JMFS
Journal of Management and Financial Sciences

Volume XVIII
•
Issue 57
pp. 67–87
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Corporate Equality and Competitive Advantage: LGBTQ+ Inclusivity and Tobin's Q in B2C and B2B Companies

Abstract

This study examines the relationship between LGBTQ+ inclusivity, as measured by the Corporate Equality Index (CEI) from the Human Rights Campaign, and market value measured by Tobin's Q, with a focus on differentiating between B2C and B2B companies. The analysis highlights the distinct impact of achieving a perfect CEI score on market valuation, revealing that B2C companies may experience a significant, non-linear boost in market value with high inclusivity scores, particularly when achieving a perfect score. This enhancement in market valuation is most likely driven by improved customer perceptions and decision-making processes, emphasising the crucial role of visibility in these consumer-facing companies. Conversely, B2B companies do not exhibit significant changes in market valuation from the inclusivity index overall, suggesting that the benefits of inclusivity are less pronounced in the absence of direct consumer interactions. The study further explores how the local political leanings of a company's headquarters influence these effects, uncovering that B2C companies in politically liberal regions gain more from perfect CEI scores due to heightened consumer awareness and expectations. In contrast, B2B companies, even in liberal regions, see little to no relationship with Tobin's Q, reinforcing the importance of aligning inclusivity strategies with the specific business model and regional political context. This research underscores the strategic value of a perfect CEI score in B2C companies, particularly in politically liberal areas, and highlights the nuanced role of local political climates in shaping the financial benefits of LGBTQ+ inclusivity.

Keywords: inclusivity policies, market differentiation, corporate equality index, CSR, Tobin's Q
JEL Classification: L21, M14, D22

Introduction

The inclusion of LGBTQ+ individuals within corporate environments has gained increasing importance as both a social justice issue and a strategic business consideration. Today's companies are more than just profit-generating entities; they are also influential societal actors, whose policies can significantly impact both employees and consumers, while LGBTQ+ inclusivity, which encompasses policies and practices that ensure equal treatment and opportunities for individuals regardless of sexual orientation or gender identity, is becoming a vital component of modern corporate strategy.

Drawing from the CSR domain, which can be seen as an extension of corporate LGBTQ+ inclusivity policies (e.g. like in Pichler et al. [2018]), firms that actively engage in CSR can leverage this engagement as a differentiation strategy, making them more appealing to consumers who prioritise ethical standards and inclusivity. According to Doh et al. [2010], institutional endorsements of CSR can enhance a firm's reputation, which, in turn, can positively influence financial performance by aligning with consumer expectations and values, thereby granting the firm legitimacy.

Velte [2022] further supports this by discussing how corporate governance related to CSR, specifically board diversity and environmental policies, correlates positively with financial outcomes, illustrating how CSR can be integrated as a core part of business strategy for market differentiation.

Legitimacy theory posits that organisations continually seek to ensure that their actions are perceived as legitimate by their stakeholders, a perception that significantly impacts a company's ability to operate and succeed. In the context of CSR, particularly LGBTQ+ inclusivity, firms that adopt progressive inclusivity policies can gain legitimacy by aligning with evolving societal norms and values. Studies such as those by Myšková and Hájek [2019] have demonstrated that visibility and proactive CSR disclosures are significantly correlated with enhanced market value, emphasising that transparency and active engagement in socially responsible practices can fortify a firm's legitimacy in the eyes of stakeholders.

Empirical evidence, such as that presented by Torugsa et al. [2013], underscores the importance of strategic CSR activities as signals of a firm's dedication to socially responsible practices, while work such as that by Zerbini [2017] and Dhaliwal et al. [2014] further elucidate the pivotal role of transparent and comprehensive CSR reporting in influencing investor decisions.

However, the effectiveness of CSR as a market differentiation strategy depends significantly on its visibility and perceived authenticity, and differentiating genuine CSR efforts from mere strategic marketing manoeuvres poses a significant challenge, often breeding scepticism among well-informed and critical stakeholders. Du et al. [2010] contend that the impact of CSR as a signal largely depends on stakeholders' perceptions of its genuineness, with authentic initiatives notably enhancing corporate repute and stakeholder trust. Conversely, insincere or superficial endeavours, often labelled as 'greenwashing,' can tarnish a firm's image and erode trust [Mahoney et al., 2013]. There has also been the rise of literature that stresses the issue of 'rainbow-washing' both in terms of client perception as well as combatting it from a stakeholder point of view [Johns et al., 2022; Rice, 2022; Schopper et al., 2024]. Servaes and Tamayo [2013] stress that the positive correlation between CSR and company value is more pronounced in entities with high customer awareness, highlighting the nuanced interplay between stakeholder awareness and corporate reputation.

Mishra and Modi [2016] suggest that marketing capability plays a complementary role in the CSR–shareholder wealth relationship, particularly for CSR activities with verifiable benefits to firm stakeholders, such as consumers, employees, channel partners and regulators. This insight highlights that the influence of marketing capabilities is crucial in enhancing the visibility and credibility of CSR efforts, thereby potentially leading to a nonlinear impact on financial performance as these initiatives reach critical visibility thresholds.

These dynamics suggest a potential non-linearity in the relationship between CSR and financial performance. As firms increase their CSR activities, they may reach a tipping point where the positive signals sent to the market through these efforts lead to a disproportionately positive impact on their market valuation, which can be particularly pronounced when firms achieve certain CSR milestones or endorsements that serve as strong indicators of their commitment, such as high scores on recognised CSR indices such as the Corporate Equality Index (CEI) from the Human Rights Campaign. At this level, the signalling effect of CSR could generate an exponential increase in stakeholder trust and market value, distinguishing these firms significantly from their competitors.

This study attempts to fill in this gap in the LGBTQ+ inclusivity context as measured by the CEI. While many American companies put efforts into their inclusivity policies, their efficacy can differ due to their outcome marketing value and customer base awareness. B2C companies typically interact more directly with individual consumers, potentially amplifying the benefits of CSR in terms of consumer loyalty and brand perception. In contrast, B2B companies often deal with more complex, longer sales cycles and multiple decision-makers, which may dilute the immediate impact of such policies. Another important area are the potential non-linearities in this relationship, as any score less than a full 100 suggests the existence of faults in company behaviour in the LGBTQ+ inclusivity context.

This research proposes to explore the hypothesis that achieving a perfect score on the CEI could have a disproportionately positive effect on market valuation, especially for B2C firms. By focusing on this aspect, this study contributes to understanding the significance of such endorsements in legitimising a company's CSR efforts in the eyes of investors and other stakeholders, especially B2C customers.

Further complexity is introduced by considering the political leanings of a company's headquarters. The political orientation of a company's headquarters can significantly influence the efficacy of its inclusivity policies, with research by Artiga González et al. [2022] indicating that state political leanings play a crucial role in shaping corporate policies related to the

CEI, although this relationship can extend beyond straightforward corporate responsiveness to social pressure and norms within their locale. Stakeholders' expectations, which can be shaped by local social norms, may further influence corporate behaviour, and companies located in politically liberal regions may find that their inclusivity efforts are not only more closely scrutinised but also more strongly anticipated by their stakeholders, potentially enhancing their market valuation when these initiatives are effectively communicated and highly visible.

It is hypothesised in this study that the interaction between the political leaning of a company's headquarters and whether it operates in a B2C or B2B environment will significantly impact the effectiveness of its inclusivity policies measured by the Tobin's Q. These hypotheses will explore how these combined factors influence the visibility and market impact of CSR efforts, potentially leading to different outcomes in B2C companies, where direct consumer engagement might amplify these effects, compared to B2B companies, where the impact may be less pronounced due to the nature of business transactions.

This study, therefore, contributes to the understanding of how LGBTQ+ inclusivity – specifically the achievement of a perfect CEI score – can serve as a strategic asset in enhancing market value, particularly in B2C firms located in liberal political environments. By focusing on the nuanced effects of inclusivity across different business models and political contexts, this research provides insights for companies aiming to align their inclusivity efforts with broader business objectives and regional expectations.

Theoretical background

LGBTQ+ inclusivity in corporations

LGBTQ+ inclusivity is increasingly recognised as a moral imperative and a strategic economic advantage. The 'pink pound' and 'pink dollar' phenomena highlight the significant purchasing power of the LGBTQ+ community, with estimates nearing one trillion dollars in 2016 [Bengry, 2018; Hughes, 2011; Kantar Consulting, 2022].

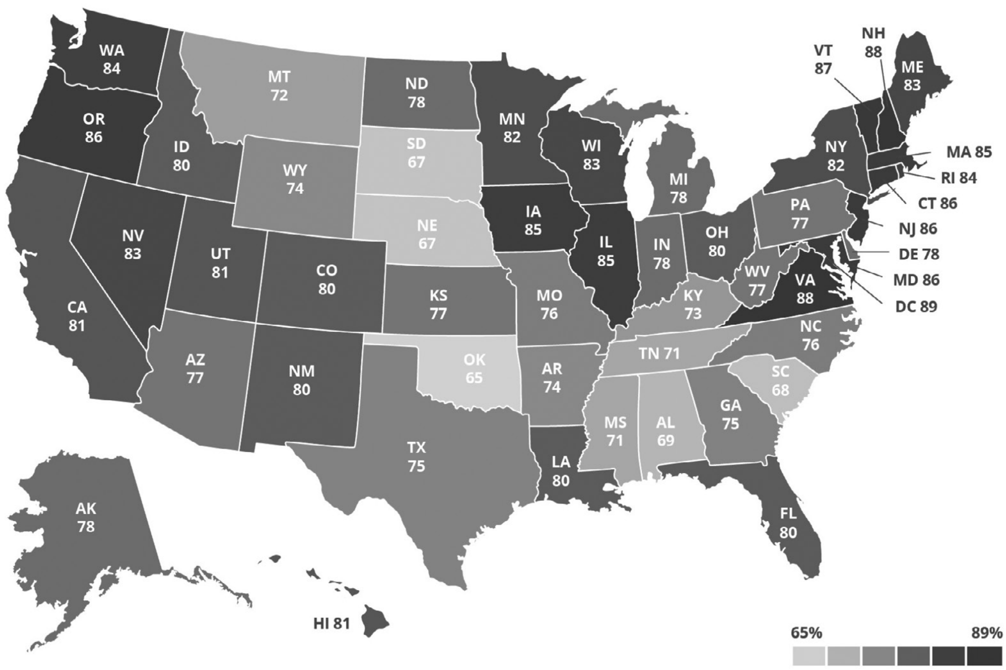
The shift towards greater societal acceptance, as evidenced by a 2021 report of the Public Religion Research Institute [Public Religion Research Institute, 2022], shows that the majority of Americans now support non-discrimination protections for the LGBTQ+ community. This shift is not just a reflection of cultural progress but also presents a unique market for companies to operate in.

Figure 1 illustrates the varying levels of support for LGBTQ+ non-discrimination protections across different states. While general support for non-discrimination is substantial in most states, there remains geographical diversity in acceptance, which can influence both corporate inclusivity strategies and the public response to them.

Studies have shown that a supportive LGBTQ+ workplace climate correlates with increased job satisfaction, better workplace relationships, and higher productivity among employees

[Badgett et al., 2013]. However, the profitability and economic benefits of inclusivity are also analysed alongside broader CSR initiatives, which are increasingly influenced by Environment, Social and Governance (ESG) factors [Fatmy et al., 2022; Gillan et al., 2021; Hossain et al., 2020; Pichler et al., 2018;].

Figure 1. Support for LGBT non-discrimination protection, by state. Percent [in the US] who favour laws that would protect gay, lesbian, bisexual and transgender people against discrimination in jobs, public accommodations and housing



Source: PRRI, American Values Atlas [2022].

While these internal implications of inclusivity are crucial to companies, another route of impact might be a stakeholder one, with companies in B2C sectors leveraging this growing inclusivity as a strategic advantage. Aligning with legitimacy theory, which posits that businesses gain legitimacy and competitive advantage by aligning their operations with societal values [Suchman, 1995], inclusivity can significantly enhance brand perception, customer loyalty, and ultimately, market value.

Investors and stakeholders are also placing greater emphasis on ESG factors, viewing them as critical indicators of a company's long-term sustainability and ethical standing [EY, 2021]. Thus, integrating LGBTQ+ inclusivity within CSR strategies not only aligns with shifting social priorities, but also potentially impacts a firm's financial performance, risk measures, and stock returns [Albuquerque et al., 2019; Bénabou and Tirole, 2010].

LGBTQ+ inclusivity in B2C and B2B business models

Both B2B and B2C companies benefit from the foundational aspects of Human Capital Theory, where inclusivity helps attract and retain top talent, resulting in improved productivity and innovation, driving profitability and positively impacting Tobin's Q across both types of businesses [Badgett et al., 2013; Sears et al., 2011].

Similarly, Institutional Theory underscores that both B2B and B2C companies are influenced by the institutional environment, including regulatory frameworks and cultural norms. Proactive adaptation to these norms, especially regarding inclusivity, ensures compliance and positions firms as industry leaders in social responsibility [Fernando, Lawrence, 2014], which not only meets the legal obligations but also enhances market perception, contributing to the firm's overall market value.

Legitimacy Theory emphasises that by aligning operations with the evolving societal values toward inclusivity, firms not only adhere to social and ethical standards but also enhance their legitimacy among stakeholders. This acceptance is crucial for building trust and a positive public image, contributing significantly to a firm's market value [Nafukho et al., 2004].

In B2C companies, where direct consumer interaction is critical, LGBTQ+ inclusivity emerges as a potent tool for market differentiation. The literature provides various frameworks for building brand equity, such as Keller's Brand Equity Model, which emphasises the importance of strong brand associations [Keller, 1993].

Positive brand associations with inclusivity initiatives can dramatically enhance consumer perceptions and loyalty. By aligning their brand values with progressive social values, brands like Nike and Ben & Jerry's have successfully used their commitment to diversity to resonate with a global consumer base, thus enhancing their market position and financial performance.

Further explaining the success of inclusivity in branding is Aaker's Brand Personality Framework, which posits that brands can embody a set of human-like traits that resonate emotionally with consumers [Aaker, 1997]. For instance, by championing inclusivity, Ben & Jerry's exemplifies traits such as openness, sincerity and cheerfulness, appealing to consumers who prioritise social justice and equality.

Conversely, B2B companies often operate under different dynamics, where the direct consumer impact is less pronounced but stakeholder expectations and ethical legitimacy play a crucial role. Here, Legitimacy Theory posits that inclusivity enhances a firm's reputation among business partners and stakeholders by aligning with broader social and ethical standards [Nafukho et al., 2004]. This alignment is critical in maintaining trust, securing contracts, and fostering long-term business relationships, which are essential for sustained profitability and market valuation.

These relationships suggest that while all companies may financially benefit from introducing inclusivity policies through different channels, B2C have that additional opportunity to monetise their inclusivity for market differentiation.

Given the context highlighted in subsection 2.1, it is worth noting that LGBTQ+ inclusivity can still be perceived as a divisive issue, which is also visible in Figure 1, where the scope of differences between states is significant. Incorporating insights from Scott [2013], Xu and Shenkar [2002] and Artiga González et al. [2022], this research also considers the concept of institutional divergence, which highlights the variations in legal and cultural institutions across regions. The political orientation of a company's headquarters reflects this divergence, influencing not only its LGBTQ+ inclusivity approach but also, with great likelihood, the sentiment that stakeholders have towards the inclusivity issue, which is why the potential response to the same inclusivity efforts may be different depending on the political climate of the HQ state.

It's also worth noting that while Tobin's Q traditionally measures a company's financial performance and attractiveness to investors, it also indirectly supports a company's capability to undertake inclusivity initiatives through the Resource Dependency Theory. This theory asserts that an organisation's strategies, including those concerning inclusivity, are influenced by its need to manage external resources. A higher Tobin's Q indicates better financial health, implying more resources available for enhancing social and ethical programmes [Pfeffer, Salancik, 2015].

For the successful companies in this study, all employing over 500 employees, the budget to enact inclusivity measures is presumed available, so the focus is not merely on the capacity to be inclusive but on the strategic use of inclusivity for market differentiation. This study, therefore, positions CEI as a strategic tool rather than a financial burden, exploring its role in differentiating companies in the marketplace through strategic social responsibility.

Hypotheses

Building on the theoretical foundations laid out in the previous section, this paper posits that the response of companies to inclusivity policies and their impact on market value are differentiated by the nature of their customer interactions and the specific geographic area in which they are located. Specifically, the study contrasts the effects of inclusivity policies between B2C companies, such as Fast-Moving Consumer Goods (FMCG) manufacturers and B2B companies, like consulting firms, also considering the political background of a specific area at a given time.

Importantly, Du et al. [2010] contend that the impact of CSR as a signal of company values largely depends on stakeholders' perceptions of its genuineness, with authentic initiatives notably enhancing corporate repute and stakeholder trust, with insincere or superficial endeavours tarnishing a firm's image and eroding trust [Mahoney et al., 2013]. Servaes and Tamayo [2013] further elaborate that the positive correlation between CSR and firm value is more pronounced in entities with high customer awareness, highlighting the nuanced interplay between stakeholder awareness and corporate reputation. Articles such as Rice [2022]; Schopper et al. [2024]; Johns et al. [2022] underline the rising awareness of the 'rainbow-washing' phenomenon among shareholders, which, in turn, may suggest a more complex relationship between indicators such as CEI and market response, since not all company efforts can be met with a positive reaction.

B2C companies, which interact directly with consumers, need to align closely with their customers' values, as misalignment can have negative effects on customer satisfaction and brand loyalty [Anisimova, 2010]. On the other hand, B2B companies, such as those providing utilities or B2B goods and services, engage in transactions where consumer choice is less influenced by public values or is less visible to the general public.

An improvement in the continuous value of CEI (as the way it is reported by the HRC), can benefit both B2B and B2C companies due to the mechanisms outlined by Human Capital Theory and other elements discussed in the theoretical background, such as enhanced work satisfaction among employees. Such improvements in workplace environment and employee morale can lead to increased productivity and innovation, ultimately influencing the overall market value of firms, irrespective of their direct consumer interactions. It is therefore hypothesised that a continuous CEI would be correlated with Tobin's Q for both types of companies, but more prominent for B2C companies due to more potential channels of impact.

Additionally, achieving a perfect score on the CEI can serve as a significant marketing asset. A perfect CEI score demonstrates a company's commitment to LGBTQ+ inclusivity and can be a pivotal factor in consumer decision-making, enhancing brand image and differentiating a company from its competitors in the eyes of socially conscious consumers, which is why its relationship with Tobin's Q is expected to be present for B2C companies. The visibility of a perfect CEI score, particularly through marketing and public relations efforts, can signal to consumers that a company is not only compliant with inclusivity norms but is leading in social responsibility. A perfect CEI score suggests that the company excels in its inclusivity efforts, making it a highly marketable achievement on the brand's social media platforms. As a result, it can translate into increased consumer loyalty and directly influence purchasing decisions, thereby enhancing the B2C firm's market value.

Considering geographical diversity in acceptance of LGBTQ+ policies, as highlighted by Artiga González et al. [2022] and evidenced by Figure 1, the relationship between inclusivity and market value may also vary significantly by region, which is particularly relevant for B2C companies, where customers' individual views and values directly influence purchasing decisions. The political orientation and cultural acceptance in a company's operating region can significantly impact both the internal and external reception of its inclusivity efforts.

Based on these considerations, the following specific hypotheses are proposed:

1. The relationship between CEI and a firm's Tobin's Q is positive and more pronounced in B2C companies.
2. For B2C companies, there is a significant positive relationship between the perfect CEI score and Tobin's Q, whereas for B2B companies, it is negligible.
3. The positive relationship between CEI and Tobin's Q is more prominent in democrat leaning states.

These hypotheses aim to explore the multifaceted effects of inclusivity on corporate strategy, taking into account the varying dynamics of B2C and B2B sectors, as well as regional influences, which could dictate the success and reception of these policies.

Methodology

Quantifying corporate LGBTQ+ policies

Extensive research has delved into how businesses' approaches to LGBTQ+ inclusivity impact their financial outcomes. Various tools have been employed in this exploration, with the Corporate Equality Index (CEI) being a notable example. The CEI, developed by the Human Rights Campaign Foundation (HRC), is a unique benchmarking tool in the CSR/ESG fields due to its quantitative nature [Lopatta et al., 2022]. Since its inception in 2002, the CEI has evaluated employers on their inclusivity of the LGBTQ+ community in workplace policies and practices [Human Rights Campaign Foundation, 2022b, a].

The CEI assesses a wide range of private-sector businesses in the United States, with eligibility for participation set for companies employing 500 or more full-time U.S. employees. The survey-based information is cross-verified with public records to gauge firms' policies and practices, with CEI ratings contributing to determining the 'Best Place to Work for LGBTQ Equality' title and used to create unofficial ratings for non-responding companies.

The CEI's evaluation criteria encompass four main pillars:

1. Non-discrimination policies across business entities.
2. Equitable benefits for LGBTQ workers and their families.
3. Support for an inclusive culture.
4. Corporate social responsibility.

Each criterion addresses different aspects of workplace inclusivity. The first focuses on explicit non-discrimination policies for sexual orientation and gender identity, crucial for equal opportunities and adapting to legal and societal changes. The second evaluates inclusive benefits, including transgender-inclusive healthcare coverage and parity in non-healthcare benefits. The third pillar assesses practical inclusivity measures, executive performance metrics, and public LGBTQ+ community engagement. The fourth criterion involves a punitive mechanism, deducting points for discriminatory behaviour against the LGBTQ+ community.

The CEI has been instrumental in a myriad of studies. Johnston and Malina [2008] found a positive stock market response to the publication of CEI results, while Wang and Schwarz [2010] observed that higher CEI scores correlated with better stock performance. Shan et al. [2017] utilised the CEI to examine labour market competitiveness and diversity management benefits, while Hossain et al. [2020] linked high CEI scores to increased firm innovation and performance.

While the CEI focuses on American companies, the UK's Stonewall Workplace Equality Index serves a similar function with distinct methodology, gathering data from both employers and employees. Another notable instrument is the MSCI ESG Rating, which until 2011 included a 'Gay & Lesbian Policies' rating [MSCI, 2022b, a]. Pichler et al. [2018] used this rating to establish a connection between LGBTQ-supportive policies and financial performance, especially in R&D-intensive companies.

This study employs the CEI from the HRC for its comprehensive and longstanding history, as well as its inclusion of large, mandated companies. The CEI's robust data makes it an apt tool to evaluate corporate cultural standards regarding LGBTQ+ inclusivity in the United States, rendering it the most suitable instrument for this research.

Regression analysis

The sample after the statistical outlier removal is an unbalanced panel dataset of 4861 observations encompassing 647 companies and covering the years 2010 to 2021. Gaps in the data are dictated by data availability – both in terms of participation in the CEI report and reported financial variables in the Orbis Database.

This study employed panel modelling to examine the relationship between Tobin's Q and LGBTQ+ inclusivity, with Tobin's Q as the response variable and CEI as a regressor, using a set of interaction variables tailored to the proposed hypotheses.

The first step was to categorise the enterprises into two groups: B2C companies, such as FMCG manufacturers, which directly interact with individual clients, and B2B companies, such as consulting firms, which do not sell products to individuals (Table 1). As a result, there are 1744 B2B observations in the dataset and 2758 B2C observations.

Table 1. Sectors classification into B2C and B2B sectors

BvD sector	Classification
Agriculture, Horticulture & Livestock	B2B
Banking, Insurance & Financial Services	B2C
Biotechnology and Life Sciences	B2B
Business Services	B2B
Chemicals, Petroleum, Rubber & Plastic	B2C
Communications	B2C
Computer Hardware	B2C
Computer Software	B2B
Construction	B2C
Food & Tobacco Manufacturing	B2C
Industrial, Electric & Electronic Machinery	B2C
Leather, Stone, Clay & Glass products	B2C
Media & Broadcasting	B2C
Metals & Metal Products	B2B

BvD sector	Classification
Mining & Extraction	B2B
Miscellaneous Manufacturing	B2C
Printing & Publishing	B2B
Property Services	B2B
Public Administration, Education, Health Social	B2B
Retail	B2C
Textiles & Clothing Manufacturing	B2C
Transport Manufacturing	B2C
Transport, Freight & Storage	B2B
Travel, Personal & Leisure	B2C
Utilities	B2B
Waste Management & Treatment	B2B
Wholesale	B2B
Wood, Furniture & Paper Manufacturing	B2B

Source: own elaboration [2024].

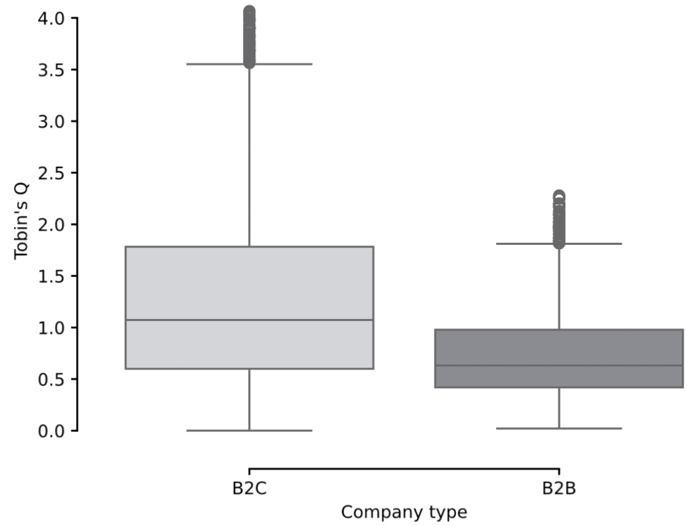
Boxplots of Tobin's Q for both groups are presented in Figure 2 as part of visual data inspection. The boxplots indicate a discernible difference between the two groups, with B2C firms showing higher median and third quantile values compared to B2B firms, suggesting a difference in Tobin's Q between the two types of companies not only through CEI but also the type of operations alone.

The second important distinction to be made is between two measured types of the inclusivity index CEI. The first type was the continuous value of the index, the usual linear version reported by the HRC, with values mostly ranging between 0 and 100 (with possible negative values due to negative points). This value serves the aim to measure the potential linear relationship between changes in inclusivity efforts and the corresponding response in Tobin's Q.

To test the second hypothesis on the index's marketing value for B2C companies, a binary variable was introduced to indicate whether or not a company achieved a perfect score (100 points), with companies that missed even as little as 5 points assigned a value of 0. This modification was based on the presumption that the impact of the index diminishes in the eyes of consumers when it is anything less than a perfect score.

Figure 3 illustrates Tobin's Q histograms for both groups, displaying the proportion of perfect and imperfect CEI scores for different market value realisations. The chart suggests that for B2C companies, imperfect CEI scores are more common with lower Tobin's Q values, while perfect scores are linked to higher market value realisations more so than the lower ones. The difference between histograms looks similar for B2B companies, although at a smaller scale. The differences between the series are much more prominent for B2C companies, with the linear correlation between CEI and Tobin's Q confirming this finding – at 0.21 for B2C companies and 0.12 for B2B companies.

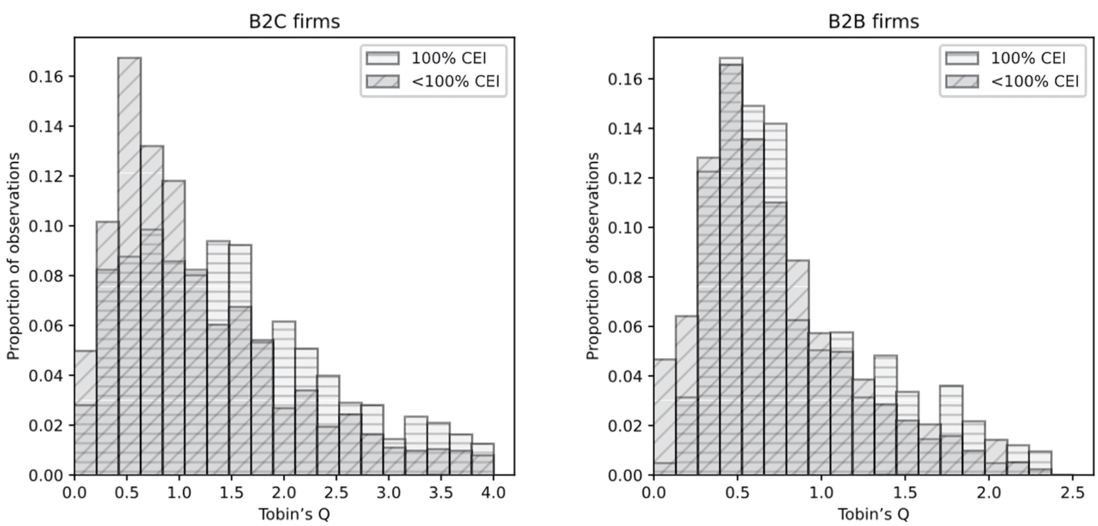
Figure 2. Tobin's Q boxplots for B2C (left) and B2B firms (right)



Source: own elaboration [2024].

To test the third hypothesis, a set of variables indicating a political climate in a given year in a company HQ state was introduced. This area will be captured by the political lean of the company's headquarters state following Artiga González et al. [2022], with the value representing the difference in the proportion of votes cast for Democrat and Republican candidates at the state level, assuming that the combined total of Democrat and Republican votes equals 100%.

Figure 3. Tobin's Q histogram for B2C (left) and B2B (right) with 100% and less than 100% CEI



Source: own elaboration [2024].

A positive value signifies a state with more liberal leanings, while a negative value suggests a state leaning more conservative. These political leanings remain constant between general elections, maintaining their midpoint values during the intervening years. For the purpose of introducing interactions between CEI and the political climate in the HQ state, it was assumed that the state is democrat if the difference between the votes is more than 5 pp, republican if it is less than –5 pp, with all other outcomes deemed inconclusive. As a result of this division, 2452 observations were noted to be in a democrat-leaning setting, 1180 in a republican one, and 870 were deemed inconclusive.

ROA and the long-term debt to assets ratio are used as control variables in the financial domain for the models. The ROA is a well-recognised measure of a firm's profitability relative to its total assets and is showed to be correlated with Tobin's Q (e.g. in Jonnius and Marsudi [2021] or Shalini [2018]). The long-term debt to assets ratio is used to assess a company's financial leverage and is relevant for measuring the financial health and risk level of a firm. This and similar ratios are widely acknowledged in financial analysis for assessing a company's leverage and risk, and have been shown to be correlated with firm performance [Appiah et al., 2020], showing how much of a company's assets are financed through debt, providing insights into the financial structure and stability of the company. This leads to the main regressors list as presented in Table 2. Note that *Political_lean* serves as a basis for introducing interactions and encompasses values of Democrat, Republican and Inconclusive, and will be introduced into the study by interactions with both CEI-related values.

Given the results of the visual data exploration, it appears that the sole difference between B2B and B2C companies has to be taken into account in Tobin's Q modelling. As models used in the study are fixed effects models, two separate models had to be constructed to account for this – one for 402 B2C companies, and one for 255 B2B companies, but with the same specification as in Table 2.

Table 2. Variables list

Variable	Type	Hypothesis	Variable description
Tobins_Q	Response	-	Tobin's Q value
CEI	Variable	1	CEI
CEI_binary	Variable	1&2	Binary value of CEI
Political_lean	Variable	1&3	Set of indicator variables for HQ state political climate
ROA	Control	-	Return on assets (using net income, %)
LT_debt_to_assets	Control	-	Long-term debt divided by the company's total assets
net_debt ą0	Control	-	True if a company possesses less cash and cash equivalents than its financial obligations

Source: own elaboration [2024].

Results

This section presents the regression results to examine the impact of corporate inclusivity on market values for B2C and B2B companies and explores how this impact varies under different political settings. The results are discussed with the theoretical frameworks and hypotheses discussed earlier in mind.

Regression Results

As per Table 3, the incremental changes in CEI scores for B2C companies are not visibly interlinked with Tobin's Q, suggesting that minor inclusivity improvements do not translate into noticeable market value shifts. However, achieving a perfect CEI score markedly enhances market value, confirming its significant role as a marker of superior inclusivity and supporting the hypothesis that visible inclusivity boosts brand perception and consumer loyalty in B2C sectors.

Table 3. Regression model results for B2C and B2B

Variable	B2C		B2B	
	Coefficient	p-value	Coefficient	p-value
const	1.0233	0.0000	0.7436	0.0000
CEI	0.0004	0.4694	0.0006	0.1511
CEI_binary	0.1485	0.0000	–0.0138	0.5496
ROA	0.0212	0.0000	0.0142	0.0000
LT_debt_to_assets	0.2385	0.0204	–0.2190	0.0211
Observations	2758		1744	
R-Squared (Overall)	0.1377		0.1259	

Source: own elaboration [2024].

The lack of significance in the continuous CEI measure could indicate that while incremental improvements in inclusivity are generally positive, they may not be immediately perceptible or impactful enough to influence consumer decisions or overall market valuation directly. The binary CEI variable, indicative of a perfect score, likely overshadows the more granular impacts captured by the continuous CEI measure. When present, the binary variable may absorb much of the explanatory power regarding market valuation, because it represents a clear, definitive achievement of inclusivity, which could be due to a threshold effect where only exceptionally clear and strong signals of inclusivity, such as a perfect CEI score, are recognised and rewarded by consumers. The significant binary indicator of CEI suggests that achieving a perfect score in inclusivity is particularly influential, as it sends a clear and unambiguous signal to consumers about the company's commitment to LGBTQ+ inclusivity.

Achieving this perfect score likely acts as a strong marketing tool, significantly enhancing the company's brand image and setting it apart from competitors in the eyes of socially conscious consumers. This aligns with the legitimacy theory and stakeholder theory, where such visible achievements in inclusivity can enhance a company's reputation, attract better customer loyalty, and ultimately lead to an increase in market value, which suggests that consumers may value absolute rather than relative measures of inclusivity, responding more favourably to firms that meet the highest standards of social responsibility.

In contrast, the relationship between CEI (both continuous and binary) and Tobin's Q in B2B companies appears to be minimal, with neither form of CEI showing a significant association with market value, which indicates that in environments where direct consumer interaction is less prevalent, the visibility and perceived benefits of inclusivity initiatives do not significantly influence firm valuation. For B2B companies, market value may be driven more by traditional business metrics and less by public-facing social credentials, reflecting a context where business decisions are less influenced by social performance and more by factors such as product quality, service efficacy, and cost efficiency.

For the control variables in the regression models, the Return on Assets (ROA) shows a positive and significant coefficient for both B2C and B2B companies, aligning with expectations that higher profitability is associated with greater market valuation.

Regarding the long-term debt to assets ratio, the results differ between B2C and B2B companies. In B2C companies, the positive coefficient indicates that higher leverage correlates with higher market valuation. This may reflect the market's favourable view of leverage in consumer-oriented industries, possibly interpreting it as a sign of aggressive growth strategies such as marketing and expansion, which are expected to boost sales and market presence. Investors might see high leverage as a marker of confidence in future revenue growth.

Conversely, B2B companies exhibit a negative coefficient for the long-term debt to assets ratio, suggesting that higher leverage leads to lower market valuation, which could be due to the riskier nature of leverage in these companies, stemming from less predictable revenue streams and larger contract volumes with longer sales cycles. High levels of debt can raise concerns about financial stability and the ability of B2B firms to manage their obligations without affecting operational efficiency.

Moving to the political climate related portion of the study, results of the regression models designed for hypothesis 3 are presented in Table 4. Notably, these results suggest that political contexts might moderate the effectiveness of inclusivity efforts.

The general trends about the sole nature of continuous CEI and binary CEI in both company types also hold in these models. In B2C companies, none of the continuous CEI variables, regardless of HQ state, was statistically significant, which can again be attributed to the fact that a mere improvement in CEI is not a visible or powerful market differentiation strategy.

While neither continuous CEI measures across various political leanings showed significant effects, the binary CEI in Democrat-leaning and 'Inconclusive' regions displayed a substantial positive relationship with the market value. This suggests that in politically liberal and moderate regions, where high inclusivity standards are often expected, achieving and advertising a perfect inclusivity score significantly boosts a company's market appeal.

Table 4. Regression model results for B2C and B2B with HQ political lean

Variable	B2C		B2B	
	Coefficient	p-value	Coefficient	p-value
const	1.0462	0.0000	0.7440	0.0000
CEI_Democrat	–0.0004	0.5628	0.0002	0.6377
CEI_Republican	0.0011	0.1536	0.0009	0.1195
CEI_Inconclusive	0.0005	0.5008	0.0007	0.1273
CEI_binary_Democrat	0.1718	0.0000	0.0243	0.4281
CEI_binary_Republican	0.0769	0.2421	–0.0807	0.1117
CEI_binary_Inconclusive	0.1787	0.0086	–0.0429	0.3220
ROA	0.0212	0.0000	0.0142	0.0000
LT_debt_to_assets	0.2333	0.0233	–0.2169	0.0233
Observations	2758		1744	
R-Squared (Overall)	0.1212		0.1261	

Source: own elaboration [2024].

In the 'Inconclusive' category, which encompasses regions not distinctly liberal or conservative, the patterns are remarkably similar to those in Democrat areas, suggesting that moderate regions respond positively to clear inclusivity achievements, akin to liberal areas, indicating a broader acceptance and appreciation of firm inclusivity efforts, particularly when they are visibly perfect.

In B2B sectors, the findings are consistent across political divides, with no significant impact of inclusivity on market values, reinforcing the notion that B2B interactions prioritise business efficiencies over social perceptions. The minimal impact across all political contexts suggests that B2B companies are less affected by regional political climates in terms of inclusivity-driven market valuation.

Overall, the results illustrate the complex dynamics of corporate inclusivity strategies, significantly influenced by the company type (B2C vs. B2B) and the political climate. These findings underscore the necessity for companies to tailor their inclusivity approaches according to both their market nature and the political environment to maximise their corporate reputation and market value. Such a tailored approach is crucial for leveraging CSR initiatives like the CEI for effective market differentiation.

Limitations and future directions

While this study provides valuable insights into the relationship between Tobin's Q and LGBTQ+ inclusivity, it is important to acknowledge several limitations. Addressing these limitations along with exploring potential future research directions can enhance our understanding of the complex interplay between financial performance and social responsibility practices.

This study focuses on companies within the United States. The cultural, legal and regulatory environment of the US might influence the observed relationships, potentially limiting the generalisability of the results to other regions or countries with different social norms and business frameworks. Future research should aim to expand the analysis to include multinational corporations or companies from various geographical regions beyond the US to determine how the relationship between Tobin's Q and LGBTQ+ inclusivity might vary across different global contexts.

While the study leverages several theoretical frameworks to explain the relationships observed, it does not conclusively support any specific theory. The significant relationship observed between inclusivity and Tobin's Q in client-facing (B2C) companies, as opposed to non-client-facing (B2B) companies, suggests that different mechanisms may be at play. Future research should focus on dissecting these underlying mechanisms, perhaps through more targeted studies that can isolate specific theoretical contributions.

To complement the quantitative findings of this study, incorporating qualitative research methodologies, such as case studies, interviews or surveys with executives and stakeholders, could provide deeper insights. These qualitative approaches could explore the motivations, perceptions and challenges associated with implementing inclusivity initiatives, offering a richer, more nuanced understanding of the strategic and operational considerations in diverse business settings.

One significant avenue for future research involves exploring the direction of the impact between inclusivity and firm valuation. While this study establishes a correlation, understanding whether higher market values encourage firms to adopt inclusivity policies, or whether proactive inclusivity efforts lead to increased market values, could be particularly enlightening. Longitudinal studies or causal analysis techniques could be employed to explore these dynamics, potentially offering guidance for policymakers and business leaders on the temporal and causal relationships in corporate social responsibility strategies.

In conclusion, while this study contributes valuable knowledge on the relationship between Tobin's Q and LGBTQ+ inclusivity in corporate settings, recognising its limitations is crucial for framing future research. By exploring suggested directions, subsequent studies can build on this work, advancing our understanding of how social responsibility practices influence firm value and supporting the development of more effective corporate strategies in an increasingly diverse and inclusive global market environment.

Conclusion

This study has examined the nuanced interplay between inclusivity, as measured by the Corporate Equality Index (CEI), and the market value represented by Tobin's Q of companies within B2C and B2B contexts, with a significant and non-linear relationship between high inclusivity scores and market valuation observed for B2C companies. A perfect CEI score, indicative of exemplary inclusivity practices, profoundly influences customer perceptions and decisively impacts decision-making, which underscores the importance of visible and high-standard inclusivity efforts in enhancing corporate market value, emphasising that such initiatives are not merely ethical but also strategic, driving consumer behaviour and distinguishing companies in competitive markets.

Conversely, in B2B contexts, inclusivity initiatives enhance internal metrics such as employee satisfaction and workplace harmony but do not significantly alter market valuation in the constructed panel models. Lack of observed financial impact may be due to the nature of B2B transactions, which involve less direct consumer interaction and are influenced more by operational efficiencies and business relationships than by public visibility of inclusivity efforts.

The addition of political lean to the analysis enriches our understanding, particularly highlighting how political contexts can moderate the effectiveness of inclusivity efforts. Companies in more liberal or politically 'inconclusive' regions, where public sentiment may be more supportive of inclusivity, tend to benefit more from high inclusivity scores. Notably, this effect is significant only in B2C companies and only when full inclusivity commitment is demonstrated. No such relationship was observed for B2B companies, indicating that the influence of political lean is predominantly relevant in consumer-facing industries.

The strategic alignment of inclusivity initiatives with consumer expectations and local political contexts is therefore critical, especially for B2C companies. Achieving and publicly celebrating high inclusivity standards can serve as key differentiators, enhancing brand image and market share. Effective communication and marketing of these achievements are crucial, with a perfect CEI score serving as a powerful branding and customer engagement tool.

Although B2B companies may not experience direct market valuation benefits from inclusivity practices, the potential improvements in employee performance, risk management and compliance with legal and social norms are substantial. These initiatives can significantly contribute to organisational health and resilience.

Looking ahead, it is imperative for policymakers and business leaders to integrate these findings into corporate policies and strategic planning. Further exploration into the causal relationships between inclusivity practices and business performance across various sectors is recommended to refine strategies and optimise outcomes.

Ultimately, this study underscores the varied impacts of inclusivity on corporate market value across different business models, emphasising the necessity of integrating corporate social responsibility with strategic business objectives. By aligning inclusivity efforts with consumer expectations, political climates and operational contexts, companies can not only foster a more inclusive society but also enhance their competitive advantage and financial performance in increasingly diverse global markets.

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