Sexual Harassment by Top Managers:
Impacts on Public Company

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Abstract

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We investigate firms that fired the CEOs who are accused of sexual harassment and make this information public instead of entering into Non Disclosure Agreement (NDA), and we find that sexual harassment of CEOs have no significant influence on firm and firms do not suffer from the negative market reactions and long-term consequences. Contrary to precious literature suggesting the firm should enter into Non Disclosure Agreement because of its negative effects on firm, we believe that firing the accused CEO will not negatively affect firm and director should have more incentive to dismiss them instead of entering into NDA with victims. For CEOs who engaged in this event suffer the consequence from the labour market, because majority of them cannot obtain an equivalent job in job market as shown in our results. In very few cases they do, they are not hired by public firms. Moreover, we also find that the directors who made the dismissal decision of CEO did not suffer from the consequences and the number of employees was not affected by this event in 3 years either.

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1. Introduction

On May 21st 2013, the outsourcing company iGate Corporation made an announcement that Phaneesh Murthy, one of India's best-known IT giants, was fired as the chief executive of the company over alleged sexual harassment charges. In the announcement, iGate explained the reason of Phaneesh Murthy's departure. After an investigation by the outside legal counsel, it was found that Murthy had not disclosed his relationship with a subordinate employee, which violated the firm policy and his employment contract, therefore he is not eligible to the severance under the terms of his employment agreement. But the company also claimed that Mr. Murthy did not violate the firm's harassment policy. Following the announcement, the stock price of iGate (IGTE) went down more than 10% in one day on the NASDAQ stock exchange, and hit the lowest point in more than one year.

The subordinate employee, Araceli Roiz, who was pregnant with Phaneesh Murthy's child, made a statement that she would sue the Murthy for sexual harassment through her lawyer.

On June 07, 2013, Phaneesh Murthy was removed from the company's board and 10 days later, the shareholders of the iGATE filed a class action against iGATE for the loss caused by Murthy's undisclosed relationship. The class action lawsuit was dismissed by the shareholder plaintiff on August 22, 2013 without any payment or settlement.

The victim, Araceli Roiz, did not actually file any cases in the end, and she settled with Mr. Murthy out of court privately. But the battle between iGate and Murthy became ugly, on 9 December 2013, Phaneesh Murthy sues iGATE for wrongful termination and post-termination benefit in iGATE, and on 4 March 2014, iGate filed a counter-complaint against Murthy, claiming that they experienced significant damages from Murthy's misconduct. Finally, on 7 February 2015, the two parties reached an out-of-court settlement with payment of $4.6 million to Murthy.

However, it is the not the first time for Phaneesh Murthy was fired because of the accusations of sexual harassment.

On December 17, 2001, his former executive assistant at Infosys Technologies, Reka Maximovitch, filed a suit in the Alameda County Superior Court in Oakland, US, and accused him of sexual harassment. Ms. Reka Maximovitch alleged that between October 1999 and December 2000, Murthy repeatedly asked her to have a sexual relationship with him and she was fired inappropriately because she refused to have such a relationship. Following her

accusation, Murthy was asked by Infosys Technologies and was forced to resign as a director and the chief marketing officer on 23 July 2002. Infosys's shares decreased by 4.75% on the Bombay Stock Exchange on the trading day after Murthy's resignation announcement. On 20 August 2002, even Murthy still denied the accusation, he agreed to settle with Ms. Maximovitch. Infosys finally reached an out-of- court settlement for 3 million dollars with Ms. Reka Maximovitch in May 2003. Infosys paid USD 150,000 and the other half was covered by Infosys' insurance company. Moreover, Infosys also paid $570,000 to Mr. Murthy as the severance payment for the termination of his contract. Murthy founded his own business and got another job quickly: on 31 July 2003, only 3 months after the settlement, he was appointed as the CEO of iGate Global Solutions, which is a subsidiary of the iGATE Corporation.
On 4 October 2003, another former employee of Infosys, Jennifer Griffith, filed a lawsuit in US, alleging that Mr. Phaneesh Murthy sexually harassed her when she worked at Infosys. On 24 November 2004, Murthy settled out-of-court a sexual harassment charge with Ms. Griffith by paying her $800,000, half of which was paid by Murthy himself as the company refused to make any contribution to the settlement and the other half was covered by the firm's insurance.

According to the Civil Rights Act of 1964 in US, sexual harassment is a form of sex discrimination. The EEOC defines the sexual harassment as follows:

"*Sexual harassment can include unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature. Harassment does not have to be of a sexual nature, however, and can include offensive remarks about a person's sex. Although the law doesn't prohibit simple teasing, offhand comments, or isolated incidents that are not very serious, harassment is illegal when it is so frequent or severe that it creates a hostile or offensive work environment or when it results in an adverse employment decision (such as the victim being fired or demoted).*"

During the past decades in US, it is not uncommon to read the reports about the top executive's sexual harassment. Recently, the "Me Too" movement called more and more attention to sexual harassment within the workplace. Even though this movement has dominated, the media for nearly one year but there are still a considerable number of victims who have remained silent. In fact, the reported sexual harassment represents only the tip of the iceberg compared with the number of incidences actually happened in the real world. Not like the few widely discussed cases, of which the victims have chances to speak up, a majority of sexual harassment cases just end as Non Disclosure Agreement (NDA) with the silence of victims. NDA is a contractual agreement between the company and the employee to limit the negative effects in many ways,

such as restricting the employee from revealing the settlement amount and any details of the dispute, or preventing the employee from filing further lawsuits or even from providing evidences in other related or non-related lawsuits against the employer.

There are number of studies that stress the influence of CEO characteristics on firm value and firm performance in many ways. However, very few of CEO's personal life related characteristics, especially sexual harassment, were discussed whether they have effects on the firm's value and long-term performance.

As The Ontario Court of Appeal has stated that:

"When a manager or other senior employee engages in serious sexual harassment and denies that the misconduct occurred or otherwise refuses to recognize the unacceptable nature of his or her conduct, termination of the employment relationship may be the appropriate employer response".

In most of the cases, the CEO was fired by the board as the results of CEO's misconduct, but does the departure aim to remove the negative influence on the firm's reputation and share value?

Many previous studies investigate the influence of misbehaviour conducted by top executives on the firm. For example of reputation loss, decrease in trust, employee job satisfaction and productivity are often mentioned as consequences of managerial misconduct by many articles. In addition, the characteristics of CEO are proved to have impact on firm decisions and ethical culture of firm in leadership related literatures.

Unlike several top executives misconduct related articles, we only focus on the sexual harassment and limit our sample to only CEOs and founders rather than all C-level executives. Our research objects are firms with CEO or founders who are accused of sexual harassments, including the allegations, lawsuit, and/or a rumour leads to resignation or dismissal. The reasons are describe as follows: the sexual misdeed takes place not once but frequently in a period, and the power imbalance in firm make the workplace become a sexual assault frequently happened environment. Sexual harassment is a particularly important personal characteristic of leaders. What is more, it is proved that the firm culture and ethical leadership also play an important role in this circumstance, and the moral problems of leader affect the employees' job satisfaction, therefore possibly affect the firm performance. Therefore, we choose this topic as our subject.

This paper examines the firm-level influences of sexual harassment on firm's performance and share value and takes look at the consequence of firing the involved top managers in job market. At the firm level, we first detected the influence of sexual harassment on stock market by an event study. It seems the market does not react negatively to the sexual harassment information of CEO. More specifically, our results indicate that the market reacts immediately and positively to the information, but when we extend the event window longer, the averaged cumulative abnormal return become negative, indicating that the market holds uncertain attitude to the sexual misbehaviour of CEO. The short-term positive return of share can possibly because the negative effect was offset by the view that the market thinks that firm gets rid of bad guys. Secondly, the characteristics of firm with sexual harassment CEO are analysed by a univariate analysis and logistical analysis. We find that managers of larger and more successful firms are more likely to engage into this type of misbehavior. And those firm that have more independent and female directors tended to fire the accused CEOs. The firms in our sample tend to be large and successful firms but they have less growth opportunity and perform worse than other firms in the same industry. This may attribute to the reporting preference to the famous firms. Thirdly, whether the departure of these alleged CEOs affects the firm's long-term performance is explored by the regression analysis. Through the comparison of long-term performance between sample firms and other firms in the same industry, the results suggest that the dismissed CEOs have no superior talent than other CEOs in the same industry. Consequently, the departure of CEO have no impact on the firm's long-term performance. Unlike Cline et al. (2015) who find the leader's misbehaviours negatively affect the firm and the firm should enter into NDAs, we come into conclusion that the firm should make this information public since the firm will not suffer from the consequences. If the firms follow the suggestion of Cline et al. (2015), they will not make sexual harassment incidences public and enter in to NDA, whereas our finding suggest that it does not affect the firm value and firm long-term performance and firm should take actions and fire the accused CEO. Finally, we additionally pay attention to the personal consequence of the sexual harassment in terms of CEOs, directors and employees. What happen to the CEO's career after leaving the firm? Will they get another equivalent job easily? And for those directors who fired the CEO because of the sexual misdeed, will they be hired as director by more companies or they are not popular directorship candidates for other firms? Will the employee tend to leave the firm after the event? We provide the data about the CEOs and directors situation in the labor market in the following 2 years and compare the numbers of employee before and after the event. Our results suggest that most of the CEOs cannot work as CEO in another firm in 2 years, whereas neither the

directors nor the number of employees is affected by CEOs sexual harassment. Therefore, the main contribution of our paper is that only the CEOs themselves suffer from their sexual misdeeds, and the firm, the director, and numbers of employees are not affected, so the firm and director should make this negative information public instead of entering into NDA. It is worth noticing that we started working on this paper before the MeToo Movement, which encourage more victims to come forward, and our data does not cover the incidences during that period, but we hold the view that our study can have an impact on firm reactions to sexual harassment allegations.

Comparing with previous literature, our paper only focuses on the influence of sexual harassments of CEOs, instead of all kinds of personal misconduct, by checking the market reaction and examining the association between these incidences and firm key characteristics and whether their dismissals have impacts on the firm's long-term performance. Further, we also the first paper that pay attention to the consequences of the accused CEOs, directors and the employees in the job market after the event.

The rest of the paper is organized as follows: section 2 make a review of related literature. Section 3 describes our sample and data resources. Section 4 presents the market reaction to sexual harassment information and provides analysis of the characteristics of firms with accused CEOs. The long-term performance results and the consequence of CEO and directors are also presented in this part. The last section is our conclusion and contribution.

2. Literature Review

Many previous studies find the loss of firm involved in different kinds of negative incidences. The top executives' sexual harassment as a form of negative event can impose kinds of direct and indirect cost on the firm. Direct organizational costs include those related to, the settlement payment about lawsuits, CEO turnover such as severance fees and recruitment expenditure, ethical training, the costs of investigation by council and the legal costs against the lawsuits. Indirect costs include reduced job satisfaction, work productivity of employees, damage to firms' reputation and loss of shareholder confidence (Fitzgerald et al. 1997, Lengnick-Hall 1995).

A number of studies focus on investigating the relationship between the firm reputation and firm value. Jones and Rubin (2001) find that environmental incidence will cause not only legal penalty but also reputational punishment for involved firms. However, Karpoffet al. (2005)

hold the view that the market value loss is mainly due to the legal and regulatory penalty but not reputational loss in the environmental violations.

And the Firm's' good reputation will bring many benefits to firms. A good reputation increases a firm's ability to attract job applicants (Gatewood et al., 1993). Reputation affects employee retention as employees who feel their company is well regarded by external groups, have higher job satisfaction and less likely to leave their firms (Riordan et al., 1997). A positive reputation also enhances corporate branding, enabling a company launch new products and enter new markets more easily (Dowling, 2006). Reputation can have positive influence on financial performance, institutional investment, and share price. Dowling (2006) argues that successful firms are more likely to maintain superior performance over time if they also possess relatively good reputations.

Hosmer (1994) concludes that good ethics should be central in the business management, and Jones (1995) indicates that ethical principles brings many benefits like trust and cooperativeness to all stockholders, which eventually have positive influence on long-term performance of firms. Firms' strong ethical identity improves the level of stakeholder satisfaction, resulting in the enhancement of share value and firm's performance (Berrone et al. 2007). The ethics codes and ethics training provided to employees are proved to have positive relation to job satisfaction (Somers, 2001 and Valentine and Fleischman, 2008).

Some job-related outcomes for the sexual harassment are also found by Chan et al. (2008). The sexual harassment in the workplace lowers the job satisfaction, organizational commitment and work productivity of employee, enhances the ratio of job withdrawal and causes psychological distress and physical problems. Even awareness of sexual harassment of colleagues can lead to 'bystander' stress and have negative effect on victims' co-workers. (Schneider 1996).

Consequently, creating an ethically friendly and gender-equal work environment, providing ethical training, and establishing effective prevention strategies and punishment mechanism can be more effective ways for corporate to reduce the incidence of unwanted sexual misbehavior in the workplace (Hulin et al. 1997; Parker 1999).

Thus, it is reasonable to regard sexual harassment as a social behavior and address job-related factors and ethical culture of the corporate in the research of sexual misdeeds in working environment.

However, ethic training to employee can hardly be effective if the top executives who should be the role models take the lead to violate the code of ethics. The leadership is proved to have

influence on the employee's performance and the corporate culture. Groves et al. (2008 & 2011) indicate that the transformational leadership and moral behaviours affect the employee's ethical decision-making and the organizational ethical. Toor and Ofori (2009) and Resick et al. (2011) find that the ethical leaders play an important role in improving employees' job outcomes and corporate culture. Under the encouragement and motivation of ethical leadership, the employees are more likely to work harder and more efficiently, therefore improving the employees' job satisfaction and job performance. Similarly, Bello (2012) points out the impact of ethical leadership on employee job performance and argues that corporate leaders must take proactive measures and create an ethically friendly atmosphere for all employees. In addition, boards of directors often fire managers who engage in an unethical behavior and a scandal increases the chance of dismissal (Ertugrul and Krishnan, 2011).

Whether top executives' personal traits have relation to firm behaviours and performance have been examined by many previous literatures, following Bertrand and Schoar (2003) and Adams et al. (2005), who found the managerial traits affect corporate decision-making process and performance. While Kaplan et al. (2012) hold the view that only general ability and execution skills are relevant to a firm's subsequent performance and interpersonal and team-related skills do not play an important role in improving performance. Frank and Goyal (2007) find that compensation and education background significantly have impact on the capital structure, while other personal characteristics show no association, indicating that firm value mainly relies on the skills and talents of the top executives.

Later on, many other specific individual characteristics have been paid attention.

The overconfidence effects of CEO on corporate investment decisions, capital structure and financial policies are examined by Malmendier and Tate (2005, 2008), Goel and Thakor (2008) and Gervais et al. (2011). While Chatterjee and Hambrick (2007) argue that firms with narcissist CEOs perform as well as with non-narcissistic CEOs in the same industries. Law and Mills (2015) documented the effect of CEO's military service on firm tax avoidance and CEOs with military experience tend to have more aggressive financing policies and are less likely to be involved in in corporate fraudulent activity (Malmendier et al 2011). Kaplan et al. (2016) checked the linguistic features of CEOs and examined the associations between big five personality traits for CEOs and investment and financing choices and firm performance. Dikolli (2012) focus on the linguistic-based integrity, keep their words, and observes the positive association between CEO integrity and accrual quality. The optimism and risk aversion of CEOs also received considerable attention. Heaton (2002) finds that optimistic managers tend

to believe that the market undervalues their securities and prefer the internal financing and managers usually overvalue the firm's investment opportunities. Graham et al. (2013) suggest that risk-tolerant CEOs are more likely to run the firms with good growth opportunity. Biggerstaff et al. (2015) find the positive relation between CEOs' stock options backdating behaviours and other suspect corporate activities, such as earning manipulation and M&A activities, indicating that top executives' ability to shape firm unethical culture. Francis and Zhang (2008) examined the link between CEO reputation and firms accounting disclosure quality, finding that more reputed CEOs are related with lower earnings disclosure quality.

Furthermore, we find that CEO's can also have impact on firm through another channel, corporate culture. Some literatures emphasize the relationship between the leader behaviours and corporate culture. Davidson et al. (2015) find the association with the corporate culture changes and top executives' ownership change of luxury goods (frugal). Graham et al. (2016) find that senior management's behavior has significant influence on corporate culture.

But do private misconducts of top executives have association with firm-level misconduct, and thus affect the firm value and its operations? Some recent articles already look at the personal illegal behaviours in private life of top executives and check their influence on firm.

Davidson et al (2015) investigate the relation between firm fraud and executives' prior illegal behaviour, such as traffic violation, drunk driving, domestic violence and other drug related charges. Cline et al. (2015) examine the wealth effects of executives involving sexual harassment, dishonesty, substance abuse, and violence and find negative influence on firm's counterparty relationship and operating performance. Griffin et al. (2016) find that the firms with top executives having marital cheating are more likely to have corporate infractions, which shows the significant influence of executives' personal ethics on corporate conduct.

Instead of looking at all kinds of CEOs' private illicit behaviours as prior literatures, our study only focus on their sexual harassment, the reasons are shown below.

Firstly, as Gutek and Koss (1993) pointed out, sexual harassment is usually not a one-time event, and as the victims reported, the offensive behaviours generally occurred more than once and lasted from one week to as long as 6 months (Schneider et al., 1997). For the workplace sexual harassment, the victims often cannot make formal complaints through internal policies and procedures and get satisfied outcomes (McDonald 2012). In addition, many previous studies show that harassers are more likely to conduct misbehaviours only when the working environment allow them to do so. Stockdale (1996) points out the role of the organizational

characteristics played in sexual harassment in workplace. Collinson (1996) states that women are less likely to report their sexual harassment experiences in fear of losing the sense of identity in a masculine work cultures.

To sum up, it is reasonable to predict that the sexual harassment, as one form of negative incidence for corporate will have influence on firm and employee in many ways.

3. Data and sample description

We manually collected all the sample firms via a text search for "sexual harassment" in Factiva from January 1994 to December 2016. If the top executive or founder of a firm is involved in sexual harassment news or articles, whether it is allegation, lawsuit or just rumour, then we identified the harasser as sexual harassment executive in our sample. A total of 47 CEOs and founders were involved in sexual harassment news during this period, and for most of the cases, accused executives were fired by the board of directors and received severance since their employment contract was ended in advance. And the victims normally settled privately with the firm and or with the executives. But this sample was further narrowed in the analysis of section 4, since some firms' annual reports on event years are not available in EDGAR or we are not able to find sufficient information in Compustat, CRSP and BoardEx.

Sexual harassment in our research includes sexual harassment, sexual assault, and relationship with subordinate employee[1]. And in our 47 samples, 4 of them are explained by the accused CEO as relationship with subordinate employee, and the reason of their departure was attributed to the failure to disclose their relationship with subordinate employee which violate the firms policy.

The event date for each firm is defined as the date of first news mentioning the sexual harassment. We limited our research subject to only CEO and founder of the firm, misconduct by other C-level executives such as CFO and COO are not included in our sample.

For data relating to corporate governance characteristics such as independent director percentage and percentage and number of female directors, mean and standard deviation of

[1] We have a couple of cases that involve relationship with a subordinate. The relationship with a subordinate employee often related to the power abuse, including the distribution of assignment, threats from the harasser, etc. Given the power imbalance, the victims find it hard to refuse, complain or report the incidents. In this case, the boundary of sexual harassment is not very clear. However in our sample, the accused CEOs are fired by the board even they would normally claim that they had romantic relationship with victims. Therefore, we consider this as sexual harassment in our sample.

directors' age, other directorship of each director in our sample firms and matched firms, we collected them from Riskmetrics, BoardEx, CRSP and proxy statements filed with SEC.

We also checked the firm's ethical culture about the sexual harassment by searching three sets of keywords, "the codes of ethics", "diversity" and "sexual harassment" in their latest annual report before the event on EDGAR. The accounting data such as total assets, sales, book and market value of equity, free cash flow, research and development expenditures, and capital expenditures are obtained from Compustat.

We present the descriptive information of our sample in 3 tables. The sample firms are categorized according to Fama -French 12 industries classification in Table 1. The Table 2 shows the annual distribution of sexual harassments in our sample[2]. The table 3 provides a simple correlation matrix of variables in our sample.

From Table 1, our analysis shows that there is not any specific industry that dominates in our sample. Business Equipment area ranks first (28.21%). The Non-durable Consumer is second industry only to the first, accounting for 12.82% of the events. Besides that, our sample firms distribute almost evenly among the rest industries.

As shown in the Table 2, our events do not happen evenly in each year during these 12 years. It is worthwhile to note that no sexual harassment news was reported in several years, but that does not mean the sexual harassment behaviours do not exist in such year. Actually, as we mentioned before, only limited number of victims came forward to report, and more victims remain silent or signed the non-disclosure agreement with the firm and are prohibited from speaking out.

The reason behind the reporting gap between 2008 and 2009 could be that the whole macro-economic environment was not ideal during this special period and firms thought that they were too fragile to afford extra negative news in the financial crisis. As a result, they may have been more willing to silence victims through NDA.

Table 3 provides a simple correlation matrix for the variables in our sample. We obtain the data on the board size and composition of the board of directors through the proxy statement of firm on the event year. Three set of key words: 'code of ethic', 'diversity' and 'sexual harassment' were searched in each firm's annual report before event year. Thus, we create 3 dummy variables that equal to 1 if they were mentioned in annual report; otherwise 0. The W0 means

[2] Since not all the firms have sufficient data in CRSP and Compustat data, therefore total numbers of firm added together in table 1 and table 2 are not equal to our total sample.

that this firm do not have woman serving on board, and W1 and W2 represent that there is one woman and two women directors in the board of directors of that firm respectively. The woman % means that percentage of the woman directors in the board and can be calculated by dividing the number of female director by the board size. Similarly, the independent % can be calculated as dividing the number of independent directors by the total number of directors serving on board. The information of independent and female directors is collected from the proxy statement of firm filed in SEC. As shown in Table 3, the women percentage and women 0 is negatively correlated, which is apparently. As for abnormal capital expenditure, asset growth rate, leverage, free cash flow, total asset and age, none of them are highly correlated with each other. Free cash flow is highly correlated with log total asset, but is less than 0.5. Age of firm is highly correlated to mean age of board of directors. Age of directors is highly correlated with log total asset, showing that bigger firms' directors tend to be older. In other words, small firms tend to be newer firms. All the women representation variables are highly correlated with each other. As a result, we avoid using highly correlated variables in the same regressions, which will be introduced in the later parts, and thus multicollinearity problems will not be a concern in our analysis.

4. Methodology and Results

4.1 Hypotheses

Following the literature review, we construct 4 hypotheses in our paper:

As some precious articles pointed out, the sexual harassment of CEO as one kind of leader misbehaviour will bring negative influence to the firms, whether in form of direct cost or indirect costs. So we construct the first hypothesis as:

H1: The stock market reacts negatively for the sexual harassment information

Celine et al (2015) conclude that the personal misconduct of CEO will have negative influence on firm, therefore the sexual harassment as a form of personal misconduct should be predicted to affect firm negatively. However, if we cannot find significant negative effects of these events by examining this hypothesis, it may not necessarily to enter into conclusion that accused CEOs have no negative influence on firm. It can possibly be explained by the market opinion that the board of directors who fired the accused CEO did the correct decision, so the market reacts positively to this information around the event date. In such a way, the negative effect of sexual harassment could be offset by the positive influence of correct decisions of directors.

Based on the data description in section 3, we expect the reported sexual harassment are more likely to happen in bigger and successful firms. Because these firms are more attractive for reporter.

H2: The sample firms are significantly different from matched firms in the same industry.

Since most of accused CEOs were fired by the board of directors and bigger firm have larger probability to get involved in this event, we expect that these CEOs have superior talent than others; as a consequence, the long-term performance after the event will become worse. And if the firm that fired the accused CEO has more independent and female directors serving on board then we can attribute the dismissal decisions of firm to the good governance in firm.

H3: Long-term performance of firm would be affected by firing the CEO who involved in sexual harassment.

The consequence in the labour market can be divided into 3 parts, since we would like to examine the consequences of CEO, the director and the number of employee separately.

Obviously, we expect the accused CEO will be abandoned by the labour market, so we predict:

H4a: The accused CEO and founder will not obtain an equivalent job in 2 years after departure.

We have our next hypothesis as:

H4b: There are punishments in the labor market for directors who made the dismissal decisions.

The directors who fired the CEO maybe be preferred by the job market because they act appropriately, but it is also possible that there are less firms that are willing to hire them as directors because they fired CEOs.

Since the leader's misbehaviours have negative effects on firm reputation and organizational culture, and lead to the reduction of jobs satisfaction of employee, we can have another hypothesis as:

H4c: The number of employees of involved firms will decline during following 3 years

According to our 4 hypotheses, we divided methodology into 5 parts. In the first part, we use the event study to testify the market reactions to the sexual harassment information. And in the univariate analysis and logistical analysis part, we will check that whether there are significant differences between sample firms and matched firms in the same industries and same fiscal years. The influence on long-term performance of sample firms after firing the CEO

would be evaluated in the third part, regression analysis. And the personal consequences of CEO, director and the change of numbers of employees will be examined in the last part.

4.2 Event study

Following the most traditional way to evaluate the effects of specific events on market (Brown and Warner, 1985), we capture the impact of sexual harassment on firm by calculating the abnormal return around the event date. The daily abnormal returns (AR) are obtained by the commonly used market model. We estimate these abnormal returns of sample firms over five-day event window (-2, +2), seven-day event window (-2, +5) and thirteen-day event window (-2, +10) respectively. This can be attributed to the information leak before the news. In consequence, we choose the 5 days and 1-week event window around the event date. Besides, we also check two 27-day event windows: (-30, -3) and (+3, +30) and sixty-day event window (-30, +30). The daily returns of our sample companies are collected from the Center for Research in Security Prices (CRSP) database. The event dates for each firm are defined as the earliest date among news of allegation date and rumour date and lawsuit date of sexual harassment of top managers based on the search results on Factiva.

In the event study, the abnormal returns on day t of firm i (Ait) are calculated as the difference between the observed returns and predicted returns, which can be obtained by the market model:

$A_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i$

Where $\hat{\alpha}_i$ and $\hat{\beta}_i$ are the ordinary least squares (OLS) parameters of the market model of firm i over an estimation period, 290 to 46 days prior to event date.

The impact of the event on the shareholders wealth is measured by the magnitude of the average abnormal return (AR_t) and the cumulative abnormal return CAR_s:

$AR_t = (\sum_{t=1}^{n} A_{it}) / N$

$CAR_s = \sum_{t=1}^{s} AR_t$

Furthermore, the CAR_s can be averaged by $CAAR_s$, where N is the number of firms in the sample and s is a time period.

$CAAR = \frac{1}{n} \sum_{i=1}^{n} CAR_i$

Therefore, the impact on stock market caused by sexual harassments of sample firms can be described by the results of CAAR.

As shown in Table 4, from one month around the event date, firms in our sample do experience a loss in firm value. The positive results in the event windows (-2, +2), (-2, +5) and (-2, +10) reveal that the market seems to like the news that they are replacing someone who violate the codes of ethics, etc. And the result of event window (+3, +30) indicates that the market is uncertain about the results of the lawsuits about the sexual harassment behaviours with a decrease around 4.21%. Overall, the market reacts negatively even though our results are not significant and the return during (-30, +30) is negative and significant for our event study. This can possible be explained by the market's prediction that the firm will have a large settlement payment or the CEO's time off will affect the productivity of firm. Or the market will act negatively seeing that the firm's reputation was affected by this report and they hold the view that the CEO's departure is kind of a loss for firm because of their managerial talent and ability and their creativity and the shareholders are pessimistic to hire a new CEO as well as the accused one. Overall, the results indicate that the sexual misdeeds of top executives have not received enough attention from shareholders in the stock market.

And our results are also robust in Fama - French 2 steps model with momentum.

4.3 Univariate analysis

To investigate the characteristics of sexual harassment involved firm, we firstly conduct a univariate analysis of sample and matched firm. We matched our sample firms with firms in same industry and same fiscal year and also restrict their size difference within 30% range of sample firms' size. We examined whether the differences are significant between sample firms and matched firms in several firm key characteristics: leverage, firm age, operating return on assets (OROA), size, research and development expenditure, Tobin's Q, market-to-book value (MTB), and buy-and-hold abnormal returns (BHAR). Our analysis also incorporates some corporate governance characteristics: CEO age, the mean and standard deviation of directors' age, the percentage of independent and female directors. If the board have more female directors, then the victim may be more comfortable and has more courage to speak out and ask the firm to take actions. And if the firm have more independent directors serving on board, then the management is in more effective governance of board, therefore the board will more likely to make decision to fire the accused CEO. The search results of key words: code of ethics, diversity and sexual harassment in firms' annual reports are also added in our analysis as dummy variables.

For most of our variables, there is no significant difference between sample firms and matched firms. As we can see from the table 5, the mean of operating return on assets is significantly different but median is same. Similarly, the independent percentage of sample firms tend to be a little bit higher, even though it is not very significant, however the median is statistically significant different. We pay more attention to median for our variables, because median is less affected by extreme values. For sample firms, their leverage and Women 1 are significantly different from matched firms in the same industry, which means that sample firms have more leverage and matched firms tend to have at least one women serving on board. We could also infer that these firms fired these bad guys because they tend to have more independent directors and one woman director. BHARs of sample firms are not significantly different from those of the matched firms. While some variables such as age of firm, research and development expenditure, Tobin's Q, total asset, market to book value, mean and standard deviation of directors' age are largely similar across the sample firms and matched firms in the same industry. As seen from table 5, matched firms are more profitable, indicating that the fired CEOs obviously did not pay as much attention to the operations of firm as other CEOs in the same industry. The sample firms are less likely to have the code of ethics in their annual reports, but the result is not significant here. Similarly, sample firms are tend to be more diversity, but it is not significant different from matched firms either. Since diversity information is only required to be mentioned mandatorily in annual report since 2010 by SEC, we attribute our insignificant results this dummy variable to insufficient observations during the sample period.

4.4 Logistical analysis

We run two logistical regressions in this part to further examine the association between sexual harassment of CEO and some firm characteristics. The dependent variable is a dummy variable and takes value of 1 for sample firms, 0 for matched firms. We construct 2 groups of matched firms: the first is that we matched firms in same industry on the same fiscal year. For the second matched group, we not only matched them by industry and year, but also controlled the firm size difference. To be more specific, we select the firm that is the closest to the sample firms in size in the same industry in the same fiscal year and further restrict the size of matched firms to be within 30% range difference of the sample firms. Using the data of the first matched firms, we run logistic regressions to see firms with which characteristics are more likely to have sexual harassment accused CEOs. The reason that we include leverage as a variable in our analysis is that we consider it as a measure of risk. As Griffin et al (2015) suggest that people who engage in unethical behaviour that also affects corporate ethics and corporate

culture, we hold the view that the firm with sexual accused CEO are more likely to engage in risky actions. We use the Market to Book to measure whether the firm is more successful and the profitability of firm is measured by ROE and ROA. The more the firm is successful and famous, the more power the accused CEO have in the firm. Similarly, we consider the firm size because if the accused CEO are in bigger firm, the perception of their power will be very high and they are more likely to lead to power abuse and involve in sexual harassment in the working place. In the second logistical regression, we also control for the effects of size in addition to the industry and fiscal year, to see whether the results changed. The regression equation we employ for our two analysis is shown below:

$$Dependent\ Variable = \alpha + \beta_1\ Firm\ Age + \beta_2\ leverage + \beta_3\ Firm\ Size + \beta_4\ MTB + \beta_5\ R\&D + \beta_6\ ROA$$

For the variable that results are significant, we conclude that the firms with such characteristic are more likely to have these incidences. For the results are not statistically significant, then we can conclude that there are no significant difference between our sample firms and matched firms in such aspects, therefore it is hard to regard this variable as one of common characteristics of our samples.

The results of using the first matched group are demonstrated in table 6. Since we only have very few sample firms, but thousands of matched firms, rare logistical analysis is conducted in this part. The firm age, leverage, size, MTB, R&D are include in both 2 regressions and the only difference is that we use Return on Equity (ROE) in our first model and Operating Return on Assets(OROA) in the second one. Therefore, the observation number for the first regression is 12480 whereas the second regression have 14047 observation. The difference is because some firms' equity can be negative, while the total assets can never be negative. We put more stress on return on assets than return on equity, because returns on assets is not influenced by the leverage, that is why the only difference is that leverage is not significant in the first regression but significant in the second regression with ROA, as the ROE is already influenced by leverage.

It can be seen from Table 6 that the size and market to book value have statistically significant positive relation with the occurrence of sexual harassment, along with a 95% confidence interval. We may attribute this to the fact that the media reporting favors to the more successful and bigger firms. Moreover, victims who work for bigger firms may be more confident to attract sufficient public attention. The significant results of ROE, ROA, and leverage indicate

that firms with more growth opportunities and less profitability are more likely to engaging in sexual misdeeds. This may also indicate that firms whose CEOs engage in this behaviour are not performing as well as they should. The age of firm is proved to have no significant relation with the sexual harassment incidence.

Using the second matched firms, we conduct the simple logistic regression analysis and the results are demonstrated in Table 7. Since the matched group used here are closest in size of sample group, the firm age and other characteristics are similar with the sample firms. Consistent with the results of our first matched group, the parameters of independent percentage and woman percentage of director serving on board are positive and statistically significant in both the univariate analysis and the logistical analysis. This could be the explanation why firms had no choice but to fire the accused CEO, and make public statements. Thus, we come into conclusion that firms with more independent directors and female directors tend to not tolerate this kind of behaviour, and reveal the accused CEOs to public eventually.

The result of market–to-book value is significantly positive in table 6, but after controlling the firm size, the value of sample firms are not doing really well. Similarly, the free cash flow has negative relation with this incidence in all models. As a consequence, we can conclude that sample firms are less likely to have free cash flows and growth opportunities according to the results of relative variables in most of our models. Therefore, these CEOs in the sample firms do not seem to be considered as really better CEOs compared to other CEOs of similar size firms in the same industry since the firms do not have really good future prospects.

4.5 Regression analysis

We investigate the influence of the sexual harassment of top management on the long-term performance of the firm by regression analysis**.** Since most of firm in our sample fired the accused CEO, this analysis aims to check whether the departure of CEO affect the firm's long-term performance. Here the measurements of operating performance are ROA and Market to Book value (MTB). We incorporate the performance before and after the event year of both sample and matched firms, and discuss whether the layoff of the accused CEO will have influence on the long-term performance of the firm by comparing the performance of sample firms and matched firms before and after the event respectively.

In this part, we use the performance data 3 years before the event year and 3 years after the event year of sample firms. Pre is a dummy variable that is set as value of 1 for 3 years before the event, otherwise zero; Sample is also a dummy variable here, taking value of 1 for sample

and value of 0 for matched firms. Pre*sample, is the interaction of these 2 dummy variables aforementioned, and equal to 1 only when it represents the sample firms and at the same time represent performance 3 years before the event, otherwise equal to 0. Pre*Sample is the most worth-noticing variable in this analysis:

If the results is not significant, it means that the CEOs in our sample do not have better performance before the event, and they are doing as well as matched firms before the event. If it is statistically significant positive, it means that sample firms have better performance before event compared with matched firms before the event. The formula is shown as follow:

$$ROA = \beta_1 Pre + \beta_2 Pre*sample + \beta_3 Sample + \beta_4 Abnormal\ Capital\ Expenditure + \beta_5 Asset\ Growth\ Rate + \beta_5 Leverage + Constant$$

As we can see from Table 8, the results of Pre*Sample as well as Pre and Sample are not significant, indicating that these firms are operate as well as matched firms before the event and after the event. The results of Abnormal Capital expenditure, Leverage, Free cash flow, and Size are not significant in our analysis either. Only asset growth rate shows statistically significant positive impact on firm's performance.

Similarly, we run the regressions again but substitute ROA with Market to Book ratio as our dependent variable. The results are shown in Table 9.

In terms of profitability, the results in 2 regression shows that sample firms are not doing much better than the matched firms since these results are closely parallel with those in Table 8. Comparing the performance 3 years before or after the event, we can conclude that the dismissals of accused CEOs have no significant influence on firm performance, and they are not doing significantly better or worse than other CEOs in the same industry. However, Asset growth rate is significantly different in two regressions, since the ROA has positively relationship with growth on assets, indicating that our matching process works really well, even we matched them in size, but their performance is not damaged by firing the sexual harasser. Overall, we can conclude that the layoff of the misconduct CEO are correct decisions made by the Board of directors.

It does not seem that they are having performance issues after the event as well.

4.6 The consequences in the labor market

What happen to the CEOs, directors and employee in the involved firm after the event? We also tracked CEOs' and directors' consequences 2 years following the event date and check the

change of number of employees in 3 years. For CEOs and founders involved, we investigate whether they become the CEO of another firm in 2 years by checking their career profile. And for directors who made the fired decisions at that time, what happened to the number of their directorship in other firms in 2 years and whether more firms are willing to hire them as directors. We compared the number of their board ship in other firms on the event year and 2 years after to see whether they were affected by their decisions. Further, we also compared the number of employees of the involved firms 3 years before and after the event.

The results presented in the Table 10 indicate that majority of the accused CEO or founder left the firm and they were not hired by another firm as CEO in at least 2 years. However, for the very few of them who found new job, and their new employers tend not to be publicly trade firms. Only nine CEOs get hired by another firms as CEO, but only 2 of their new employer are public firms, so we cannot say anything because of the very limited observations. For the details of the nine CEOs and their new job, please find them in the Appendix II

We also compare the number of directorships of directors who fired the accused CEO, and results are shown in Table 11. For those 20 companies whose information of directors are available in BoardEx, we have checked the directorship of 148 directors on event year and 2 years after. Their average directorship after 2 years decreased from 2.77 to 2.45, but the difference of mean and median are not significant according to table 11, indicating that the director do not suffer from the punishment in labour market.

As shown in Table 12, we checked the influence on employee by comparing the change in the number of employee and the employee growth rate of sample firms and matched firms before and after the event. The panel a and b show that the sample firms employee number has an increase in 2 years following the event, whereas the number of employees of matched firm in the same industry declined during the same period. However, the results shown in panel c indicate that the difference of employee growth rate between sample firm and matched firms is not statistically significant. So the number of employee in sample firms was not affected by the sexual harassment event. As the consequence, we can conclude that the only the CEOs suffered from the consequence in labour market, the directors and employees in our sample were not affected by the sexual harassment CEOs.

5. Conclusions and Contributions

Theoretically, we hypothesized that this incident will affect the firms negatively, in terms of direct costs and indirect costs. Direct costs include the fees related to lawsuit such as lawyer's

fee, the settlement payment the recruitment of CEO and the expense on the internal investigation. The indirect cost can be the loss of reputation, decrease of job satisfaction and productivity of employees and the value loss of shareholders. However, the results of our event study indicate that firms were not affected as our thought. When the sexual harassment of CEO was reported, the stock market reacted positively to this information in a short period, and the abnormal return became negative in one month. It shows that the shareholder did not pay enough attention to these incidences.

Our results of event study are negative but not significant, which was not our expectation. We anticipated that the market would reacted negatively to this downside information both in short and long period and leaded to a loss of shareholders' value. For those unexpected results in stock market, we infer that since most of the firms immediately fired the CEO, it shows to market that the firm was taking care of the problem or the board indeed take their responsibility to monitor. So the negative effects of the reputation can be offset by the benefits of getting rid of the bad person. Or maybe the market thinks that the sexual harassment has no direct influence on the firm's performance or lead to the firm-level misbehaviour such as fraud or earning manipulations. As we can see from regression analysis, the firm does as well as the other firms in the same industry after firing the CEO.

Most of the accused CEO and founder on our sample were fired by the board of directors quickly and these firms are prove to have more independent directors and female directors in their board composition according to the results of both our univariate analysis and logistical analysis. Furthermore, these firms are less profitable and have less growth opportunities but larger and more successful and than other firms in the same industry. However, this may attribute to the media reporting preference for well-known firms since the news will attract more attention and hits.

The firms are not affected by the dismissal of accused CEOs in long-term perspective by comparing their performance with firms in the same industry and the CEOs are not talented enough to make people neglect their misconduct in private life. We can also come into same conclusion from the BHAR results in univariate analysis, as the difference of buy-and-hold abnormal returns between sample firms and firms in the same industry is not significant. It seems that it does not hurt these firms by firing these people and the decision of board is proved to be not problematic. For most of the accused CEO in our sample, they were fired by the firm and were less likely to obtain a same position in other firms, and even those who are hired, their employers are private firms. As for the directors, they also did not receive significant

negative impact from this incidence, since the median of their other directorship remain same in 2 years. The number of employee was proved not be influenced by the sexual misdeed of top executives either. In brief, the sexual harassment will only affect the accused CEO's career, but does not have influence on firm value and long-term performance as well as director career and the number of employee.

The contribution of our paper is that we are the first paper to concentrate on one particular personal misconduct, sexual harassment, of top management and checked their firms related characteristics and long-term impact of this event on firm performance. Cline et al. (2015) find that the misconduct have negative influence on the firm, and it would be better that firms enter in to non disclosure agreements with the victims rather than firing accused CEOs. On the contrary, we find that these events have no significant firm-level influence, therefore posing the question that since there is no significant impact on firm, why most of firm are reluctant to make this information public. It seems that the firm have more incentives to fire the CEO and make public announcement instead of NDA. Moreover, we are the first paper examine the consequence in labour market of the sexual harassment. According to our results, it seems that only CEO suffer from the consequences in labour market, the director career and employee number are not affected. Event thought, our sample does not include the incidences in the MeToo Movement, we convince that our paper can have impact on firms behaviours on sexual harassment allegations. Moreover, based on our conclusions, we suggest Securities and Exchange Commission of US make a rule that firms should disclose the number of the NDA about the sexual harassment allegations to their top managers and the details about the related settlement, because it is the right of the shareholder to know this information.

For future research: most of the dismissals of CEOs are accompanied with the considerable severance, which call in to a question: since the bad person was paid the severance, is the severance payment in this case is the right thing to do? In addition, for the sexual harassment events in our sample, we can further investigate lawsuit, rumour and dismissal separately. Lastly, more victims have the courage to speak out with the spread of MeToo Movement, and our results will be changed accordingly since our sample period ends by December 2016.

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Appendices

Appendix I Definition of variables

Variables	Description
Return on Equity (ROE)	Measured as earnings before interest, tax, depreciation, and amortization divided by the book value of shareholder equity.
Firm age	The number of years since the firm's inception
Operating Return on assets (OROA)	Return before interest, tax, depreciation, and amortization (or net income) divided by total assets.
Research and Development (R&D)	The research and development expenditure of firms on event year
Tobin's q	Market value of firm divided by book value of firm.
Leverage	The book value of long-term debt divided by the book value of total assets.
Firm size	The natural log of the book value of total assets.
MTB	Market to book value
BHAR	Buy and hold return 3 years after the event both for sample firms and matched firms
Independent %	The fraction of independent directors serving on the board divided by board size
Women %	The number of female directors divided by the total board number
Mean Age	Average and standard deviation of age of all the directors on the event year
Std Age	Standard deviation of age of all the directors on the event year
Codes of ethics	Dummy variable equal to 1, if mentioned in the annual reports of firms; if not, equal to 0
diversity	Dummy variable equal to 1, if mentioned in the annual reports of firms; if not, equal to 0
sexual harassment	Dummy variable equal to 1, if mentioned in the annual reports of firms; if not, equal to 0
Asset Growth Rate	The percentage change of asset

Free Cash Flow	The amount of cash flow from operations available for distribution after depreciation expenses, taxes, working capital, and investments are paid
W1	One female director serving on board
W2	Two female directors serving on board
W0	No female director serving on board

Appendix II

Details for 9 accused CEOs who were hired as CEO by another firm in 2 years after event.

	Old Job			**New Job**		
Person	**Name**	**Size**	**Tobin's Q**	**Name**	**Size**	**Tobin's Q**
David Paratore,	American Superconductor	158.92	2.14	The NanoSteel Company	N/A	N/A
David J. Edmondson	Radioshack	2205.10	2.02	E-Recycling Corps	N/A	N/A
Brian T. Keane	Keane	807.29	1.24	Dextrys	N/A	N/A
Mark V. Hurd	Hewlett-Packard	112233.80	1.62	Oracle Corporation	113436.8	2.34
Edwin Lewis	Mossimo	10.74	12.10	Magnolia Bluff, Inc	N/A	N/A
Robert McCormick	Savvis Communications	406.25	2.34	Avatara LLC	N/A	N/A
JP Bolduc	W.R. Grace & Co	6230.6	1.34	JPB Enterprises Inc.		
Jeff Papows	Lotus	N/A	N/A	Maptuit Corporation	N/A	N/A
Phaneesh Murthy	Infosys	364.89	23.94	IGATE	242.111	1.27
	Average	**15302.20**	**5.84**	**Average**	**56839.46**	**1.81**

Table 1. Distribution of Firms by Fama French 12 Industries

This table demonstrate the sample distribution by industries and the number of percentage of each industry are both shown.

Fama French Industries	Number of Firms	%
Business Equipment	11	28.21%
Chemical	4	10.26%
Durable Consumer	1	2.56%
Energy	1	2.56%
Health	2	5.13%
Manufacturing	4	10.26%
Non-durable Consumer	5	12.82%
Others	5	12.82%
Shops	3	7.69%
Telecom	3	7.69%

Table 2. Frequency of each year from 1994 to 2016

This table shows the number percentage of event happened in each year during our sample period.

Year	Frequency	Percent
1994	2	6.06
1995	3	9.09
1997	1	3.03
1998	1	3.03
1999	3	9.09
2000	1	3.03
2002	3	9.09
2003	1	3.03
2004	1	3.03
2005	3	9.09
2006	5	15.15
2007	2	6.06
2010	1	3.03
2013	1	3.03

2014	2	6.06
2015	1	3.03
2016	2	6.06

Table 3 Correlation Matrix for Firm Characteristics and Corporate Governance Variables

Correlations. We report correlation coefficients for each variable including the firm basic characteristics, firm governance characteristics and three dummy variables we created to check firm ethical culture. Code of ethics, diversity, and sexual harassment are three set of key words that we searched in firms' annual report before the event date, and they take values of 1 if we can find them in annual report, otherwise 0. W0, w1, w2 represent the number of female directors serving on board, and w0 for no female director, w1 and w2 stands for one and two female directors respectively. Women % and independent % stand for the percentage of independent and female directors serving on board. P-Values are reported in brackets below each correlation coefficient.

	Book to Market	Abnormal Capital Expenditure	Asset Growth Rate	Leverage	Free cash flow	Total Asset	Age	Std Age	Mean age	Code of ethics	Diversity	Sexual Harassment	w0	w1	w2
Abnormal Capital Expenditure	0.11														
Asset Growth Rate	0.08	0.08													
Leverage	-0.15	0.06	0.24												
Free cash flow	0.16	0.20	-0.03	0.01											
Total Asset	-0.09	-0.03	0.05	0.16	0.428*										
Age	-0.03	-0.14	-0.16	-0.17	0.19	0.16									
Stdage	0.06	-0.11	0.19	-0.02	-0.18	-0.06	-0.15								

Mean age	-0.05	-0.25	-0.08	-0.11	0.19	0.270*	0.461**	-0.08								
Code of ethics	-0.10	0.02	-0.06	0.01	0.294*	0.366**	0.03	-0.08	0.371**							
Diversity	-0.14	0.07	0.278*	0.02	0.08	-0.09	0.17	-0.01	-0.02	0.16						
Sexual Harassment	-0.06	-0.02	-0.10	-0.03	0.07	0.11	-0.04	-0.15	0.11	-0.03						
w0	-0.13	0.04	0.05	0.24	-0.20	-0.483**	-0.307*	0.11	-0.26	-0.314*	-0.13	-0.09				
w1	0.306*	0.01	-0.16	-0.22	0.23	-0.04	0.15	-0.02	0.08	0.14	0.05	-0.11	-0.509**			
w2	-0.17	-0.02	0.01	-0.04	0.20	0.447**	0.316*	-0.11	0.17	0.09	0.12	0.24	-0.348**	-0.442**		
Women %	0.06	0.02	0.10	-0.22	-0.15	0.340*	0.13	-0.12	0.18	0.23	0.15	0.119	-0.779**	0.02	0.401**	
Independent %	-0.01	-0.313*	0.04	-0.07	-0.06	0.18	0.12	-0.13	0.25	0.00	0.08	0.15	-0.25	0.04	0.19	

Table 4. Event Study

Averaged cumulative abnormal return for sample firms around the event dates.

This table present the averaged cumulative abnormal return (CAAR) for sample firms over 7 different event windows surrounding the event dates, along with the results of Patell test, Time-Series Standard Deviation Test and Cowan Generalized Sign Test. The abnormal returns for involved firms are obtained using the standard event study with expected return based on a market model.

Days	N	CAAR	Negative	Patell Z	(CDA) t	Generalized Sign Z
(-30,-3)	33	0.57%	17:16	0.271	0.163	0.502
(-30,+30)	33	-2.01%	14:19	0.13	-0.393	-0.544
(-2,+2)	33	1.63%	16:17	0.469	1.109	0.153
(-2,+5)	33	2.11%	19:14	1.258	1.135	1.199
(-2,+10)	33	0.58%	17:16	0.114	0.244	0.502
(+3,+30)	33	-4.21%	16:17	-0.351	-1.211	0.153

Table 5 Difference of Mean and Median Test between Sample Firms and Matched Firms

We compared the difference of some firm characteristics between sample firms and matched firms, and most of variables used here are same as those in the Table 3 and we add the financial leverage ratio and Buy and hold abnormal return to represent firms risk attitudes and their long term performance. Operating Return on Asset and Tobin's Q suggest the firm's profitability and successful level. Firm age represent the number of years since the firm's inception. The results of mean and median are both provided in the table and the significance test results of T test and P-values are reported in brackets besides the difference respectively. The matched firms are firms in the same industry and in same fiscal year as sample firms and we also limit their size to be within 30% range difference of the sample firms. See appendix for variable definitions.

	Mean					Median			
	Matched	Sample	Difference	T-Stat	p-value	Matched	Sample	Difference	P-value
Firm Age	19.41	21.57	2.16	0.56	0.58	10.00	18.00	8.00	0.63
OROA	0.15	0.05	-0.10	-1.78	0.08	0.10	0.09	-0.01	0.22
RD	0.02	0.03	0.00	0.25	0.81	0.00	0.00	0.00	0.62
Tobin's Q	2.53	2.76	0.24	0.41	0.68	2.23	1.86	-0.36	0.45
Leverage	0.08	0.22	0.15	3.33	0.00	0.00	0.18	0.18	0.00
Size	6.55	7.12	0.57	1.04	0.30	5.17	6.69	1.52	0.34
MTB	2.83	2.24	-0.58	-0.12	0.90	3.52	3.46	-0.06	0.48
BHAR	-0.22	0.06	0.28	1.23	0.23	-0.25	-0.20	0.05	0.58
Age	56.30	54.41	-1.89	-0.84	0.41	57.00	53.00	-4.00	0.44
Women 0	0.27	0.33	0.07	0.54	0.59	0.00	0.00	0.00	0.59
Women 1	0.50	0.26	-0.24	-1.90	0.06	0.50	0.00	-0.50	0.07
Women 2	0.20	0.26	0.06	0.52	0.60	0.00	0.00	0.00	0.61

Independent (%)	0.70	0.76	0.06	1.63	0.11	0.73	0.80	0.07	0.07
Women (%)	0.11	0.14	0.03	1.09	0.28	0.11	0.17	0.06	0.40
Mean Age	58.45	57.20	-1.25	-0.94	0.35	58.16	58.06	-0.10	0.61
STD. Age	8.27	9.28	1.01	1.12	0.27	7.86	8.69	0.83	0.40
Code of ethics	0.69	0.54	-0.15	-1.14	0.26	1.00	1.00	0.00	0.26
Diversity	0.03	0.04	0.00	0.08	0.94	0.00	0.00	0.00	0.96
Sexual Harassment	0.00	0.04	0.04	1.00	0.33	0.00	0.00	0.00	0.31

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6 Association between Sexual Harassment and Firm

Table 6 present the results of rare logistical regression analysis for the firm's common characteristics. The dependent variable is a dummy variable and takes value of one for sample firms; otherwise zero. The matched firms are firms in the same industry and same fiscal year as our sample firms. We use ROE in model1 and change to ROA in model 2, therefore the observations are slightly different. See appendix for variable definitions.

Variables	(1) sample	(2) sample
Firm age	0.016	0.014
	(0.011)	(0.011)
Leverage	0.660	0.454***
	(1.058)	(0.001)
Size	0.281***	0.293***
	(0.091)	(0.073)
MTB	0.029***	0.024***
	(0.000)	(0.000)
R&D	-7.467	-7.457*
	(4.727)	(4.424)
Return on Equity	-0.039***	
	(0.000)	
Return on Assets		-0.239***
		(0.001)
Constant	-7.765***	-7.670***
	(0.684)	(0.598)
Observations	12,483	14,047

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 7 Association between Sexual harassment and Firm

We further examine the common characteristics of sample firm by conducting another logistical analysis and by using a different match group. The matched firm are those not only in the same industry and in same fiscal year but also are closest in size of sample group, which same as the matched firms used in the univariate analysis. The dependent variable is a dummy variable and takes the value of 1 for sample firms and takes the value of 0 for matched firms. We incorporate some key characteristics, board composition information and 3 dummy variables that we used in table 3 representing the firm ethical culture. See appendix for variable definitions.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Abnormal Capital Expenditure	0.455	0.858	0.027	0.358	0.466	0.327	0.345	0.383
	(0.506)	(0.761)	(0.816)	(0.529)	(0.609)	(0.545)	(0.485)	(0.497)
Asset Growth Rate	-0.696	-1.727*	-2.382**	-1.361	-1.625*	-1.225	-0.645	-0.854
	(0.803)	(1.022)	(1.202)	(0.936)	(0.934)	(1.017)	(0.792)	(0.844)
Book to Market	-2.597**	-4.395**	-4.248***	-3.446**	-3.651**	-3.493**	-2.963**	-2.584**
	(1.183)	(1.929)	(1.646)	(1.427)	(1.476)	(1.434)	(1.293)	(1.157)
Free Cash flow	-33.199***	-47.435**	-44.894***	-38.230***	-44.062***	-38.456***	-34.607***	-34.202***
	(12.515)	(18.533)	(16.672)	(14.777)	(16.303)	(14.608)	(12.408)	(13.090)
Size	0.027	-0.013	-0.144					
	(0.164)	(0.214)	(0.226)					
Mean Age		-0.219	-0.276*	-0.137	-0.204	-0.145		
		(0.160)	(0.164)	(0.129)	(0.138)	(0.131)		

Std. Age		0.256	0.252	0.209	0.312*	0.177		
		(0.208)	(0.190)	(0.165)	(0.186)	(0.165)		
Independent %		9.645**						
		(4.669)						
Women %			14.191*					
			(7.641)					
Women 1				-0.857				
				(0.878)				
Women 2					2.073*			
					(1.156)			
Code of Ethics							-0.917	
							(0.978)	
Diversity								1.031
								(1.766)
Constant	3.011	8.494	18.228	10.607	13.199	11.100	4.132**	3.212**
	(2.064)	(10.838)	(11.098)	(8.666)	(9.013)	(8.883)	(1.776)	(1.378)
Observations	49	48	48	48	48	48	47	47
ll	-20.56	-15.46	-16.56	-18.51	-17.13	-19.01	-19.02	-19.31

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8 Regression Analysis of Influence of Sexual Harassment on Firm Long-Term Performance

We use the OLS regression analysis to test the influence of sexual harassment event on firm's long-term performance. The long-term performance is measured by ROA in our four models. Pre and Sample are dummy variables and take value of one for data before the event day and for sample firms, otherwise 0. Pre*Sample is the interaction of Pre and Sample and it takes value of one for the sample firm before event day, otherwise 0. See appendix for variable definitions.

Variables	(1) Return on Assets	(2) Return on Assets	(3) Return on Assets	(4) Return on Assets
Pre	0.000	0.002	-0.004	-0.003
	(0.032)	(0.034)	(0.032)	(0.032)
Pre*Sample	-0.093	-0.070	-0.076	-0.053
	(0.106)	(0.098)	(0.097)	(0.085)
Sample	-0.030	-0.049	-0.035	-0.052
	(0.038)	(0.036)	(0.034)	(0.035)
Abnormal Capital Expenditure	0.033	0.032	0.028	
	(0.045)	(0.044)	(0.043)	
Asset Growth Rate	0.135**	0.141*	0.123**	0.149*
	(0.067)	(0.082)	(0.059)	(0.083)
Leverage (Market)	0.097			
	(0.144)			
Free Cash flow	0.057	0.012	0.057	0.020
	(0.113)	(0.120)	(0.102)	(0.115)
Size		0.024		0.023
		(0.018)		(0.017)
Constant	0.107**	-0.057	0.127***	-0.051
	(0.044)	(0.140)	(0.032)	(0.133)
Observations	229	234	234	238

Adjusted R-squared	0.020	0.040	0.019	0.040

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 9 Regression Analysis of Influence of Sexual Harassment on Firm Long-Term Performance

We substitute the Market to Book value for the ROA as our measurement of long-term performance and keep other variables same. See appendix for variable definitions.

Variables	(1) Market to Book	(2) Market to Book	(3) Market to Book	(4) Market to Book
pre	2.892**	2.506	2.788*	2.264
	(1.462)	(1.719)	(1.644)	(1.826)
Pre*Sample	5.068	4.775	5.237	4.855
	(7.880)	(7.945)	(8.391)	(7.822)
Sample	3.604	4.829*	3.651	4.747*
	(2.600)	(2.689)	(2.428)	(2.696)
Abnormal Capital Expenditure	1.913	1.581	1.860	
	(1.887)	(1.732)	(1.758)	
Asset Growth Rate	-4.355**	-5.557	-4.568*	-5.388
	(2.125)	(3.396)	(2.757)	(3.263)
Leverage	3.007			
	(11.124)			
Free Cash Flow	14.970***	17.153***	15.090***	17.244***
	(1.310)	(2.236)	(1.367)	(2.329)
Size		-1.221		-1.257
		(0.886)		(0.891)
Constant	-1.799	8.221	-1.208	8.616
	(1.926)	(6.687)	(1.716)	(6.767)
Observations	227	227	227	230
Adjusted R-squared	0.033	0.044	0.037	0.047

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 10 The Consequence of CEOs

We check whether the accused CEOs were fired by the firm because of this event and whether they were hired by other firms as CEO in 2 years.

CEO Consequences After Being Reported		
Not Fired	Fired	
5	42	
	Stay Unemployed	As CEO in other firm in 2 years
	33	9

Table 11 The Influence on the Directors

We compare the directors' number of directorship in other firms on the event year to the number of directorship after 2 years and conduct mean and median differences test. The results of T test and P-value are also provided.

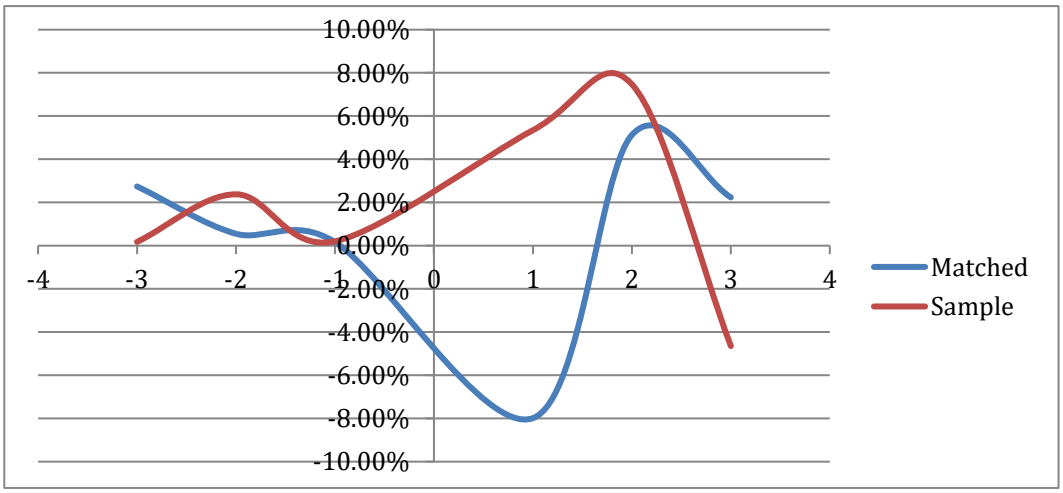
	Mean					Median			
	Before	After	Difference	T-stat	p-value	Before	After	Difference	p-value
Board Membership	2.77	2.45	-0.32	1.46	0.15	2.00	2.00	0.00	0.13

Table 12 Impacts on Employees

The influence of CEO's sexual harassment on the number of employee is shown in three panels. We compare the number of employees of our sample firms 3 years before and after the event year with those numbers of firms in the same industry during same period. The panel a provide the mean change of each year in number of employees for both matched firm and sample firm from 3 years before and 3 years after the event year. Panel b show the median change of number of Employees of matched firm and sample firm during the same period. The graph of the mean and median changes are also provided below each panel. Panel c suggest the comparison of change in employee growth rate between matched firms and sample firms. We conduct mean and median difference test to see whether the employee number of sample firms are significantly different from the numbers of firm in the same industry and the results of T test and P value are provided besides of the difference.

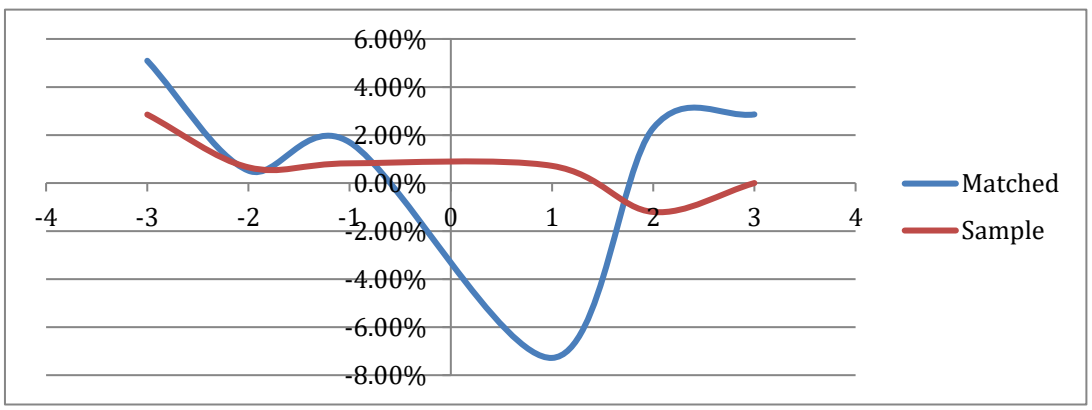
Panel a Mean Change in Number of Employees

Year	Matched	Sample
-3	2.74%	0.17%
-2	0.55%	2.38%
-1	0.16%	0.20%
1	-7.99%	5.35%
2	5.12%	7.47%
3	2.24%	-4.65%



Panel b Median Change in Number of Employees

Year	Matched	Sample
-3	5.09%	2.85%
-2	0.52%	0.65%
-1	1.69%	0.82%
1	-7.28%	0.72%
2	2.29%	-1.21%
3	2.86%	0.00%



Panel c Mean and Median Comparison of Change in Employee Growth Rate

	Mean					Median			
	Matched	Sample	Difference	t-stat	p-value	Matched	Sample	Difference	p-value
Pre Event	0.97%	1.02%	0.05%	0.01	0.99	2.42%	1.33%	-1.09%	0.76
Post Event	-0.73%	1.47%	2.20%	0.60	0.55	-1.43%	0.76%	2.19%	0.29