Less is More: Lender Distraction and Workplace Safety*

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ABSTRACT

We examine the effect of lender distraction on workplace safety and find that a decrease in lender attention leads to an increase in workplace safety for borrower firms. To establish causality, we use exogenous shocks to lender attention induced by attention-grabbing events in unrelated industries in the lender's portfolio. The improving effect of lender distraction on workplace safety is more pronounced for borrowers not in financial distress and those with lower union memberships. Additionally, we explore plausible mechanisms and find that lender distraction improves workplace safety through both reducing renegotiation pressure and lowering workload. Overall, our results document an unintended yet positive effect of corporate stakeholder distraction.

Keywords: Lender Distraction; Workplace Safety; ESG; Renegotiation Pressure; Employee Workload

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1. Introduction

Human attention is a scarce commodity in limited supply and corporate stakeholders are inevitably also subject to the constraints of their attention limits. Thus motivated, Baker and Wurgler (2012) raise an important open question: "What is the impact of … limited attention on corporate finance?" Not surprisingly, existing research in behavioral corporate finance and accounting mostly uncovers the adverse effect of limited attention on corporate actions. For example, firms are likely to pursue value-destroying acquisitions when shareholders are distracted (Kempf, Manconi, and Spalt 2017). In contrast, we offer in this paper new evidence of an unintended yet *positive* consequence of corporate stakeholder distraction: When corporate lenders are distracted, borrower firms' workplace safety is improved. In other words, our results paint a picture of the bright side of lender distraction.

We study the effect of lender distraction on workplace safety as the latter has important economic and social welfare consequences. The National Safety Council estimates that work-related deaths and injuries cost the nation, employers, and individuals $164 billion in 2020 (NSC 2020). In its 2022 Workplace Safety Index, Liberty Mutual estimates that the top 10 causes of the most serious disabling workplace injuries cost U.S. businesses more than $1 billion per week (Liberal Mutual 2022). Furthermore, firms' workplace safety practices are now key components of their environmental, social, and governance (ESG) ratings,[1] which are closely monitored by ESG funds (Dikolli, Frank, Guo, and Lynch 2022). As these funds have experienced rapid growth, increasing from $19 billion in 2014 to $39 billion in 2020, the focus on workplace safety has become even more important (Deloitte 2022). Prior studies show that workplace safety can be

[1] For example, three of the 28 ESG issues from RepRisk, the global ESG ratings leader, are related to workplace safety: forced labor, occupational health and safety issues, and poor employment conditions (RepRisk 2022). See also Wall Street Journal (2020) for evidence that firms achieve high ranks in sustainability by earning high scores in employee health and safety.

influenced by financing frictions (Cohn and Wardlaw 2016), earnings expectations (Caskey and Ozel 2017), private equity buyout (Cohn, Nestoriak, and Wardlaw 2021), and analyst coverage (Bradley, Mao, and Zhang 2022). To date, we still have limited evidence from the accounting and finance literature on factors that could affect workplace safety (Hope, Wang, Yue, and Zhao 2022). The evidence is especially scarce regarding potential factors related to frictions from corporate lenders, given the importance lenders place on workplace safety when making lending decisions (Wall Street Journal 2023). Our paper fills this gap.

The key challenge for our study is to identify the causal effect of lender distraction on workplace safety, for which we need exogenous shocks to lender distraction. To this end, we construct a measure of lender distraction that is plausibly exogenous relative to the borrower firm of interest. Our measure is similar in spirit to the shareholder distraction measure in Kempf, Manconi, and Spalt (2017), but applied to the lender setting.[2] This measure identifies periods when lenders are likely preoccupied with attention-grabbing events in other industries within their portfolio. Based on the concept that attention is a limited resource (Hirshleifer and Teoh 2003), this measure assumes that distracted lenders pay less attention to certain firms they finance. Therefore, lender distraction suggests a *reduction* in monitoring of these borrowers. A key advantage of this measure is its exogeneity to the borrower being analyzed, as it is based on the external events affecting other firms in the lender's portfolio.

Ex-ante, it is unclear whether lender distraction affects workplace safety among borrowers. In the U.S., borrower firms are subject to frequent non-covenant-based monitoring from lenders (Gustafson, Ivanov, and Meisenzahl 2021), including but not limited to loan renegotiation

[2] Appendix B provides a detailed example illustrating the construction of this measure.

pressure.[3] For example, to improve their chances in loan renegotiations, borrower firms sometimes choose to enhance financial performance by cutting payroll and headcount (Falato and Liang 2016; Chatterjee, Hass, Hribar, and Kalogirou 2021), which could inadvertently increase workloads and injury rates (Caskey and Ozel 2017). However, when lender attention is distracted, the pressure for loan renegotiation could be reduced (Donovan and Martin 2021), potentially deterring borrowers from drastic measures like layoffs and increasing workloads, thereby improving workplace safety.

Conversely, should borrowers opt for strategies unrelated to employee safety to maintain good financial performance, such as accrual-based earnings management or cutting R&D expenditures, the reduction in loan renegotiation pressure due to lender distraction may not necessarily affect workplace safety.

Our empirical analysis employs a sample of 63,069 establishment-year observations extracted from the injury data collected by the Occupational Safety and Health Administration (OSHA) under the Data Initiative Program (ODI) for the period 2002-2011.[4] Our baseline specification includes establishment fixed effects, industry-by-year fixed effects that capture time-varying omitted variables specific to the industry, and state-by-year fixed effects that capture time-varying omitted variables specific to the state. We find that borrowers' employee injury rates decline when lenders are distracted. In terms of the economic magnitude, a one-standard-deviation increase in lender distraction leads to a 4.06% decrease in injury rate relative to its median. Our main estimated coefficient of interest is largely unchanged when we control for other firm-level

[3] For example, using 1000 random credit agreements initiated between 1996 and 2005, Denis and Wang (2014) find that over 53% of debt contracts were renegotiated even prior to a breach of debt covenants.
[4] We have omitted data prior to 2002 due to a data recording policy change by OSHA, and OSHA discontinued ODI data collection after 2011.

and establishment determinants of employee injury rates, implying it is a causal estimate of the effect of lender distraction on workplace safety.

We next perform cross-sectional analyses to further explore the economic mechanisms. First, we find the effect is more pronounced for borrowers in good financial health condition, i.e., not experiencing financial distress. Borrowers in financial distress, often in desperate need of financing (Dou, Wang, and Wang 2022), might resort to measures like layoffs and increased workload to enhance their financial standing, despite reduced pressures for loan renegotiation due to lender distraction. As a result, the impact of lender distraction could be less significant for financially distressed firms.

Second, we find the effect is more pronounced for borrowers with lower union membership. Unlike borrowers with weaker unions, those with stronger union presence tend to prioritize reasonable workloads and workplace safety (Morantz 2013). This commitment likely deters them from taking actions affecting workplace safety to improve financial performance. Hence, their workplace safety seems to be less sensitive to lender distraction.

Lastly, we provide evidence of plausible mechanisms explaining why borrowers' workplace safety improves when lenders are distracted. We find a decrease in loan renegotiation pressure and a reduction in borrower workloads during periods of lender distraction. Both plausible mechanisms corroborate our hypotheses and thus strengthen the credibility of our findings. Furthermore, we find borrowers do not increase safety expenditures significantly when lenders are distracted, which also supports our hypothesis.

Our study makes two contributions to the literature. First, we contribute to the literature on lender monitoring and borrowers' operations. This literature has mainly focused on how lender monitoring affects borrower operations after gaining more control rights following debt covenant

(DC) violations (e.g., Chava and Roberts 2008; Ferreira, Ferreira, and Mariano 2018; Chatterjee, Hass, Hribar, and Kalogirou 2021). For example, Chava and Roberts (2008) find that borrowers' capital investment declines significantly after a DC violation; Ferreira, Ferreira, and Mariano (2018) find a notable increase in the number of independent directors on corporate boards following DC violations; Chatterjee, Hass, Hribar, and Kalogirou (2021) find that borrowers' workplace safety deteriorates when the role of lender monitoring is intensified following DC violations. Our research extends the literature by focusing on a different mechanism, lender distraction, and showing an improvement in workplace safety among borrowers when lenders are distracted. Furthermore, our paper carries significant implications for the practice of lender monitoring. Lenders care about the health and safety of borrowers' employees, as compromised health and safety can lead to operational instability, ultimately increasing the risk of default. For example, loan agreements often include clauses that require borrowers to uphold employee health and safety standards.[5] In addition, by including such provisions, lenders can mitigate potential risks associated with non-compliance and protect their reputations. Our findings indicate that lender monitoring might inadvertently lead to a compromise in the borrower's workplace safety, an unintended consequence of lender monitoring.

Second, our paper contributes to the literature on managerial myopia. Previous studies show that when facing pressure from investors, managers often prioritize short-term gains at the expense of long-term interests (Stein 1988; Graham, Harvey, and Rajgopal 2005; Caskey and Ozel 2017). For instance, Graham, Harvey, and Rajgopal (2005) conduct a survey and interviews with

[5] For example, in the loan agreement between Addus Acquisition Corporation and Freeport Financial LLC (Addus 2006), article 5.1 states that "Each Loan Party will (a) comply with and shall cause each of its Subsidiaries to comply with (i) the requirements of all applicable material laws, rules, regulations and orders of any Governmental Authority (including, without limitation, laws, rules, regulations and orders relating to taxes, employer and employee contributions, securities, employee retirement and welfare benefits, environmental protection matters and employee health and safety) as now in effect...".

over 400 executives and find that 78% of them acknowledge sacrificing long-term value to smooth earnings when under pressure to meet immediate performance targets. In our study, we extend this literature by illustrating that pressure from lenders can similarly induce managerial myopia. Specifically, when the pressure from lenders wanes, borrowers become less inclined to sacrifice long-term benefits for short-term performance improvement.

We organize the remainder of the papers as follows. Section 2 provides a literature review and develops the main hypothesis. Section 3 describes the data, sample selection, variable measurement, and research design. We present the empirical results in Section 4. Section 5 concludes.

2. Literature Review and Hypothesis Development

2.1 Stakeholder Pressure and Workplace Safety

Research on the impact of stakeholder pressure on workplace safety is still limited (Caskey and Ozel 2017; Chatterjee, Hass, Hribar, and Kalogirou 2021; Qian, Crilly, Lin, Zhang, and Zhang 2022). Caskey and Ozel (2017) find that workplace safety tends to decline when managers face pressure to meet shareholder earnings expectations. In particular, they find that firms just meeting or slightly exceeding analyst forecasts have significantly higher rates of injuries or illnesses than those that fall short or far past these forecasts. This is attributed to firms increasing employee workload and cutting back on safety investments to align with earnings forecasts, both of which can lead to a deterioration in workplace safety.

Qian, Crilly, Lin, Zhang, and Zhang (2022) find a rise in employee injuries when firms face short-selling pressure in the capital market. This pressure prompts managers to shift their attention to short-term focus and reduce critical long-term investments, including those in workplace safety. In addition, to counteract the adverse effects of short selling, such as predatory

trading and stock price collapse, firms may take steps, including imposing heavier workloads to improve short-term performance. As a result, workplace safety decreases when under short-selling pressure.

Chatterjee, Hass, Hribar, and Kalogirou (2021) show that borrowers experiencing lender pressure due to DC violations report higher employee injury rates. These borrowers, in efforts to enhance cash flow as dictated by lenders, may resort to employee layoffs and increased workloads. They may also face restrictions on investments in workplace safety due to financial constraints imposed by lenders.

Our paper, different from Chatterjee, Hass, Hribar, and Kalogirou (2021), investigates how changes in lender monitoring intensity induced by variations in their attention levels affect the workplace safety of borrowers, in a much broader setting than merely considering the cases of covenant violations.

2.2 Lender Distraction and Firm Performance

Studies show that lenders play an important role in the business operation of borrowers (e.g., Gao, Karolyi, and Pacelli 2018; Donovan and Martin 2021; Hong, Ryou, and Srivastava 2021). For example, lenders often curtail borrowers' engagement in risky investments, which are typically more volatile and pose a higher risk of loss for lenders (Hong, Ryou, and Srivastava 2021).

However, when lenders are preoccupied with borrowers facing high-profile issues (a situation where lender attention is distracted), there is a likelihood that other borrowers in the lender's portfolio may receive less attention. As a result, the monitoring of these other borrowers' operations by the lender could become less stringent.

Gao, Karolyi, and Pacelli (2018) find that loan officers, when distracted, put less effort into collecting "costly" soft information (i.e., observable characteristics) during loan negotiations. Moreover, the borrowers of these distracted officers are more prone to default and tend to increase their risky investments, especially after breaching debt covenants. Similarly, Donovan and Martin (2021) find that distracted lenders lead to borrowers decreasing their cash holdings and increasing risky investments, leverage, and payouts to stakeholders.

In summary, the existing evidence points to distracted lenders being less effective in overseeing borrowers' operations. Put differently, borrowers experience reduced pressure when lenders are distracted, making them less likely to take measures (such as cutting workplace safety investments and increasing workloads) that compromise long-term benefits for short-term financial performance. This conjecture motivates us to explore how lender distraction affects workplace safety in borrowers in general, a research question that has not been previously studied.

2.3 The Effect of Lender Distraction on Workplace Safety

According to rational inattention theory (e.g., Simon 1971; Kahneman 1973), economic agents optimize the allocation of their limited attention. In lending scenarios, because monitoring by lenders is resource-intensive, lenders often focus on borrowers needing immediate attention. This focus results in less attention to other clients, a phenomenon referred to as lender distraction (Donovan and Martin 2021).

We propose that lender distraction can reduce the pressure on borrowers to maintain solid financial records through measures such as layoffs and increasing workloads, thereby improving workplace safety of borrowers.

Renegotiation of debt contracts is a common practice (Roberts and Sufi 2009; Denis and Wang 2014). For example, Roberts and Sufi (2009) find that over 90% of long-term debt contracts

are renegotiated without any technical default. Denis and Wang (2014) find that more than half of debt contracts are renegotiated before breaching covenants. Under pressure to renegotiate, borrowers may strive to maintain strong financial performance through various employee-related actions, such as layoffs and increasing workload, which could compromise workplace safety (Caskey and Ozel 2017).

However, this pressure to renegotiate debt contracts may lessen when lenders are distracted. For instance, Donovan and Martin (2021) find that the likelihood of renegotiating existing debt contracts decreases when lenders are inattentive. As a result, borrowers could be less compelled to take actions such as cutting investment in workplace safety or increasing workload to maintain favorable short-term financial records.

These analyses lead to our main hypothesis:

H1: *Lender distraction can improve workplace safety for borrowers*.

This prediction is not without tension. For example, because of the importance of workplace safety in aspects like employee satisfaction, product quality, and borrowers' ESG rating (e.g., Das, Pagell, Behm, and Veltri 2008), borrowers may opt for alternative strategies to sustain good financial performance under debt renegotiation pressure, such as accrual-based earnings management or cutting R&D spending. Therefore, a reduction in the pressure to renegotiate loans due to lender distraction may not necessarily affect workplace safety.

3. Data and Sampling Process, Variable measurement, and Empirical Design

3.1 Data and Sampling Process

We download establishment-level workplace injury data from the Occupational Safety and Health Administration Data Initiative (ODI) program.[6] Each year, the ODI collects illness and injury data at the establishment level from approximately 80,000 employers. The Occupational Safety and Health Administration (OSHA) then uses this data to calculate injury and illness rates and makes decisions about enforcement. The ODI database contains the following information at the establishment level: name, address, industry, associated Total Case Rates (TCR), Days Away, Restricted, and Transfer (*DART*) case rate, and the Days Away From Work (*DAFWII*). In addition, it also includes the number of employees, the number of hours worked, and indicator variables for whether or not the establishment experiences unusual events such as strikes, facility shutdown, or natural disasters (Bradley, Mao, and Zhang 2022). The ODI database does not contain the common identifier GVKEY. Therefore, we use the establishment-GVKEY link table provided by Caskey and Ozel (2017) to merge the establishment-level workplace injury data with the Compustat population and assign each establishment-level record a GVKEY identifier. Panel A of Table 1 details the sample construction process.

Following prior literature (e.g., Hope, Wang, Yue, and Zhao 2022), we exclude firms in financial and regulated industries (SIC codes 6000–6999 and 4900–4999) and delete observations with errors (e.g., the annual total working hours per employee is longer than 8,760 hours (24 hours × 365 days). We next merge the above data with lender distraction measurement using the Compustat-Dealscan link table provided by Chava and Roberts (2008). Lastly, we delete singleton observations and observations with missing control variables.

[6] According to OSHA standard 1904.46, an establishment is generally defined as a physical location where business is conducted or where services or industrial operations are performed.

Our sample period is from 2002 to 2011. We do not include data prior to 2002 because OSHA changed its data recording policy in 2002. Our sample ends in 2011 because OSHA discontinued ODI data collection after 2011.

Our final sample consists of 63,069 establishment-level observations.[7] Panel A of Table 1 illustrates the sampling process.

3.2 Variable Measurement

3.2.1 Lender Distraction

The main variable of interest in our analysis is *Lender Distraction*, which represents the extent to which lenders are distracted from a particular borrower in a given period. A higher level of lender distraction indicates that the borrower's managers face more lenient monitoring by lenders. Following prior studies (e.g., Kempf, Manconi, and Spalt 2017; Donovan and Martin 2021), we first calculate the level of lender distraction quarterly using the following model and then aggregate it at the year level:

$$Lender\ Distraction_{iq} = \sum_{l \in Lq-1} \sum_{IND \neq IND_i} w_{ilq-1} \times w_{lq-1}^{IND} \times IS_q^{IND}, \quad (1)$$

where l stands for all lenders of borrower i at the end of quarter *q-1*. *IND* represents a given Fama-French 12 industry. w_{ilq-1} represents the importance of lender l to borrower i, measured by the ratio of the borrower's debt held by lender l to the borrower's total debt at the end of quarter *q-1*.[8] w_{lq-1}^{IND} represents how much lender l cares about a specific industry, measured by the ratio of the total debt the lender provides to the particular industry *IND* to its total lending amount. IS_q^{IND} is an indicator variable and represents whether the particular industry *IND* causes some distraction.

[7] Following Hope, Wang, Yue, and Zhao (2022), we identify unique establishments using unique GVKEY, zip code, and phone-number combinations.

[8] All debt data used to construct this measure is provided by Dealscan. For each loan facility, we obtain its beginning and ending dates and lending banks, based on which we calculate the key variables w_{ilq-1} and w_{lq-1}^{IND}.

Motivated by Barber and Odean (2008), we define IS_q^{IND} to be equal to one if an industry has the highest or lowest return across all 12 Fama French industries in quarter q. Appendix B illustrates how we construct this variable.

3.2.2 Workplace Safety

We measure workplace safety using Total Case Rate (TCR). TCR includes deaths, cases with days away from work, cases with job transfer or restriction, and other recordable cases.[9] TCR is computed from the following formula: (Number of injuries and illnesses * 200,000) / Employee hours worked = Incidence rate.[10]

3.3 Empirical Design

We examine the relationship between lender distraction and workplace safety using the following model:

$$TCR_{it} = \beta_1 Lender\ Distraction_{it-1} + \beta_2 Controls_{it/t-1} + \alpha_i + \delta_{st} + \gamma_{qt} + \epsilon_{it}, \quad (2)$$

where *t* indexes year, *i* indexes establishment, *q* denotes the industry the establishment belongs to, and *s* represents the state in which the establishment is located. α_i stands for establishment fixed effect, δ_{st} represents state-by-year fixed effect, and γ_{qt} represents industry-by-year fixed effect.

$Controls_{it/t-1}$ refer to a set of firm-level and establishment-level characteristics that could affect workplace safety, following prior studies (e.g., Caskey and Ozel 2017). We first control the following firm-level characteristics: *Size* (the natural logarithm of a firm's total assets at the end of year *t-1*), *Leverage* (the ratio of total debt to total assets at the end of year *t-1*), *Cash/Assets* (the ratio of total cash and cash equivalents to total assets at the end of year *t-1*),

[9] Source: https://www.osha.gov/pls/odi/establishment_search.html.
[10] The 200,000 hours in the formula represents the equivalent of 100 employees working 40 hours per week, 50 weeks per year, and provides the standard base for the incidence rates (https://www.bls.gov/iif/osheval.htm).

Market-to-Book (the ratio of market value of equity to book value of equity at the end of year *t-1*), *PPE/Assets* (net property, plant, and equipment scaled by total assets at the end of year *t-1*), *CF/Assets* (the sum of income before extraordinary items and depreciation and amortization in current year scaled by total assets at the end of year *t-1*), *Dividend/Assets* (total cash dividends paid to common shares in the current year scaled by total assets at the end of year *t-1*), *Asset Turnover* (the ratio of sales of year *t* to total assets at the end of year *t-1*), and *CapEx/Assets* (the ratio of capital expenditures of year *t* to total assets at the end of year *t-1*).

We also control several establishment-level characteristics that could affect workplace safety. *Log(Employees)* (the natural logarithm of the establishment's number of employees during the year), *Log(Hours/Employee)* (the natural logarithm of the establishment's total number of annual hours worked in a given establishment, scaled by the number of employees), *Disaster* (an indicator variable equal to one if the establishment encounters natural disasters or adverse weather conditions during the year), *Strike* (an indicator variable that equals one if there is a strike or lockout in the establishment during the year), *Shutdown* (an indicator variable that equals one if there is a shutdown or layoff in the establishment during the year), and *Seasonal* (an indicator variable that equals one if the establishment employs a seasonal worker during the year).

4. Empirical Results

4.1 Descriptive Statistics

Panel B of Table 1 presents the average injury or illness rates by Fama-French 12 industries (excluding financial and regulated industries). The Business Equipment and Telephone and Television Transmission industries have the lowest injury and illness rate at 2.4%, while the Healthcare, Medical Equipment, and Drugs industry has the highest rate at 11.2%.

Panel C of Table 1 reports the summary statistics of main variables. The mean TCR indicates that an employee has a 7.865% probability of injury in the average establishment year. The means Log (Employees) and the mean Log (Hour/Employee) suggest that the average number of employees per establishment is 137 and that each employee works an average of 1,899 hours per year. These descriptive statistics are consistent with Caskey and Ozel (2017) and Hope, Wang, Yue, and Zhao (2022).

Panel D of Table 1 provides the Spearman correlation between TCR and other variables. The correlations indicate that the case rates (i.e., injury or illness rates) are lower when lender attention is low. In addition, the TCR are higher in capital-intensive firms with more PP&E and higher capital expenditures, and in firms with high asset turnover, similar to the findings in Caskey and Ozel (2017).

4.2 Main Results

Table 2 reports the main test results of estimating the effects of lender distraction on borrowers' workplace safety. In column (1), we present the results of estimating Equation (2), with establishment fixed effects, industry-by-year fixed effects, and state-by-year fixed effects, but without firm-level and establishment control variables. This mitigates the issue of the main coefficient of interest being confounded by bad controls. Consistent with H1, we find that β_1 is negative with a value of -1.839, significant at $p< 0.05$ level. Next, we add firm-level controls in column (2) and both firm-level and establishment-level controls in column (3). We find that β_1 continues to be significantly negative with coefficients of -1.838 ($p< 0.01$) and -1.912 ($p< 0.01$) in columns (2) and (3), respectively. In terms of economic magnitude, taking column (1) as an example, a one standard deviation increase in lender distraction leads to a 4.06% decrease in the injury rate relative to its median.

Chatterjee, Hass, Hribar, and Kalogirou (2021) show that borrower firms improve workplace safety after debt covenant (DC) violations. Our sample is more comprehensive and contains firms that span the entire spectrum of financial distress. To ensure that our results are not simply driven by the mechanism of DC violations, we conduct a robustness check in Table 3 and repeat our main analysis for the subsample where firms with DC violations are excluded. We obtain DC violations data from Nini, Smith, and Sufi (2012), which defines a new DC violation as an instance where a firm breaches a financial covenant, having not committed any covenant violations in the preceding four quarters. In this analysis, we exclude data post-2008 due to the unavailability of DC violation data from that point onwards. As shown in Table 3, the estimates of β_1 from Equation (2) are negative and statistically significant across all three columns, and similar in magnitude to their counterparts in Table 2. This suggests that the mechanism of lender distraction we capture in our empirical analysis is different from the channel of DC violations.

Overall, the main results are consistent with our prediction that lender distraction could reduce borrower injury and illness rates, thereby improving workplace safety.

4.3 Cross-sectional Analyses

We next perform cross-sectional analyses to shed light on the economic mechanisms underlying the effect of lender distraction on workplace safety of borrowers.

4.3.1 Financial Health

We first examine whether the impact of lender distraction on workplace safety is more pronounced for borrowers in good financial health, i.e., not in financial distress. Financially distressed firms are often accompanied by comprehensive organizational restructuring and are in dire need of financing (Wruck 1990; Dou, Wang, and Wang 2022). The need for financing could prompt these financially distressed firms to take actions that include layoffs and increased

workloads to maintain their financial performance above a certain threshold in preparation for applying new loans, even though the pressure to renegotiate existing loans may fall due to lender distraction. In other words, financially distressed firms could be less sensitive to lender distraction. As a result, financially distressed firms could have a relatively higher injury rate and lower level of workplace safety.

To test this prediction, we first construct a variable called *Financial Health*, an indicator variable that equals one if the Altman Z-score of the firm-year above the sample-year mean and zero otherwise. We then interact it with our key variable of interest *Lender Distraction*. The model is as follows:

$$TCR_{it} = \beta_1 Lender\ Distraction_{it-1} * Financial\ Health_{it-1} + \beta_2 Lender\ Distraction_{it-1} + \beta_3 Financial\ Health_{it-1} + \beta_4 Controls_{it/t-1} + \alpha_i + \delta_{st} + \gamma_{qt} + \epsilon_{it}. \quad (3)$$

Table 4 reports the results. We find that the coefficient β_1 of $Lender\ Distraction_{it-1} * Finanical\ Health_{it-1}$ is negative and significant across all three different specifications in columns (1) to (3), suggesting that the effect of lender distraction on workplace safety of borrowers is more pronounced for firms not in financial distress.

4.3.2 Union Coverage

Next, we explore whether the impact of lender distraction on workplace safety is more pronounced for borrowers with low union memberships. Prior studies show that unions play a key role in workplace safety through promoting safe work environment, improving safety practices, educating workers about safety, and attracting safety-aware workers (e.g., Morantz 2013). Additionally, unionized workplaces typically result in stricter regulatory oversight and more safety innovations. Therefore, firms with stronger unions are more likely to prioritize reasonable

workloads and workplace safety and less inclined to engage in actions that compromise workplace safety. This suggests that in such firms, workplace safety could be less sensitive to lender distraction, or equivalently, workplace safety could be more sensitive to lender distraction in firms with lower union coverage.

To test this prediction, we construct a variable called *Lower Union*, an indicator variable that equals one if the union coverage of the firm's headquarter state in the prior year is below the average. We then interact it with our key variable of interest *Lender Distraction*. The model is as follows:

$$TCR_{it} = \beta_1 Lender\ Distraction_{it-1} * Lower\ Union_{it-1} + \beta_2 Lender\ Distraction_{it-1} + \beta_3 Lower\ Union_{it-1} + \beta_4 Controls_{it/t-1} + \alpha_i + \delta_{st} + \gamma_{qt} + \epsilon_{it}. \quad (4)$$

Table 5 reports the results. We find that the coefficient β_1 of $Lender\ Distraction_{it-1} * Union_{it-1}$ is negative and significant across all three different specifications in columns (1) to (3), suggesting that the effect of lender distraction on borrowers' workplace safety is more pronounced for firms with less union memberships.

4.4 Plausible Channels

So far, we provide evidence that when lenders are distracted, such a condition positively influences workplace safety among borrowers. We hypothesize that this effect stems from two main reasons: (1) lender distraction reduces renegotiation pressure on existing loans; and (2) consequently, such a situation could lead to a reduction in workloads.

Prior studies indicate that renegotiation serves as a crucial mechanism for lenders to engage in a firm's governance, and it has been found that there is a positive relationship between the extent of renegotiation and the intensity of a lender's monitoring efforts (e.g., Roberts 2015).

Renegotiating debt contracts is a common practice, even among borrowers who have not breached their DCs (Roberts and Sufi 2009; Denis and Wang 2014). For example, Roberts and Sufi (2009) find that over 90% of long-term debt contracts are renegotiated without any technical default, and Denis and Wang (2014) find that more than half of debt contracts are renegotiated before breaching covenants. Therefore, we predict that when lenders are distracted, the pressure to renegotiate decreases for borrowers.

To test this prediction, we obtain the bank loan renegotiation data from Roberts (2015). Our Probit model at the firm level is as follows:

$$Prob\big(Renegotiation_{jt} = 1\big) = \alpha + \beta_1 Lender\ Distraction_{jt-1} + \beta_2 Controls_{jt/t-1} + \epsilon_{jt}, \quad (5)$$

where *t* indexes year, *j* indexes firm. Following Donovan and Martin (2021), *Renegotiation* is a dummy equal to one if there is a loan renegotiation event for firm *j* over the subsequent three-year period starting from year *t* (current + next + year after), and zero otherwise. In addition to the control variables from Equation (2), we also control for *Maturity*, which is the log-transformed weighted-average contract maturity across all loans outstanding for firm *j* as of year *t*. Given that Roberts (2015) only randomly selected 114 firms due to data collection cost, the sample size for this regression is smaller compared to those in previous ones.

Column (1) of Table 6 presents the estimation results for our sample. We find that the coefficient β_1 is significantly negative, suggesting that the pressure to renegotiate existing loans decreases when lenders are distracted, aligning with findings from Donovan and Martin (2021). Furthermore, it is natural to expect that the attenuating effect of lender distraction renegotiation pressure extends beyond our sample that has ODI establishment-level workplace injury data available. As an external validity test, in column (2) of Table 6, we repeat the analysis for the

broader sample without the ODI data limitation. With a larger number of observations, the coefficient β_1 is similar in magnitude to that in column (1) and stronger in statistical significance.

Next, we examine whether workloads decrease following lender distraction. Reducing activities related to employee safety to enhance financial performance is costly, potentially impacting employee satisfaction, product quality, and borrowers' ESG rating (e.g., Das, Pagell, Behm, and Veltri 2008). If the pressure to renegotiate existing loans diminishes due to lender distraction, borrowers may not necessarily continue strategies that compromise workplace safety, such as increasing workloads, which are often used to maintain solid financial performance (e.g., Caskey and Ozel 2017). Therefore, we hypothesize that firms may stop taking actions such as increasing workloads that are detrimental to workplace safety when lender pressure eases.

To test this hypothesis, following Caskey and Ozel (2017), we use *ProdperEmp* (i.e., production per employee), defined as the sum of cost of goods sold and inventory change, scaled by the firm's average number of employees to measure workload at the firm level. We then estimate the following model:

$$ProdperEmp_{jt} = \beta_1 Lender\ Distraction_{jt-1} + \beta_2 Controls_{jt/t-1} + \alpha_j + \delta_t + \epsilon_{it}, \quad (6)$$

where *t* indexes year, *j* indexes firm, α_j represents firm fixed effect, and δ_t represents year fixed effect. $Controls_{jt/t-1}$ has the same set of firm-level control variables as in Equation (2).

Column (1) of Table 7 reports the results. We find that the coefficient β_1 of $Lender\ Distraction_{jt-1}$ is negative and significant at $p< 0.1$ level, consistent with our hypothesis.

On the other hand, given borrowers have been able to reduce employee workloads when lenders are distracted, which already results in a decrease in injury rates, they may not have to further increase safety expenditures. For completeness, we therefore also examine the effect of

lender distraction on safety expenditures. We obtain safety expenditures following the methodology outlined by Roychowdhury (2006), with a modification in the scaling variable; we use the number of employees at the beginning of the period instead of beginning total assets (Caskey and Ozel, 2017). For each two-digit SIC code and year that contains at least 15 observations, a separate regression analysis is conducted.

We then estimate the following model at the firm level:

$$Safety\ expenditures_{jt} = \beta_1 Lender\ Distraction_{jt-1} + \beta_2 Controls_{jt/t-1} + \alpha_j + \delta_t + \epsilon_{it}, \quad (7)$$

where t indexes year, j indexes firm, α_j represents firm fixed effect, and δ_t represents year fixed effect. $Controls_{jt/t-1}$ has the same set of firm-level control variables as in Equation (2).

Column (2) in Table 7 reports the results. We find that the coefficient β_1 of $Lender\ Distraction_{it-1}$ is positive but statistically insignificant. This suggests that borrowers indeed improve workplace safety mainly through reducing employee workload instead of increasing safety expenditures when lenders are distracted. This is intuitive as safety expenditures is likely a fixed cost, which firms may not be able to adjust quickly in response to high-frequency changes in lender attention levels, while employee workload is likely a variable cost and relatively easier to adjust when needed.

5. Conclusion

In this study, we investigate the effect of lender distraction on workplace safety. To establish causality, we adopt the approach of shareholder distraction in Kempf, Manconi, and Spalt (2017), and apply it in the lender setting. By doing so, we derive a plausibly exogenous measure called *Lender Distraction*, which pinpoints times when lenders are likely to focus on significant events in other sectors of their portfolio, which diverts their attention away from the focal firm.

Our finding indicates that workplace safety for borrowers improves when lender attention is diverted. In cross-sectional analyses, we find this effect is more pronounced for borrowers not in financial distress and those with lower union memberships. In addition, we explore plausible channels and find that both the pressure to renegotiate existing loans and the workload of borrowers decrease when lenders are distracted.

Our paper contributes to the literature by showcasing an unintended yet *positive* consequence of corporate stakeholder distraction. We also contribute to the literature on lender monitoring and borrower operations, as well as the study of managerial myopia. Our paper holds implications for the practice of lender monitoring. Lenders care about workplace safety among borrowers due to concerns related to the borrowers' repayment ability and the potential risks related to lenders' reputation (Wall Street Journal 2023). However, our findings suggest that lender monitoring may unintentionally undermine this safety, an unintended consequence of such monitoring.

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APPENDIX A

Variable Definitions

Variable	Description
Asset Turnover	The ratio of sales of year *t* to total assets at the end of year *t-1*.
CapEx/Assets	The ratio of capital expenditures of year *t* to total assets at the end of year *t-1*.
Cash/Assets	The ratio of total cash and cash equivalents to total assets at the end of year *t-1*.
CF/Assets	The sum of income before extraordinary items and depreciation and amortization in current year scaled by total assets at the end of year *t-1*.
Disaster	An indicator variable equal to one if the establishment meets natural disasters or adverse weather conditions during the current year.
Dividend/Assets	Total cash dividends paid to common shares in year *t* scaled by total assets at the end of year *t-1*.
Financial Health	An indicator variable that equals one if the Altman Z-score of the firm is above the sample mean during year t-1, and zero otherwise.
Lender Distraction	A borrower-level proxy for the extent that borrower's lenders are distracted over year *t-1*. We follow Kempf, Manconi, and Spalt (2017) and Donovan and Martin (2021) to calculate quarterly distraction first and then aggregate it into annual distraction. It is the weighted average distraction of each lender to the borrower. The weight is calculated by the ratio of the borrower's debt held by each lender to its total debt. The distraction of each lender is the weighted average return shocks across industries that are unrelated to the focal borrower. The weight is calculated by the ratio of the total debt the lender provides to the particular industry to its total lending amount. Appendix B illustrates how to construct this variable.
Leverage	The ratio of total debt to total assets at the end of year *t-1*.
Log(Employees)	The natural logarithm of the establishment's number of employees during the current year.
Log(Hours/Employee)	The natural logarithm of the establishment's total number of annual hours worked in a given establishment during the current year, scaled by the number of employees.

Lower Union	An indicator variable that equals one if union coverage of the firm headquarter state is below the sample mean during year t-1 and zero otherwise.
Market-to-Book	The ratio of market value of equity to book value of equity at the end of year *t-1*.
Maturity	The log-transformed weighted contract maturity within each firm-year. The weight is calculated by scaling each loan's amount relative to the total loan amount within each firm-year.
PPE/Assets	Net property, plant, and equipment scaled by total assets at the end of year *t-1*.
ProdperEmp	Production per employee. The firm's sum of the cost of goods sold and inventory, divided by the total average number of employees at the end of year t, as described by Caskey and Ozel (2017), is measured in million dollars.
Renegotiation	Renegotiation is an indicator which equals one when there is at least one loan renegotiation event in the subsequent three-year period (current + next + year after) at the firm level, and zero otherwise. We obtain the bank loan renegotiation data from Roberts (2015).
Safety Expenditure	Following Roychowdhury (2006) with a modification in the scaling variable—we use the number of employees instead of total assets at the beginning of the period(Caskey and Ozel, 2017); for each two-digit SIC code and year that contains at least 15 observations, a separate regression analysis is conducted.
Seasonal	An indicator variable equal to one if the establishment employs a seasonal worker during the current year (OSHA).
Shutdown	An indicator variable equal to one if there is shutdown or layoff in the establishment during the current year (OSHA).
Size	The natural logarithm of a firm's total assets at the end of year *t-1*.
Strike	An indicator variable equal to one if there is a strike or lockout in the establishment during the current year (OSHA).
Total case rate (TCR)	The number of injuries and illnesses in a given establishment-year divided by the number of hours worked by all employees in the establishment and multiplied by 200,000 (Number of injuries and illnesses * 200,000) / Employee hours worked) (OSHA).

APPENDIX B

An Illustration of the Establishment of the Variable "Lender Distraction"

We use a simple example to illustrate the construction of distraction measurement. Consider two lenders, lender A and lender B. Also consider two borrowers, borrower X and borrower Y, which come from different industries. Lender A loans \$200 to borrower X and \$300 to borrower Y, while lender B loans \$100 to borrower Y. In other words, lender A's portfolio includes both borrowers X and Y while lender B's portfolio only includes borrower Y. Suppose borrower X's industry experiences a shock that affects all firms in the industry. Therefore, lender A rationally shifts its attention to borrower X. Our aim is to calculate the extent of the lenders' distraction with respect to borrower Y.

In this example,

$$Lender\ Distraction_Y = W_{A,Y} * Distraction_{A,Y} + W_{B,Y} * Distraction_{B,Y}$$

$$= W_{A,Y} * W_{X,A} * Shock_X + W_{B,Y} * W_{X,B} * Shock_X$$

$$= \frac{300}{300+100} * \frac{200}{200+300} * 1 + \frac{100}{300+100} * 0 * 1 = \frac{3}{10},$$

where $Lender\ Distraction_Y$ is the lenders' distraction toward borrower Y, it is the weighted average of distraction of lender A and lender B to the borrower Y. $W_{A,Y}$ ($W_{B,Y}$) represents the importance of lender A (lender B) to borrower Y, measured by the ratio of the borrower Y's debt held by lender A (lender B) to its total debt. $Distraction_{A,Y}$ ($Distraction_{B,Y}$) is the distraction of lender A (lender B) to the borrower Y. Further, $W_{X,A}$ ($W_{X,B}$) represents how much lender A (lender B) cares about borrower X's industry, measured by the ratio of the total debt the lender provides to the shocked industry to its total lending amount. $Shock_X$ represents the shock in borrower X's industry.

Table 1

Descriptive Statistics

Panel A: Sample Selection

Selection procedure	**Observations**
Initial sample (establishment-years from 2002-2011)	649,925
minus: Observations that cannot be linked to Compustat	(565,421)
minus: Observations with obvious mistakes	(93)
minus: Observations from financial and regulated industries	(2,709)
minus: Observations without lender distraction information	(7,875)
minus: Observations with missing data on control variables	(8,750)
minus: Singleton observations	(2,008)
Sample for main analysis	63,069

Panel B: Average Injury/ Illness Rates by FF 12 Industry (Excluding Financial and Utility Industries)

Industry	Average TCR	Average employees	Number of establishments
Healthcare, Medical Equipment, and Drugs	11.2	174	2,080
All Others	10.6	278	3,788
Consumer Nondurables	8.0	316	2,023
Consumer Durables	7.6	679	822
Wholesale, Retail, and Some Services	7.5	143	4,999
Manufacturing	5.5	304	4,813
Chemicals and Allied Products	2.6	201	650
Oil, Gas, and Coal Extraction and Products	2.5	272	106
Business Equipment	2.4	479	958
Telephone and Television Transmission	2.4	411	47

Panel C: Summary Statistics of Main Variables

Variable	N	Mean	P25	P50	P75	Std.
Establishment-level variables						
TCR	63,069	7.865	2.800	6.255	11.159	6.776
Log(Employees)	63,069	4.918	4.331	4.820	5.361	0.954
Log(Hour/Employee)	63,069	7.549	7.462	7.595	7.648	0.179
Disaster	63,069	0.005	0.000	0.000	0.000	0.071
Strike	63,069	0.002	0.000	0.000	0.000	0.047
Shutdown	63,069	0.071	0.000	0.000	0.000	0.257
Seasonal	63,069	0.031	0.000	0.000	0.000	0.174
Firm-level variables						
Lender Distraction	5,520	0.506	0.415	0.508	0.603	0.138
Size	5,520	7.583	6.311	7.446	8.771	1.745
Leverage	5,520	0.268	0.146	0.253	0.368	0.166
Cash/Assets	5,520	0.396	0.282	0.413	0.537	0.212
Market-to-Book	5,520	1.211	0.752	1.030	1.477	0.676
PPE/Assets	5,520	0.294	0.154	0.258	0.402	0.178
CF/Assets	5,520	0.086	0.052	0.089	0.129	0.081
Dividends/Assets	5,520	0.012	0.000	0.005	0.018	0.016
Asset Turnover	5,520	1.351	0.838	1.169	1.657	0.769
CapEx/Assets	5,520	0.047	0.022	0.035	0.060	0.038
ProdperEmp	5,417	0.227	0.108	0.161	0.256	0.223
Safety Expenditure	5,015	-30.272	-50.420	-18.095	2.154	61.398

Panel D: Spearman Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) TCR	1.000										
(2) Lender Distraction	-0.120	1.000									
(3) Size	-0.051	0.274	1.000								
(4) Leverage	-0.026	0.081	-0.146	1.000							
(5) Cash/Assets	0.024	-0.029	0.131	-0.749	1.000						
(6) Market-to-Book	0.027	0.001	0.340	-0.276	0.446	1.000					
(7) PPE/Assets	0.201	0.065	0.214	-0.061	0.189	0.243	1.000				
(8) CF/Assets	0.050	-0.043	0.240	-0.473	0.547	0.713	0.279	1.000			
(9) Dividends/Assets	-0.105	0.241	0.477	-0.120	0.210	0.621	0.150	0.431	1.000		
(10) Asset Turnover	0.170	-0.114	-0.057	-0.365	0.313	0.173	0.318	0.380	0.006	1.000	
(11) CapEx/Assets	0.220	-0.120	0.125	-0.305	0.314	0.324	0.554	0.547	0.067	0.431	1.000

Panel A describes the process to construct the workplace safety sample used in the main analysis.
Panel B provides average injury/ illness rates, average number of employees, and number of establishments across industries for the sample. Industry definitions are based on Fama-French 12 industries (excluding financial and utility industries). The industries are sorted based on their total case rates (TCR).
Panel C presents descriptive statistics of the sample. The sample consists of establishment-level data from Occupational Safety and Health Administration (OSHA) and firm-level data from Compustat for the years 2002-2011. All continuous variables are winsorized at the 1st and 99th percentiles.
Panel D provides the Spearman correlation coefficients among key variables.

Table 2

Distracted Lenders and Borrowers' Workplace Safety

	(1) TCR	(2) TCR	(3) TCR
Lender Distraction	-1.839**	-1.838***	-1.912***
	(-2.42)	(-2.64)	(-2.62)
Size		-0.321	-0.282
		(-0.76)	(-0.63)
Leverage		0.782	0.872
		(0.55)	(0.60)
Cash/Assets		-0.081	-0.274
		(-0.08)	(-0.26)
Market-to-Book		0.331	0.351
		(1.24)	(1.31)
PPE/Assets		0.546	0.380
		(0.30)	(0.19)
CF/Assets		0.961	0.781
		(0.84)	(0.71)
Dividends/Assets		-22.841**	-21.919**
		(-2.29)	(-2.31)
Asset Turnover		-0.626	-0.579
		(-1.39)	(-1.29)
CapEx/Assets		-0.789	-0.275
		(-0.16)	(-0.06)
Log(Employees)			-0.095
			(-1.12)
Log(Hours/Employee)			-4.272***
			(-3.49)
Disaster			0.826*
			(1.86)
Strike			1.840**
			(2.42)
Shutdown			0.380***
			(3.20)
Seasonal			-0.131
			(-0.34)
Establishment FE	YES	YES	YES
State × Year FE	YES	YES	YES
Industry × Year FE	YES	YES	YES
Observations	63,069	63,069	63,069
Adjusted R-squared	0.460	0.461	0.467

This table presents the results of OLS regressions that estimate the relation between lender distraction and workplace safety of borrowers. The sample consists of establishment-level data from Occupational Safety and Health Administration (OSHA) during 2002-2011. We exclude sample from financial or utility firms. The dependent variable *TCR* (Total Case Rate) is the primary variable for workplace safety. The *TCR* is

computed from the following formula: (Number of injuries and illnesses * 200,000) / Employee hours worked. The variable *Lender Distraction*, ranging from 0 (no distraction) to 1 (highest distraction), measures lender distraction due to borrowers that experience industry shock (extremely positive or negative Fama-French-12-industry returns). T-statistics are based on standard errors clustered at the firm level. The definitions of the variables are available in Appendix A. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.

Table 3

Distracted Lenders and Borrowers' Workplace Safety
(Excluding Debt Covenant Violations)

	(1) TCR	(2) TCR	(3) TCR
Lender Distraction	-2.614**	-2.533***	-2.676***
	(-2.36)	(-2.82)	(-2.72)
Size		0.037	0.007
		(0.05)	(0.01)
Leverage		1.826	2.169
		(0.95)	(1.00)
Cash/Assets		-1.668	-2.197
		(-1.10)	(-1.49)
Market-to-Book		0.367	0.340
		(1.23)	(1.12)
PPE/Assets		-1.410	-1.625
		(-0.48)	(-0.51)
CF/Assets		1.743	1.804
		(0.66)	(0.68)
Dividends/Assets		-29.442***	-28.721***
		(-3.04)	(-3.30)
Asset Turnover		-0.678	-0.674
		(-1.29)	(-1.27)
CapEx/Assets		-0.221	0.556
		(-0.07)	(0.17)
Log(Employees)			-0.087
			(-0.87)
Log(Hours/Employee)			-4.765***
			(-2.87)
Disaster			0.818
			(1.53)
Strike			2.551***
			(2.71)
Shutdown			0.661***
			(4.11)
Seasonal			0.033
			(0.09)
Establishment FE	YES	YES	YES
State × Year FE	YES	YES	YES
Industry × Year FE	YES	YES	YES
Observations	40,941	40,941	40,941
Adjusted R-squared	0.450	0.452	0.459

This table presents the results of OLS regressions that estimate the relation between lender distraction and workplace safety of borrowers. The sample consists of establishment-level data from Occupational Safety and Health Administration (OSHA) during 2002-2008 after excluding covenant violation firm-year

observations. Covenant violation data comes from Nini, Smith, and Sufi (2012). We exclude sample from financial or utility firms. The dependent variable *TCR* (Total Case Rate) is the primary variable for workplace safety. The *TCR* is computed from the following formula: (Number of injuries and illnesses * 200,000) / Employee hours worked. The variable *Lender Distraction*, ranging from 0 (no distraction) to 1 (highest distraction), measures lender distraction due to borrowers that experience industry shock (extremely positive or negative Fama-French-12-industry returns). T-statistics are based on standard errors clustered at the firm level. The definitions of the variables are available in Appendix A. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.

Table 4

Cross-Sectional Test – Financial Health

	(1) TCR	(2) TCR	(3) TCR
Lender Distraction * Financial Health	-3.137**	-2.642**	-2.648**
	(-2.34)	(-2.30)	(-2.31)
Lender Distraction	0.125	0.359	0.327
	(0.14)	(0.39)	(0.35)
Financial Health	1.440**	1.203**	1.263**
	(2.41)	(2.27)	(2.33)
Size		-0.459	-0.418
		(-0.96)	(-0.84)
Leverage		1.699	1.589
		(0.87)	(0.77)
Cash/Assets		0.496	0.091
		(0.33)	(0.06)
Market-to-Book		1.145***	1.200***
		(2.69)	(2.70)
PPE/Assets		-0.181	-0.285
		(-0.07)	(-0.10)
CF/Assets		-0.244	-0.364
		(-0.19)	(-0.28)
Dividends/Assets		-18.365**	-18.548**
		(-2.25)	(-2.27)
Asset Turnover		-0.558	-0.530
		(-1.29)	(-1.23)
CapEx/Assets		-4.048	-3.750
		(-0.66)	(-0.63)
Log(Employees)			-0.124*
			(-1.75)
Log(Hours/Employee)			-4.236***
			(-3.07)
Disaster			0.593
			(1.35)
Strike			2.052**
			(2.18)
Shutdown			0.298**
			(2.38)
Seasonal			0.122
			(0.31)
Establishment FE	YES	YES	YES
State × Year FE	YES	YES	YES
Industry × Year FE	YES	YES	YES

Observations	51,682	51,682	51,682
Adjusted R-squared	0.460	0.461	0.467

This table presents the results of OLS regressions that estimate the relation between lender distraction and workplace safety of borrowers, conditional on financial health. We choose Altman Z-score to proxy for the financial distress. *Financial Health* is an indicator variable that equals one if Altman Z-score of the firm is above the sample mean during year t-1 and zero otherwise. T-statistics are based on standard errors clustered at the firm level. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.

Table 5

Cross-Sectional Test – Lower Union Coverage

	(1) TCR	(2) TCR	(3) TCR
Lender Distraction * Lower Union	-3.258***	-3.024***	-3.118**
	(-2.65)	(-2.61)	(-2.49)
Lender Distraction	-0.803	-0.839	-0.856
	(-1.28)	(-1.35)	(-1.39)
Lower Union	1.169	1.118	1.170
	(1.61)	(1.60)	(1.57)
Size		-0.337	-0.301
		(-0.78)	(-0.66)
Leverage		0.979	1.117
		(0.66)	(0.72)
Cash/Assets		-0.167	-0.369
		(-0.15)	(-0.34)
Market-to-Book		0.287	0.298
		(1.15)	(1.18)
PPE/Assets		0.197	-0.017
		(0.11)	(-0.01)
CF/Assets		0.869	0.699
		(0.74)	(0.62)
Dividends/Assets		-21.556*	-20.786*
		(-1.87)	(-1.87)
Asset Turnover		-0.579	-0.537
		(-1.30)	(-1.21)
CapEx/Assets		-0.973	-0.386
		(-0.19)	(-0.08)
Log(Employees)			-0.077
			(-0.87)
Log(Hours/Employee)			-4.345***
			(-3.47)
Disaster			0.686
			(1.58)
Strike			1.970**
			(2.48)
Shutdown			0.403***
			(3.19)
Seasonal			-0.030
			(-0.08)
Establishment FE	YES	YES	YES
State × Year FE	YES	YES	YES
Industry × Year FE	YES	YES	YES
Observations	60,283	60,283	60,283

Adjusted R-squared	0.458	0.459	0.465

This table presents the results of OLS regressions that estimate the relation between lender distraction and workplace safety of borrowers, conditional on union coverage. We choose state-level union coverage to proxy for the union coverage. *Lower Union* is an indicator variable that equals one if union coverage of the firm headquarter state is below the sample mean during year t-1 and zero otherwise. T-statistics are based on standard errors clustered at the firm level. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.

Table 6

Channel Test – Renegotiation Likelihood

	(1) Renegotiation	(2) Renegotiation
Lender Distraction	-1.468**	-1.211**
	(-2.03)	(-2.45)
Size	-0.294*	-0.154**
	(-1.95)	(-2.33)
Leverage	1.624	0.663
	(1.59)	(1.09)
Cash/Assets	0.408	-0.174
	(0.38)	(-0.29)
Market-to-Book	0.133	-0.002
	(0.88)	(-0.02)
PPE/Assets	1.258	-0.115
	(1.61)	(-0.29)
CF/Assets	0.033	-0.473
	(0.02)	(-0.71)
Dividends/Assets	3.995	0.856
	(0.82)	(0.50)
Asset Turnover	0.063	-0.028
	(0.39)	(-0.20)
CapEx/Assets	-8.864**	-0.298
	(-2.40)	(-0.30)
Maturity	0.419***	0.441***
	(7.09)	(13.34)
Constant	1.838	1.524**
	(1.24)	(2.13)
Observations	281	869
Pseudo R-Squared	0.319	0.284

This table presents the Probit regression results on the relationship between lender distraction and the likelihood of borrowers' renegotiation. Renegotiation is indicated by a value of one if there is a loan renegotiation event at the firm level over the subsequent three-year period (current + next + year after), and zero otherwise. Column (1) shows results for firm-year observations that have ODI establishment-level workplace injury data available. Column (2) shows results without the ODI data limitation. T-statistics are based on standard errors clustered at the firm level. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.

Table 7

Channel Test – Workload and Safety Expenditure

	(1) ProdperEmp	(2) Safety Expenditures
Lender Distraction	-0.025*	6.401
	(-1.90)	(1.10)
Size	0.032***	-4.679
	(3.52)	(-1.25)
Leverage	-0.056**	22.053**
	(-2.44)	(2.32)
Cash/Assets	-0.021	10.810
	(-1.16)	(1.16)
Market-to-Book	0.012**	-0.619
	(2.26)	(-0.35)
PPE/Assets	-0.074*	22.033
	(-1.71)	(1.28)
CF/Assets	-0.013	-20.373
	(-0.46)	(-1.64)
Dividends/Assets	-0.014	78.885
	(-0.06)	(0.94)
Asset Turnover	0.070***	6.352**
	(6.15)	(2.41)
CapEx/Assets	-0.071	-34.737
	(-0.97)	(-0.99)
Year FE	YES	YES
Firm FE	YES	YES
Observations	5,417	5,015
Adjusted R-squared	0.858	0.630

This table presents the results on the relationship between lender distraction and borrowers' workload and safety expenditure investment. We follow Caskey and Ozel (2017) to construct the measurement for workload. ProdperEmp represents the sum of the cost of goods sold and change in inventory scaled by the average number of employees at the firm, measured in million dollars. Safety expenditures are derived following the methodology outlined by Roychowdhury (2006), with a modification in the scaling variable; we use the number of employees at the beginning of the period instead of beginning total assets (Caskey and Ozel, 2017). For each two-digit SIC code and year that contains at least 15 observations, a separate regression analysis is conducted. T-statistics are based on standard errors clustered at the firm level. ***, **, and * indicate significance at a two-sided 1%, 5%, and 10% level, respectively.