Report from the Research Frontier: October 2019

New findings: Hidden costs to sea level rise; promoting women increases profits; and analysts' negative impact

Every month, researchers publish dozens of articles on business sustainability. NBS highlights insights at the frontier of knowledge. See all monthly highlights.

Sea Level Rise Has Hidden Costs for Business

If your business is near the ocean, you're probably already thinking about ways to adapt to sea level rise. Here's another concern: municipalities exposed to climate risk pay more for bonds to finance new infrastructure.

"If towns or counties find it too expensive to build a road or parking garage, they may halt projects," said researcher Marcus Painter.

"Businesses can find their supply chain or even employee access interrupted."

Painter studied U.S. municipal bond offerings from 2004 to 2017. He found that a one per cent increase in climate risk for a county is associated with an average increase in cost of $1.7 million for long-term maturity bonds, for the average county.

Painter's advice for businesses: Factor in the potential for reduced productivity due to poorly-financed local infrastructure. "This additional risk may more than offset the potential benefits of investing in a project located in an area with high climate risk."

Painter, M. 2019. An inconvenient cost: The effects of climate change on municipal bonds. ***Journal of Financial Economics***.

Promoting Women Increases Profits in Emerging Economies

A 10 per cent increase in the percentage of senior women managers is associated with a 1 – 1.5 per cent increase in Return on Assets, according to a new study of firms in South Korea.

"There's a large productivity effect from the hiring and promotion of female managers," explained researchers Jordan Siegel, Lynn Pyun, and B.Y. Cheon. Women increase productivity because they manage in a more consultative way than men and also generate more fresh ideas.

Yet, women are often excluded from management in developing – and developed –

countries. In South Korea, the vast majority of domestic companies do not have a single female manager. Firms that hire women gain a real competitive advantage.

The researchers' findings are based on surveys of companies' demographic and human resources practices from 2006-2008 and interviews with male and female managers.

Article: Siegel, J.I., Pyun, L., & Cheon, B.Y. 2019. Multinational firms, labor market discrimination, and the capture of competitive advantage by exploiting the social divide. ***Administrative Science Quarterly***, 64(3), 370-397.

Analysts Are Bad for Corporate Social Performance

We all know it: Markets drive short-term thinking. Financial analysts are an important player in this dynamic. Research shows that firm corporate social performance (CSP) significantly improves when analyst coverage decreases.

Researchers Cuili Qian, Louise Lu, and Yangxin Yu studied the effect of brokerage mergers and closers that reduced firm coverage by analysts. In a study of U.S. publicly listed firms during 2001-2013, they found that less coverage led to higher firm CSP over the next two years.

When analysts set quarterly earning goals for firms, managers may feel "that socially responsible investments with a long-term horizon cannot contribute to hitting short-term performance targets," the researchers write.

But despite analyst pressure, managers should still try to pursue both short- and long-term goals, researcher Cuili Qian told NBS. "Financial analysts themselves are seeing CSR more positively," said Qian. And "research does find that there are value creation elements in firms' engagement in CSR in the long run."

Qian, C., Lu, L.Y.,, & Yu, Y. 2019. Financial analyst coverage and corporate social performance: Evidence from natural experiments. ***Strategic Management Journal***.