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Why do corporations embrace the LGBTQ+ cause?

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Why do corporations embrace the LGBTQ+ cause?

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Big Tech companies and many other prominent firms have been vocal supporters of LGBTQ+ rights, despite the risk of alienating their conservative stakeholders. Why do they do that? In which way does being LGBTQ-friendly benefit businesses? In their study, Veda Fatmy, John Kihn, Jukka Sihvonen, and Sami Vähämaa found that LGBTQ-friendly corporate policies have a positive impact on firms' stock market valuation and financial performance.

Corporate social advocacy can be a tricky business. While taking a public stand on sensitive issues can result in positive outcomes and give companies a competitive edge, it can also have negative consequences if the company's stance does not align with the values of its key stakeholders. In the US, one contentious form of corporate social responsibility has been companies'

involvement in the public debate surrounding the rights of sexual minorities. Despite the potential for alienating employees, customers, and other stakeholders with different values, many prominent firms have been vocal supporters of LGBTQ+ rights and anti-discrimination policies.

So, why do companies get involved in such a controversial issue, especially when it has no direct connection to their business operations? Does being LGBTQ-friendly actually **benefit companies**? These are the questions we aimed to answer in our study by investigating the impact of LGBTQ-friendly corporate policies on firms' stock market valuation and financial performance.

Corporate social advocacy: a changing landscape

As argued in recent reports by **Kantar Consulting** and **Edelman**, especially large companies feel increasing pressure to take a stance on social and political topics. While corporate advocacy may be popular among politically active stakeholders, does it bring more benefits than just placating them? Especially big companies with well-known brands have the power to influence politics and economics and shape the future cultural and financial landscape of their communities.

For instance, several companies spoke out against proposals for Religious Freedom Restoration Acts in Georgia and Alabama in 2016 and 2017, which would have counteracted LGBTQ equality. Walt Disney and Salesforce cancelled projects and employee engagement in these states, and Angie's List abandoned its expansion plans as a result. In 2019, 209 major companies, including Amazon, Apple, Coca-Cola, Facebook, General Motors, Goldman Sachs, Google, JPMorgan Chase, Microsoft, and Walt Disney, submitted a brief to the U.S. Supreme Court in support of LGBTQ rights. The brief argued that a law prohibiting workplace discrimination based on sexual orientation would improve a company's ability to recruit and retain top talent.

Beyond activism, companies can express their views on socio-political issues through their workplace policies. While activism may be short-lived, stakeholders can differentiate companies that truly invest in a cause by

examining their history with employees and customers. Companies can also expect **multiple returns** on their investment in social capital.

Do LGBTQ-friendly policies result in better performance?

Research indicates that companies with LGBTQ-inclusive policies experience numerous benefits, such as increased employee commitment, job satisfaction, productivity, and more altruistic workplace behaviour. Additionally, being LGBTQ-friendly can improve a company's ability to attract and retain talented employees, enhance customer relationships, and **boost its reputation** as a socially responsible corporate citizen. Together, these findings suggest that being LGBTQ-friendly can help some companies develop intangibles related to human capital, stakeholder relations, and firm reputation.

In addition, there are various reasons why being LGBTQ-friendly may have a positive impact on a company's financial performance. Generally, LGBTQ-supportive policies are considered an element of corporate social responsibility (CSR). As such, the arguments for a connection between CSR and company performance also apply to LGBTQ advocacy. Stakeholder theory, which is central to CSR literature, explains why social responsibility can pay off by improving a company's reputation, customer relationships, accumulation of human capital, and access to resources and financing. If being LGBTQ-friendly does not conflict with stakeholders' expectations and values, stakeholder theory predicts a positive relationship between LGBTQ-inclusive policies and firm performance. Similarly, theories in human resource management (HRM) regarding **employee satisfaction** and diversity management provide another reason to hypothesize a positive relationship between LGBTQ-friendly policies and firm performance.

In our study, we examined the influence of LGBTQ-friendly corporate policies on firms' stock market valuations and financial performance. For this purpose, we used the **Corporate Equality Index** (CEI) constructed by the Human Rights Campaign to measure the LGBTQ friendliness of large, publicly-traded US firms. Although both stakeholder theory and HRM arguments can be used to predict a positive association between LGBTQ friendliness and firm performance, both mechanisms also suggest that the linkage is likely to depend on stakeholders'

preferences and socio-political values. If the policies conflict with the social values of the key stakeholders, the adoption of LGBTQ-friendly policies may lead to stakeholder alienation and backlash. Therefore, we also investigated how local social norms and attitudes influence the linkage between LGBTQ-friendly policies and firm performance by exploiting regional differences in social conservatism across states.

The bottom line: LGBTQ friendliness pays off

Our study demonstrates that LGBTQ-friendly corporate policies pay off. Specifically, we found that firms with more LGBTQ-friendly policies are more profitable and have higher stock market valuations. Regarding the influence of socio-political norms and attitudes towards sexual minorities, our study suggests that regional differences in religious and political leanings moderate the relationship between LGBTQ-friendly policies and firm performance. In particular, we found that the positive effect of LGBTQ policies on profitability and market valuation is more pronounced for firms located in more liberal states while being weaker or non-existent for firms located in more religious and decisively Republican states. Nevertheless, it is worth emphasising that even for firms located in more socially conservative states, the effect of LGBTQ friendliness on firm performance is positive or, at worst, neutral, suggesting that the adoption of LGBTQ-friendly policies does not generally have detrimental repercussions over the period studied.

In conclusion, while the implementation of LGBTQ-friendly corporate policies may have its challenges, our study provides evidence to suggest that LGBTQ-friendly corporate policies enhance firm performance. Firms that are proactive in promoting LGBTQ inclusion can benefit from a more diverse, engaged, and productive workforce, improved customer relationships, and a strengthened reputation as socially responsible corporate citizens.



Notes:

- This blog post is based on *Does lesbian and gay friendliness pay off? A new look at LGBT policies and firm performance*, *Accounting and Finance*.
- The post represents the views of its author(s), not the position of LSE Business Review or the London School of Economics.
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