriage has consistently risen since the early 2000s, while opposition has consistently fallen (Pew Research Center, 2019). Consequently, a high CEI before the ruling in *Obergefell v. Hodges* might provide a more significant indication of a company's commitment to diversity and inclusion, than after the Decision. A high CEI score would indicate that leaders of a firm, from the Board down to managers, strive to provide a safe and inclusive work environment for LGBTQ employees, before the right of same-sex couples to marry was considered by the Supreme Court in 2015.

On the other hand, the Supreme Court Decision itself could lead firms to work at increasing their CEI, as public sentiment, along with the law, changed. The actions of firms trying to improve their CEIs following the *Obergefell v. Hodges* decision could result from factors other than a substantial commitment to diversity from managers. Conversely, the *Obergefell* decision could have made the benefits of LGBTQ-friendly policies even more apparent and appreciated by investors and customers, resulting in a more pronounced association with returns and company values after the decision. Consequently, we examine the following research question:

> RQ1: Does the association of relatively higher CEIs with Tobin's q and return on assets (ROA) differ prior to the *Obergefell* decision compared to the years following the decision?

Further, whether firms submit application information to obtain a CEI from the HRC or have an unofficial rating assigned by

HRC staff, could in itself indicate a firms' commitment to diversity efforts. Consequently, we also examine the following research question:

> RQ2: Does the association of relatively higher CEIs with Tobin's q and return on assets (ROA) differ depending upon whether firms apply to the HRC for a rating, or have an estimated CEI calculated by HRC staff?

We add to the literature in five ways. First, in this study we examine two measures of financial performance, both long and short-term. Namely, those measures are Tobin's q and ROA. Second, we examine the performance of firms before and after the Supreme Court's *Obergefell v Hodges* decision to allow same-sex marriage, as stated in RQ1. We also examine the differences in the performance of firms that actively seek to be rated by the HRC on LGBTQ policies versus those that do not, and are thus rated on an ad hoc basis by the HRC, as stated in RQ2. Next, we use more recent data (2013 through 2017) relative to previous studies, including Shan, Fu and Zheng (2017), who, despite the more recent publication date, use data from 2002 to 2006. Finally, we use propensity score matching as an improved way of comparing the association with different groups within our sample.

METHODS

In this study, we focus on diversity as it relates specifically to LGBTQ employees, customers and investors, as measured by the CEI. To examine our research questions, we analyze data for firms from the five-year period surrounding the *Obergefell* decision, 2013 to 2017. Firm performance prior to and following the US Supreme Court ruling in *Obergefell v. Hodges* in 2015, that legalized same-sex marriage, is the focus of analysis. Thus, we wish to analyze firms' commitments to LGBTQ diversity, and their associated long and short-term performance based on Tobin's q and ROA, before, and after the change in law.

Sample

Because the Supreme Court decision in *Obergefell v Hodges* created new law in the United States (US), we limit the sample to US-headquartered, publicly traded companies with data available in the Compustat North American Annual Database. Compustat holds 24,328 potential observations over the period 2013 to 2017. We selected 2013 as our start year to create a two year before-the-law window (2013–2014), a ruling year (2015) window, and a two-year post-law enactment (2016-2017) window. Information regarding the sample is contained in Table 1.

Table 1. Sample

Panel A: Sample Selection

Total unique Compustat observations with US headquarters, a minimum of $10 million in assets and sales, and publicly traded common shares, pulled 2013-2017	
2013-2014	9,936
2015	4,916
2016-2017	9,476
Available sample observations	24,328
Observations without a CEI or with incomplete data	22,030
Total Sample	2,298

Sample Breakdown by time period	Observations	Submit for CEI	HRC estimated CEI
2013	378	273	105
2014	427	312	115
2013-2014	805	585	220
2015	476	363	113
2016	507	399	108
2017	510	430	80
2016-2017	1,017	1,777	521

Table 1. continued

Panel B: Sample by 2-Digit SIC Codes			
2-Digit SIC		Total Obs.	% of Total
IND10	Metal mining	9	0.39
IND13	Oil and gas extraction	60	2.61
IND15	Building construction general contractors and operative builders	14	0.61
IND16	Heavy construction other than buildings	10	0.44
IND17	Construction special trade contractors	7	0.30
IND20	Manuf-Food products	77	3.35
IND21	Manuf-Tobacco products[1]	10	0.44
IND22	Manuf-Textile mill products	5	0.22
IND23	Manuf-Apparel and other finished products	21	0.91
IND24	Manuf-Lumber and wood products except furniture	5	0.22
IND25	Manuf-Furniture and fixtures	15	0.65
IND26	Manuf-Paper and allied products	26	1.13
IND27	Manuf-Printing, publishing	25	1.09
IND28	Manuf-Chemicals and allied products	141	6.14
IND29	Manuf-Petroleum refining and related industries	39	1.70
IND30	Manuf-Rubber and miscellaneous plastics products	19	0.83
IND31	Manuf-Leather and leather products	3	0.13
IND32	Manuf-Stone, clay, glass, concrete products	13	0.57

Table 1. continued

IND33	Manuf-Primary metal industries	22	0.96
IND34	Manuf-Fabricated metal products, not	18	0.78
IND35	Manuf-Industrial machinery and equipment	97	4.22
IND36	Manuf-Electronic and other electric equipment	80	3.48
IND37	Manuf-Transportation equipment	88	3.83
IND38	Manuf-Instruments and related products	63	2.74
IND39	Manuf-Miscellaneous manufacturing industries	10	0.44
IND40	Railroad transportation	15	0.65
IND42	Motor freight transportation and warehousing	14	0.61
IND44	Water transportation	10	0.44
IND45	Transportation by air	38	1.65
IND47	Transportation services	5	0.22
IND48	Communications	78	3.39
IND49	Electric, gas and sanitary services	170	7.40
IND50	Wholesale trade-Durable goods	71	3.09
IND51	Wholesale trade-Nondurable goods	45	1.96
IND52	Retail trade-Building materials, hardware, garden	11	0.48
IND53	Retail trade-General merchandise stores	41	1.78
IND54	Retail trade-Food stores	9	0.39
IND55	Retail trade-Automotive dealers, service stations	47	2.05

Table 1. continued

IND57	Retail trade-Home furniture, furnishings, equipment	15	0.65
IND58	Retail trade-Eating and drinking places	41	1.78
IND59	Retail trade-Miscellaneous retail	49	2.13
IND60	Depository institutions	107	4.66
IND61	Nondepository financial institutions	33	1.44
IND62	Security and commodity brokers, dealers, exchanges	75	3.26
IND63	Insurance carriers	136	5.92
IND64	Insurance agents, brokers and service	17	0.74
IND65	Real estate	8	0.35
IND67	Holding and other investment offices	18	0.78
IND70	Hotels, camps, and other lodging places	20	0.87
IND72	Personal services	5	0.22
IND73	Business services	177	7.70
IND75	Automotive repair, services, and parking	15	0.65
IND78	Motion pictures	8	0.35
IND79	Amusement and recreation services[1]	20	0.87
IND80	Health services	31	1.35
IND82	Legal services	4	0.17
IND87	Engineering, accounting, research, management and related services	24	1.04
IND99	Non-classifiable establishments	19	0.83
Total		2,298	100.0

Many of the potential observations lack necessary information in Compustat to construct variables necessary for our analyses. Also, a CEI rating is not calculated for many firms in the sample years. After deleting observations with incomplete data, the final sample contains 2,298 firm year observations. Panel A shows the number of firm-year observations in each of the three time periods.

Table 1, Panel A also provides a breakdown of the sample by year and whether the company voluntarily submitted information to be assessed by the HRC, or the HRC estimated the CEI for the company from publicly available information. Each of the companies are listed with a CEI rating that ranges from zero (the lowest rating) to 100 (the highest rating) in the HRC CEI report for that year. The CEI reports are retrieved from https://www.hrc.org/resources/corporate-equality-index-archives. The HRC states on its website "Employers that have earned a 100 percent rating on the HRC CEI have satisfied all of the criteria for that year and are recognized as a 'Best Places to Work for LGBTQ Equality.'" And further, "These criteria have been created to encourage employers to participate in the index and to advance the best practices for LGBTQ workplace inclusion that should be expected of all large employers" (Human Right Campaign, 2020b).

Panel B of Table 1 details the number of firm year observations the sample contains for each industry (2-digit SIC code). All types of companies are evaluated by the HRC; companies from 59 different industries are included in the sample over the five-year period. The greatest number of sample firms come from the business services industry with 177 firms, or 7.7% of the total from all industries. In close second is the electric, gas and sanitary service providers industry with 170 evaluated firms, or 7.4% of the total sample.

Regression models and dependent variables

Tobin's q is used as a measure of firms' long-term performance and is the primary dependent variable in this analysis.

Following previous research, we calculate Tobin's q with the following formula.

TOBINSQ = (MKTVAL + TA - SEQ)/ TA

where:

MKTVAL = the market value of common stock,

TA = the book value of the total assets of the firm, and

SEQ = book value of equity.

Examples of previous accounting research that use this formula to calculate Tobin's q include Charitou, Karamanou, and Lambertides, 2015; Green et al., 2014 and Ryngaert and Thomas, 2012.

This widely used Tobin's q measure is calculated using Compustat data. Tobin's q measures the market value of a firm relative to its replacement value. The denominator can be viewed as the cost to a new entrepreneur of creating an identical company. Tobin's q answers the question of whether a firm is worth more than the cost of its assets. In the long run, Tobin's q tends towards one. However, a Tobin's q greater than one implies the market values the company more than the replacement cost of its assets. Tobin's q is viewed as a long-term measure of performance. To measure short-term performance, we include ROA (annual net income divided by total assets) as an additional dependent variable.

Several gender and race diversity studies have used Tobin's q and ROA as measures of relative long-term and short-term performance. For example, the following studies examine the impact of many items on Tobin's q and ROA: Carter, D'Souza, Simpkins, and Simpson (2010); Haslam, Ryan, Kulich, Trojanowski, and Atkins (2010); Darmadi (2013); Sabatier (2015); Sanan (2016); and Terjesen, Couto and Francisco (2016); Rossi, Hu and Foley (2017); Van Peteghem, Bruynseels, and Gaeremynck (2018); Cao, Ellis, and Li (2018); and Hassan and Marimuthu (2018). We also conduct analyses with year-to-year changes in Tobin's q and ROA as dependent variables in models intended to address potential endogeneity. Examples of previous studies that

have used the change in Tobin's q as a dependent variable include Charitou et al., 2015 and Green et al., 2014.

We develop regression models of firms' performance and shareholder wealth to examine potential LGBTQ diversity policy effects. Because firm size and many other factors have been found to impact firm performance, the models include several independent variables frequently used in accounting and finance studies.

(1a) $TOBINSQ_t = \alpha_1 + \alpha_2(LOGAT_t) + \alpha_3(LEVt) + \alpha_4(CAPINT_t) + \alpha_5(ALTMANZ_t) + \alpha_6(SALESGROWTH_t) + \alpha_7(LAGROA) + \alpha_8(XRDAT_t) + \alpha_9(CEI) + \alpha_{10}(After) + \alpha_{11}(HRC\_estimate_t) + \alpha_{12}(IntEstAfter_t) + e$

(1b) $CHGTOBINSQ_t = \alpha_1 + \alpha_2(LOGAT_t) + \alpha_3(LEVt) + \alpha_4(CAPINT_t) + \alpha_5(ALTMANZ_t) + \alpha_6(SALESGROWTH_t) + \alpha_7(LAGROA_t) + \alpha_8(XRDAT_t) + \alpha_9(CEI)\ \alpha_{10}(After) + \alpha_{11}(HRC\_estimate_t) + \alpha_{12}(IntEstAfter_t) + e$

(2a) $ROA_t = \alpha_1 + \alpha_2(LOGAT_t) + \alpha_3(LEV_t) + \alpha_4(CAPINT_t) + \alpha_5(ALTMANZ_t) + \alpha_6(XRDAT_t) + \alpha_7(MTB_t) + \alpha_8(CEI) + \alpha_9(After) + \alpha_{10}(HRC\_estimate_t) + \alpha_{11}(IntEstAfter_t) + e$

(2b) $CHGROA_t = \alpha_1 + \alpha_2(LOGAT_t) + \alpha_3(LEV_t) + \alpha_4(CAPINT_t) + \alpha_5(ALTMANZ_t) + \alpha_6(XRDAT_t) + \alpha_7(MTB_t) + \alpha_8(CEI) + \alpha_9(After) + \alpha_{10}(HRC\_estimate_t) + \alpha_{11}(IntEstAfter_t) + e$

where: $TOBINSQ_t$ = Tobin's q at end of $year_t$;
$CHGTOBINSQ_t = (TOBINSQ_t - TOBINSQ_{t-1})$;
ROA_t = net income divided by total assets end of $year_t$;
$CHGROA_t = (ROA_t - ROA_{t-1})$;
$LOGAT_t$ = log of total assets at the end of $year_t$;
LEV_t = long-term debt/total assets end of $year_t$;
$CAPINT_t$ = book value of property plant and equipment divided by total assets end of $year_t$;
$ALTMANZ_t$ = Altman's Z-score end of $year_t$;
$SALESGROWTH_t$ =(sales $year_t$ - sales $year_{t-1}$)/ sales $year_{t-1}$;
$LAGROA_t = ROA_{t-1}$;
$XRDAT_t$ = R&D expenditures in $year_t$ divided by total assets at the end of $year_t$;

MTB_t = market value of equity end of $year_t$ divided by book value of stockholders' equity end of $year_t$;
CEI = HRCF CEI related to that year of operation. (HRC CEI reports are issued late in one year with the title being the report for the following year: the 2019 Report is issued in late 2018. Thus, we relate the rating in the 2019 Report to 2018 financial results.)
After = 0 if observation is from 2013-2014, 1 if observation is from 2016-2017;
$HRC\_estimate_t$ = 0 if companies self-report information to the HRCF, 1 if the HRCF estimates the CEI from public information, and
IntEstAfter = the interaction of $HRC\_estimate_t$ and After.

Independent variables of interest

In the main analyses, this study examines whether the CEI is positively associated with corporate ROA and Tobin's q more significantly prior to the *Obergefell* decision than after the decision. In the second analysis, we examine whether differences exist between companies that self-report their information to the HRCF and companies for which the HRCF estimates a CEI from publicly available information.

Control variables

We include several control variables that have been used in models related to Tobin's q and ROA that can influence regression results. We control for firm size as in prior studies with *LOGAT* (the log of total assets), (e.g., Manikas & Patel, 2016; Knechel et al., 2015; Green et al., 2014; Triana et al., 2014; Ryngaert & Thomas, 2012). Other control variables from previous empirical studies we include are: firm leverage (*LEV*) (Vural, Sökmen, & Çetenak, 2012; Lang, Lins, & Maffett, 2012; Van Peteghem, et al., 2018); capital intensity (CAPINT) (Van Peteghem, et al., 2018); Altman's Z (ALTMANZ) indicating firm financial viability (Van Peteghem, et al., 2018); year-to-year sales growth (SALESGROWTH) (Van Peteghem, et al., 2018); previous year's ROA (LAGROA) (Van

Peteghem, et al., 2018); and R&D intensity (*XRDAT*) from Richard, Murthi, and Ismail (2007).

RESULTS FROM ANALYSIS

Descriptive statistics

To reduce the impact of outliers among the variables studied, the variables are Winsorized at the upper and lower 1% level. Panel A of Table 2, provides descriptive statistics for sample firms from the two years prior to the *Obergefell* decision and the two years after the court ruling. t-tests indicate that changes in Tobin's q, (ChgTOBINQ) and ROAs are significantly higher in the two years before the Decision than in the two years following the Decision. In contrast, the average firm leverage, LEV, and CEI are significantly higher in the two years after *Obergefell*. The higher CEI rating could indicate that, with increased awareness of LGBTQ issues after the passage of *Obergefell*, firms instituted more LGBTQ policies or were more inclined to be rated on CEI, increasing the competitiveness of the pool. Note that before *Obergefell*, 72.67% of the sample firms submitted to be rated on CEI (585 out of 805), but in the years following the decision 81.51% of firms submitted to be rated (829 out of 1,107). The univariate results also indicate the need for control variables when analyzing sample firms from the different time periods.

Table 2. Descriptive statistics for Winsorized Sample

Panel A: Before or After *Obergefell*

Before				After				
Variable	Mean	Std Dev		Mean	Std Dev		t-test	p-val.
TOBINQ	2.45	1.06		2.49	1.25		-0.62	0.55
Chg TOBINQ	0.12	0.34		0.05	0.48		**3.14**	**0.00**
ROA	0.06	0.06		0.05	0.07		**2.66**	**0.01**
ChgROA	0.00	0.07		0.00	0.08		0.37	0.71
logAT	10.03	1.40		10.01	1.35		0.33	0.74
LEV	0.25	0.19		0.29	0.24		**-3.93**	**<.01**
CAPINT	0.27	0.25		0.26	0.26		0.98	0.33
ALTMANZ	3.05	3.17		2.80	2.84		1.65	0.10
SALES GROWTH	0.04	0.13		0.04	0.16		-0.25	0.80
LAGROA	0.05	0.05		0.04	0.04		1.81	0.07
XRDTA	19.92	119.3		24.91	137.4		-0.78	0.44
CEI	65.77	35.48		76.48	33.18		**-6.20**	**<.01**
N= 1,822	N = 805			N = 1,017				

Table 2 continued

Panel B: Applied for CEI or HRC estimated CEI

	Applied			Estimated				
Variable	Mean	Std Dev		Mean	Std Dev		t-test	p-val.
TOBINQ	2.54	1.34		2.38	0.99		**2.93**	**<.01**
Chg TOBINQ	0.04	0.53		0.03	0.40		0.18	0.56
ROA	0.05	0.08		0.04	0.09		**2.02**	**0.04**
ChgROA	0.00	0.07		0.00	0.09		0.08	0.936
logAT	9.92	1.68		9.34	0.98		**9.91**	**<.001**
LEV	0.27	0.26		0.29	0.24		**-2.05**	**0.040**
CAPINT	0.24	0.26		0.30	0.23		**-4.90**	**<.001**
ALTMANZ	2.98	3.64		3.32	2.32		**-2.53**	**0.012**
SALES GROWTH	0.03	0.14		0.04	0.18		-1.65	0.100
LAGROA	0.05	0.08		0.04	0.09		**1.96**	**0.049**
XRDTA	33.89	207.7		7.66	52.74		**4.82**	**<.001**
CEI	87.33	19.44		15.63	10.33		**110.9**	**<.001**
N= 2,298	N = 1,777			N = 521				

$HRC\_estimate_t$ = 0 companies at self-report information to the HRC F, 1 if the HRCF estimates the CEI from public information; $TOBINSQ_t$ = Tobin's q at end of $year_t$; $CHGTOBINSQ_t$ = ($TOBINSQ_t$ - $TOBINSQ_{t-1}$); ROA_t = net income divided by total assets end of $year_t$; $CHGROA_t$ = (ROA_t - ROA_{t-1}); $LOGAT_t$ = log of total assets at the end of $year_t$; LEV_t = long-term debt/total assets end of $year_t$; $CAPINT_t$ = book value of property plant and equipment divided by total assets end of $year_t$; $ALTMANZ_t$ = Altman's Z-score end of $year_t$; $SALESGROWTH_t$ = (sales $year_t$ - sales $year_{t-1}$)/ sales $year_{t-1}$; $LAGROA_t$ = ROA_{t-1}; $XRDAT_t$ = R&D expenditures in $year_t$ divided by total assets at the end of $year_t$; MTB_t = market value of equity end of $year_t$ divided by book value of stockholders' equity end of $year_t$; CEI = HRCF CEI related to that year of operation.

Bolded items significant at $p <= 0.05$.

Underlined items significant at $p <= 0.10$.

Table 2, Panel B provides the descriptive statistics for the total sample of 2,298 observations, broken down into two groups. The first group contains 1,777 observations of companies that voluntarily provided information to the Humans Rights Commission Foundation (HRCF) to receive a CEI rating. Another 521 observations were available for companies for which the HRCF constructed the CEI rating from publicly available information. t-tests reveal significant differences between the means of the two groups shown in Panel B of Table 2. Companies that self-report to the HRCF for a CEI calculation (HRC_estimate = 0) have significantly higher Tobin's q and ROAs than companies for which the HRCF estimates the CEI from public information (HRC_estimate = 1). Those companies also have a significantly higher CEI. Not surprisingly, companies that are making conscious efforts to be inclusive to the LGBTQ community are apparently the most willing to apply to be evaluated, while those that do not apply (HRC_estimate = 1) receive lower ratings on the objective LGBTQ policy measures. Further, companies that do ask to be evaluated on the CEI have higher Tobin's q and ROA, on average.

Somewhat interesting is that no significant difference exists between the group means for variables that measure a change from one year to the next: ChgTOBINQ, ChgROA, and SALESGROWTH. In other words, whether the firm submitted information to the HRC to be evaluated on its LGBTQ policies or the HRC used publicly available data to assess the firm's policies, the change in Tobin's q, the change in ROA and the change in the growth rate of sales are not significantly different.

Although not the focus or our study, differences between the means of the control variables of these two groups (apply for CEI versus HRC_estimate = 1) in Panel B of Table 2, are interesting. Firms that apply to be rated by the HRC have higher log of total assets (logAT), higher prior year ROA (LAGROA), and higher research and development (R&D) expense divided by total assets (XRDTA). Self-reporting companies also have significantly lower leverage (LEV), capital intensity (CAPINT), and Altman Z scores.

The pool of companies that ask to be rated and those that do not ask appear to differ in many ways.

Regression analysis results

Table 3, Panel A presents regression results from a sample that includes the two years prior to *Obergefell* and the two years after. For Tobin's q, (Equation 1a) all independent variables in the model are significant and in the expected direction other than the "After" variable. The positive and significant parameter estimate on CEI indicates that a higher CEI is associated with significantly higher Tobin's q. However, an interaction term between CEI and After is not significant in any models (not reported in Table 3). Results reported in Table 3, Panel A suggest that the answer to research question 1 is that the association of CEI with investor valuations does not differ before and after the *Obergefell* decision.

Table 3, Panels B, C, and D present the regression results of analysis with data from 2013-2014, 2015, and 2016-2017, respectively. Each panel shows results for the dependent variables of TOBINSQ, CHGTOBINSQ, ROA, and CHGROA. The CEI for each of the three periods contain similar positive and significant coefficients for Tobin's q, and similar coefficients and non-significance for the other dependent variables. Thus, a higher CEI rating is associated with a higher Tobin's q in all periods, also indicating that the answer to research question 1 is that CEI has a similar association with Tobin's q throughout the sample period. Having more supportive and inclusive LGBTQ policies (as evidenced in higher CEI ratings) are associated with higher Tobin's q for all time periods of our sample. This strongly indicates that investors' value of a firm is associated with a commitment to LGBTQ diversity and inclusion.

Table 3. Parameter estimates and significance from regression results from different sample periods

Panel A: 2013-2014 and 2016-2017 sample

Dependent Variables	Eq 1a TOBINSQ	Eq 1b CHG TOBINSQ		Eq 2a ROA	Eq 2b CHGROA
Intercept	**1.450** **<.0001**	0.146 0.157		0.025 0.051	-0.011 0.536
logAT	**-0.066** **<.0001**	-0.019 0.052		-0.002 0.104	0.000 0.877
LEV	**0.252** **0.009**	0.065 0.272		0.014 0.054	0.017 0.084
CAPINT	**0.645** **<.0001**	0.078 0.185		0.008 0.301	**0.030** **0.003**
ALTMANZ	**0.224** **<.0001**	**0.025** **<.0001**		**0.010** **<.0001**	0.000 0.607
SALES GROWTH	**0.531** **<.0001**	0.027 0.705			
LAGROA	**2.817** **<.0001**	**-0.567** **<.0001**			
XRDTA	**0.001** **<.0001**	**<.0001**		0.000 0.910	0.000 0.948
MTB				0.000 0.750	0.000 0.906
CEI	**0.005** **<.0001**	0.000 0.513		0.000 0.166	0.000 0.888
After	0.023 0.559	**-0.061** **0.013**		**-0.007** **0.029**	-0.005 0.269
HRC_ Estimate	**0.211** **0.019**	0.005 0.922		0.002 0.792	0.000 0.992
IntEstAfter	**0.176** **0.032**	-0.018 0.713		0.000 0.672	0.014 0.100
INDUSTRY variables	Yes	Yes		Yes	Yes
Adj R^2	0.665	0.061		0.324	0.003

Table 3 continued

Panel B: 2013-2014 sample

Dependent Variables	Eq 1a TOBINSQ	Eq 1b CHG TOBINSQ		Eq 2a ROA	Eq 2b CHGROA
Intercept	**2.027** **<.0001**	0.273 0.033		**0.043** **0.011**	-0.007 0.721
logAT	**-0.078** **<.0001**	-0.017 0.146		**-0.001** **0.501**	0.001 0.444
LEV	**0.296** **0.028**	**0.222** **0.007**		0.020 0.076	0.014 0.297
CAPINT	0.127 0.344	-0.098 0.234		0.005 0.663	-0.001 0.957
ALTMANZ	**0.134** **<.0001**	**-0.011** **0.016**		**0.006** **<.0001**	0.001 0.208
SALES GROWTH	**0.920** **<.0001**	-0.232 0.060			
LAGROA	**6.159** **<.0001**	0.381 0.124			
XRDTA	**0.001** **0.008**	**-0.0004** **0.002**		-0.000 0.146	-0.000 0.657
MTB				0.000 0.668	-0.000 0.993
CEI	**0.004** **0.007**	-0.0002 0.846		-0.000 0.665	-0.000 0.361
HRC_ Estimate	0.070 0.509	0.015 0.817		-0.008 0.371	-0.006 0.539
INDUSTRY variables	Yes	Yes		Yes	Yes
Adj R^2	0.671	0.038		0.240	-0.016
	n = 778	n = 778		n = 778	n = 778

Table 3 continued

Panel C: 2015 sample

Dependent Variables	Eq 1a TOBINSQ	Eq 1b CHG TOBINSQ		Eq 2a ROA	Eq 2b CHGROA
Intercept	**1.471** **<.0001**	-0.258 0.181		0.045 0.266	0.061 0.116
logAT	**- 0.062** **0.019**	0.029 0.107		-0.003 0.386	**-0.007** **0.050**
LEV	0.219 0.132	-0.156 0.120		0.019 0.360	-0.019 0.372
CAPINT	0.107 0.530	-0.137 0.243		**-0.089** **<.001**	**-0.092** **<.0001**
ALTMANZ	**0.190** **<.0001**	**0.033** **<.0001**		**0.012** **<.0001**	0.003 0.065
SALES GROWTH	0.103 0.624	**-0.548** **<.001**			
LAGROA	**6.344** **<.0001**	**-0.173** **<.0001**			
XRDTA	**0.001** **0.004**	**-0.001** **<.001**		**-0.0001** **0.009**	-0.000 0.215
MTB				0.0001 0.687	0.000 0.716
CEI	**0.006** **0.001**	-0.001 0.600		0.000 0.655	0.000 0.424
HRC_ Estimate	**0.305** **0.047**	-0.081 0.445		-0.016 0.454	-0.014 0.522
INDUSTRY variables	Yes	Yes		Yes	Yes
Adj R^2	0.692	0.189		0.192	0.109
	n = 461	n = 461		n = 461	n = 461

Table 3 continued

Panel D: 2016 - 2017 sample

Dependent Variables	Eq 1a TOBINSQ	Eq 1b CHG TOBINSQ		Eq 2a ROA	Eq 2b CHGROA
Intercept	**1.102** **<.0001**	-0.025 0.865		**-0.040** **0.022**	-0.040 0.071
logAT	**- 0.058** **0.005**	-0.013 0.342		**0.004** **0.027**	0.003 0.121
LEV	0.767 **<.0001**	0.124 0.090		0.042 **<.0001**	0.016 0.144
CAPINT	0.153 0.237	0.559 0.482		**-0.024** **0.021**	**0.047** **<.001**
ALTMANZ	**0.275** **<.0001**	**0.046** **<.0001**		**0.014** **<.0001**	0.000 0.809
SALES GROWTH	**0.423** **0.010**	0.053 0.623			
LAGROA	**1.754** **<.0001**	**-0.134** **<.0001**			
XRDTA	**0.002** **<.0001**	0.000 0.326		**-0.0001** **<.0001**	**0.000** **0.001**
MTB				0.0002 0.060	0.000 0.937
CEI	**0.008** **<.0001**	0.0004 0.718		0.000 0.822	-0.000 0.601
HRC_ Estimate	**0.482** **<.001**	-0.052 0.557		-0.006 0.561	0.007 0.602
INDUSTRY variables	Yes	Yes		Yes	Yes
Adj R^2	0.667	0.105		0.371	0.018
	n = 979	n = 979		n = 979	n = 979

Bolded items significant at $p <= 0.05$.
Underlined items significant at $p <= 0.10$.
Please see the bottom of Table 2 for definitions of the variables.

The *Obergefell* pre-ruling sample, shown in Panel B of Table 3, indicates no difference in any dependent variables between firms that self-reported for a CEI evaluation (HRC_Estimate) and those that did not (i.e., they receive a CEI estimated score form the HRC). However, during the year of the Supreme Court ruling and the two-year period following (Panels C and D), the group of companies for which the HRC estimated a CEI had a relatively higher Tobin's q than self-reporting companies. Consequently, results reported in Panels B, C, and D support the conclusion (based on Panel A results) that the HRC estimating a CEI for a firm is more highly associated with company value after the *Obergefell* decision, and that investors value the information provided by the CEI that is not otherwise available.

However, the HRC estimate variable is not significant for the change in Tobin's q, ROA, or the change in ROA models during any sample time frames. An interaction term between the CEI and HRC_Estimate variables is insignificant in all models when included in the analysis. Perhaps after the *Obergefell* decision, information provided by the HRC's CEI increased investors' perceptions of the values of the CEI, even for firms that did not self-report to the HRC. The reason that the HRC estimates the CEI for some large firms that did not apply to be rated is to create a representative peer group for the CEI ratings. The lack of significance for this interaction term is evidence that the HRC is accurately assessing a representative pool of firms, whether they applied for the CEI, or did not apply and the rating was estimated.

Additional Analysis, Propensity Score Matching

Results with observations from these three time periods indicate a need for further statistical analysis. As indicated in Table 2, several control variables differ significantly between the self-reporting group and the HRC-estimated group. Consequently, within each sample time frame we perform propensity score

matching to obtain similar sample firms from each group. Table 4 reports partial results from analyses with these matched samples.

For samples of comparable firms in 2013-2014, the two years before, and 2016-2017, the two years after the *Obergefell* decision, CEI is positive and significantly related to Tobin's q. For the sample of companies two years prior to the decision, CEI is positive and significantly related to the change in Tobin's q as well, at $p = 0.048$. CEI is not significant in any of the other models. These results generally confirm those in Table 3, indicating that higher CEI ratings are associated with higher company value and thus better long-term stock performance.

Results reported in Table 4 indicate that HRC_estimate is marginally significant in only two models. In the change in Tobin's q model for the 2015 sample, HRC_estimate has a marginally negative coefficient at $p = 0.072$. Perhaps the *Obergefell* decision led investors to value companies that self-reported information about LGBTQ policies in 2015 higher than those that did not. In the Tobin's q model for the 2016-2017 sample, HRC_estimate has a positive coefficient at $p = 0.053$. In later years, friendly policies toward the LGBTQ community is valued more, particularly so for those for which no information was previously available.

CONCLUSION

Our results indicate that a commitment to LGBTQ diversity and inclusion, as measured by high HRC CEI ratings, is associated with higher Tobin's q, a measure of long-term corporate performance. In effect, long-term firm performance is predicted to be statistically higher for firms that demonstrate a commitment to LGBTQ policies (as evidenced by their CEI rating). This result is similar for all three time periods, pre-*Obergefell*, during the Supreme Court decision year, and post-*Obergefell*. Throughout the three sample time frames, companies that have policies recognized as inclusive to the LGBTQ community have higher market values (Tobin's q) compared to their peers.

Table 4. Parameter estimates and significance from PSM regression results

Dependent Variables	Eq 1a TOBINSQ	Eq 1b CHG TOBINSQ		Eq 2a ROA	Eq 2b CHG ROA
Panel A: 2013-2014 sample[1]					
CEI	**0.007**	**0.002**		0.000	-0.000
	0.001	**0.048**		0.692	0.779
HRC_Estimate	0.170	0.109		-0.004	0.007
	0.246	0.153		0.719	0.650
Adj R-square	0.667	0.098		0.177	-0.018
	n = 400	n = 400		n = 400	n = 400
Panel B: 2015 sample[1]					
CEI	0.004	-0.003		0.000	0.000
	0.150	0.179		0.351	0.443
HRC_Estimate	0.149	-0.276		-0.017	-0.015
	0.493	0.072		0.662	0.718
Adj R-square	0.655	0.145		0.247	0.086
	n = 202	n = 202		n = 202	n = 202
Panel C: 2016-2017 sample[1]					
CEI	**0.007**	-0.000		0.000	0.000
	0.009	0.879		0.159	0.999
HRC_Estimate	0.401	-0.042		0.014	0.003
	0.053	0.768		0.412	0.900
Adj R-square	0.665	0.074		0.274	0.046
	n = 330	n = 330		n = 330	n = 330

[1]The partial results above are from models run with all control variables included in Table 3, other than the industry and year variables.

Bolded items significant at $p <= 0.05$.
Underlined items significant at $p <= 0.10$.
Please see the bottom of Table 2 for definitions of the variables.

Diversity can be measured in many different ways. To quote from Peoplescout (2020), the world's largest resource process outsourcing firm, "Diversity does not just mean including women and persons from diverse racial, ethnic and religious backgrounds; it also means that businesses can benefit from hiring LGBTQ employees and creating a supportive atmosphere for them to thrive." The *Obergefell* ruling apparently just formalized into law a policy of inclusion for LGBTQ people that was already valued, and continues to be valued, by companies, employees, and investors.

Our study is not without limitations. First, the sample only includes publicly traded US firms. Second, because the extant literature on diversity focuses so heavily on diversity in terms of race and gender, we use a single, often overlooked measure of diversity, specifically diversity as it relates to LGBTQ workers. Given our findings of the significance of LGBTQ diversity, future researchers might extend this work by examining whether multiple dimensions of diversity may synergistically improve performance (e.g., age, race, gender, LGBTQ).

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