*Research Article*

# LGBT Workplace Equality Policy and Customer Satisfaction: The Roles of Marketing Capability and Demand Instability

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## Abstract

A lesbian, gay, bisexual, and transgender workplace equality policy (LGBT-WEP) helps signal and reinforce the organizational commitment to workplace equality and diversity. Prior evidence suggests that LGBT-WEP is viewed favorably by stakeholders (customers, employees, and channel partners) and influences firm performance. Drawing on stakeholder theory and the resource-based view of the firm, the authors examine whether LGBT-WEP influences customer satisfaction through marketing capability and whether demand instability dampens these associations. To alleviate endogeneity concerns of LGBT-WEP, they exploit the plausibly exogenous state-to-state variations in workplace equality policies determined by statewide laws on non-discrimination based on sexual orientation. Empirical results indicate that LGBT-WEP positively influences customer satisfaction both directly and through enhanced marketing capability. Demand instability, however, dampens these associations. Additional analyses with alternate measures of key variables, alternate distributional assumption, and alternate model specifications yield consistent results.

## Keywords

workplace equality policy, LGBT, marketing capability, demand instability, customer satisfaction

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In most Western societies, there is increasing support for the lesbian, gay, bisexual, and transgender (LGBT) rights (Badgett et al. 2013; Hein et al. 2016). In the United States, though the legislative strides were made during the Obama administration, the controversy surrounding LGBT rights took center stage under the Trump administration (Zugelder and Champagne 2018). As of 2019, only 21 U.S. states, the District of Columbia, and two territories (Guam and Puerto Rico) provided anti-discrimination protections to LGBT employees (Miller 2019). Although Section 1981 of the Civil Rights Act of 1866 gives citizens the rights to "make and enforce contracts" and to enjoy "all benefits, privileges, terms, and conditions of the contractual relationship" (Harris, Henderson, and Williams 2005, p. 164), employees filed 89,385 discrimination related charges in 2015 (Equal Employment Opportunity Commission 2016). Only in 2015 did the Equal Employment Opportunity Commission rule that Title VII of the Civil Rights Act of 1964 prohibits employment and workplace discrimination based on sexual orientation (Dean 2015). Not content waiting for federal or state mandates, many corporations were proactive in providing LGBT employees with equality protection (Oakenfull 2013; Shan, Fu, and Zheng 2017). Initiatives of LGBT workplace

equality policy (LGBT-WEP) include extending benefits to domestic partners of same-sex couples and prohibiting discrimination based on sexual orientation, among others (Oakenfull 2013).

Beyond the important moral, social, and ethical imperatives of protecting the rights of sexual minorities (Bennett et al. 2016; Pechmann et al. 2011), recent studies have found support for economic gains from LGBT-WEP adopted in a firm, in that such policy improves recruitment and selection (Pichler et al. 2018; Stavrou and Ierodiakonou 2018), firm performance (Pichler et al. 2018; Shan, Fu, and Zheng 2017), innovation (Hossain et al. 2019), and credit ratings (Jiraporn, Potosky, and Lee 2019). While advocacy for LGBT rights should be a moral and ethical imperative for all firms, from a marketing perspective the "business case" for this policy is not necessarily clear (Pichler et al. 2018; Shan, Fu, and Zheng 2017).

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On the one hand, LGBT-WEP might improve a firm's image, develop and sustain a positive work culture, improve employee retention and human capital, and help leverage relational capital within and outside the firm with customers and channel partners. Furthermore, LGBT-WEP may improve returns to intangible assets, enhance brand equity, strengthen culture, and revitalize and accentuate stakeholder relations, resulting in net economic benefits. More importantly, LGBT-WEP signals that a firm is willing to provide a more open and inclusive working environment to develop its human capital and organizational capabilities to improve customer satisfaction.

On the other hand, because marketing is a stakeholder-facing function, if the customer or the employee base of a firm is less socially progressive, LGBT-related policies may yield negative results because the cost of supporting diversity policies may outweigh its benefits (Day and Greene 2008; Kaplan 2006; Wettstein and Baur 2016). The agency view in the LGBT-WEP states that, although such an initiative may help managers be perceived as more politically correct, it may increase costs of impression management and posturing without necessarily yielding economic benefits (Jiraporn, Potosky, and Lee 2019).[1] Some critics also suggest that supporting gay rights petitions "costs firms nothing" (*The Economist* 2019), and therefore, skeptics may consider it posturing. Related research in the corporate social responsibility (CSR) space has also consistently demonstrated that while CSR has private benefits to managers, it may not lead to economic value creation (Blasi, Caporin, and Fontini 2018).

Strong social and political interest in LGBT-WEP, coupled with mixed expectations of economic gains, presents an interesting duality for the effect of LGBT-WEP on firm performance. We draw on stakeholder theory (Donaldson and Preston 1995; Laczniak and Murphy 2012) and the resource-based view of the firm (Srivastava, Fahey, and Christensen 2001) to develop our conceptual framework. Our conceptual framework focuses on the mediating role of marketing capability between LGBT-WEP and customer satisfaction, contingent on demand instability. LGBT-WEP could help leverage both internal and external relational assets to strengthen marketing capability (e.g., Dutta, Narasimhan, and Rajiv 1999; Morgan, Slotegraaf, and Vorhies 2009; Narasimhan, Rajiv, and Dutta 2006). Marketing capability refers to the "superiority in identifying customers' needs and in understanding the factors that influence consumer choice behavior" (Dutta, Narasimhan and Rajiv 1999, page 550), and demand instability in an industry refers to the unpredictability of customer preferences (Grewal and Tansuhaj 2001). Furthermore, LGBT-WEP could help firms improve internal marketing resources that lead to higher customer satisfaction and better performance (Vorhies and
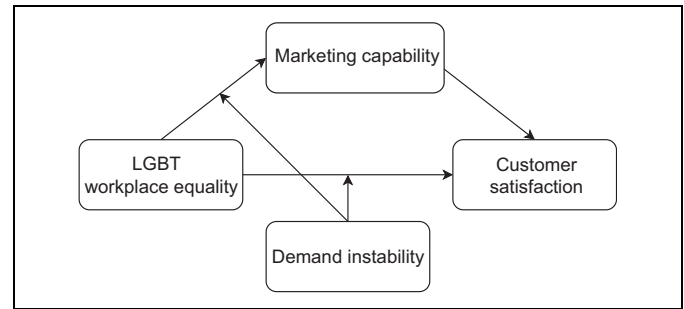


**Figure 1.** Conceptual framework.

Morgan 2005). Taking a public stand and implementing policies that improve the equality of sexual minorities in a workplace can increasingly enhance and align values with the broader society and improve internal and external relational capital central to driving customer satisfaction. The proposed conceptual model concerning LGBT-WEP (as presented in Figure 1) is rooted in the current literature gap (as presented in Web Appendix Table A1). In Figure 1, LGBT-WEP is positively associated with customer satisfaction both directly and through the mediating effect of marketing capability. The direct effect and the mediation path is moderated by demand instability.

Using a longitudinal data set assembled from multiple data sources (including the Human Rights Campaign's [HRC's] Corporate Equality Index [CEI], Compustat, and the American Customer Satisfaction Index [ACSI]), we uncover that (1) LGBT-WEP is positively associated with customer satisfaction, (2) marketing capability positively mediates the relationship between LGBT-WEP and customer satisfaction, and (3) demand instability dampens the relationship between LGBT-WEP and customer satisfaction and between LGBT-WEP and marketing capability. Our empirical results are robust to time-invariant unobservables at the firm level, endogeneity and sample selection bias corrections, alternate measures of key variables, an alternate distribution assumption, alternate model specifications, and an alternate calculation of standard errors.

This study provides three main contributions. First, our work joins a growing body of studies on the effect of LGBT-WEP on organizational outcomes (Hossain et al. 2019; Jiraporn, Potosky, and Lee 2019; Li and Nagar 2013; Pichler et al. 2018). LGBT-WEP is a potential driver of marketing capabilities and customer satisfaction. By directly affecting the human capital, reputational and relational assets, and brand value, LGBT-WEP improves the efficiency of converting marketing inputs to outputs coalescing into marketing capabilities. Compared with prior studies that have generally focused on firm performance as the outcome variable, we focus on customer satisfaction, an outcome more proximal to marketing capabilities. Ours is also the first study to consider marketing capability as a mediator and the first to assess a more complex moderated-mediation-type model by considering the

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[1] We note that the *The Economist*'s (2019) "wokeness index" based on firm's public commitments differs from the LGBT-WEP studied here. LGBT-WEP refers to actual policy commitments and is costlier than public commitments.

moderating role of demand instability.[2] Complementing marketing research focused on human capital, marketing resources, customer satisfaction (Menguc et al. 2016), customer awareness (Servaes and Tamayo 2013), strategic emphasis (Della Corte and Del Gaudio 2014), and brand loyalty (Vomberg, Homburg, and Bornemann 2015), among others, marketing capability—the efficiency in converting marketing resources to sales (Narasimhan, Rajiv, and Dutta 2006)—is an important theoretical mainstay of LGBT-WEP in improving customer satisfaction.

Second, by unpacking the mediation effect of marketing capability and the dampening effect of demand instability, we provide an important boundary condition in the LGBT-WEP and customer satisfaction context. Demand instability is an important moderator for the mediation chain given that a firm's internal policies (e.g., LGBT-WEP) may have to be reconfigured more often under demand instability to align with business activities (e.g., marketing initiatives) and customer expectations.

Finally, we contribute to the continued debate among U.S. policy makers regarding LGBT rights and whether a more equitable treatment of LGBT employees should be enacted in public policy (Hildebrand et al. 2013; Oakenfull 2013; Shan, Fu, and Zheng 2017). Recently, in an effort to federally legislate LGBT workplace equality, policy makers from U.S. Congress introduced the Equality Act of 2019 (Steinmetz 2019). Although the Act was passed in the House on May 17, 2019 (HRC 2019), LGBT advocates do not expect the bill to be brought for vote in the Republican-controlled Senate (Steinmetz 2019). On a more positive note, on June 15, 2020, the U.S. Supreme Court ruled that the language of the Civil Rights Act of 1964 protects against discrimination based on sexual orientation and gender identity (Liptak 2020). With the Supreme Court's ruling making discrimination based on sexual orientation illegal, LGBT-WEPs are ever-more important for firms to further improve workplace inclusivity. Although LGBT-WEP only represents a corporate-wide policy, its potential linkage to workforce and consumer welfare is worth serious discussion by public policy makers.

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[2] According to Baron and Kenny (1986), a moderator variable is defined as "a qualitative (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. Specifically within a correlational analysis framework, a moderator is a third variable that affects the zero-order correlation between two other variables. . . . In the [regression], a basic moderator effect can be represented as an interaction between a focal independent variable and a factor that specifies the appropriate conditions for its operation" (p. 1174); a mediator variable is defined as "a variable [that] functions as a mediator to the extent that it accounts for the relation between the predictor and the criterion. Whereas moderator variables specify when certain effects will hold, mediators speak to how or why such effects occur" (p. 1176). Taking a path analysis perspective, a mediator, M, is the intervening variable between predictor X and outcome Y (X → M → Y). A moderated mediation is a simultaneous consideration of moderation and mediation in a path model, wherein a moderator affects the direction and/or strength of a mediation relationship.

## Theoretical Background and Hypothesis

Currently, there is no federal law that explicitly bans discrimination based on sexual orientation and gender identity in the United States (Steinmetz 2019), although public attitudes toward LGBT people have substantively changed since the 1969 Stonewall riots (CNN 2019), and studies reveal that most Americans oppose discrimination of LGBT individuals (Greenberg et al. 2019). Even though LGBT rights supporters have been lobbying for changes for decades (Steinmetz 2019), the likelihood of U.S. Congress changing the current situation in the foreseeable future remains slim. U.S. corporations (including some conservative companies such as Walmart), however, have long realized the untapped potential of LGBT consumers and have actively targeted the LGBT market to gain their loyalty (Gudelunas 2011). Many organizations have moved ahead of public policy by adopting a more inclusive and equal corporate policy for LGBT employees (Oakenfull 2013).

Socially responsible initiatives toward promoting equality for LGBT employees have taken center stage in recent years (Jiraporn, Potosky, and Lee 2019; Pichler et al. 2018). Discrimination against LGBT employees in the workplace not only contributes negatively to their own experiences but also may indirectly lower a firm's overall productivity and value creation potential (Badgett et al. 2013). Depending on prevalent conservatism in the stakeholder pool, support for this policy may be perceived negatively or positively by stakeholders. However, studies have generally shown a neutral to positive association between LGBT-WEP and firm performance (for details, see Web Appendix Table A1).

Stock market reactions to the news on LGBT-friendly policies are neutral to positive in the short run (Johnston and Malina 2008) and positive in the long run (Wang and Schwarz 2010). Using a 1996–2009 panel of publicly traded U.S. firms, Pichler et al. (2018) found a positive association only for firms engaged in R&D activities. Using data from the pre-2008 crisis period, Shan, Fu, and Zheng (2017) found support for a positive association. Recently, others have found support for the association of LGBT-WEP with innovation (Hossain et al. 2019) and more favorable credit ratings (Jiraporn, Potosky, and Lee 2019). The mutually reinforcing benefits of this practice within the firm and in managing market relationships could help improve customer satisfaction through a higher marketing capability channel. While several recent studies have questioned the economic value of diversity management (Galinsky et al. 2015) and potential backlash from adopting LGBT-WEP (Day and Greene 2008; Kaplan 2006; Wettstein and Baur 2016), our core premise is that firms with LGBT-WEP realize higher customer satisfaction. However, these gains may be weakened by higher demand instability. We develop these hypotheses next.

### LGBT-WEP and Customer Satisfaction

In marketing literature, customer satisfaction is related to the overall evaluation of customers' purchase and consumption experience (Anderson, Fornell, and Mazvancheryl 2004;

Fornell 1992). Customer satisfaction is an important element in driving customer loyalty (Fornell 1992) and in turn improves sales, weakens price sensitivity, and lowers the cost of customer service (Rust et al. 1996). Badgett et al. (2013) suggest that LGBT-WEP may lead to higher customer satisfaction through employee engagement. The Cumulative Gallup Workplace Studies indicate that companies successfully creating inclusive cultures realized a 39% increase in customer satisfaction (Cooper 2017).

According to the stakeholder theory, LGBT-WEP influences how an organization is perceived externally. With an increased focus on social progressivism, stakeholders are sensitive to the "wokeness" of the company (Rectenwald 2019). As such, customers, as critical stakeholders, may perceive the firm's commitment to equality for sexual minorities as a signal of organizational commitment toward their employees. Customers increasingly prefer goods and services provided by socially conscious companies and respond more positively to such firms (Mulki and Jaramillo 2011). LGBT-WEP could be an important signal that may not only increase the customer base but also lower customers' cognitive dissonance. Tuten (2005) found that individuals had a positive reaction to firms with gay-friendly policies. Although customers use a variety of factors to assess their satisfaction, greater equality and inclusion associated with LGBT-WEP may increase the cognitive comfort in associating oneself with the purchase.

Based on institutional stakeholder theory (Scott 1987), LGBT-WEP may also appeal to both the economic and noneconomic utility of customers. Beyond the direct experience of consuming goods and services, consumers derive higher satisfaction from purchases from firms focused on treating all employees fairly. By meeting the social, moral, and ethical responsibilities toward a minority group of employees (i.e., LGBT employees), firms increase direct and indirect consumer identification (Pérez and Del Bosque 2013). Previous studies have found that CSR drives customer-related outcomes (Bhattacharya and Sen 2004; Luo and Bhattacharya 2006) ranging from product responses (Brown and Dacin 1997) to identification with the firm (Sen and Bhattacharya 2001) and from customers' product attitude (Berens, Van Riel, and Van Bruggen 2005) to perceptions of a firm's overall image or reputation (Nan and Heo 2007). We expect that customers may also perceive firms with a strong LGBT-WEP as stewards of social and economic justice in the community and toward their employees. Through the purchase and postconsumption experiences, customers may improve identity congruence with such firms (Bhattacharya and Sen 2004; Sen and Bhattacharya 2001), have positive reactions to firm–consumer engagement, and increase commitment and identity with such firms. These associational and identity-based alignments can strengthen customer satisfaction. Furthermore, LGTB-WEP engenders customer trust, which could also increase customer satisfaction and loyalty (Martínez and Del Bosque 2013).

However, it should be noted that LGTB-WEP may be a double-edged sword (Johnston and Malina 2008). Conservative customers, compared with progressive ones, may find adoption of such policy to lower their identity with the company and may experience increased cognitive dissonance in their postpurchase experiences. As a result, decreased identity congruence may lower customer satisfaction and put a negative connotation on a firm's reputation and image among these customers. Indeed, the implementation of LGTB-WEP can be considered contradictory to the conservative norms upheld by consumers with certain religious beliefs (Minton et al. 2017). However, Buddhism's concept of openness and non-discrimination, Christianity's concept of not judging others, and Hinduism's concept of coexisting with all orientations (Minton et al. 2017) suggest that LGTB-WEP may not trigger negativity even among some conservative consumers. Overall, we propose a positive association between LGBT-WEP and customer satisfaction.

> **H$_1$:** LGBT-WEP is positively associated with customer satisfaction.

## LGBT-WEP and Marketing Capability

According to the resource-based view of the firm, a capability can be viewed as a valuable, rare, and inimitable bundle of resources that improves competitive advantage. A capability refers to an organization's ability to control, combine, and coordinate resources to improve value-creating and value-sustaining competitive response (Amit and Schoemaker 1993; Srivastava, Fahey, and Christensen 2001). Marketing capability has been widely studied in the literature (Dutta, Narasimhan, and Rajiv 1999; Feng, Morgan, and Rego 2017; Narasimhan, Rajiv, and Dutta 2006; Xiong and Bharadwaj 2013) and has been consistently found to provide firms with a competitive advantage in assessing and responding to consumer needs (Angulo-Ruiz et al. 2014). In particular, marketing capability is associated with improved performance (Murray, Gao, and Kotabe 2011) and is especially desirable due to its more intangible, path-dependent, and causally ambiguous nature (Feng, Morgan, and Rego 2017).

We expect that LGBT-WEP policies improve marketing capability through realignment, reconfiguration, and reinforcement of internal and external organizational relationships. The internal relationship includes employees of the firm and external relationships include customers, suppliers, and stakeholders influenced by LGBT-WEP. The common thread in hypothesizing the positive association between LGBT-WEP and marketing capabilities is the improved coordination and communication resulting from (1) greater stock of human capital from greater inclusion of LGBT employees, (2) improved interactions between LGBT and non-LGBT employees, and (3) improved external relationships with customers through an improved firm image (that increases the flow of marketing information). We discuss each next.

Related to internal relationships, LGBT-WEP policies directly improve not only the treatment of LGBT employees but also the overall morale, cooperation, and coordination in the firm. Under higher workplace equality, LGBT employees

feel less marginalized and thereby are more willing to participate in organizational activities, to collaborate better with non-LGBT employees, and to seek equal footing for advancement opportunities. Lack of LGBT-WEP may lower the stock of the overall human capital pool, and thus the full potential of employee human capital may not be realized. If employee human capital is leveraged through complex employee interconnections, greater inclusion of LGBT employees would provide an increased stock of human capital to improve coordination and communication necessary for strengthening marketing capability.

In addition to the greater infusion of human capital directly from LGBT employees, coordination and communication among LGBT and non-LGBT employees further improves the overall efficacy of the human capital in a firm. Non-LGBT employees may also welcome WEP as a signal of organizational fairness and equality. An open and tolerant work environment lowers the stress and anxiety of all employees and, in turn, improves productivity and commitment. Organizational diversity literature states that employee motivation, engagement, retention, and participation are central to capability development (Joshi and Roh 2009). Related to the indirect benefits of human capital, LGBT-WEP can also improve the recruitment of LGBT and non-LGBT employees and lower overall turnover (Pichler et al. 2018). Lower firm-specific turnover is important to strengthening firm-specific human capital necessary to drive marketing capability (Hansen and Alewell 2013).

The improved interconnections between LGBT and non-LGBT employees may further strengthen the human capital, a key necessity for a stronger marketing capability (Krush, Sohi, and Saini 2015). Stronger coordination and communication among employees may further improve information processing inputs, including market needs and preferences, and further improve internal resource reconfigurations to enhance marketing output (Orr, Bush, and Vorhies 2011). Enhanced coordination and communication could help foster market-oriented employee behaviors (Bowen, Gilliland, and Folger 1999), enhance customer service (Bettencourt and Brown 1997), and improve resilience in face of negative customer outcomes (Brown, Cobb, and Lusch 2006), which are central to improve marketing capability.

In addition to the previous discussion on the greater stock of human capital from the inclusion of LGBT employees and improved interactions between LGBT and non-LGBT employees, LGBT-WEP can create a positive image among key channel members who are concerned about fairness (Cui, Raju, and Zhang 2007). A firm with a better LGBT-WEP is likely to be perceived positively and customers may be more willing to share information and to collaborate with the firm. Through cooperation from customers, LGBT equality initiatives help create and sustain the channels of information and resources necessary to communicate and coordinate with other stakeholders (Dutta, Narasimhan, and Rajiv 1999; Vorhies and Morgan 2005). Marketing capability can be further strengthened by lowered information

asymmetry among stakeholders (Yim et al. 2019). Customers receiving stronger signals of organizational commitment to employee equality may increase the intensity of engagement with the firm to help develop products, improve forecasting, and lower costs (Hill and Alexander 2017). Finally, from a stakeholder theory perspective, we expect the LGBT-WEP creates a halo effect with the broader stakeholder community (Pichler et al. 2018). The resulting positive image creates a positive spillover that strengthens the brand value of the firm. The enhanced brand value further increases the willingness of stakeholders to provide additional communication and coordination (Leppäniemi, Karjaluoto, and Saarijärvi 2017; Smit, Bronner, and Tolboom 2007) to improve input-output circuitry of marketing capabilities. Drawing on this discussion, we propose,

> **H₂:** LGBT workplace equality is positively associated with marketing capability.

## Demand Instability, LGBT-WEP, and Customer Satisfaction

Grewal and Tansuhaj (2001) define demand instability as unpredictability in customer preference. Higher demand instability weakens the association between LGBT-WEP and customer satisfaction because the efficacy of managerial ability to meet changing customer needs and value propositions may decline. The role of LGBT-WEP in improving customer satisfaction weakens as resource combinations become less adaptive in meeting unstable demand (Henderson, Miller, and Hambrick 2006). In other words, the customer satisfaction mark must be continuously realigned and reinvigorated to adapt to internal capabilities and routines under demand instability, further weakening the LGBT-WEP and customer satisfaction relationship (Wu and Shi 2011). Under high demand instability, renewing LGBT-WEP-driven commitment and identity may also be increasingly challenging, which may lead to lower customer satisfaction. Changing tastes associated with high demand instability require firms to constantly revisit and/or revise their policies (e.g., LGBT-related policies), thereby indicating reduced returns due to greater frictions and adjustments necessary to maintain continuity in customer identity and loyalty.

In line with H₁, if LGBT-WEP influences customer satisfaction, demand instability adds more unpredictability to the building blocks of customer satisfaction, thus creating constant perturbations in the relationship between LGBT-WEP and customer satisfaction. As demand instability increases, the efficacy of LGBT-WEP in improving customer satisfaction weakens as customers revise and reassess their understanding of whether a company's LGBT-WEP is adapted to changing product and service preferences. These reevaluations can drive the company to adopt a different configuration of LGBT-WEP to resatisfy customers' needs, which in turn requires the firm to relearn and adapt further through more experimentation (which

is necessary to absorb demand instability). For these reasons, we propose the following hypothesis:

> **H₃ₐ:** Demand instability weakens the relationship between LGBT workplace equality and customer satisfaction.

### Demand Instability, LGBT-WEP, and Marketing Capability

LGBT-WEP generates signals of the additional basis of product differentiation, thereby making products more appealing to the target market (McWilliams and Siegel 2001). Even though the relationship between LGBT-WEP and marketing capability is positive, demand instability adds tremors to this relationship because frequent changes in products, services, and needs require firms to reevaluate and reinvigorate input-output connections among employees and with customers. Thus, demand instability weakens the input-output routines of marketing capability driven by LGBT-WEP. Building from the arguments in $H_2$ and $H_{3a}$, demand instability lowers predictability of customer demand (Han, Mittal, and Zhang 2017), requiring the retooling and realignment of LGBT-WEP-driven conversion of marketing inputs into outputs, and calls for renewed considerations of internal coordination and communication mechanisms around LGBT-WEP to improve marketing capability. The reassessing and releveraging of firm-specific human capital around LGBT-WEP would result in errors and frictions that increase marketing inefficiencies, thus weakening the LGBT-WEP and marketing capability association.

The unique value proposition through LGBT-WEP may be weakened as firms find it challenging to internally adapt their marketing circuitry under greater demand instability. Changing buildup of customer commitment and identification under demand instability could render marketing capability circuitry weaker and the linkages among resources in greater flux. Furthermore, demand instability weakens the relational capital with customers and broader stakeholders, an important input to strengthening input-output conversion routines for marketing capability (Fatmy et al. 2019) and facilitating organizational learning between employees and customers (Jayachandran et al. 2005). Such changes in adaptation may be challenging due to demand instability straining the marketing-related input-output conversion routines. Overall, the enhancement of LGBT-WEP and marketing capability under demand instability may be challenging. Thus, we propose the following hypothesis:

> **H₃ᵦ:** Demand instability weakens the relationship between LGBT workplace equality and marketing capability.

### LGBT-WEP, Marketing Capability, and Customer Satisfaction

Continuing from arguments for $H_1$ and $H_2$, we propose a partial mediation hypothesis on the effect of LGBT equality on customer satisfaction through the marketing capability channel. In the CSR literature, studies have attempted to identify various mediators for the association between CSR and financial performance. Luo and Bhattacharya (2006) find that customer satisfaction mediates the effect of CSR on financial performance, and Galbreath and Shum (2012) find that corporate reputation also mediates the CSR–financial performance relationship. In a similar vein from CSR literature, the mediation effects are an important consideration in further unpacking the association between LGBT-WEP and customer satisfaction.

From a stakeholder theory perspective, both LGBT and non-LGBT customers may favorably view LGBT-friendly policies as a signal of social advocacy and inclusivity in the firm. Favorable views from the customers could positively contribute to the brand value and brand image of a firm (Brunk 2010; White, Nielsen, and Valentini 2017). Besides, LGBT-WEP signals social responsibility that can enhance reputation, stakeholder relationships, access to resources, and external financing (Flammer and Luo 2017; Waddock and Graves 1997). Furthermore, LGBT customers, who are known to have a higher level of disposable income (Hildebrand et al. 2013), are more likely to buy products from an LGBT-WEP firm (Clermont 2006), thereby increasing the customer base of the firm.

In supporting the mediation role of marketing capability in explaining LGBT-WEP and customer satisfaction, the resource-based view further explains the value of firm capabilities in realizing the potential of the underlying marketing resources (Morgan, Slotegraaf, and Vorhies 2009). Although marketing policies and activities are central to driving marketing competencies, marketing capability helps coalesce and convert a range of marketing activities (Dutta, Narasimhan, and Rajiv 1999) into meaningful organizational outcomes, such as customer satisfaction. Improved marketing intelligence from LGBT-WEP helps align organizational resources with stakeholder expectations to enhance customer satisfaction (Bahadir, Bharadwaj, and Srivastava 2008).

Taking the previous points together, LGBT-WEP could improve customer satisfaction by effectively converting marketing inputs to marketing-related outputs. Marketing capability could be a conduit for connecting a firm's LGBT-friendly policies to improved market sensing (Saboo, Kumar, and Anand 2017). Marketing capability could be an important hub in managing employee human capital, stakeholder relationships, and resources to enhance brand value, to improve product and service offerings, and to enhance the value proposition. Employee human capital and stakeholder inputs improved by LGBT-WEP are central to improving product design and enhancements. LGBT-WEP that results in better word of mouth, higher customer loyalty, and better customer retention could be more favorably leveraged through marketing capabilities to improve customer satisfaction. Drawing on this discussion, we propose the following hypothesis:

**Table 1.** Definition of Key Variables and Data Source.

| Variable | Definition | Source |
|---|---|---|
| ACSI (Customer satisfaction) | American Customer Satisfaction Index ranging from 0 to 100, where 100 represents the maximum customer satisfaction | ACSI |
| LGBT workplace equality | Corporate LGBT workplace equality index ranging from 0 to 100, where 100 represents the maximum equality | HRC |
| Marketing capability | Marketing capability score ranging from 0 to 100, where 100 represents the maximum marketing capability | Compustat; authors' estimation from a stochastic production frontier model |
| Employee relations | An indicator variable equal to 1 if the total strengths of employee relations are larger than the total concerns of employee relations and 0 otherwise | KLD |
| Community engagement | An indicator variable equal to 1 if the total strengths of community engagement are larger than the total concerns of community engagement and 0 otherwise | KLD |
| Environmental commitment | An indicator variable equal to 1 if the total strengths of environmental rating are larger than the total concerns of environmental rating and 0 otherwise | KLD |
| Human rights protection | An indicator variable equal to 1 if the total strengths of human rights protection are larger than the total concerns of human rights protection and 0 otherwise | KLD |
| Firm size | Natural log of the number of employees (in thousands) | Compustat |
| Employee productivity | Income before extraordinary items divided by the number of employees (in thousands) | Compustat |
| Fixed assets | Net property, plant, and equipment as a fraction of total assets | Compustat |
| Leverage | Total debt as a fraction of total assets | Compustat |
| Industry concentration | Summation of the squared market shares of firms within the same SIC two-digit industry (this measure is calculated based on the Compustat universe) | Compustat |
| Demand instability | Coefficient of variation of total sales at the two-digit SIC level in the past five years, including the current year (this measure is calculated based on the Compustat universe) | Compustat |

*Notes*: We use industry-median-adjusted values of each firm-level continuous variable in our empirical analysis.

**H$_4$:** Marketing capability mediates the relationship between LGBT workplace equality and customer satisfaction.

## Methodology

### Data and Sample Construction

To construct our sample, we draw from the Standard & Poor's Compustat Fundamentals Annual, the HRC's CEI; the ACSI; and the Kinder, Lydenberg, and Domini (KLD) database. After merging all databases to test our hypothesis, our sample includes an unbalanced panel of 950 firm-year observations from 123 unique firms in the period of 2002–2016. Variable definitions are provided in Table 1, along with the corresponding data source.

### Variable Measurement

*Predictor: LGBT workplace equality.* The focal independent variable for this study is the CEI provided by the HRC. The index measures the LGBT-WEP on an annual basis. Several prior studies (e.g., Hossain et al. 2019; Johnston and Malina 2008; Shan, Fu, and Zheng 2017) have drawn on the same index to measure LGBT-WEP.

As the largest national LGBT civil rights organization in the United States (Shan, Fu, and Zheng 2017), HRC administered its inaugural annual survey in 2002 to evaluate corporate policies regarding LGBT employees for hundreds of major employers and launched an index to gauge how LGBT employees are treated within an organization. According to Johnston and Malina (2008), HRC leverages extensive data sources (including self-reported surveys from companies, employee resource groups, news releases, and several other advocacy groups) to ensure the accuracy of its data collections when constructing the measure of CEI. Furthermore, a team of researchers was deployed to conduct cross-checking of corporate policies by looking into corporate filings with the Securities and Exchange Commission, regulations (e.g., case laws), and numerous news and employee accounts.

Companies listed on the *Fortune* 500, plus other firms for which HRC had sufficient information to verify their LGBT policies, were included in the inaugural 2002 sample (Shan, Fu, and Zheng 2017). In 2006, HRC expanded the sample by including the *Fortune* 1000, the Standard & Poor's 500, and several other firms in the private sector (Shan, Fu, and Zheng 2017). Thus, certain companies are more likely to be rated by HRC, potentially creating a sample selection bias. We deal with this issue in our empirical analysis using Heckman's

(1979) correction for sample selection bias (more details can be found in the next section).

In the current study, we manually collected CEI from the annual report released by HRC from 2002–2016. HRC rates a company on a scale of 0–100, with 0 being the lowest LGBT-WEP score[3] and 100 being the highest LGBT-WEP score, using the following criteria (HRC 2016, pp. 11–13):

Criteria 1: Equal employment opportunity policy includes: (a) Sexual orientation for all operations; (b) Gender identity for all operations; (c) Contractor/vendor standards include sexual orientation and gender identity;

Criteria 2: Employment benefits: (a) Equivalent spousal and partner benefits; (b) Other "soft" benefits; (c) Transgender-inclusive health insurance coverage;

Criteria 3: Organizational LGBT competency: (a) Competency training, resources or accountability measures; (b) Employee group –or– Diversity council;

Criteria 4: Public commitment: (a) LGBT-specific efforts;

Criteria 5: Employers will have 25 points deducted from their score for a large-scale official or public anti-LGBT blemish on their recent records.

For additional details about the overall rating system and the methodology, see HRC (2016, pp. 8–13). We note that, throughout the years, HRC has slightly modified the scoring systems by allocating a larger/lower score to certain categories of its rating system. However, because such modification is common to all the firms in each year, controlling for year fixed effects (as we do in the empirical analysis) would allow us to mitigate the impact of changes in the rating system. Web Appendix Figure A1 depicts the mean value of CEI across different Standard Industrial Classification (SIC) industry divisions and years.

*Mediator variable: marketing capability.* Our mediating variable is marketing capability. Following the vast literature of marketing capability, we adopt an input-output approach to measure marketing capability. More specifically, we implement the latest four-factor stochastic frontier model to estimate marketing capability (Feng, Morgan, and Rego 2017). As illustrated by Kumbhakar, Wang, and Horncastle (2015), this new four-factor model allows us to tease out irrelevant elements (i.e., irrelevant firm-specific effects and idiosyncratic noise) that are not associated with firm capabilities and to obtain a more accurate measure of the inefficiency error term (that includes firm-specific time-invariant inefficiency and firm-specific time-varying inefficiency) used to proxy marketing capability in the literature. (For details of the four-factor stochastic frontier model, see Appendix 2 of Feng, Morgan, and Rego [2017].)

We follow extant work drawing on the stochastic frontier modeling framework to measure marketing capability (e.g., Dutta, Narasimhan, and Rajiv 1999; Feng, Morgan, and Rego 2017; Xiong and Bharadwaj 2013), specifically, using advertising expenses; selling, general, and administrative expenses; accounts receivables; intangible assets; and total assets as input variables and sales as output variable. Estimation results of the stochastic frontier model are presented in Web Appendix Table A3. The raw value of marketing capability has been converted from 0–1 to 0–100 to maintain scale consistency with other key measures.

*Moderating variable: demand instability.* To measure demand instability, we follow existing research (e.g., Fang, Palmatier, and Steenkamp 2008; Sridhar, Narayanan, and Srinivasan 2014) by using the coefficient of variation of total industry sales over a five-year rolling window up to the current year. In one of our robustness checks, we adopt a similar measure but use a four-year rolling window instead and still find similar results.

*Outcome variable: customer satisfaction.* Following prior literature (Anderson, Fornell, and Mazvancheryl 2004; Fornell et al. 1996), we measure corporate customer satisfaction using the ACSI. The ACSI provides annual customer satisfaction scores (0–100, with 100 being the highest satisfaction score) for a wide range of companies across 45 distinct industries (Fornell, Morgeson, and Hult 2016). One key advantage of this index is that it reflects customer satisfaction experienced by customers themselves instead of by managers or expert ratings (Anderson, Fornell, and Mazvancheryl 2004). Thus, the ACSI is highly appropriate for testing our hypotheses.

*Control variables.* We include several variables at the firm and industry levels to further control for firm and industry heterogeneities. In particular, we control for a company's CSR practices by using data from the KLD database. Similar to existing studies (David, Bloom, and Hillman 2007; Gupta, Briscoe, and Hambrick 2017), we consider five CSR categories reported in KLD, namely, employee relations, community engagement, environmental commitment, human rights protection, and product quality. Specifically, for each category, we construct an indicator variable equal to 1 if a company's total strengths in the corresponding category are larger than its total concerns and 0 otherwise. Controlling for employee relations enables us to mitigate concerns of omitting a key factor—namely, corporate human resources (HR) practice—while controlling different CSR categories enables us to mitigate concerns that the effect of LGBT-WEP is more than just a "good corporate citizen" halo. Because product quality is highly correlated with human rights protection (correlation = .671), we exclude it from our empirical model. However, our main findings still hold if we control for product quality. In addition, our empirical model controls for Firm size, Employee productivity, Fixed assets, Leverage, and Industry concentration. Finally, we include firm and year fixed effects to further control for different types of heterogeneities.

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[3] Exxon Mobil was the only company in the database that received a score less than 0 (i.e., −25) due to an official or public anti-LGBT blemish on corporate records. However, the company was not included in our final empirical analysis due to missing variables.

## Normalization of Variables

Existing studies have demonstrated that there could be major differences among firms from different industries (Rao, Agarwal, and Dahlhoff 2004) and that managers typically benchmark their own companies with competitors within the same industry (Steenkamp and Fang 2011). To ensure comparability across industries, we follow prior literature by normalizing our variables (Fox and Hoch 2005; Rao, Agarwal, and Dahlhoff 2004). In particular, we adjust all firm-level continuous variables with the yearly SIC two-digit industry median values.

## Empirical Model

### Model Specification

We follow the procedure and logic outlined in Baron and Kenny (1986) to test the mediation mechanism. Recent studies in the literature of the marketing–finance interface (Feng, Morgan, and Rego 2015) have adopted a similar procedure to test mediation in a panel data setting. In Step 1, we start by testing the total effect—that is, the association between LGBT workplace equality and customer satisfaction. We also include an interaction term (LGBT workplace equality × Demand instability) to identify whether demand instability moderates the relationship between LGBT-WEP and customer satisfaction. In addition, we control for the interaction effect of Employee relations × Demand instability to demonstrate that LGBT-WEP adds explanatory value beyond general HR practice (proxied by employee relations).[4]

$$
\begin{aligned}
\mathrm{ACSI}_{i,h,t} =\ & \beta_0 + \beta_1(\text{LGBT workplace equality})_{i,h,t} \\
& + \beta_2(\text{Demand instability})_{ind,t} \\
& + \beta_3(\text{LGBT workplace equality})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \beta_4(\text{Employee relations})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \Gamma X_{i,h,t} + \Lambda Z_{ind,t} \\
& + \text{Fixed Effects} + \epsilon_{i,h,t},
\end{aligned}
\tag{1}
$$

where $\mathrm{ACSI}_{i,h,t}$ represents the annual customer satisfaction score (i.e., the ACSI) received by firm i headquartered in state h in year t. (LGBT workplace equality)$_{i,h,t}$ represents the yearly value of LGBT-WEP obtained from the HRC; (Demand instability)$_{ind,t}$ represents demand instability within a firm's industry (i.e., "ind") in year t; (Employee relations)$_{i,h,t}$ is an indicator representing a company's employee relations practice identified by KLD; $X_{i,h,t}$ is a set of firm-level control variables that includes Employee relations, Community engagement, Environmental commitment, Human rights protection, Firm size, Employee productivity, Fixed assets, and Leverage. $Z_{ind,t}$ is the industry concentration. Fixed Effects include firm

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[4] We thank the associate editor for suggesting this analysis strategy.

and year fixed effects, and $\epsilon_{i,h,t}$ represents the idiosyncratic error.

In Step 2, we test whether LGBT workplace equality is correlated with the mediator of marketing capability. We specify the model as follows:

$$
\begin{aligned}
(\text{Marketing capability})_{i,h,t} =\ & \alpha_0 + \alpha_1(\text{LGBT workplace equality})_{i,h,t} \\
& + \alpha_2(\text{Demand instability})_{ind,t} \\
& + \alpha_3(\text{LGBT workplace equality})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \alpha_4(\text{Employee relations})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \Xi X_{i,h,t} + P Z_{ind,t} \\
& + \text{Fixed Effects} + \varsigma_{i,h,t},
\end{aligned}
\tag{2}
$$

where (Marketing capability)$_{i,h,t}$ is our mediator that captures a firm's capability of converting marketing inputs to sales. Similar predictors as in Equation 1 are included in this step. $\varsigma_{i,h,t}$ represents the idiosyncratic error.

In Step 3, we add marketing capability to the model in Step 1 to identify the mediating mechanism. For all the three steps, we mitigate endogeneity concern and sample selection bias by inserting the corresponding variables (i.e., control function residuals and inverse Mills ratio) to each model, as discussed in the next section.

$$
\begin{aligned}
\mathrm{ACSI}_{i,h,t+1} =\ & \theta_0 + \theta_1(\text{LGBT workplace equality})_{i,h,t} \\
& + \theta_2(\text{Demand instability})_{ind,t} \\
& + \theta_3(\text{LGBT workplace equality})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \theta_4(\text{Employee relations})_{i,h,t} \\
& \times (\text{Demand instability})_{ind,t} \\
& + \theta_5(\text{Marketing capability})_{i,h,t} \\
& + \Psi X_{i,h,t} + T Z_{ind,t} \\
& + \text{Fixed Effects} + \upsilon_{i,h,t},
\end{aligned}
\tag{3}
$$

where all the predictors are similar to those introduced previously. $\upsilon_{i,h,t}$ is the idiosyncratic error.

### Endogeneity of LGBT Workplace Equality and Sexual Orientation Nondiscrimination Laws

LGBT workplace equality could be endogenous because some factors (such as management attitude or practice) may influence a company's decision to enact a better or worse LGBT-WEP but are not observable to researchers. Essentially, this is the issue of omitted variable bias. To mitigate such endogeneity concerns, we adopt the control function approach (George, Kumar, and Grewal 2013; Mishra and Sinha 2016) that provides a solution to deal with the problem of the endogenous explanatory variable in a linear model (Wooldridge 2015).

The control function approach is similar to two-stage least squares and can be implemented in two steps. The first step involves an estimation of the endogenous variable corporate equality against all control variables and an instrumental

variable that meets the assumption of relevance and exogeneity. The second step is simply to plug in the regression residuals obtained from the first step to the main model. The control function approach is a widely used method in marketing literature to deal with the omitted variable problem in linear and nonlinear models (Wooldridge 2015). In this study, for the first step of the control function approach, we exploit the enactments of state nondiscrimination laws.

*State sexual orientation nondiscrimination law.* To prevent sexual orientation discrimination against certain groups of people such as LGBT job candidates, several U.S. states enacted nondiscrimination laws at different times. This particular institutional setting allows us to estimate the effects of corporate equality by exploiting the plausibly exogenous variations in equality policies determined by statewide nondiscrimination laws, which were enacted with staggered dates in the past decades across different states. The enactment status of a statewide nondiscrimination law is therefore likely to influence the decision to adopt or change the equality policies of a company headquartered in that state. Model-free evidence, as shown in Web Appendix Figure A1(a), suggests that corporate equality policy and the prevalence of sexual orientation nondiscrimination laws are likely related.

Using detailed information provided by Hunt (2012) and the Movement Advancement Project,[5] we construct an indicator variable equal to 1 if, in a given year, a state has enacted nondiscrimination law, and 0 otherwise. To test the impact of state nondiscrimination law on LGBT workplace equality, we employ the following specification in the first step of the control function approach. Our formal specification for firm $i$ headquartered at state $h$ in year $t$ is as follows:

$$
\begin{aligned}
(\text{LGBT workplace equality})_{i,h,t} = {} & \eta_0 + \eta_1 \text{Law}_{h,t} \\
& + \Delta X_{i,h,t} + \Pi Z_{ind,t} \\
& + \text{Fixed Effects} + \omega_{i,h,t},
\end{aligned}
$$
(4)

where $\text{Law}_{h,t}$ represents an indicator equal to 1 if a state (where a firm is headquartered) has enacted sexual orientation nondiscrimination law in year $t$ and 0 otherwise. $X_{i,h,t}$ is a set of control variables that includes Employee relations, Community engagement, Environmental commitment, Human rights protection, Firm size, Employee productivity, Fixed assets, and Leverage; $Z_{ind,t}$ includes Industry concentration and Demand instability; Fixed Effects include firm and year fixed effects; $\omega_{i,h,t}$ represents the idiosyncratic error. Empirical results from firm fixed-effects regression suggest that LGBT workplace equality is significantly influenced by statewide nondiscrimination law (the coefficient of Law is highly significant at the 1% level; for details, see Column 1 of Web Appendix Table A2). Next, according to the control function approach, we

estimate the residuals from Equation 4 and then plug the estimated control function residuals into Equations 1–3.

### Sample Selection Bias

Two of our key variables, LGBT workplace equality and customer satisfaction, were drawn from public data sources, and there could be some systematic reasons that prevent a company from being included in the databases by the providers. To avoid misleading inference from a nonrandomly generated sample, we treat this issue as a specification error and use Heckman's (1979) two-step procedure for sample bias correction. Following existing studies (Germann, Ebbes, and Grewal 2015), we implement the Heckman procedure as follows. First, with the initial unbalanced panel that contains all public companies that were included in and excluded from each index (i.e., the CEI and the ACSI), we carry out a probit estimation, respectively, which regresses an indicator of whether the presence in the corresponding index is observed against all control variables listed in the prior section and additional identifying variables (Wooldridge 2010). For the selection model of the CEI, our identifying variables are (1) yearly industry prevalence of corporate equality inclusion and (2) yearly citizen liberalism of the headquarters state.[6] For the selection model of the ACSI, our identifying variables are (1) yearly industry prevalence of satisfaction index inclusion and (2) whether a company belongs to the service sector defined by the North American Industry Classification System.

Next, we calculate the inverse Mills ratio after estimating the first-stage auxiliary probit models. Estimation results of the first-stage auxiliary regression are presented in Columns 2 and 3 of Web Appendix Table A2. Finally, the estimated inverse Mills ratio for LGBT workplace equality is included in Equations 1–3, while the estimated inverse Mills ratio for ACSI is included in Equations 1 and 3.

## Results and Robustness Checks

Before turning to our empirical results, we present the summary statistics and the correlation matrix in Table 2, respectively. In addition to the correlation matrix, we also examine the variance inflation factors of our independent variables and find that multicollinearity is not a concern because all variance inflation factors are well below 3 (Chatterjee and Hadi 2006).

### Main Results

According to the Hausman (1978) test, we opt for a firm fixed-effects estimator to estimate the coefficients of interest. We use standard errors that are robust to misspecification. Table 3

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[5] See http://www.lgbtmap.org/img/maps/citations-nondisc-state-employees.pdf (accessed May 16, 2019).

[6] Citizen liberalism was obtained from the database provided by Richard C. Fording (https://rcfording.wordpress.com/state-ideology-data/, accessed May 21, 2019), who provides an updated measure of citizen ideology from 1960 to 2016 following Berry et al. (1998). This measure is in the range of 0 and 100, where 100 represents the maximum citizen liberalism.

Table 2. Descriptive Statistics and Correlation Matrix.

| Variables | Mean | SD | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. ACSI (customer satisfaction) | 77.028 | 5.501 | 1.000 | | | | | | | | | | | | |
| 2. LGBT workplace equality | 78.526 | 25.416 | -.061 | 1.000 | | | | | | | | | | | |
| 3. Marketing capability | 81.494 | 4.247 | .003 | -.045 | 1.000 | | | | | | | | | | |
| 4. Employee relations | .556 | .497 | .030 | .137* | .033 | 1.000 | | | | | | | | | |
| 5. Community engagement | .509 | .500 | .019 | .146* | -.025 | .123* | 1.000 | | | | | | | | |
| 6. Environmental commitment | .594 | .491 | .027 | .112* | .060 | .313* | .290* | 1.000 | | | | | | | |
| 7. Human rights protection | .216 | .412 | .039 | -.008 | -.028 | .423* | .453* | .392* | 1.000 | | | | | | |
| 8. Firm size | 4.024 | 1.254 | -.091* | .075* | .272* | -.033 | .041 | .123* | -.076* | 1.000 | | | | | |
| 9. Employee productivity | 36.312 | 65.597 | .049 | .062 | .081* | .095* | -.009 | .029 | .004 | .134* | 1.000 | | | | |
| 10. Fixed assets | .394 | .213 | -.013 | -.090* | .161* | -.074* | -.029 | .019 | .005 | .108* | -.072* | 1.000 | | | |
| 11. Leverage | .296 | .151 | -.042 | -.089* | -.032 | -.039 | -.005 | .006 | .001 | -.022 | -.094* | .281* | 1.000 | | |
| 12. Industry concentration | .094 | .104 | -.007 | -.023 | -.146* | -.103* | -.014 | .012 | -.017 | -.086* | -.123* | .110* | .050 | 1.000 | |
| 13. Demand instability | .083 | .045 | .002 | -.002 | .022 | -.064* | .103* | -.071* | .100* | -.016 | -.051 | -.054 | -.081* | -.041 | 1.000 |

Notes: Original values are presented in summary statistics; we use industry-median-adjusted values of each firm-level continuous variable for calculation of correlation coefficient.
*$p < .05$.

Table 3. LGBT Workplace Equality, Marketing Capability, and Customer Satisfaction.

| Variables | (1) M1: ACSI | (2) M1: ACSI | (3) M1: ACSI | (4) M2: Marketing Capability | (5) M2: Marketing Capability | (6) M2: Marketing Capability | (7) M3/4: ACSI | (8) M3/4: ACSI | (9) M3/4: ACSI |
|---|---|---|---|---|---|---|---|---|---|
| LGBT workplace equality | .310** (.125) | .340*** (.126) | .342*** (.125) | .565*** (.217) | .618*** (.221) | .620*** (.221) | .277** (.122) | .307** (.123) | .310** (.123) |
| LGBT workplace equality × Demand instability | | -.292** (.119) | -.327*** (.118) | | -.530*** (.201) | -.568*** (.203) | | -.264** (.119) | -.297** (.118) |
| Employee relations × Demand instability | | | 5.591 (5.475) | | | 6.063 (5.905) | | | 5.235 (5.431) |
| Marketing capability | | | | | | | .059** (.026) | .053** (.026) | .052** (.025) |
| Employee relations | -.055 (.222) | -.065 (.222) | -.516 (.457) | .814* (.386) | .795** (.383) | .308 (.696) | -.102 (.220) | -.106 (.220) | -.528 (.459) |
| Community engagement | -.637* (.360) | -.649* (.359) | -.683* (.457) | -.739 (.534) | -.761 (.535) | -.792 (.537) | -.589* (.356) | -.605* (.355) | -.638* (.355) |
| Environmental commitment | .682** (.291) | .672** (.290) | .655** (.290) | 1.550*** (.494) | 1.531*** (.496) | 1.518*** (.501) | .594** (.291) | .594** (.290) | .580** (.290) |
| Human rights protection | -.093 (.370) | -.060 (.368) | -.044 (.367) | -.123 (.479) | -.061 (.469) | -.058 (.467) | -.095 (.368) | -.065 (.367) | -.050 (.366) |
| Firm size | -.552* (.312) | -.576* (.312) | -.571* (.311) | -.436 (.606) | -.482 (.606) | -.455 (.609) | -.512* (.307) | -.538* (.307) | -.535* (.307) |
| Employee productivity | .002 (.002) | .002 (.002) | .002 (.002) | .008** | .008** | .008** | .002 | .002 | .002 |

*(continued)*

**Table 3.** (continued)

| Variables | (1) M1: ACSI | (2) M1: ACSI | (3) M1: ACSI | (4) M2: Marketing Capability | (5) M2: Marketing Capability | (6) M2: Marketing Capability | (7) M3/4: ACSI | (8) M3/4: ACSI | (9) M3/4: ACSI |
|---|---|---|---|---|---|---|---|---|---|
| | (.003) | (.003) | (.003) | (.003) | (.003) | (.003) | (.002) | (.002) | (.002) |
| Fixed assets | 2.730 | 2.773* | 2.650 | 13.713*** | 13.787*** | 13.676*** | 1.930 | 2.056 | 1.960 |
| | (1.662) | (1.666) | (1.662) | (3.328) | (3.276) | (3.300) | (1.677) | (1.681) | (1.684) |
| Leverage | .064 | −.152 | −.255 | 1.415 | 1.022 | .912 | −.019 | −.206 | −.300 |
| | (1.045) | (1.057) | (1.057) | (2.819) | (2.809) | (2.849) | (1.047) | (1.060) | (1.059) |
| Industry concentration | −.187 | −.396 | .177 | 5.106 | 4.722 | 5.379 | −.468 | −.626 | −.083 |
| | (4.394) | (4.371) | (4.442) | (7.487) | (7.490) | (7.358) | (4.369) | (4.348) | (4.418) |
| Demand instability | 1.352 | 2.792 | −.292 | 11.940*** | 14.550*** | 11.231* | .658 | 2.036 | −.832 |
| | (3.237) | (3.211) | (4.273) | (4.244) | (4.362) | (6.033) | (3.177) | (3.149) | (4.269) |
| Control function residuals | −.319** | −.327*** | −.326*** | −.563** | −.578*** | −.577*** | −.285** | −.296** | −.297** |
| | (.125) | (.125) | (.125) | (.219) | (.221) | (.221) | (.122) | (.123) | (.122) |
| Inverse Mills ratio (LGBT workplace equality) | −.712* | −.731* | −.721* | .403 | .372 | .365 | −.746** | −.759** | −.750** |
| | (.379) | (.375) | (.376) | (.567) | (.566) | (.564) | (.373) | (.371) | (.372) |
| Inverse Mills ratio (ACSI) | .364 | .372 | .298 | | | | .415 | .416 | .346 |
| | (.447) | (.448) | (.459) | | | | (.445) | (.446) | (.457) |
| Constant | −.580 | −.663 | −.283 | −.673 | −.808 | −.485 | −.596 | −.669 | −.313 |
| | (1.162) | (1.121) | (1.136) | (1.832) | (1.820) | (1.862) | (1.164) | (1.127) | (1.142) |
| Firm fixed effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year fixed effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 950 | 950 | 950 | 950 | 950 | 950 | 950 | 950 | 950 |
| Adjusted R-squared | .620 | .622 | .623 | .389 | .396 | .396 | .622 | .624 | .624 |

*Notes:* Robust standard errors are presented in parentheses.
*p < .10.
**p < .05.
***p < .01.
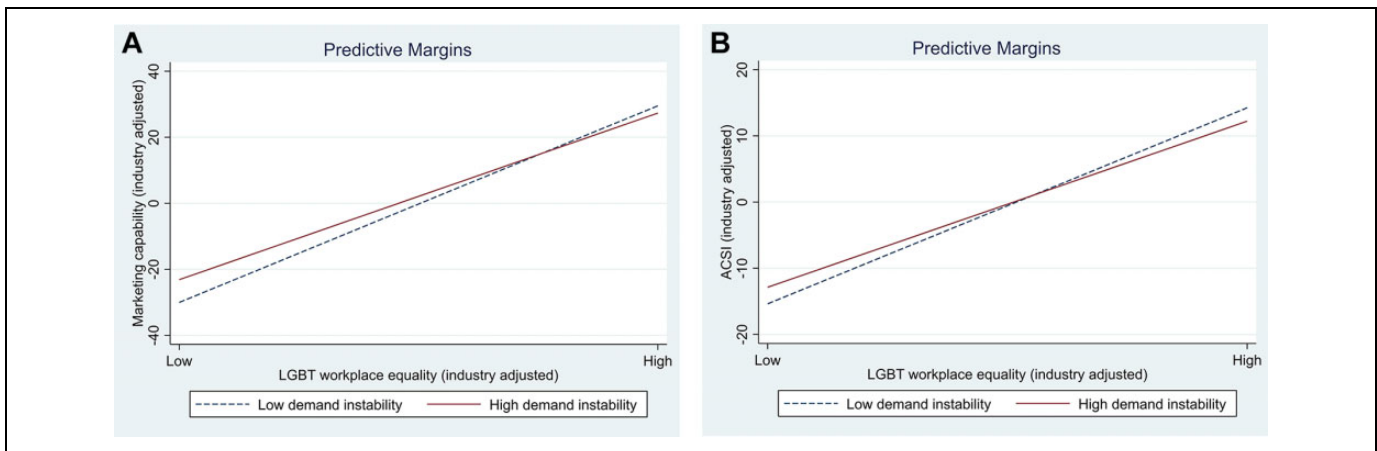
**Figure 2.** Interaction plots.

provides empirical results. We present empirical results corresponding to each step identified in the prior section to test the mediation mechanism. For Step 1, we present the baseline models in Columns 1 and 2 of Table 3 and the full model in Column 3 of Table 3. According to Column 3 of Table 3, we find that the coefficient of LGBT workplace equality is .342 (p < .01), suggesting a positive association between LGBT workplace equality and customer satisfaction. Thus, we find empirical support for H$_1$. Furthermore, we find that the coefficient of LGBT workplace equality × Demand instability is −.327 (p < .01), indicating that demand instability negatively moderates the association between LGBT workplace equality and customer satisfaction.

Columns 4 (baseline model), 5 (baseline model), and 6 (full model) of Table 3 present estimation results for Step 2, linking LGBT workplace equality to marketing capability (i.e., our mediator). According to Column 6 of Table 3, we find that the coefficient of LGBT workplace equality is .620 (p < .01), indicating that corporate equality is positively associated with marketing capability. Thus, we find empirical support for H$_2$. Furthermore, we find that the coefficient of LGBT workplace equality × Demand instability is −.568 (p < .01), indicating that demand instability negatively moderates the relationship between LGBT workplace equality and marketing capability.

Finally, Columns 7 (baseline model), 8 (baseline model), and 9 (full model) of Table 3 present estimation results for Steps 3 and 4, which test the association between marketing capability and customer satisfaction and the absolute magnitude change of the coefficient of corporate equality to establish the mediation process. According to Column 9 of Table 3, we find that the coefficient of Marketing capability is .052 (p < .05), suggesting that marketing capability (our mediator) is positively associated with customer satisfaction. Furthermore, we find that the interaction effect LGBT workplace equality × Demand instability on customer satisfaction is negative (−.297) and highly significant (p < .05). By combining these findings, we find empirical support for H$_{3a}$ and H$_{3b}$, which suggest that demand instability moderates the association between LGBT workplace equality and customer satisfaction

and between LGBT workplace equality and marketing capability. To visualize how demand instability moderates the relationship between LGBT workplace equality and marketing capability and between LGBT workplace equality and customer satisfaction, we use the estimated coefficients to plot the simple regression slope in Figure 2, Panels A and B, respectively.

In Column 9 of Table 3, although the coefficient of LGBT workplace equality is significant (p < .05) after marketing capability is incorporated, the absolute magnitude of the coefficient reduces from .342 (Column 3) to .310 (Column 9). This indicates that marketing capability indeed mediates the relationship between corporate equality and customer satisfaction. Therefore, we find support for the mediation process proposed in H$_4$.

Notably, the coefficient of the control function residuals is highly significant (p < .05) in Columns 1–9, indicating that endogeneity is indeed present in our empirical setting. We also test the significance of mediation using the command medeff in Stata. According to Hicks and Tingley (2011), the medeff command allows researchers to deploy the parametric algorithm introduced by Imai, Keele, and Tingley (2010) to conduct a causal mediation analysis.[7] Test results with 5,000 simulations confirm the existence of the mediation effect and are presented in Web Appendix Table A4. Specifically, we find that the average effect of LGBT-WEP on customer satisfaction that operates through marketing capability is .033 and is significant at a 5% level as suggested by the 95% confidence interval (CI) from .002 to .075. We also find that the direct effect and total effect of LGBT-WEP on customer satisfaction are .304 (95% CI: [.041, .563]) and .337 (95% CI: [.075, .596]), respectively. Overall, the estimated percentage of total effect mediated by marketing capability is 10% (95% CI: [5%, 38%]).

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[7] We note that there is a different approach (i.e., the bootstrapping method) to conduct mediation test (Preacher and Hayes 2008; Wetzel et al. 2018).

## Robustness Checks

We perform a series of sensitivity tests to assess the robustness of our findings. To conserve space, we present the empirical results in Web Appendix Tables A5(a) and A5(b), along with details in table notes. Overall, we find that our main findings are robust to alternative measures of key variables of interest (i.e., customer satisfaction, LGBT workplace equality, marketing capability, and demand instability), alternate distribution assumption (for estimating marketing capability), alternate model specifications, and alternate calculation of standard errors.

## Supplementary Analysis and Results

Despite the practical importance of LGBT-WEP, the evidence on the effect of such a policy on performance is mixed. For instance, Pichler et al. (2018) do not find support for differences in the market value of more or less LGBT-friendly firms. However, Shan, Fu, and Zheng (2017) find support for a positive association between LGBT-WEP and market valuation.

What is also unclear in the literature is whether marketing capability plays a mediating role in the relationship between LGBT workplace equality and firm performance. We use Tobin's q, a market-based, forward-looking measure, to capture firm performance for empirical testing. Because LGBT workplace equality is likely to influence a company in different ways (both short-term and long-term), a forward-looking measure enables us to capture the overall market reaction to the implementation of equality policies.

However, as Bendle and Butt (2018) point out, traditional measures of Tobin's q have theoretical and empirical limitations. In response to this criticism, we adopt a newly developed measure of Tobin's q—that is, Total q—as a proxy of firm performance (Peters and Taylor 2017). Theoretically speaking, Total q factors in the replacement cost of intangible assets and therefore has an advantage over traditional measures of Tobin's q (Du and Osmonbekov 2019). In particular, Total q is measured as the ratio between market value and the sum of the physical assets and the estimated replacement cost of intangible capital. Market value is the sum of common stock, preferred stock, current liabilities, inventories, and long-term debt minus current assets (Chung and Pruitt 1994).

To empirically test the mediating mechanism, we present our estimation results corresponding to the three steps suggested by Baron and Kenny (1986) in Columns 1–9 of Web Appendix Table A6. Our results do reveal a positive and highly significant relationship between LGBT workplace equality and firm performance (see Column 3 of Table A6) and between LGBT workplace equality and marketing capability (see Column 6 of Table A6). Furthermore, according to the results presented in Column 9 of Table A6, we find that marketing capability partially mediates the relationship between LGBT workplace equality and firm performance. However, we find that demand instability only moderates the relationship between LGBT workplace equality and marketing capability (see Column 6 of Table A6).

## Discussion

Based on the stakeholder theory and the resource-based view of the firm, our results provide evidence on the role of LGBT-WEP on customer satisfaction through the marketing capability channel. To add rigor to the association-based inferences, we draw on the control function approach to handle the endogenous nature of LGBT-WEP and control for self-selection bias using Heckman's procedure. This identification strategy enables us to establish the likely causal effect of LGBT-WEP. The main takeaway of this article is that LGBT-WEP enhances marketing capability, which results in higher customer satisfaction. We also find an important contingency factor that dampens the direct effect of LGBT-WEP on marketing capability or customer satisfaction—namely, demand instability. In line with the exploratory moderated-mediation analysis, higher demand instability does not substantially weaken the effects of LGBT-WEP. In fact, according to Columns 6 and 9 of Table 3, we find that the marginal effect of LGBT-WEP on marketing capability (i.e., $.620 - .568 \times$ Demand instability) and customer satisfaction (i.e., $.310 - .297 \times$ Demand instability) remains positive even in industries with highly unstable demand (assuming Demand instability $= .217$, which equals the mean value plus three standard deviations of this variable).[8]

### Theoretical Implications

Our research provides novel insights for marketing scholarship. Although LGBT workplace equality has garnered increasing attention in business ethics and strategic management, its consideration in the marketing literature remains limited. Exploring this mediation effect is important because of a growing consensus on the role of employees as enablers of internal and external marketing resources (Olson et al. 2018), and the increasing role of marketing capability as a mainstay of driving firm performance (Krasnikov and Jayachandran 2008). The newly found mediation pathway in this paper highlights the role of pro-equality efforts in driving a positive organizational outcome. More importantly, we show that LGBT-WEP offers a distinct explanatory value above and beyond CSR practices. After controlling for employee relations and other categories CSR practices (i.e., community engagement, environmental commitment, and human rights protection), we find that LGBT-WEP is still significantly associated with marketing capability, customer satisfaction, and firm performance. Our findings can offer richer insights into further understanding of the employee equality and marketing interface.

The increasing public controversy on equal employment protection for LGBT employees brings to the fore the importance of employees and customers. Although some external

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[8] We thank one of the anonymous reviewers for suggesting this point.

stakeholders may not view LGBT policies favorably, and some prior studies have found limited gains from LGBT-WEP (e.g., Johnston and Malina 2008), our study sheds a different light on this perspective by uncovering the mediating channel of marketing capability. Our results show that, in addition to the social and moral benefits, promoting LGBT-WEP has economic benefits, as presented in our main and supplementary analyses.

As a diversity-enhancing policy, our findings suggest that LGBT-WEP may be considered a form of cutting-edge corporate cultural innovation that adds value to firms, even firms that have already achieved a good social performance. Our empirical results reveal that, although some of the variables reflecting CSR practices are significant in *some* specifications (see Web Appendix Table A5[a], A5[b], and 6), our main predictor (i.e., LGBT workplace equality) is consistently significant in *all* specifications that examine marketing capability, customer satisfaction, and firm performance.

Furthermore, the findings indirectly support stakeholder theory rooted in three interconnected business concerns: the ethics of capitalism, the problem of value creation and trade, and the problem of managerial mindset (Parmar et al. 2010). LGBT-WEP, despite its potential costs, addresses the need for managing ethics of capitalism by changing managerial mindset beyond the strict economic calculus and addresses the value creation concerns by increasing "plurality of stakeholders [through] the cooperation and support of the stakeholders themselves" (Minoja 2012, p. 67). Workplace equality for LGBT individuals highlights the value of ethics-based capitalism by increasing inclusivity and acceptance while improving economic outcomes. LGBT-WEP expands and strengthens the managerial mindset by lowering the paradox between economic and noneconomic goals of an organization, and provides a more unified approach to value creation (Goodpaster 1991).

The findings also highlight the important role of demand instability as a contingency factor. LGBT-WEP focuses on developing a consistent firm image and reputation with the customers. Demand instability may require firms to constantly change the rendering of such image and reputation. Our findings show that demand instability may lower the value of LGBT-WEP. Nevertheless, based on the presented moderation plots (Figure 2, Panels A and B), the effect of LGBT-WEP is weakened by demand instability but remains positive on customer satisfaction. The results seem to suggest that the gains from LGBT-WEP outweigh the costs regardless of the degree of demand instability.

By focusing on why supporting LGBT equality in the workplace may improve customer satisfaction via enhanced marketing capability, this article also contributes to the broader CSR literature (Mishra and Modi 2016), which suggests that socially responsible initiatives could enhance reputation, brand value, customer relationships, internal human and relational capital, and subsequently improving firm outcomes. At its core, LGBT-WEP is intertwined with the HR strategy of a firm. However, even after controlling for employee relations (which reflect the effectiveness of a firm's HR strategy), we still find a significant impact of LGBT-WEP on marketing capability and customer

satisfaction. This indicates that LGBT-WEP could be a profound firm policy that goes beyond regular HR practice. Internally, LGBT-WEP could be the basis of competitive advantage and viewed as an impeller to internal and external activities that prime marketing capabilities.

### Practical Implications

The findings are of significant practical importance. During this decade, support for LGBT employment protection has waxed and waned. With increasing controversy around the protection and equal rights for the LGBT community, our findings in the context of publicly traded corporations in the United States are timely and relevant. Our findings also have important practical implications for developing diversity policies for LGBT employees and, more importantly, call for a closer consideration of the implementation of such policies while considering the level of demand instability. Consistent with previous studies (e.g., Shan, Fu, and Zheng 2017), we drew on a well-accepted ranking of LGBT-WEP. However, the breadth and depth of the implementation of such policy are additional considerations for managers and policy makers.

Our findings provide additional guidance to senior executives for leveraging LGBT-WEP. In supporting the critical role of marketing, the findings indicate that employee equality-based initiatives can significantly enhance customer satisfaction through better marketing capability. Indeed, diversity and inclusion-based initiatives could enhance overall diversity, governance, and trust among internal and external stakeholders. Our findings also inform stockholders of publicly traded firms. Although additional studies are necessary, stockholders should consider introducing LGBT-WEP to improve shareholder wealth if a firm is not yet on board. Our findings provide clear benefits of LGBT-WEP and suggest that diverting organizational resources toward such initiatives is beneficial.

From a public policy perspective, this study carries important implications for policy makers. Currently, the public policy remains lagged at many corporations in protecting LGBT employees (Oakenfull 2013). We encourage policy makers to consider the marketing benefits in general (and consumer welfare in particular) of legislating and promoting an equal workplace environment for sexual minorities.

### Limitations and Future Research Directions

The findings are not without limitations. First, though consistent with previous studies, our measures could be richer—that is, the micro-level dynamics of LGBT implementation and experiences could further add to our understanding of this important consideration for firms. Second, our measure of marketing capability, though widely accepted in the marketing literature, provides a coarser-grained measure of marketing capabilities. Additional qualitative studies could shed further light on the nature and composition of elements of marketing capability and how LGBT policies uniquely influence such

components. Third, the generalizability of our findings is limited only to the United States. Although we control for various types of unobservables (such as firm, year, industry trends, and headquarters-location fixed effects) and correct for endogeneity and selection bias, other unobserved variations could still influence the findings. Additional research is necessary to assess not only whether the findings are generalizable to other countries, but also the motives and intents of the adoption of such policies. Finally, future research could explore other mediating mechanisms for the relationship between LGBT-WEP and customer satisfaction given that the percentage of total effect mediated by marketing capability is 10% (95% CI: [5%, 38%]). Some potential mediators include employee satisfaction, employee creativity, and employee resilience, which can be obtained via survey studies. In addition, although it does not contain zero, the relatively wide confidence interval indicates that more future research with larger sample sizes is needed to explore this heterogeneity.

For future research, we highlight three key research avenues. Does the nonadoption of LGBT-WEP (or a weak LGBT-WEP) lead to a competitive disadvantage for rivals? The nonuniform adoption of such policies in an industry raises the question of whether it creates rival factions for and against LGBT-WEP in the industry. For example, Target took a strong stance toward the inclusivity of LGBT patrons, whereas other big-box retailers did not. It may be helpful for future research to assess how competitive rivalry evolves around taking a strong stand versus not taking a public stand. LGBT-WEP could be a basis for competitive dynamics based on the customer segments served, and it would be interesting to assess why certain firms (e.g., Chick-fil-A) do not face a competitive disadvantage by not fully embracing more inclusive policies.

A second critical research avenue to explore is assessing whether adoptions of such policies do not become ceremonial and tokenized. Similar to greenwashing in the CSR literature, it is necessary to develop tangible and observable signals to create separating equilibrium between firms that translate LGBT-WEP into practice and those that do not. Accreditation may be useful to audit the prevalence and practice of LGBT-WEP. For example, the Benefit-Corporation certification issued by B-Lab to for-profit firms with a social purpose could be an exemplar to follow and gauge against the level of a firm's actual commitment to LGBT-WEP. The institutional, industry, and stakeholder validations for LGBT-WEP are essential to lower concerns for mimicked but less substantiated policies of inclusivity of sexual minorities.

The third critical research avenue to address is whether a business case is necessary to support the adoption and implementation of LGBT-WEP. Increasing calls for social purposiveness may lead firms to overlook economic gains and consider noneconomic benefits. Although our study does try to make an economic case for LGBT-WEP, future research needs to understand how or whether firms may forgo economic gains for noneconomic benefits of inclusivity. With recent protests (June 2020) calling for racial equality and inclusivity in the United States, the need for balancing economic profits against social good is ever more important. Future studies could assess how organizations balance these demands in the coming years.

## Conclusion

We hope the results of the current research can somewhat contribute to the continued debate among U.S. policy makers regarding LGBT rights (Hildebrand et al. 2013; Oakenfull 2013; Shan, Fu, and Zheng 2017). Our results show that LGBT-WEP positively influences customer satisfaction both directly and through enhanced marketing capability. Although demand instability dampens these associations, the marginal effect of LGBT-WEP on firm outcomes remains positive. Although LGBT-WEP only represents a corporate-wide policy, we believe that a more equitable treatment of LGBT employees should be enacted in public policy given its potential linkage to workforce and consumer welfare.

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