Hoa Briscoe-Tran is a 5th-year PhD student in Finance at Ohio State. He is on the 2022-2023 job market. His research interests are corporate finance, sustainable finance (ESG), and the applications of machine learning in economics.

Abstract:

**Diversity and Inclusion, Operating Flexibility, and Financial Policies**

Investors have long pushed companies to improve diversity and inclusion (D&I), but this push has recently moved beyond the board level to the broader workforce level. By 2021, the largest U.S. investors, such as Black Rock and State Street, have “all called on companies to disclose their workforce demographic information”. While such a push for D&I may be “the right thing to do” from a social justice perspective (Ignatius (2020)), it raises the question of whether and how D&I affects a firm’s operations. On the one hand, D&I represents an extra constraint on a firm, such as more communication frictions (Lang (1986), Roberson (2019)) and more complex workforce considerations, making the firm’s operations less flexible.

On the other hand, D&I could help a firm become more flexible in its operations because a diverse workforce could provide a firm with a larger supply of information, skills, and perspectives to help the firm adapt better to economic shocks. Overall, it is an empirical question whether D&I firms have more or less operating flexibility, i.e., the ability to adjust and adapt to economic shocks (Barry et al. (2021)).

To address this question, I extrapolate a diversity and inclusion rating introduced in 2020 back to 2008 for over 10,000 companies using a breakthrough language model from Google. With this extrapolated rating, I show that diverse and inclusive firms (D&I firms) have lower operating flexibility than other firms, especially following adverse economic shocks. With less operating flexibility, D&I firms likely hold more cash and use less debt in case of unexpected shocks, a finding I confirm empirically in various tests, including a quasi-natural experiment. The results suggest that D&I firms have less operating flexibility and thus adopt more conservative financial policies.

This paper has important implications. First, it suggests that diversity and inclusion (D&I)
considerations have a large economic impact on corporate financial policies. Second, the paper creates a novel measure of D&I that is consistent across firms over many years, allowing future research to examine other important questions regarding the topic, such as whether D&I affects firm value and risk or if D&I is simply a luxury only financially unconstrained corporations can afford. The D&I measure could also help address other important questions about the effect of policy interventions or public outrages like the George Floyd event on workforce diversity and inclusion.

Thomas DeBerge
deberge2@illinois.edu
University of Illinois at Urbana-Champaign

Abstract:

The politics of location and property rights: MNE investment behavior in politically competitive environments

This study seeks to determine the relative efficacy of property rights mechanisms inherent at different manifestations of political competitiveness in an investment location. Extant literature related to both the effects of political uncertainty on investment behavior and the effectiveness of nonmarket strategies as a function of the political environment raises countervailing dynamics regarding the value of differential political competition for the protection of firm property rights from adverse policy changes. I provide theory to generate main effect and moderating hypotheses and test them using a panel dataset of 1,271 MNEs making 7,327 foreign direct investments in the United States, using the variation in political competitiveness across subnational political units (i.e., states) to compare the level of investment capital intensity of comparable investments in different states. I find that investments in more politically competitive locations and locations with divided governments are less capital intensive, corroborating the hypothesis that uncertainty around policy making and property rights is greater in polarized locations, but that this tendency is positively moderated when firms are more actively engaged in political activities.

Ndackyssa Oyima-Antseleve
nxo160430@utdallas.edu
University of Texas at Dallas

Abstract:

Cyber Risk Expectations and Corporate Liquidity

Using a novel dataset on data breaches, I examine the effects of expectations of a data breach on a firm's cash holdings. I find evidence that the probability of a breach significantly and positively influences a firm's cash holdings. Moreover, I find evidence that a firm's cash holdings are influenced not only by the probability of a breach but also by the severity of a breach.