Original Article

LGBT-supportive corporate policies and firm performance: An analysis in the Brazilian context

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ABSTRACT

This study examines the effect of LGBT+ (lesbian, gay, bisexual, transgender and other) diversity management on the performance of Brazilian listed companies. Empirical evidence on the impact of these LGBT-supportive corporate policies on firm performance is still scarce, and previous research has focused exclusively on the US context. The LGBT+ community is an emerging part of corporate culture, demanding attention from organizations and driving the adoption of LGBT-friendly practices. This groundbreaking study examines the impact of LGBT-supportive corporate policies on the performance of Brazilian firms, providing evidence that socio-cultural environmental variables should be included in econometric models due to differences in the acceptance of LGBT+ people across societies. Using the generalized method of moments (GMM), data from 2014 to 2022 are analyzed for 81 companies belonging to the Brazil 100 Index (IBrX-100). The results suggest that there is no relationship between LGBT-supportive corporate policies and firm performance in the Brazilian context. From the perspective of signaling theory, these results suggest that Brazilian companies are unable to reduce the information asymmetry that exists with their stakeholders regarding their LGBT-friendly practices and, consequently, there is no clear distinction between organizations with high and low commitment to LGBT-supportive corporate policies. To conduct the study, the Brazil LGBT+ Index was created to serve as a proxy for the level of commitment of Brazilian companies in managing the diversity of sexual minorities. The results of the study are useful for investors in their investment decision-making process and for LGBT+ people in their consumption and employment choices.

Keywords: LGBT+, diversity management, firm performance, signaling theory, GMM.

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Gestão da diversidade LGBT+ e desempenho empresarial: uma análise no contexto brasileiro

RESUMO

Este estudo investigou o efeito da gestão da diversidade LGBT+ (lésbicas, gays, bissexuais, transgênero e mais) no desempenho de companhias brasileiras de capital aberto. As evidências empíricas a respeito dos efeitos da gestão da diversidade LGBT+ no desempenho empresarial ainda são escassas e focadas exclusivamente no contexto americano. A comunidade LGBT+ é parte emergente da cultura corporativa, demandando atenção das organizações e impulsionando a adoção de práticas LGBT-friendly. A pesquisa investigou, de modo pioneiro, os efeitos da gestão da diversidade LGBT+ no desempenho de empresas brasileiras, trazendo indícios de que variáveis pertinentes ao ambiente sociocultural devem ser incluídas nos modelos econométricos em função da distinção na aceitação dos indivíduos LGBT+ entre as diferentes sociedades. Por meio do método dos momentos generalizados (generalized method of moments [GMM]), analisaram-se dados do período de 2014 a 2022 de 81 companhias pertencentes ao Índice Brasil 100 (IBrX-100). Os resultados sugerem que não existe relação entre a gestão da diversidade LGBT+ e o desempenho empresarial no contexto brasileiro. Sob a perspectiva da Teoria da Sinalização, esses resultados indicam que as companhias brasileiras não conseguem reduzir a assimetria de informação que existe com seus stakeholders a respeito de suas práticas LGBT-friendly e, consequentemente, não há distinção nítida entre as organizações com alto e baixo engajamento na gestão da diversidade LGBT+. Para viabilizar a realização do estudo, foi construído o Índice LGBT+ Brasil para servir de proxy do nível de engajamento corporativo brasileiro no gerenciamento da diversidade de minorias sexuais. Os achados do estudo se mostram úteis aos investidores no processo de decisão de investimento e aos indivíduos LGBT+ nas escolhas de consumo e emprego.

Palavras-chave: *LGBT+, gestão da diversidade, desempenho, Teoria da Sinalização, GMM.*

1. INTRODUCTION

In recent decades, the lesbian, gay, bisexual, transgender, and other gender identities and sexualities (LGBT+) community has gained increased visibility and support around the world, especially due to significant changes in laws and public opinion regarding non-hegemonic sexualities (Byington et al., 2021). In Brazil, the LGBT+ issue has also gained ground in social and political discussions, leading to legal advances in defense of the rights of these individuals, such as the recognition of stable homosexual unions and the criminalization of LGBTphobia. Despite these advances, Brazil has staggering data on violence and ranks as the country with the highest number of crimes against sexual minorities in the world (Grupo Gay Bahia [GGB], 2024).

In addition to physical violence, the Brazilian LGBT+ community has also faced various attempts to make it invisible, as between 2019 and 2022, more than 120 bills were presented with the aim of restricting the rights of sexual minorities (Casa Um, 2022). Among these bills, Bill 504/2020, passed in the state of São Paulo, was the one that received the most media attention, as it provoked expressions of rejection from social movements, civil society organizations and, above all, the business sector, and was shelved due to the negative repercussions of the proposal (Exame, 2021). The participation and mobilization of the business sector in this discussion reinforced how business organizations have a fundamental role to play in raising society's awareness of concrete advances in LGBT+ rights (Instituto Ethos, 2021).

Corporate action to defend the rights of sexual minorities has increased significantly, and policies targeting LGBT+ stakeholders have become an integral part of corporate diversity programs (Hossain et al., 2020). As a result of this increased corporate attention, there is a need to understand how these practices affect firm performance (Wang & Schwarz, 2010). However, to date, evidence on the impact of these policies on firm performance is scarce and inconclusive (Chintrakarn et al., 2020; Patel & Feng, 2021).

In addition to the divergent economic and financial results, the literature faces a major limitation in terms of the context of analysis, as the relationship between LGBT-supportive corporate policies and firm performance has been studied exclusively in the institutional and socio-cultural environment of the United States of America (USA) (Brahma et al., 2023). For this reason, researchers have emphasized the need to study this relationship in other countries due to the great social, cultural and progress differences in the discussion of LGBT+ rights (Brahma et al., 2023; Hossain et al., 2020; Nadarajah et al., 2022).

Given this situation, investigating the impact of LGBT-supportive corporate policies on the performance of Brazilian companies is a great research opportunity. In

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addition to adding to the literature, it is relevant because Brazil has significant differences from the US scenario, especially with regard to the capital market, the emergence of diversity management, and being one of the most violent countries in the world for LGBT+ people. With this in mind, this study investigated the following question:

- What is the impact of LGBT-supportive corporate policies on the performance of Brazilian listed companies?

To achieve this goal, data from 2014 to 2022 from 81 companies listed on the Brazil 100 Index (IBrX-100) of the Brasil, Bolsa, Balcão (B3) stock exchange were analyzed. The theoretical framework used was signaling theory, which allows the institutional and socio-cultural context to be included in the interpretation of the results. Due to problems of heteroskedasticity, autocorrelation and endogeneity, the econometric technique chosen was the system generalized method of moments (GMM-Sys), and the proxies used for firm performance were return on assets (ROA) and Tobin's Q. In terms of LGBT-supportive corporate policies, Brazilian firms' commitment to this issue was measured using an index constructed by the authors of this study. Econometric estimations were carried out in four versions, including the introduction of instrumental variables.

The results suggest that there is no relationship between LGBT-supportive corporate policies and the short- and long-term performance of Brazilian listed companies. From the perspective of signaling theory, three potential reasons for the results were identified: a) inefficient signaling on the part of the companies; b) the lack of a tangible source of information on LGBT+ issues for stakeholders; and c) the lack of a clear distinction between companies with high and low levels of commitment to LGBT-supportive corporate policies.

This research contributes to the literature by constructing the Brazil LGBT+ Index and innovates by investigating the relationship between LGBT-supportive corporate policies and firm performance in the Brazilian context. For investors, the main contribution is to provide data that can help them make investment decisions. For Brazilian companies, the fruits of this research will serve to stimulate internal discussions about engagement with LGBT+ issues. Finally, for the LGBT+ community, the study provides information that can help in making decisions about consumption and employment between companies that are most and least committed to the issue, as well as calling for the adoption and implementation of LGBT-friendly practices.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 LGBT-Supportive Corporate Policies and Firm Performance

Discussions about diversity and minority groups gained prominence in the 1960s, when socio-political movements in the USA and Canada won the enactment of legislation to guarantee equal opportunities for all people in education and employment. Affirmative action was first introduced to combat racial discrimination and was later extended to other minority groups. As a result of these legal changes, the business sector came up with diversity management (Fleury, 2000), which is a set of corporate actions implemented with the aim of managing diversity and obtaining positive results from it (Yang & Konrad, 2011). Initially, diversity management focused on labor relations and its goal was to attract and retain the most talented employees from minority groups (Fleury, 2000). Over time, diversity management has evolved and modern organizations aim to connect with a broader and more diverse set of stakeholders (Yang & Konrad, 2011).

A growing, active and significant stakeholder group is the LGBT+ community, which has become an emerging part of corporate cultures and has encouraged the adoption of LGBT-friendly practices (Fatmy et al., 2022; Johnston & Malina, 2008). As a result, more companies are adopting LGBT-supportive corporate policies and making public commitments to this community (Pichler et al., 2018). Studies have shown that various stakeholders are aware of corporate diversity practices and can reward or penalize organizations that promote these initiatives (Cunningham & Melton, 2014).

A significant body of literature has found evidence that LGBT-supportive corporate policies can generate benefits for companies, particularly in terms of human resources, reputation and firm value (Chintrakarn et al., 2020). For employees, the adoption of LGBT-friendly practices signals an inclusive and tolerant work environment (Hossain et al., 2020), leading to greater satisfaction, commitment and productivity (Badgett et al., 2013). These policies to protect and include LGBT+ individuals in the workforce enable organizations to satisfy a more diverse range of consumers (Johnston & Malina, 2008), thereby increasing their customer base (Badgett et al., 2013). As a result, investors may increase the price of a company's

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stock it they believe that the company will benefit from adopting these practices (Wang & Schwarz, 2010).

Following this line of reasoning, several studies have shown that when the adoption of LGBT-supportive corporate policies does not conflict with stakeholder expectations and values, these initiatives are expected to have a positive relationship with firm performance (Fatmy et al., 2022). For example, a positive relationship has been documented between LGBT-supportive corporate policies and various performance measures such as stock price (Li & Nagar, 2013; Shan et al., 2017; Wang & Schwarz, 2010), productivity (Pichler et al., 2018; Shan et al., 2017), profitability (Fatmy et al., 2022; Jiraporn et al., 2019) and market value (Jiraporn et al., 2019; Shan et al., 2017). Previous studies have also provided evidence of the relationship between LGBT-supportive corporate policies and other variables that may indirectly affect organizational performance, such as credit ratings (Chintrakarn et al., 2020) and innovation (Hossain et al., 2020).

On the other hand, although corporate action in LGBT-supportive corporate policies may strengthen relations with certain stakeholders, the company's positioning may deteriorate relations with groups with divergent social values and generate negative effects (Bhagwat et al., 2020; Fatmy et al., 2022). From the perspective of opponents, employees, consumers or investors who are opposed to the LGBT+ community may refuse to work with employees who belong to this minority, avoid consuming products and avoid investing in LGBT-friendly companies, which would have negative effects on the productivity, profitability and stock price of these companies (Wang & Schwarz, 2010).

From this perspective, a firm's association with LGBT-supportive corporate policies could be detrimental. To the best of our knowledge, the only study to find a negative relationship between LGBT-supportive corporate policies and an aspect of organizational performance was that of Pichler et al. (2018). The authors found that when LGBT-supportive corporate policies were implemented, firms that did not engage in research and development experienced a decrease in profitability. In addition, the study found inconclusive results regarding the relationship between firm value and LGBT-friendly practices (Pichler et al., 2018). Johnston and Malina (2008) also found mixed results, finding that the stocks of companies with better LGBT-friendly practices experienced positive abnormal returns on the day of the announcement of this corporate commitment, but that the net effect was not significant in the three-day window.

Thus, the effects of LGBT-supportive corporate policies on firm performance can be considered inconclusive, as positive, neutral and negative results have been found (Patel & Feng, 2021). However, the evidence is limited to the US context. Therefore, there is a major limitation in the literature as there is no evidence of this relationship in other countries and institutional and socio-cultural contexts. In this regard, the analysis of this relationship in the Brazilian context becomes relevant because Brazil has its own specificities in relation to the USA.

The first difference relates to the capital market, as empirical evidence has shown that the Brazilian market is characterized by a high concentration of ownership and control of companies in the hands of large shareholders and agency conflicts between majority and minority shareholders (Crisóstomo & Pinheiro, 2015; Dalmácio et al., 2013). In the opposite direction, the US capital market is characterized by companies with diffuse ownership, a more active market and agency conflicts between managers and shareholders (Crisóstomo & Pinheiro, 2015). Due to its characteristics and solid corporate governance, the US market does not face the problems inherent in the Brazilian context of low quality legal enforcement and weak protection of minority shareholders (Dalmácio et al., 2013).

Another difference between the two countries concerns the emergence of diversity management. According to Fleury (2000), the issue of diversity appeared on the Brazilian agenda in subsidiaries of US multinationals and as a result of pressure from parent companies, rather than as a result of legislation as in the US case. Thus, when diversity management was imported into Brazil, it was adapted to the ideologies of the country, distancing itself from the original assumptions that underpinned its emergence (Alves & Galeão-Silva, 2004). For example, Sales and Miranda (2018) found that companies adapt diversity initiatives from international headquarters to Brazilian cultural standards due to the machismo, conservatism and prejudice present in Brazilian society, which prevents the implementation and realization of some LGBT-supportive corporate policies.

In fact, these socio-cultural characteristics are inextricably linked to the third point that makes Brazil a pertinent environment for analysis, which is the high rate of violent deaths of people belonging to sexual minorities. According to data from non-governmental organizations (NGOs) that denounce violence against the LGBT+ community, Brazil is the country with the highest number of murders of sexual minorities (GGB, 2024) and, for 14 consecutive years, the society that kills

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the most trans people (transgender, transvestites and transsexuals) in the world (Brito, 2023).

Given these differences in the characteristics of the two countries, it is pertinent to understand whether the relationship between LGBT-supportive corporate policies and firm performance found in studies conducted in the US context has the same direction and magnitude in a market with such different characteristics as Brazil.

2.2 Development of the Research Hypotheses

Although the literature has mostly reported a positive relationship between LGBT-supportive corporate policies and firm performance, the effects of LGBT-friendly practices are weaker or absent in conservative locations (Fatmy et al., 2022). Thus, it is difficult to pre-define the sign that should be used in the research hypothesis, given: a) the possibility of opposite effects of LGBT-supportive corporate policies on firm performance; b) the unique context of Brazil; and c) the lack of empirical evidence on this topic in the country. Therefore, following research that has pioneered the study of the effects of these practices in foreign companies (Johnston & Malina, 2008; Wang & Schwarz, 2010), it was decided to formulate competing research hypotheses.

The theoretical framework was based on signaling theory (Spence, 1973), which has been widely used to explain the response of firm stakeholders to the disclosure of corporate information (Bergh et al., 2010). According to this theory, managers have information about the organization's business that is not publicly available and deliberately decide to communicate and disseminate some information to their employees, consumers, investors and the market in general. In turn, stakeholders interpret and react to the information based on their personal beliefs and values and provide feedback to the organization regarding the disclosed initiative (Connelly et al., 2011).

In contemporary societies, one of these potential pieces of information is the company's commitment to LGBT-supportive corporate policies. For example, by adopting practices that defend and protect the rights of sexual minorities, the company intends to signal to its stakeholders what types of behaviors are acceptable and expected by the organization (Webster et al., 2018). Therefore, it can be argued that if stakeholders interpret LGBT-supportive corporate policies as valuable, corporate actions in this area can be expected to have a positive relationship with firm performance (Fatmy et al., 2022). Based on this perspective, the first research hypothesis was formulated:

H1a: LGBT-supportive corporate policies have a significant and positive relationship with firm performance.

On the other hand, if LGBT-supportive corporate policies are not aligned with the expectations and values of key stakeholders, the adoption of these practices may increase the perceived risk of the company due to the uncertainty that possible retaliation, boycotts and shutdowns would bring to the organization (Bhagwat et al., 2020). Therefore, firms' engagement with this issue could be detrimental and a negative impact on performance would be expected. From this perspective, the competing research hypothesis was formulated:

H1b: LGBT-supportive corporate policies have a significant and negative relationship with firm performance.

3. METHODOLOGY

3.1 Population and Sample

The population of this research consists of the publicly traded companies that made up the IBrX-100 portfolios between May and December 2022 (99 companies), selected because they represent the most tradable and representative assets in the Brazilian stock market. After excluding outlier observations, companies in the financial sector and those that did not have the necessary data, the final sample consisted of an unbalanced panel of 81 companies and 591 observations. The time limit corresponds to the period from 2014 to 2022, which was chosen because the starting year corresponds to the year in which the first companies joined the Brazilian organization

Fórum de Empresas e Direitos LGBTI+, one of the main corporate practices analyzed in the Brazil LGBT+ Index.

3.2 Independent Variable of Interest: Brazil LGBT+ Index

Given the lack of entities and rankings that evaluate and publish ratings for Brazilian companies based on their LGBT-friendly practices, the authors of this study created an index to measure Brazilian companies' commitment to LGBT-supportive corporate policies. The Brazil LGBT+ Index was developed based on international systems and was calculated from a set of seven binary and objective questions, which had different weights depending on the

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relevance of the corporate policy being assessed. Each positive answer added points to the index, and the final score for each company ranged from 0 (minimum) to 100 points (maximum). Table 1 lists the LGBT-supportive corporate policies included in the index and their respective weights.

To obtain information to identify the examined practices in the sample companies, public information available in sustainability reports, on company websites, on the Brazilian Securities and Exchange Commission (CVM) website, and from other secondary sources were consulted. The scores obtained for each organization are shown in Table 2.

3.3 Dependent and Control Variables

Table 3 details the operationalization of the variables used in the study. In terms of the dependent variable, two proxies were used to measure firm performance. Short-term firm performance corresponds to return on assets (ROA), as it is an accounting measure of the organization's performance in a given year (Jiraporn et al., 2019). Long-term firm performance was measured by the logarithm of Tobin's Q, as this measure reflects how the market values the firm in terms of current and expected performance (Jiraporn et al., 2019). The simplified Tobin's Q of Chung and Pruitt (1994) was chosen, as it is easy to calculate without a significant loss in the informative power of the measure.

Regarding the control variables, variables related to the characteristics and corporate governance of the organizations were selected based on the literature. The age variable was included because older firms tend to be more conservative and less likely to adopt LGBT-friendly policies (Li & Nagar, 2013). Size and leverage were selected because larger companies attract more public attention and more leveraged organizations are subject to greater influence from creditors, factors that may increase pressure to implement diversity practices (Nadarajah et al., 2022). BCW was included because there is evidence that companies that are leaders in human resource practices tend to attract and retain high quality employees, thereby differentiating themselves from their competitors (Wang & Schwarz, 2010).

Regarding the variables related to the board of directors (BoD), previous studies argue that independence is positively associated with the adoption of diversity practices (Hossain et al., 2020), while the effects of BoD size are mixed (positive or negative) (Muttakin et al., 2018). On the other hand, the variable female participation in the board was included because the literature shows a positive relationship between this representation and the implementation of LGBT-supportive corporate policies (Everly & Schwarz, 2015).

In addition, dummies were included for the years analyzed in order to minimize the fixed effects of time. This time control is necessary because in certain years there is a generalized acceleration (deceleration), i.e. the improvement (deterioration) of the result is not due to the specific practices implemented by the companies in that year (Wang & Schwarz, 2010).

3.4 Econometric Model and Analysis Technique

Based on the previous studies, the following econometric models were developed to test the hypotheses of this study:

$$ROA_{i,t} = \alpha_{it} + \beta_1 LGBT_{i,t} + \Sigma\beta_n Controls_{i,t} + Year_t + u_i + \varepsilon_{i,t} \qquad \boxed{1}$$

$$TobinQ_{i,t} = \alpha_{i,t} + \beta_1 LGBT_{i,t} + \beta_2 ROA_{i,t} + \Sigma\beta_n Controls_{i,t} + Year_t + u_i + \varepsilon_{i,t} \qquad \boxed{2}$$

where the subscript i denotes the different firms and the subscript t denotes the year under analysis (with t ranging from 2014 to 2022). The term u_i captures the time-invariant or unobservable characteristics of the companies, and ε_{it} represents the error term of the i-th company in the t-th period (year).

Given that the database used is a short, unbalanced panel, the analysis technique initially planned was panel regression. However, the Shapiro-Francia, Breusch-Pagan and Wooldridge tests revealed the presence of heteroskedasticity and autocorrelation, which could affect the validity and reliability of the results. In addition to meeting the basic assumptions, another concern in contemporary finance studies is the problem of regressor endogeneity, which can make estimators inconsistent and lead to inappropriate inferences (Barros et al., 2020). For this reason, studies in this area have paid attention to the potential endogeneity that may exist between

Table 1

LGBT-friendly corporate practices evaluated to create the Brazil LGBT+ Index

#	LGBT-friendly corporate practice	Weight
P1	Do the non-discrimination policies in the code of conduct explicitly include the term "sexual orientation(s)"?	15
P2	Do the non-discrimination policies in the code of conduct explicitly include the term "gender identity(ies)" or "gender expression(s)"?	15
P3	Does the company have an LGBT+ employee resource group (ERG)?	20
P4	Has the company signed a national or international agreement to promote equal treatment of LGBT+ people in the workplace?	30
P5	Has the company taken a public position in support of the LGBT+ community to combat LGBTphobia?	5
P6	Have the company's commitment to and activities in favor of LGBT+ inclusion been publicized by an independent media source (not affiliated with the company)?	5
P7	Has the company supported/sponsored an event or NGO aimed at the LGBT+ population?	10

Note: *Corporate practices selected from the Corporate Equality Index (USA) and Australian Workplace Equality Index (Australia) rankings.*
Source: *Prepared by the authors.*

Table 2

Score obtained by the companies in the Brazil LGBT+ Index

	Company	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	3R Petroleum	–	–	–	–	–	–	15	15	15
2	Alpargatas	0	0	0	0	0	0	15	15	20
3	Ambev	0	0	70	80	80	85	85	85	85
4	Ambipar	–	–	–	–	–	–	15	15	15
5	Americanas	15	15	15	15	15	15	15	20	20
6	Arezzo	15	15	15	15	15	25	15	25	15
7	Assaí	–	–	–	–	–	–	–	75	75
8	Atacadão	–	–	–	55	65	65	65	85	75
9	Azul	–	–	–	15	15	15	15	15	40
10	Bradespar	15	15	15	15	15	15	15	15	15
11	Braskem	0	0	35	55	70	70	85	85	85
12	BRF	0	15	15	15	15	20	20	20	20
13	CBA	–	–	–	–	–	–	–	50	55
14	CCR	0	15	15	15	15	15	15	20	15
15	Cemig	0	0	15	15	15	15	20	20	20
16	Cogna	0	0	30	30	30	30	35	85	90
17	Copel	15	30	30	30	30	30	30	30	30
18	Cosan	0	0	0	0	0	15	20	20	30
19	CPFL Energia	15	15	15	15	15	15	35	45	65
20	CSN	0	0	15	15	15	40	40	40	40
21	CSN Mineração	–	–	–	–	–	–	–	40	40
22	CVC	0	0	0	0	0	0	0	70	55
23	Cyrela	0	0	0	0	0	0	0	20	35
24	Dexco	0	0	0	0	15	15	30	30	35
25	Ecorodovias	15	15	15	15	15	15	65	70	70
26	Eletrobrás	15	15	25	15	15	35	30	35	30
27	Embraer	0	0	0	0	0	0	20	20	20
28	Enauta	0	15	15	15	15	15	15	15	15
29	Energias Br (EDP)	15	15	15	15	15	35	70	70	65

Table 2
Cont.

	Company	2014	2015	2016	2017	2018	2019	2020	2021	2022
30	Energisa	0	0	15	15	15	15	15	15	15
31	Eneva	15	15	15	15	15	15	30	35	35
32	Engie Brasil	0	0	0	0	0	0	0	5	5
33	Equatorial	0	0	0	0	0	15	15	15	30
34	Eztec	0	0	0	0	0	0	15	15	15
35	Fleury	30	30	30	30	30	30	50	80	85
36	Gerdau	15	15	15	15	15	40	85	75	85
37	Gol	15	15	15	15	15	15	20	50	50
38	Grupo Soma	–	–	–	–	–	–	5	20	20
39	Hapvida	–	–	–	–	0	0	0	75	70
40	Hypera	15	15	15	15	15	15	15	15	35
41	JBS	0	0	15	15	15	15	15	35	35
42	Klabin	15	15	15	15	20	40	40	70	70
43	Localiza	0	0	0	0	15	15	80	90	100
44	Locaweb	–	–	–	–	–	–	35	40	35
45	Lojas Marisa	15	15	15	15	15	15	15	15	15
46	Lojas Renner	0	0	0	0	15	15	55	65	50
47	M.Dias Branco	15	15	15	15	15	20	20	20	15
48	Magazine Luiza	15	20	15	20	20	20	15	20	45
49	Marfrig	15	15	15	15	15	15	15	15	15
50	Meliuz	–	–	–	–	–	–	20	15	15
51	Minerva	0	0	0	0	0	0	15	15	15
52	Movida	–	–	–	0	0	0	0	25	25
53	MRV	0	0	0	0	0	5	20	25	20
54	Natura	–	–	–	–	–	35	55	55	40
55	Pão de Açúcar	15	15	15	45	65	65	85	95	95
56	Petrobrás	0	0	0	0	5	30	15	15	15
57	Petrorio	15	15	15	15	15	15	15	15	15
58	Petz	–	–	–	–	–	–	15	15	15
59	Positivo	15	15	15	15	15	0	0	0	0
60	Qualicorp	15	15	15	15	15	15	15	35	30
61	Raia-Drogasil	0	0	0	0	15	15	15	45	75
62	Raízen	–	–	–	–	–	–	–	40	50
63	Rede D'or	–	–	–	–	–	–	15	20	20
64	Rumo	0	0	0	0	0	15	15	20	30
65	Sabesp	0	0	0	5	15	25	15	20	25
66	Santos BRP	0	0	0	0	0	30	30	30	30
67	São Martinho	0	0	0	0	0	0	0	15	15
68	SLC Agrícola	0	0	0	0	0	0	0	15	15
69	Suzano	15	15	15	20	40	70	70	85	75
70	Taesa	15	15	15	15	15	15	15	15	15
71	Telefônica	15	15	15	15	75	65	70	70	100
72	Tim	–	–	–	–	–	–	50	85	85
73	Totvs	15	15	15	15	15	15	30	50	60
74	Ultrapar	0	0	0	0	0	0	0	15	15
75	Usiminas	0	0	0	0	0	65	70	70	70

Table 2
Cont.

	Company	2014	2015	2016	2017	2018	2019	2020	2021	2022
76	Vale	15	15	20	20	20	15	50	55	55
77	Vamos	–	–	–	–	–	–	–	15	15
78	Via	15	15	15	65	65	70	70	70	85
79	Vibra	–	–	–	15	15	15	20	15	15
80	Weg	0	0	0	0	0	0	0	15	15
81	Yduqs	15	15	15	15	15	15	15	15	35

Note: *The "-" symbol means that the indicator was not calculated for a company in a given year because it was not yet listed in that year.*
Source: *Prepared by the authors.*

Table 3
Dependent and control variables used in the econometric model

Set of variables	Definition	Measurement	Data source	Previous studies
Firm performance	ROA	EBIT divided by total assets	Economática®	Fatmy et al. (2022) Pichler et al. (2018)
	Tobin's Q	Market value of shares plus book value of debt divided by total assets	Economática®	Fatmy et al. (2022) Pichler et al. (2018) Shan et al. (2017)
Firm characteristics	Age	Difference between founding year and analyzed year	Reference Forms	Li & Nagar (2013) Shan et al. (2017)
	Size	Ln of total assets	Economática®	Fatmy et al. (2022) Li & Nagar (2013) Shan et al. (2017)
	Leverage	Ln of total liabilities divided by total assets	Economática®	Fatmy et al. (2022) Shan et al. (2017)
	"Best Companies to Work For" (BCW)	Dummy variable equal to 1 for companies included in the Best Companies to Work For rankings and 0 otherwise	"The 150 Best Companies to Work For in Brazil" rankings from the *Great Place to Work* website (2014 to 2022) and *VOCÊ S/A* magazine (2014 to 2019)	Wang & Schwarz (2010)
Corporate governance	Board size	Number of board members	Reference Forms	Fatmy et al. (2022) Pichler et al. (2018)
	Independent board members	Ratio of independent board members to total number of board members	Reference Forms	Fatmy et al. (2022) Pichler et al. (2018)
	Female participation in the board	Ratio of female board members to total number of board members	Reference Forms	Everly & Schwarz (2015)

Note: *EBIT = Earnings before interest and taxes.*
Source: *Prepared by the authors.*

LGBT-supportive corporate policies and organizational outcomes (Fatmy et al., 2022; Shan et al., 2017).

Given these problems, the econometric technique adopted was the generalized method of moments (GMM), since it allows for endogeneity and the problems of heteroskedasticity and autocorrelation in panel data to be dealt with. Among the existing variants, the two-stage system GMM (GMM-Sys) approach was chosen because it is more consistent for unbalanced panels and more efficient for short-period samples (Roodman, 2009), which are characteristics of the database used in this work. In the operationalization of the test, the variables LGBT+ Index, size, leverage and ROA were treated as endogenous, while the variables age and the year dummies were treated as strictly exogenous. In addition, two instrumental variables were included as exogenous instruments, which are discussed in the next subsection.

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The estimations were performed using the xtabond2 routine in the STATA® software with the robust, collapse, orthogonal and small commands because of the advantages highlighted by Roodman (2009).

3.4 Instrumental Variables

In addition to the variables previously discussed, two additional exogenous instruments were included to address the potential endogeneity of the model, since omitted or unobserved variables may simultaneously affect firm performance and the implementation of LGBT-supportive corporate policies (Fatmy et al., 2022). It was decided to select instrumental variables that have already been discussed in the literature, adapting them to the Brazilian reality, since it is difficult to find variables that meet the basic requirements to be qualified as instruments (Barros et al., 2020).

The first instrumental variable selected was the percentage of LGBT+ individuals per state (Chintrakarn et al., 2020; Fatmy et al., 2022; Jiraporn et al., 2019), as it is assumed that companies based in states with a higher percentage of LGBT+ people are more likely to adopt

LGBT-friendly practices (Fatmy et al., 2022). This variable can be considered strictly exogenous to the model, as the distribution of the LGBT+ population in the area is beyond the control of companies and has no relationship with their outcomes. To construct the instrument, data from the National Health Survey on the self-identified sexual orientation of the adult population in Brazil, published by the Brazilian Institute of Geography and Statistics (IBGE) in 2022, were used.

The second instrumental variable is the political orientation of the state where the company is based, which was chosen based on the discussion of Nadarajah et al. (2022). Given that left-wing political parties are generally associated with the defense of sexual diversity and right-wing political parties are intrinsically linked to traditional values and conservatism (Ferreira, 2016), companies located in states with left-wing political leanings are expected to be more likely to adopt LGBT-friendly policies. In terms of exogeneity, political leanings are beyond the control of firms and are unlikely to be correlated with firm performance. To instrumentalize the variable, data from the 2022 Brazilian presidential election were used.

4. RESULTS

4.1 Descriptive Statistics

In terms of descriptive statistics, the data in Table 4 indicate that the sample used in this study is heterogeneous in terms of firm performance, characteristics, governance and commitment to LGBT-supportive policies.

The analysis of the Brazil LGBT+ Index showed that the evolution of Brazilian companies' commitment to LGBT-supportive corporate policies has been slow. In 2014, 54.2% of companies did not have any practices aimed at sexual minorities (score 0), a reality that changed slowly until 2021, when only one company still had no LGBT-friendly policy. In the first two years (2014 and 2015), the highest score obtained by a company was 30 points, while the maximum score (100 points) was only achieved in the last year analyzed (2022) and by only two companies. If we draw a parallel with the US context, we can see that Brazilian organizations are lagging behind, since some companies have achieved the maximum score in the Corporate Equality Index since its creation in 2002 (Johnston & Malina, 2008; Shan et al., 2017).

Despite this slow pace, it can be seen that the involvement of organizations in defending the rights of

sexual minorities is increasing, as the average index rose from 7.12 in 2014 to 39.21 in 2022. It is interesting to note that this growth has accelerated since 2019, the same year that the Federal Supreme Court (STF) criminalized homophobia and transphobia in Brazil. Therefore, this increased commitment from the business sector may be inextricably linked to the legal changes that have taken place in the country and the impact they have had on society's view of LGBT+ people.

With regard to firm characteristics, there is a large variance in terms of performance (Tobin's Q and ROA), age and leverage. In terms of governance, it can be concluded that the companies have relatively low independence, as the average found (40.54%) is much lower than that recorded in US studies, which indicate independence between 69% and 84% in the BoDs (Chintrakarn et al., 2020; Fatmy et al., 2022; Pichler et al., 2018). Another point highlighted is the low participation of women in BoDs, with an average of only 10.92% and a maximum of 50%. In this case, the data are compatible with the international studies by Everly and Schwarz (2015) and Nadarajah et al. (2022), which found female participation between 13% and 18% and low variability over the years.

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Table 4
Descriptive statistics of the variables in the econometric model

Variables	N. Obs.	Mean	Standard deviation	Minimum	Maximum
Variable of interest					
Brazil LGBT+ Index (LGBT+)	591	21.72	22.76	0	100
Firm performance					
ROA (%)	591	7.92	6.54	- 27.53	45.23
Tobin's Q (ln)	591	- 0.12	0.64	- 2.06	2.04
Firm characteristics					
Age (in years)	591	43.08	24.31	5	115
Size (ln)	591	16.74	1.27	12.84	20.71
Leverage (ln)	591	- 0.56	0.49	- 5.57	0.90
Corporate governance					
Board size	591	8.45	2.09	3	15
Board independence (%)	591	40.58	22.59	0	100
Female participation in the board (%)	591	10.94	10.88	0	50

Source: *Prepared by the authors.*

4.2 Results

The focus of this study is to analyze the effect of firms' commitment to LGBT-supportive corporate policies on the performance of Brazilian listed companies. To this end, econometric models were estimated using the two-stage system GMM technique in four different versions: a) a model without the inclusion of instrumental variables; b) a model with the inclusion of the instrumental variable percentage of LGBT+ people per state; c) a model with the inclusion of the instrumental variable political orientation of the state; and finally, d) a model with the inclusion of the two instrumental variables.

The initial diagnosis of the short-term model, using the Arrelano-Bond test and Hansen's J statistic, indicated that the dynamic version of the models would be more appropriate for analyzing the relationship between the variables, since the results showed autocorrelation between the error terms, suggesting that the static model does not capture relevant information about the relationship between performance and the regressors (Silveira et al., 2010). Therefore, the dynamic versions of equation 1 were estimated by including the first lag of the dependent variable ($ROA_{i,t-1}$) among the independent variables.

The results obtained for the dynamic model are presented in Table 5. The new data do not reject the null hypothesis of the Arrelano-Bond test (AR-2) at the 5% level and Hansen's J statistic at the 10% level. It can therefore be concluded that the four versions of the dynamic model are more consistent. This consistency is also confirmed by the estimates obtained for the lagged term of the dependent variable ($ROA_{i,t-1}$).

Despite the improvement in model consistency, there was no improvement in the significance of the independent variables. With regard to the results of the independent variable of interest, there was no statistical significance in any of the estimated dynamic versions, suggesting that corporate commitment to LGBT+ issues does not affect short-term firm performance. With regard to the values found for the LGBT+ variable, it should be emphasized that, although they are small, they could have a significant effect on firm performance, given that the Brazil LGBT+ Index ranges from 0 to 100, meaning that the impact on performance could be 100 times these values.

With respect to the model relating LGBT-supportive corporate policies to long-term firm performance (Tobin's Q), the Arrelano-Bond (AR-2) and Hansen's J tests failed to reject the null hypotheses, indicating that the static version is appropriate. Since the results of the static model were also not statistically significant for the variable of interest, it was decided to generate the dynamic model for comparison with the short-term model. In this case, the lag of the dependent variable ($TobinQ_{i,t-1}$) was included among the regressors. The results of the dynamic version are presented in Table 6.

The Arrelano-Bond test shows that there is no autocorrelation in the residuals at the 10% level, and the Hansen's J statistic shows that the null hypothesis of the test cannot be rejected, reinforcing the validity of the instruments used. These findings show that the four versions of the long-term model are consistent and the results are acceptable. With regard to the independent variable of interest, it is again noted that it is not statistically significant in any of the model versions (A, B, C and D).

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Table 5
Results of the dynamic short-term firm performance model (ROA)

Version	ROA (A)	ROA (B)	ROA (C)	ROA (D)
Variable	**Coefficient**	**Coefficient**	**Coefficient**	**Coefficient**
ROA (t-1)	0.4992*	0.5002*	0.4378**	0.4104**
Brazil LGBT+ Index	0.0171	0.0178	0.0136	0.0113
Age	-0.0070	-0.0069	-0.0075	-0.0057
Size	-1.6657	-1.6544	-1.7242	-0.9949
Leverage	-3.0083	-3.0609***	-1.9201	-2.1471
BCW	4.1592	3.8743	9.2568	7.1127
Board size	0.4341	0.4103	0.7084	0.3136
Board independence	0.0850	0.0868	0.0664	0.0794
Percentage of women in the board	-0.0825	-0.0771	-0.2232	-0.2098
Constant	23.8772	23.6699	26.5899	16.8842
Observations	497	497	497	497
Groups / Instruments	80 / 44	80 / 45	80 / 45	80 / 46
AR-2 (p-value)	-1.72 (0.086)	-1.74 (0.082)	-1.72 (0.085)	-1.75 (0.080)
Sargan test (p-value)	63.94 (0.000)	63.94 (0.000)	57.78 (0.001)	63.94 (0.000)
Hansen test (p-value)	31.96 (0.234)	31.97 (0.276)	31.74 (0.285)	33.69 (0.251)

Note: *, ** and *** denote statistical significance at 1%, 5% and 10%, respectively.
Version: (A) model without instrumental variables; (B) model with the instrumental variable percentage of LGBT+ people per state; (C) model with the instrumental variable political orientation of the state; and finally (D) model with both instrumental variables.
Source: Prepared by the authors.

Table 6
Results of the dynamic long-term firm performance model (Tobin's Q)

Version	Tobin's Q (A)	Tobin's Q (B)	Tobin's Q (C)	Tobin's Q (D)
Variable	**Coefficient**	**Coefficient**	**Coefficient**	**Coefficient**
Tobin's Q (t-1)	0.4835*	0.5186*	0.5052*	0.5203*
Brazil LGBT+ Index	-0.0016	-0.0018	-0.0018	-0.0019
Age	0.0018	0.0017	0.0017	0.0017
Size	-0.1918	-0.1876	-0.1784	-0.1852
Leverage	0.0845	0.1140	0.1241	0.1252
ROA	0.0178*	0.0177*	0.0178*	0.0177*
BCW	0.3549	0.3287	0.3301	0.3266
Board size	-0.0337	-0.0127	-0.0251	-0.0122
Board independence	-0.0097***	-0.0093***	-0.0105**	-0.0102**
Percentage of women in the board	-0.0021	-0.0051	-0.0048	-0.0055
Constant	3.6268	3.4695	3.4351	3.4483
Observations	497	497	497	497
Groups / Instruments	80 / 53	80 / 54	80 / 54	80 / 55
AR-2 (p-value)	-1.50 (0.134)	-1.18 (0.237)	-1.29 (0.198)	-1.15 (0.249)
Sargan test (p-value)	54.84 (0.018)	55.73 (0.019)	54.22 (0.026)	55.38 (0.027)
Hansen test (p-value)	35.51 (0.444)	36.51 (0.445)	35.79 (0.478)	36.53 (0.491)

Note: *, ** and *** denote statistical significance at 1%, 5% and 10%, respectively.
Version: (A) model without instrumental variables; (B) model with the instrumental variable percentage of LGBT+ people per state; (C) model with the instrumental variable political orientation of the state; and finally (D) model with both instrumental variables.
Source: Prepared by the authors.

In conclusion, the results of this research suggest that there is no relationship between firms' commitment to LGBT-supportive corporate policies and the short- and long-term performance of Brazilian listed companies. Consequently, there is no evidence to support the acceptance of either of the two research hypotheses established. These findings support Johnston and Malina's (2008) arguments that the relationship between LGBT-friendly practices and firm performance is, at worst, neutral.

4.3 Discussion

Based on the theoretical framework of signaling theory and the characteristics of the Brazilian environment, three possible reasons for the results found were identified. The first assumption relates to the degree of compliance with the information (signals) disclosed by firms. As Connelly et al. (2011) point out, for signaling to be effective, signals must be easily observable. If organizations adopt LGBT-friendly practices and do not widely publicize them, this information will not be accessible and, consequently, will not have the power to influence stakeholders' decisions.

However, it is important to remember that the signaling environment can create distortions in the dissemination and observance of information (Connelly et al., 2011). In the case of this study, the signaling environment examined is Brazil, the country with the highest rate of violent deaths of LGBT+ people in the world (GGB, 2024). Given this social context, it can be assumed that companies that do not have a clear and expressive position on the rights of LGBT+ people use mechanisms to avoid signaling the existence of corporate practices targeting these individuals, or do so in a limited way in order to avoid public retaliation or discomfort with stakeholders opposed to the issue.

The second factor that may have influenced the lack of association between companies' commitment to LGBT+ issues and firm performance is the availability of data. According to signaling theory, the signaling process will only be successful if stakeholders explore the environment in search of signals and know what kind of information to look for (Connelly et al., 2011). Thus, the key question is what information is available in the environment that stakeholders can use as a sign of a company's commitment to LGBT-supportive corporate policies.

Although there have been some recent initiatives to assess LGBT-friendly corporate policies, none of them publish company scores or ratings. Corporate sustainability reports could also be a source of this information. However, studies have shown that half of Brazilian companies do not disclose data on LGBT-supportive corporate policies, and a significant proportion do so in a superficial or inaccurate manner (Gordiano & Chaves, 2022). Thus, it can be concluded that there is no reliable source on Brazilian companies' commitment to LGBT+ issues, which leads to the conclusion that this lack of information makes it difficult for stakeholders to obtain important information for decision-making.

Taken together, the discreet or non-existent signaling by companies and the lack of sources of information on LGBT-supportive corporate policies lead to the third assumption for the results found: the absence of a separating balance between companies with high and low levels of commitment to LGBT+ issues. The theoretical framework emphasizes that signaling costs play a fundamental role in the process of differentiating between high and low quality signals, and that they must be inversely proportional to the quality of the signal senders (Spence, 1973). From this perspective, firms with low capacity to manage LGBT+ diversity should have higher costs of signaling commitment to this area compared to firms with experience in this area.

However, some LGBT-friendly policies require a low level of financial investment, such as the inclusion of sexual diversity in the code of ethics and the creation of LGBT+ employee resource group (Bhagwat et al., 2020). With this in mind, it is reasonable to assume that certain practices are being adopted because of their ease of implementation and the low cost, and do not represent an effective commitment to the LGBT+ community. As a result, these practices may be signaled in the same way by organizations of different qualities, resulting in stakeholders being unable to distinguish between companies and failing to discriminate between organizations with high and low levels of commitment to LGBT+ issues.

A counterpoint that could arise is that costs should be viewed broadly and not restrictively in financial terms (Spence, 1973). From this perspective, the fact that companies adopt LGBT-friendly policies could increase the risk of being the target of retaliation by groups opposed to the rights of sexual minorities, such as consumer boycotts (Bhagwat et al., 2020). While this is a likely way to achieve the separating balance, the companies that would be targeted for retaliation are likely to be only the large ones and those with media visibility, as their activities attract more attention. As a result, companies with identical commitments to LGBT-supportive corporate policies could be misclassified into different commitment categories.

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In light of the above, it can be concluded that Brazilian listed companies are unable to reduce the information asymmetry that exists with their stakeholders regarding their LGBT-supportive corporate policy programs, which prevents this action from being taken into account in the decision-making processes of those interested in the organization.

5. CONCLUDING REMARKS

The objective of this study was to investigate the impact of LGBT-supportive corporate policies on the performance of Brazilian listed companies. Data from 81 companies listed on the IBrX-100 were analyzed, focusing on the period from 2014 to 2022. The results suggest that there is no relationship between corporate action on LGBT+ issues and firm performance. It is assumed that these results are a consequence of the failure of companies to signal their LGBT+ diversity practices to the market and the lack of data sources on corporate performance in this area. These inefficiencies prevent a clear distinction between organizations with high and low levels of commitment to LGBT-supportive corporate policies, which affects stakeholder decision-making.

The main contribution of this research was the construction of the Brazil LGBT+ Index, which measures the commitment of Brazilian companies to LGBT-supportive corporate policies. The data showed that the commitment of Brazilian companies is incipient and has grown slowly. Considering that many practices are easy to implement, it can be concluded that the corporate sector can still do a lot to defend and realize the rights of sexual minorities in Brazil. This index has practical implications for the literature, as it can be used in future research on LGBT+ issues in Brazilian organizations.

The results of the study also contribute to the literature by pioneering the investigation of the relationship between LGBT-supportive corporate policies and firm performance in Brazil. The empirical evidence found suggests that variables related to the institutional and socio-cultural environment should be included in performance prediction models, as the LGBT+ issue is still controversial in society and there are differences in the acceptance of individuals from this minority in different countries.

In addition to the literature, the results of this study can be useful to investors, companies and the LGBT+ community. For investors, the constructed index can serve as an analytical factor in investment decisions, allowing those who value and support corporate social responsibility practices to distinguish between companies with high and low commitment to LGBT+ issues. For companies, the results could spark internal discussions about their commitment to LGBT-supportive corporate policies. For the LGBT+ community, the developed index provides information that can inform consumer decisions and potential choices of employer. And it allows LGBT+ rights organizations and groups to develop strategies to demand the implementation of LGBT-friendly practices by the corporate sector.

As for the limitations of this study, the main ones are related to the sample, the measurement of corporate commitment to the LGBT+ issue, and the complexity of the relationship between the study variables. The sample can be identified as a limitation due to its size and the fact that it was not probabilistic. With regard to the measurement of corporate commitment to LGBT+ issues, the limitations are related to the choice of practices assessed and the effectiveness of these policies in companies, as they were carried out based on the availability of public data. The relevance of this limitation should be highlighted, as signaling theory reinforces that signaling must be easily observable by stakeholders in order to be effective, i.e. this data limitation could explain the results of the study. Finally, there may be intermediate variables and moderating mechanisms that were not identified and analyzed due to the multifaceted nature of the diversity field. In other words, the phenomenon studied may be influenced by variables that were not included in this research.

These limitations can inform future research. New studies could use different and larger samples, measure corporate commitment to LGBT+ issues in different ways, and examine new contexts and countries. Regardless of the study's approach, the literature would benefit from insights into the relationship between LGBT-supportive corporate policies and business outcomes in countries other than the USA.

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