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The news last week that McDonald's is suing its former CEO Steve Easterbrook to recover severance pay he received when fired last fall is the latest reminder, if any is needed, of the pain companies undergo when top executives are exposed for alleged sexual misbehavior. The announcement of the firing in November triggered a volume of trading in the company's stock that was more than four times its average daily level as well as a share-price drop of about 2.7% on a day the three major stock indices all rose.

But if company woes from public exposure of C-suite sexual misconduct have become

corporate workplace, the research draws on data from about a thousand public firms over a six-and-a half-year period. It finds that a high incidence of sexual harassment in a given year is likely to predict decidedly weak stock performance in the following year.

Take, for an example, firms with the dubious distinction of ranking among the top 2% in harassment incidence, as measured by sexual-harassment complaints on popular career-information Web sites. Those companies' returns in the following year averaged about 20% below what would be expected from standard asset-pricing models and the market's overall performance.

"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. Our study strongly suggests otherwise," said professor Shiu-Yik Au of the University of Manitoba, who co-authored the study with Ming Dong of York University, Toronto, and Andreanne Tremblay of Laval University, Quebec City.

The professor added: "Activists, media commentators, and policy-makers have laid almost exclusive emphasis on the immorality of sexual harassment. While this is certainly understandable, what our research shows is that a high level of sexual harassment not only is morally reprehensible but signals financial damage for the companies where it occurs."

To reach this conclusion, the professors did a massive search of reviews which were submitted over a six-and-a-half-year period to two of the most popular Web sites that feature employee assessments of their companies, Glassdoor and Indeed. To be included in the study, firms had to have at least 200 reviews over the entire period, resulting in a total of 1.65 million reviews. Companies were assigned annual rankings based on the percentage of reviews per year that specifically complained of sexual harassment – a percentage that was zero for the great majority of firms but

interviews, job reviews constitute a much larger sample of observations across employees, firms, and time."

As indicated above, companies whose high incidence of sexual harassment landed them in the top 2% in this regard averaged decidedly sub-par stock returns in the following year. The researchers estimate that among the 101 companies that fell into this category, the shortfall to each amounted on average to $1.92 billion per year. Similar analysis reveals that the 237 firms that were the 5% highest in sexual-harassment incidence sustained an average shortfall of $0.93 billion per year.

These estimates lead the professors to note how much greater these losses are than the current $300,000 federal cap on sexual-harassment damages. "Our estimate of annual shareholder value loss," they write, "indicates that the equity value loss...is a much larger potential cost of workplace sexual harassment than the direct compensation to affected employees."

What accounts for this great loss in equity value? The authors note that their data are from mid-2011 through 2017, well before the current surge in awareness of sexual harassment that has been driven by Me Too movement. This leads them to doubt that the value losses they find are due to the direct impact on the investment community of sexual-harassment complaints in outlets like Glassdoor or Indeed. More likely, they believe, the complaints reflect operational shortcomings in companies, as suggested by the declining return on assets they find when harassment levels are high.

In essence, then, a high incidence of sexual harassment amounts to a red flag, a signal, the professors believe, to which financial observers and participants – whether top corporate managers or boards of directors or investors – have too often failed to respond adequately. Supporting this interpretation is the lag the researchers find between high levels of harassment and declining stock returns, with the process taking longer to evolve and lasting much longer than the immediate market response

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