HAPPY EMPLOYEES AND CORPORATE PERFORMANCE

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INTRODUCTION

Since 1998, Fortune magazine publishes the “100 Best Companies to Work for in America” (BCs hereafter) every year. The Great Place to Work Institute, headed by Robert Levering and Milt Moskowitz, compiles the top 100 list on the basis of the total score received based on two components. Two-thirds of the score comes from employee responses covering the topics such as job satisfaction, fairness, attitude towards management, and camaraderie. One-third of the scores come from the Institute’s own evaluation of the company’s other factors such as pay and other benefits programs, culture and demographic makeup. The companies are scored in four areas: respect, fairness, pride/camaraderie and credibility. It is important to note that Fortune has no direct involvement in the evaluation process and it simply publishes the list at the beginning of each year.

A number of studies in human resources management have investigated the relationship between employee satisfaction and firm performance. A positive relationship is expected because happy workers make better workers and influence firm performance through improved productivity, customer satisfaction, and reduced employee turnover. However, some studies (7,8) have found a weak relationship between an employee’s satisfaction and his/her own job performance. Given the weak relationship at individual level, the relation may be stronger at organizational level (11,12 and 13) where outcomes depend on interaction among employees. Employees who are satisfied may not themselves be more productive, but contribute to productivity of their coworkers. Using meta-analysis, Harter, Schmidt, and Hays (6) find a correlation coefficient of 0.37 between employee satisfaction and a composite measure of performance at organizational level which is much stronger compared to the correlation coefficient at the individual level.

Investor seek to find investment that offer higher risk–adjusted return or return higher than expected after adjusting for risk associated with the investment . Based on Efficient Market Hypothesis, it is difficult to ‘beat’ the market on a consistent basis if the market is informationally efficient in weak-form or to some extent in semi-strong form. However, there is abundance of examples of market anomalies. The EMH assumes that all relevant information is priced into current security price. It is easier to price the tangible assets of a firm than the intangible assets. It is conceivable that that abnormal return is possible (anomalies) if the value of intangible assets is not properly reflected in the current stock price. The intangible assets do not generally appear on balance sheets of most of the publicly traded firms and are at best difficult to measure in the context of market valuation. Employer-employee relation is an
important intangible asset that is difficult to measure and may not be properly reflected in the current stock price resulting in undervaluation. This may contribute significantly to a firm’s performance in the future when measured by tangible majors (earnings) leading to higher risk-adjusted return.

Several studies have examined the performance of BCs based on accounting measures. These studies (2, 3 and 4) find that BCs exhibit superior contemporaneous accounting performance than peers. However, market-oriented data, such as stock returns, is more appropriate for analysis. The Great Place to Work Institute (www.greatplacetowork.com) reports an annualized rate of return of 11.8% for BCs compared to 6.04% for S&P500 over the period 1997-2013. It is tantalizing for a common investor to hold a portfolio of BCs to make much higher nominal return compared to an index fund. However, the annualized returns for BCs are not risk-adjusted as reported by the Great Place to Work Institute. Returns must be risk-adjusted for valid comparison and to infer these firms outperform the market. Using stock returns, Goenner (5) finds that portfolios consisting BCs offer higher risk-adjusted returns than the S&P500 over the period 1998-2005. Using a data set for the period 1984-2009, Edmans (2) finds that “firms with high level of employee satisfaction generate superior long-horizon returns, even when controlling for industries, factor risk, or a board set of observable characteristics. These findings imply that the market fails to incorporate intangible assets fully into stock valuation.” Implication of these findings is important for both investors and corporation. A corporation that promotes work environment that is employee-friendly serves the interest of the stockholders. From investor point of view, they can hold a portfolio of BCs to earn superior return after risk adjustment.

Mishra (10) investigates if BCs offer superior returns for the period 2007-2014 for 2007 BCs. A simple buy-and-hold strategy is used for 2007 BC companies. A portfolio consisting BCs is constructed at the beginning of 2007. Holding periods of 5 year (2007-2011), 6 years (2007-2012), 7 years (2007-2013), and 8 years (2007-2014), are used in the analysis. The monthly returns for the portfolio consisting BCs and the S&P500 are computed. Using the statistical procedure outlined in Goenner (5), these portfolios are evaluated using Sharpe, Treynor, Jensen measures. The findings suggest that a portfolio consisting BCs outperformed S&P500 on a risk–adjusted basis. Although these findings are interesting and tempting, it is difficult to generalize the findings. The proposed study extends the work of Goenner, Edmans, and Mishra to investigate whether BCs for 2008 and 2009 outperform S&P500 on a risk-adjusted basis.

**DISCUSSION**

The price and dividend information for 2008 BCs and 2009 BCs are collected from Yahoo Finance (http://finance.yahoo.com). Since some of the companies drop out of the top 100 list from year to year, the companies that remain in the top 100 list over the entire sample period are used in the analysis. The sample consists of 42 companies for 2008 BCs and 41 companies for 2009 BCs. An equally-weighted portfolio of these companies is constructed at
the beginning of the sample period. A buy-and-hold strategy is used to compare the portfolio performance to the market (S&P500). For 2008 BCs, the monthly return on the portfolio and the market is computed over the holding periods of 5 years (2008-2012), 6 years (2008-2013), and 7 years (2008-2014). Similarly, for 2009 BCs, the monthly return on the portfolio and the market is computed over the holding periods of 5 years (2009-2013) and 6 years (2009-2014). Using the statistical procedures outlined in Goenner (4), these portfolios are evaluated using Sharpe, Treynor, Jensen measures which are widely used in finance literature (1).

CONCLUSION

The empirical results find Jensen’s Alpha (\(\alpha\)) to be positive for all holding periods for both 2008 BCs and 2009 BCs. It shows that the portfolio consisting 42 of 2008 BCs and 41 of 2009 BCs earned excess return on a risk-adjusted basis compared to the market index (S&P500). The Jensen’s \(\alpha\) is statistically significant at more than 10% level for all holding periods for 2008 BCs. However, it is only significant for the 5-year holding period for 2009 BCs. The portfolio beta is highly significant for all holding periods for both 2008 BCs and 2009 BCs. The empirical results based on Treynor’s measure indicates the outperformance of portfolio consisting 2009 BCs. The results are consistent with the empirical findings of previous studies in this area. Based on empirical findings, an investor may choose to hold a portfolio of BCs to achieve superior returns.

REFERENCES


