



**THE COSTS OF SEX-
BASED HARASSMENT TO
BUSINESSES: AN *IN-DEPTH*
*LOOK AT THE WORKPLACE***



SEX-BASED HARASSMENT COSTS COMPANIES

The wave of public accusations of sexual harassment and assault fostered by the #MeToo movement has rolled across workplaces in the U.S. and globally, shattering the prevailing silence on sex-based harassment and illuminating how sexual harassment negatively affects workers, particularly women, personally and professionally. In light of its mission to advance gender equity, which fundamentally requires understanding how society forges notions of masculinity and femininity, the International Center for Research on Women (ICRW) entered the discourse with the intent of going beyond the polemic and adding important new evidence on the economic costs of sexual harassment to businesses. Our initial contribution, summarized below, has been to surface the costs and pathways through which sexual harassment affects firms and the economy. Moving forward, our work will center on stimulating informed, corrective action by businesses. Drawing on decades of research on social norm change, ICRW will develop purpose-built diagnostics and tools that will help businesses transform workplace culture and support equitable behaviors and practices.

People who experience sexual harassment at work suffer from anxiety, distraction and even physical health issues.ⁱ These effects extend into their professional lives by pulling their focus from work and reducing their satisfaction with their jobs, often making them late to work or absent entirely.ⁱⁱ People who experience harassment also report that they intend to leave their jobs.ⁱⁱⁱ As such, sexual harassment can

derail the harassed individual's career by undermining their ability to perform and grow, driving them to new workplaces, and sometimes forcing them out of the workforce entirely. Since the vast majority of harassed individuals are women,^{iv} these effects have a direct impact on women's economic performance by weakening their position in the workforce.

By harming employees, sexual harassment also harms companies, most obviously through potential lawsuits, increased insurance premia and reputational damage, which leads to challenges in hiring top talent. Recognizing the personal and business consequences, companies and institutions are increasingly acting to address sexual harassment—from firing perpetrators to integrating sexual harassment prevention training with workers and management.^v However, most corporate responses have focused on reducing legal liability for harassment. Such an approach does not reduce the incidence of sexual harassment in companies,^{vi} which remains entrenched and largely unchallenged. Estimates range from half to 71% of working women experiencing some form of sexual harassment in the workplace depending on the industry.^{vii} Since sexual harassment reduces employees' productivity and drives employees out of companies regardless of whether the company is legally liable, the cost to companies is not trivial. One estimation model for calculating the costs associated with sex-based harassment (2005) found that the annual cost of sexual harassment due to absenteeism, lost productivity and turnover exceeded **\$6 million** per Fortune 500 company,^{viii} far more than the few thousand dollars companies are likely to pay in most settlements or for liability insurance.

Sex-based harassment encapsulates a wide range of behaviors that degrade or humiliate an individual based on their sex and/or gender. Three different categories of behavior define sex-based harassment: (1) “gender harassment,” referring to verbal and nonverbal behaviors that demean women and/or femininity or create a hostile work environment, but which do not have the goal of sexual cooperation; (2) “unwanted sexual attention,” referring to behaviors such as pressure for dates and unwanted touching which express a romantic or sexual interest but are unreciprocated and unwelcome; and (3) “sexual coercion,” pertaining to behaviors that threaten loss of job, unfavorable work assignments, or loss of pay or promised promotion, raises, or better assignments in return for sexual cooperation.

Adapted from Leskinen, Emily A., Lilia M. Cortina, and Dana B. Kabat, “Gender Harassment: Broadening Our Understanding of Sex-Based Harassment at Work,” *Law and Human Behavior*, 2010, <https://lsa.umich.edu/psych/lilia-cortina-lab/Leskinen%20et%20al.%202010%20LHB.pdf>

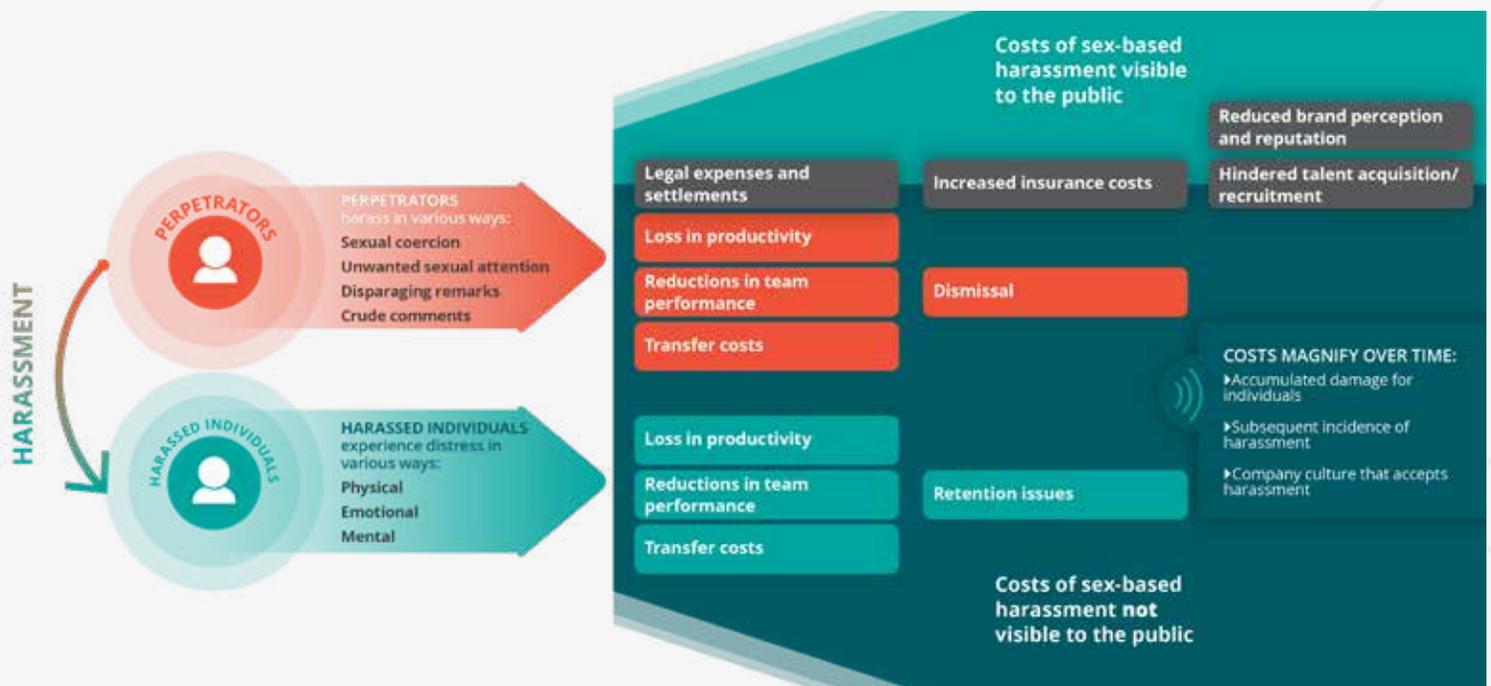
Corporate leaders and decision-makers need a framework that allows them to understand the full cost of sexual harassment and provides leverage points to find solutions to end sexual harassment in the workplace. To provide this framework, ICRW conducted a review of the literature on workplace sexual harassment and a series of interviews with Human Resources professionals, union representatives, insurance brokers, legal experts and academics. The results generated a framework describing the economic impact of sexual harassment and the pathways through which that impact occurs.

Before presenting the framework, it is important to underscore that the term “sexual harassment” is itself limiting, as it implies a focus on behaviors whose goal is sexual cooperation. Following the academic literature, this review uses the term “sex-based harassment.”

Although our analysis focuses on workplace sex-based harassment, other forms of harassment on the basis of race, class, sexual orientation, age, disability and other marginalized statuses likely operate in similar ways. However, data on these other forms of harassment are currently limited. Existing data do indicate that women of color, transwomen, women with disabilities and young women are more likely to experience sex-based harassment.^{ix} There has been little research on the prevalence rates of sex-based harassment for people who do not identify with the gender binary.

FRAMEWORK: THE EXPONENTIAL COSTS OF SEX-BASED HARASSMENT

✦ **Figure 1: The Exponential Costs of Sex-based Harassment**



As shown in **Figure 1**, costs to a company begin once the perpetrator has begun harassing another employee and grow as the behavior continues or goes unpunished. Likewise, costs increase if the perpetrator or others in the company retaliate against an employee who reports sex-based harassment. The harassed individual may respond negatively to harassment and retaliation in various physical, emotional and mental ways – including increased stress, distraction and physical ailments, reduced job satisfaction, and increased work withdrawal. These can lead to: a **loss of productivity**;^x reduced performance of the team(s) to which the harassed individual belongs;^{xi} **transfer costs** of moving the harassed individual to another team and/or department;^{xii} **retention issues** due to the harassed individual quitting (or a perpetrator with supervisory power firing them or pressuring them out in retaliation for reporting) and the need of the organization to find and hire a new candidate for the position.^{xiii} In addition to costing the company through their effect on the harassed individuals, perpetrators cost the company through **reductions in their own productivity**,^{xiv} and cause further **damage to team performance**.^{xv} If the harassment is reported and the company responds, further costs can include: **transfer costs** of moving the harasser to another team and/or department,^{xvi} and in some cases, the ultimate dismissal of the perpetrator and need to find and hire a new candidate for the position.^{xvii} In addition to these costs, which are generally hidden from the public, other costs are more publicly visible, or are visible to the public in certain scenarios such as

when subject to investigative reporting. These include **legal expenses and settlements**, including court awards for damages.^{xviii} While settlement values are meant to be invisible to the public, they sometimes are released. **Insurance costs**, particularly Employment Practices Liability Insurance (EPLI), may increase based on a company's fear of potential legal risk associated with sex-based harassment, leading them to purchase higher plans with greater coverage.^{xix} Furthermore, an organization may experience **reputational costs and the perception of its brand value can decline**,^{xx} which can further result in **hindered talent acquisition** and challenges in recruiting top candidates.^{xxi}

Despite frequent discussions of these visible costs of harassment, particularly settlements, the bulk of the costs of sex-based harassment derive from costs that are largely invisible to the public since these costs occur regardless of whether legal action takes place or the harassment becomes public knowledge. Average numbers for all the costs of sex-based harassment to companies can be found in **Appendix 1**.

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❖ Figure 2: Workplace Power & Sex-based Harassment



Figure 2 shows that, rather than being “provoked” by a sexual desire, research grounds the roots of sex-based harassment in a workplace culture that privileges men and fosters harassment. Sex-based harassment is most common in industries dominated by men, particularly those where men concentrate in the highest job ranks and occupations in businesses.^{xxii} In these industries, men are rewarded at work for displaying stereotypically masculine personality traits such as assertiveness, aggressiveness and confidence, while women who display these traits are more likely to be harassed than women who do not.^{xxiii} Similarly, men who display feminine personality traits are more likely to be harassed.^{xxiv} This encourages men to display “hegemonic masculine” behaviors, including harassment. Men are further encouraged to harass in companies where allegations are left uninvestigated and/or untreated, as they do not see it as hindering their advancement.^{xxv}

As harassment festers in company cultures, women are discouraged from entering male-dominated industries, such as tech, finance and manufacturing. However, women who do enter these fields can find their career advancement stifled since harassment reduces their productivity and alienates them from male colleagues and mentors.^{xxvi} Since women are not entering leadership positions, these industries and workplaces remain male dominated. Therefore, sex-based harassment is both a symptom and a driver of male dominance in an industry.

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While individual perpetrators are responsible for each incident of sex-based harassment, responses to workplace sex-based harassment need to operate on workplace culture in order to reduce, and hopefully stop, the behavior from occurring.

CONCLUSIONS AND NEXT STEPS

Sex-based harassment is costly, both to the individuals who experience harassment and to the companies that employ them. However, responses from companies have tended to focus on addressing legal liability and minimizing insurance premiums, often by instituting reporting channels such as whistle blower hotlines. Often times, however, these reporting channels are not used due to fear of retaliation in a company culture that has normalized sex-based harassment. To reduce the incidence, and thereby the costs, of sex-based harassment, companies need to understand and address aspects of their corporate cultures that support and perpetuate it. As stated above, sex-based harassment is most common in industries dominated by men, particularly those where men concentrate in the highest job ranks in businesses. However, even in industries that are numerically dominated by women – such as in education or service industries – men remain at the top of the organizational structure, and harassment rates remain high. Indeed, research indicates that companies and workgroups with the lowest prevalence of sex-based harassment are those with the greatest gender balance

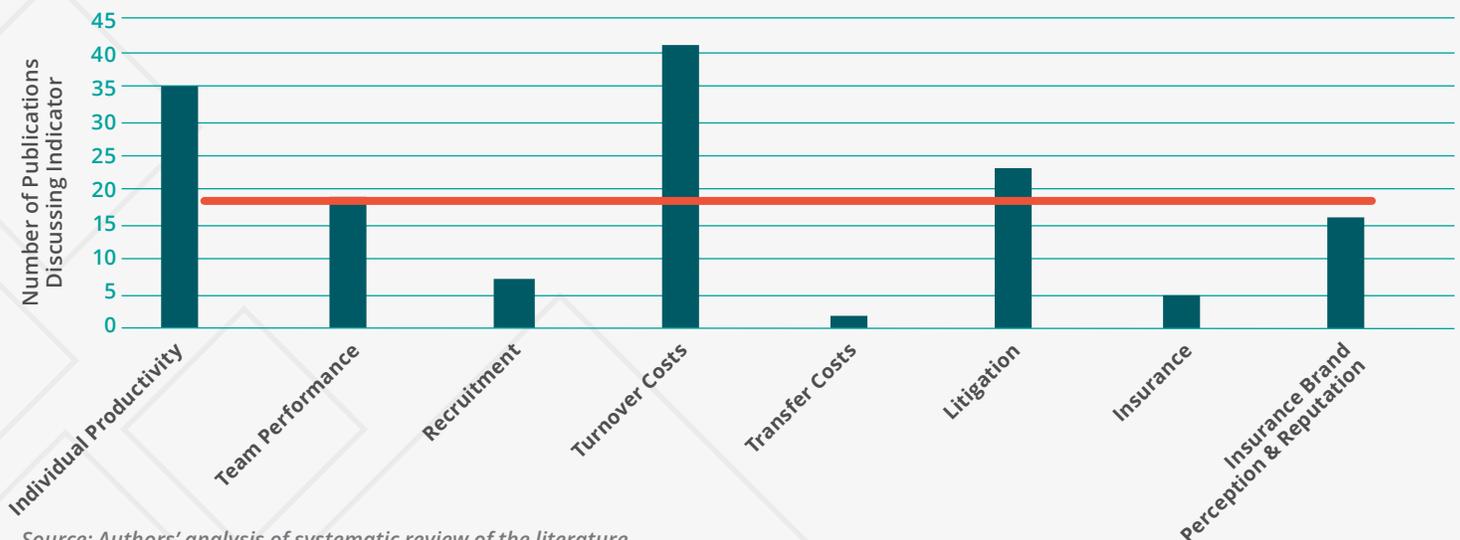
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in terms of workplace composition.^{xxvii} Importantly, companies with more diverse leadership in terms of both gender and racial composition also tend to outperform others in their industry, a phenomenon called the **diversity dividend**.^{xxviii}

These two facts suggest that companies that take steps to reduce power imbalances that favor men over women and other marginalized gender identities, and that favor white people over people of color, receive two major benefits. First, these steps reduce the incidence, and thereby the costs, of sex-based and other harassment. Second, they create a space where women and other marginalized groups face fewer barriers to advancement, and thereby can contribute more to the company. In turn, the company benefits from the full contribution of diverse talent. Therefore, to truly reduce the costs of sex-based harassment, companies should seek to address workplace cultures that undervalue women, people of color and other marginalized identities.

However, there remain several gaps in our knowledge of how to nurture positive workplace cultures. Firstly, there needs to be more research on other forms of workplace harassment, both in their own terms and in terms of how they intersect with sex-based harassment. **Figure 3** provides a gap analysis of the literature, indicating a few more key areas for research.

✦ **Figure 3: Gap Analysis of Sex-based Harassment Literature**



Source: Authors' analysis of systematic review of the literature

While the effects of sex-based harassment on turnover costs and individual productivity are well researched, other costs are significantly less well studied, particularly recruitment costs and the costs associated with addressing harassment only as a liability and deploying EPLI insurance as the primary means to limit exposure to the costs of harassment. The effects on recruitment are key to understand, as more equitable recruitment will provide the basis for more equitable workplaces. Although there appear to be many sources on litigation costs, these primarily discuss the settlement costs of cases sensationalized by the media. More research is needed on how the U.S. legal system defines and treats sex-based harassment cases in practice, particularly around the variation in rulings and outcomes of courts in different parts of the country. This will provide data on how the legal environment enables companies to reduce their liability for harassment and generate data that can reveal opportunities for implementing legal reforms that encourage fairer treatment of harassment cases and more equitable workplaces.

Most importantly, there need to be rigorous evaluations of effective responses to sex-based harassment. Current workplace responses to sex-based harassment need to be curated, analyzed and ranked based on their success. Research needs to be done to understand the differences between organizations that have implemented gender mainstreaming policies in order to change workplace culture compared with those that have responded to harassment more legalistically or on a case-by-case basis. Evaluations of recent, worker-led efforts to reduce harassment in the workplace are also critical. Simultaneously, new programs that combat workplace sex-based harassment by encouraging the transformation of workplace gender norms need to be created and tested.

ICRW plans to undertake further research on the pathways to and costs of sex-based harassment to expand our knowledge base and drive interventions and policy responses that support more gender equal workplaces.

APPENDIX 1: KEY INDICATORS OF COST OF SEX-BASED HARASSMENT TO THE WORKPLACE

The costs of each of the indicators in the framework are outlined in **Table 1**. A brief description of each follows. Many of these costs, particularly **individual productivity** and **team performance**, are difficult to calculate, as are often the result of the psychological and physiological consequences reported by a person affected by sex-based harassment.^{xxxix} Most of these numbers are likely underestimates, as it is difficult for people to assess how much time and motivation were lost due to sex-based harassment. Research is needed to more precisely describe many of these effects.

Table 1. Costs Associated with Sex-based Harassment Indicators

INDICATORS	COSTS
Individual Productivity	\$22,500 per harassed individual, 2007 ^{xxx}
Team Performance	Varies, one study found \$193.8 million lost to the civilian U.S. Government, 1992 - 94 ^{xxxi}
Recruitment	Unquantifiable
Turnover and Transfer Costs	\$5,000 - \$211,000 per lost employee, depending on level and industry, 2016 ^{xxxii}
Litigation	Settlements: \$75,000, Jury awarded damages: \$217,000, not including legal fees, 2017 ^{xxxiii}
Insurance	\$1,000 - \$1,000,000 per claim, not including standard premiums 2017 ^{xxxiv}
Brand Perception and Reputation	Varies by industry, and difficult to quantify

Individual Productivity

A meta-analysis of 41 studies of workplace sex-based harassment estimated that, on average, companies lose about **\$22,500 in productivity per harassed individual**.^{xxxv} Likewise several key informants suggested that productivity is a major area of loss for companies, though they also noted that it is difficult, perhaps impossible, to quantify this effect.

Team Performance

Exposure to the sex-based harassment of co-workers has the potential to foster 'bystander' stress and other negative outcomes such as team conflict, declines in the team's financial performance and occupational stress for team members.^{xxxvi} One study that calculated losses due to sick leave, tardiness, and absenteeism of team members found that the federal government lost **\$193.8 million** from 1992 to 1994 from losses in workgroup productivity alone due to sex-based harassment.^{xxxvii} This was 59.2% of the total losses to the federal government due to sex-based harassment calculated in that study.

Recruitment

When companies experience sex-based harassment in their workplace and let the issue go unaddressed, they are less likely to attract top candidates.^{xxxviii} While it is not possible to easily generate a number for these losses, it is a major concern for companies looking to attract top talent. Carefully constructed surveys on the chilling effects of sex-based harassment for potential workers can be used to assess recruitment costs and offer a fruitful avenue for analyzing the recruitment costs to firms of the failure to address sex-based harassment. Yet to date, few such surveys have been conducted.

Turnover and Transfer Costs (Retention issues and Dismissal)

The replacement costs for an individual employee vary by industry and by level of the position; however, on average the literature reports that recruitment costs range from **\$5,000** to **\$10,000** for an hourly employee, **\$7,500** to **\$12,500** for mid-level employees, and **\$75,000** to **\$211,000** for high-level employees.^{xxxix} These costs generally include costs for advertising for the new position, background checks, reference checks, drug testing, relocation costs, salary increases/signing bonuses for higher-level employees, and labor costs for human resources. Depending on the prevalence of sex-based harassment in a company, these costs can add up, with studies finding that anywhere from 3.8% to 33% of women who experience sex-based harassment say that they intend to leave their jobs, depending on their industry, position and security without a job.^{xl}

Litigation

Although estimates of costs vary, one source estimates that out of court settlements averaged **\$75,000**, while those cases that went to trial averaged **\$217,000** in jury-awarded damages when the plaintiff won.^{xli} These settlements are not necessarily one-time payments. In addition to settlements and awarded damages, the process of going to court can be expensive. The average court costs and legal fees per case of sex-based harassment can range from:

- ♦ \$10,000 - \$50,000 for out of court settlements;
- ♦ \$10,000 - \$15,000 for dismissed cases; and
- ♦ \$150,000 - \$200,000 for cases that go to trial.

Additionally, the resolution of a lawsuit can take between 18 and 24 months, during which time employees, particularly HR staff, the alleged perpetrator and the harassed individual (if still employed at the company), may spend time focused on the case, rather than work, thus reducing their productivity.^{xlii}

Insurance

Employment practices liability insurance (EPLI) is the primary insurance cost associated with workplace sex-based harassment. EPLI "provides coverage to employers against claims made by employees alleging discrimination (based on sex, race, age or disability), wrongful termination, harassment and other employment-related issues."^{xliii} Coverage rates vary, depending on the size of the company, their retention rate and whether there is a history of harassment or other forms of discrimination at the company. In addition to the premium, insurers usually include a "retention" for each complaint, which functions similarly to a deductible, before the carrier will take on expenses associated with the claim. For small companies, this retention may range from **\$1,000** to **\$10,000** per complaint, but for large firms can reach up to **\$1,000,000**.^{xliv}

Brand Perception and Reputation

The impact of sex-based harassment on brand reputation is difficult to quantify; however, evidence shows that sex-based harassment is linked to external reputation damage.^{xlv} Reputational damage can result in various issues for the company, such as driving away

customers, investors and potential talent. The exact costs due to damage to brand reputation takes different forms in different industries. In media, for example, advertisers may pull their advertisements from airing during shows with accused perpetrators,^{xlvi} or decide

not to release content in order to reduce fallout to their brand. In other industries, costs might play out differently, through boycotts, protests, and loss of investment capital.

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Recommended Citation: Rizzo, A. Theodore, Natacha Stevanovic-Fenn, Genevieve Smith, Allie M. Glinski, Lila O'Brien-Milne, and Sarah Gammage. (2018). The Costs of Sex-Based Harassment to Businesses: An In-Depth Look at the Workplace. Washington, DC: International Center for Research on Women.



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