Do happy employees lead to financial success?

Charles McPeak
Pepperdine University

Wesley Young
Pepperdine University

ABSTRACT

Over the past several years, the way a company treats its employees, or internal corporate social responsibility, has become of increased importance within the overall market. With today's emphasis on social responsibility within an organization, externally and internally, judging a company based solely on its profits is a thing of the past. The biggest question is whether or not outstanding treatment of employees leads to a happier, healthier workforce, and does this in turn lead to better financial performance for a firm. Ten companies known for outstanding employee treatment have been utilized within this analysis.

We have analyzed ten publicly traded companies' financials and compared them to the S&P 500 based on yearly returns for stock price, return on equity (ROE), and return on assets (ROA) over the past ten years.

Keywords: internal corporate social responsibility, financial, Alphabet, Facebook, Chevron, Qualcomm, Stryker, Salesforce, Camden Property Trust, NuStar Energy, St. Jude Medical, Southwest Airlines

PRIOR WORK

Since 2008, Professor Charles McPeak of Pepperdine University has been conducting detailed analysis focusing on the effects of a company's Corporate Social Responsibility (CSR) efforts on the company's financial performance. While analyzing the Dow Jones Sustainability Index (DJSI), McPeak's research has shown a correlation between sustainability efforts and improved financial performance. While a company's sustainability efforts may have an impact on financial performance, there might be other macro-environmental aspects contributing to the positive correlation. Prior research has shown that companies that had CSR efforts in place did not drop as significantly as the S&P 500 when performance of the market has been poor. This paper shifts the focus to internal CSR and how a company treats its employees. The following paper will examine whether or not a sample of ten publicly traded companies consistently rated the best companies to work for outperform the S&P 500 in a sample of measures of profitability.

INTRODUCTION

In today's environment the majority of companies put a large emphasis on practicing corporate social responsibility. Although a majority of publications concern themselves with the sustainability aspect of CSR, the real foundation of CSR is being profitable. Without profitability, none of the other aspects could exist (Hopkins). Other concerns include legal, ethical and philanthropic responsibilities. More recently the concept of stakeholders has been widely used in defining CSR, in respect to what a company owes its stakeholders.

This paper focuses on the financial impact of having strong internal CSR noted by reputable employee treatment. There are a number of factors that go into employee treatment. In Fortune's "best companies" publication, extensive surveys are sent out to a random sample of employees. Two-thirds of the score is based upon how the employees feel about management credibility, overall job satisfaction and camaraderie. The remainder of the survey is based on culture, including pay and benefit programs, hiring practices, recognition programs, diversity hiring, etc. ("100 Best Companies to Work For: 2015"). Glassdoor rates companies based on overall satisfaction, opinion on CEO leadership, work-life balance, compensation, and career opportunities (Dill). The author has chosen ten companies that have repeatedly been ranked among the best to work for and have implemented them within this study.

COMPANY INTRODUCTION AND SELECTION

Top Companies to Work For		
	Company	**Industry**
1	Google (GOOG)	Internet Media
2	Facebook (FB)	Internet Media
3	Chevron (CVX)	Oil and Gas
4	Qualcomm (QCOM)	Semiconductors
5	Stryker (SYK)	Medical Equipment
6	Salesforce (CRM)	Software
7	Camden Property Trust (CPT)	Real Estate
8	NuStar Energy (NS)	Oil and Gas
9	St. Jude Medical (STJ)	Medical Equipment
10	Southwest Airlines (LUV)	Airline

When choosing companies for the following study, the author wanted to focus on ten companies that have been rated in a "best to work for" rating on more than one occasion. In addition, the companies must be publicly traded so that adequate financial data can be gathered. The ten companies shown above fell under these aforementioned criteria.

Alphabet, Inc. (GOOG), the holding company for Google, is perhaps one of the most well known companies in the world. A technology company headquartered in Mountain View, CA with a market capitalization of approximately $518B, Google builds technology products and offers services to organize the information. Google earns the majority of their income from online search and advertising revenues, but offers a number of products and services such as YouTube, Android, cloud services, analytics, etc. The company employs approximately 60,000 full-time workers (*Yahoo Finance*). Google has been consistently ranked as one of the best companies to work for, rating high within the Glassdoor rankings for a number of years. This includes a number one overall ranking in 2015 (Dill). Google has placed even stronger within the Fortune rankings, earning the top overall company for the last two years ("100 Best Companies to Work For: 2015"). Google is known for its many employee perks, which include free meals for all of its employees while on campus.

Facebook (FB) is another extremely well known company worldwide, and operates primarily as a social networking conglomerate. It provides development tools and application programming interfaces to create mobile and web applications. Its products include its mobile application, its messenger application, Instagram, and WhatsApp (*Yahoo Finance*). Founded in 2004 and headquartered in Menlo Park, CA, the company has only been public since May of 2012, and the following paper's financials include only 2013 and 2014 for Facebook, the years that its financial information has been available to the public. Facebook has repeatedly been recognized as a top company to work for by Glassdoor. The last three years have seen Facebook earn rankings of 5, 13, and 5 within the annual list (Dill). The company employs just less than 12,000 full-time workers at its Northern California headquarters.

Chevron Corp. (CVX) is one of the largest oil and gas companies in the world. They operate both upstream and downstream within this sector, working in the development and exploration of crude oil and natural gas along with the refining of crude oil into petroleum products and the marketing of the products for resale. The company is headquartered in San Ramon, CA and employs 64,700 full-time employees (Yahoo Finance). Glassdoor has repeatedly ranked Chevron as one of the best companies to work for, placing it at number 14, 6, and 39 for the last three years (Dill). It is consistently recognized for its competitive pay and benefits and strong culture revolving around safety first.

Qualcomm (QCOM) is a technology company that designs, develops, manufactures and markets digital communications products known as CDMA and services internationally. The company has a market cap of approximately $69B and employs approximately 33,000 (Yahoo Finance). The company is headquartered in San Diego, CA and industry peers include Cisco Systems and Ericsson (Morningstar). Glassdoor ranked QCOM 14 in 2015 and 13 the previous year (Dill), and in 2014 Fortune ranked QCOM 32 in top companies for which to work ("100 Best Companies to Work For: 2015").

Headquartered in Kalamazoo, MI, **Stryker (SYK)** operates within the healthcare sector, providing medical equipment and devices through three subsidiaries (Yahoo Finance). The company employs approximately 26,000 full-time employees and industry peers include St. Jude's Medical and Medtronic (Morningstar). Glassdoor and Fortune have repeatedly recognized Stryker as a great place to work within their rankings. In 2015, Glassdoor ranked the company 20 (Dill) while Fortune ranked the company 19 ("100 Best Companies to Work For: 2015"). These were both improvements from 2014, where Stryker was ranked 48 by Glassdoor and 42 by Fortune.

Salesforce (CRM) works within the technology sector, focusing on customer relationship management by providing enterprise cloud computing solutions. The company was founded in 1999 and is headquartered in San Francisco, employing approximately 16,000 full-time employees (Yahoo Finance). Salesforce has a market cap of just less than $50B and its main competitor within the technology sector is Oracle (ORCL). In 2014 Glassdoor rated Salesforce 50 in its best companies to work for rankings. After falling out of the rankings, they resurfaced in 2016, jumping to number 32 (Dill). Fortune has consistently ranked Salesforce very high, giving them a ranking of 7 in 2014 and 8 in 2015 ("100 Best Companies to Work For: 2015").

Camden Property Trust (CPT) is a real estate investment trust headquartered in Houston, TX and founded in 1993. CPT is the one of the few real estate or financial services companies that has been named numerous times as a very employee-friendly work environment. As a REIT, the company operates within the multi-family residential apartment community industry (Yahoo Finance). With a market cap of just over $6B, the company has less than 2,000 full-time employees, and its major industry peers include Equity Residential and AvalonBay Communities (Morningstar). Glassdoor has yet to include Camden Property Trust within its rankings, but Fortune has been very high on the company. Based on its rankings, CPT came in at 11 in 2014 and moved to 10 for 2015 ("100 Best Companies to Work For: 2015").

NuStar Energy (NS) operates in transportation, storage and marketing of petroleum products throughout North America, the Caribbean, and Europe. NuStar was founded in 1999 and is headquartered in San Antonio, TX (Yahoo Finance). The company has a market cap of just less than $3B, and some of the major players within its industry include Sinopec Kantons Holdings Ltd and Enterprise Products Partners LP (Morningstar). Like Camden, NuStar has thus far only been recognized by Fortune's rankings. Fortune placed the company at 26 in 2014 and 18 in 2015 ("100 Best Companies to Work For: 2015").

St. Jude Medical (STJ) develops, manufactures and distributes cardiovascular medical devices. The company was founded in 1976 and is headquartered in St. Paul, Minnesota. Competitors include Medtronic, Boston Scientific Corporation, and Edwards Lifesciences Corp. among others (Yahoo Finance). The company has a market cap of approximately $15B and employs around 16,000 full-time employees. Although not yet recognized within the Glassdoor rankings, St. Jude has been ranked 32 and 30 the last two years within Fortune's rankings, and has repeatedly been noted within the media for being employee-friendly ("100 Best Companies to Work For: 2015").

Southwest Airlines (LUV) operates passenger airlines and is known as being one of the most cost-friendly airlines within the industry. Headquartered in Dallas, TX and founded in 1967, the company employs almost 50,000 full-time employees (Morningstar). Southwest has not yet been concluded within Fortune's rankings, but Glassdoor has ranked them 42, 15, and 21 over the last three years of its annual rankings (Dill).

Company Rankings					
	Glassdoor 2016	**Glassdoor 2015**	**Glassdoor 2014**	**Fortune 2015**	**Fortune 2014**
Google	8	1	8	1	1
Facebook	5	13	5		
Chevron	39	6	14		
Qualcomm		14	13		32
Stryker		20	48	19	42
Salesforce	32		50	8	7
Camden Property Trust				10	11
NuStar Energy				18	26
St. Jude Medical				32	30
Southwest Airlines	42	15	21		

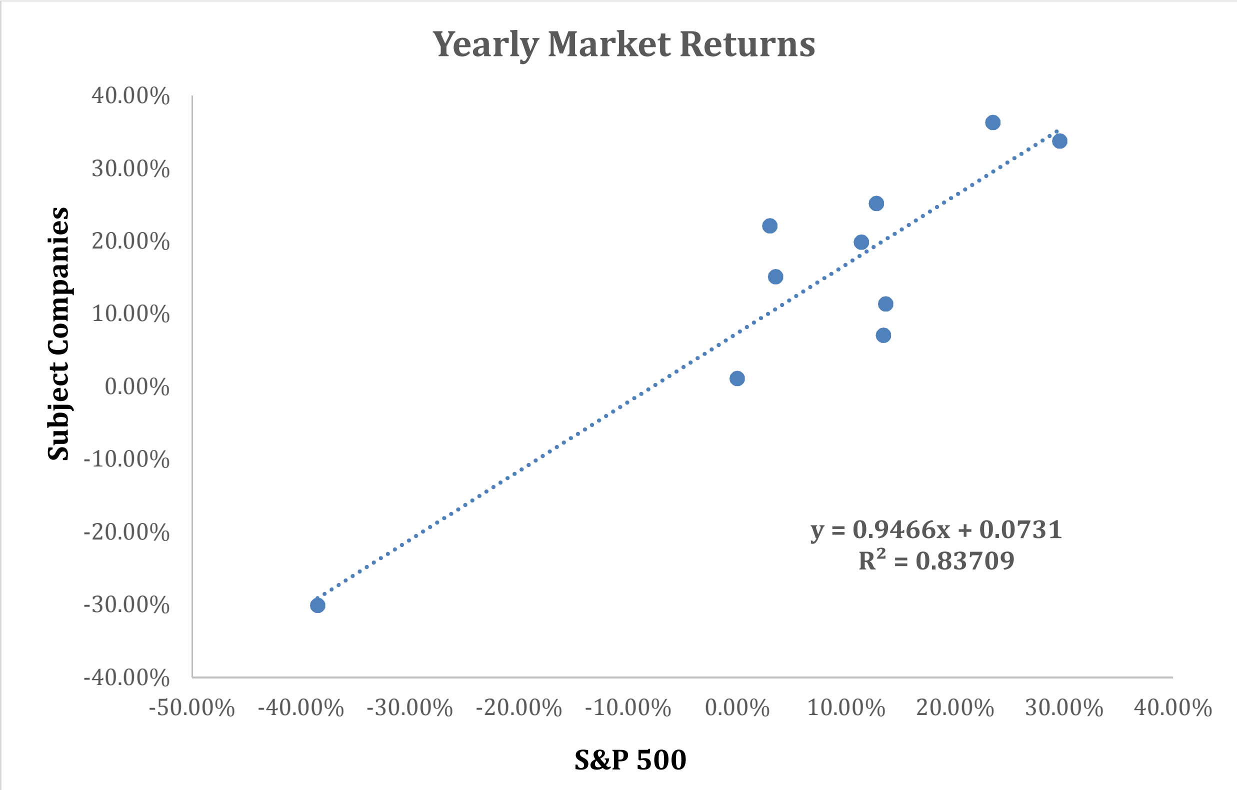
FINANCIAL ANALYSIS

Stock Price Analysis

Stock Price			
	Stock Price Return	Standard Deviation	Risk-Adjusted Return
S&P 500	**7.2%**	**18.5%**	**0.39**
Google	28.9%	52.2%	0.55
Facebook	74.0%	44.2%	1.67
Chevron	9.0%	15.9%	0.57
Qualcomm	6.4%	12.5%	0.51
Stryker	10.3%	25.6%	0.40
Salesforce	41.7%	55.3%	0.75
Camden	7.2%	26.5%	0.27
NuStar	1.8%	21.6%	0.08
St. Jude	6.6%	18.5%	0.36
Southwest	8.2%	39.1%	0.21

The first metric used in analyzing the S&P 500 against the ten companies provided within this analysis is stock price returns, in particular risk-adjusted return. Risk-adjusted return shows the return of a specific firm while taking into account the amount of risk that it took on over a specific period (Morningstar). For example, two companies might each show an 8% return on stock, but the company that took on less risk will have a better risk-adjusted return.

Of the companies analyzed, six had better risk-adjusted returns than the S&P 500: Google, Facebook, Chevron, Qualcomm, Stryker, and Salesforce. Camden Property Trust, NuStar Energy, St. Jude Medical and Southwest Airlines all fell short, with St. Jude coming up just shy of the S&P's number. Although this appears to be very black and white, and the research has been provided over a ten-year period, the stock market is very volatile. Since the end of 2014, NuStar has continued its poor stock performance and has lost approximately 40% of its market value since the end of 2014 (Yahoo Finance). Qualcomm and Chevron, which have outperformed the market over the ten-year period, have also seen large losses since the end of 2014. Qualcomm is feeling the pressure of the ever-increasing competition within the technology sector, while the drop in the price of oil continues to hurt Chevron. However, Southwest Airlines, which was hit especially hard by the financial crisis, has rebounded to a price of over $35.00 per share, an approximately 75% increase from its ending 2014 stock price (Morningstar).



After looking at the risk-adjusted return, a simple regression was performed on the data in order to provide any insights into correlation between the two sets of data. The average stock return for all ten companies for each year was matched with the market's return for that year. As can be seen above, the subject companies' stock price returns are highly correlated with that of the S&P 500, containing an r-squared value of 0.84. This indicates that over the last ten years the subject companies' returns have moved with those of the market. Of the three elements used for comparison within this paper, stock price should be given the least weight and reliance due to its volatility. Stock price is generally a reflection of what investors feel a company is worth, and many times indicates market expectations. This helps to explain why the two sets of data are so highly correlated.

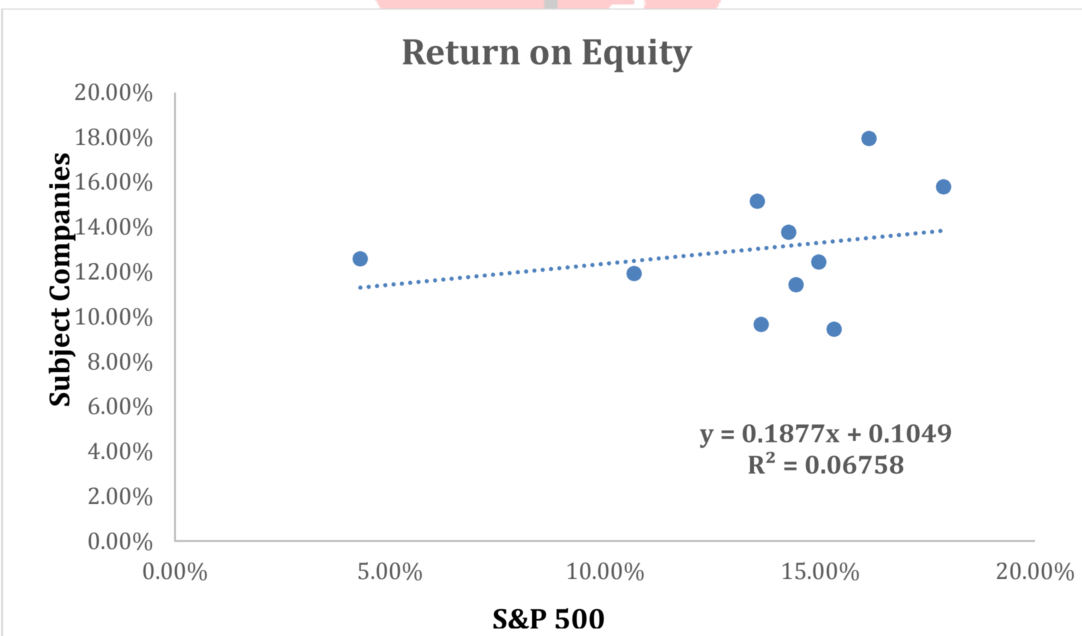
Return on Equity Analysis

Return on Equity			
	Return on Equity	Standard Deviation	Risk-Adjusted ROE
S&P 500	**13.5%**	**3.7%**	**3.62**
Google	19.2%	3.1%	6.28
Facebook	11.1%	0.3%	40.41
Chevron	21.0%	6.2%	3.40
Qualcomm	17.9%	4.1%	4.36
Stryker	17.4%	5.2%	3.35
Salesforce	1.4%	9.4%	0.15
Camden	8.4%	7.0%	1.20

Return on Equity			
	Return on Equity	Standard Deviation	Risk-Adjusted ROE
S&P 500	**13.5%**	**3.7%**	**3.62**
NuStar	5.4%	8.4%	0.64
St. Jude	19.0%	3.8%	5.02
Southwest	7.4%	4.3%	1.73

The second metric used in analyzing the subject companies versus the S&P 500 is return on equity (ROE). Once again, risk has been taken into account and the numbers presented reflect the risk-adjusted ROE. Of the companies analyzed, four had better risk-adjusted returns than the S&P 500: Google, Facebook, Qualcomm, and St. Jude Medical. Chevron, Stryker, Salesforce, Camden Property Trust, NuStar Energy, and Southwest Airlines all fell short, with Chevron and Stryker trailing by a small margin. In looking at the return on equity, it is also important to note the standard deviation, or risk involved, with the investment capital provided to each firm. Shown above, only Google and Facebook had smaller standard deviations within their ROE, and Facebook reflects only two years of receiving equity investment. The S&P 500 consistently produced an ROE of 10%-18% over this ten-year period, excluding 2008 during the financial crisis. Although Facebook reports an extremely high risk-adjusted ROE, this only accounts for two years of producing returns of approximately 11%. In 2013 and 2014, the S&P 500 actually outperformed Facebook (Yahoo Finance).

Perhaps a better measure of performance in regard to this metric is to take out the fluctuations in ROE. This shows that Google, Chevron, Qualcomm, Stryker and St. Jude Medical all significantly outperformed the market. Even though the S&P 500 may have fluctuated less than all of the companies excluding Facebook, half of the companies presented would have returned investors more money than investing in the S&P 500 (Morningstar).



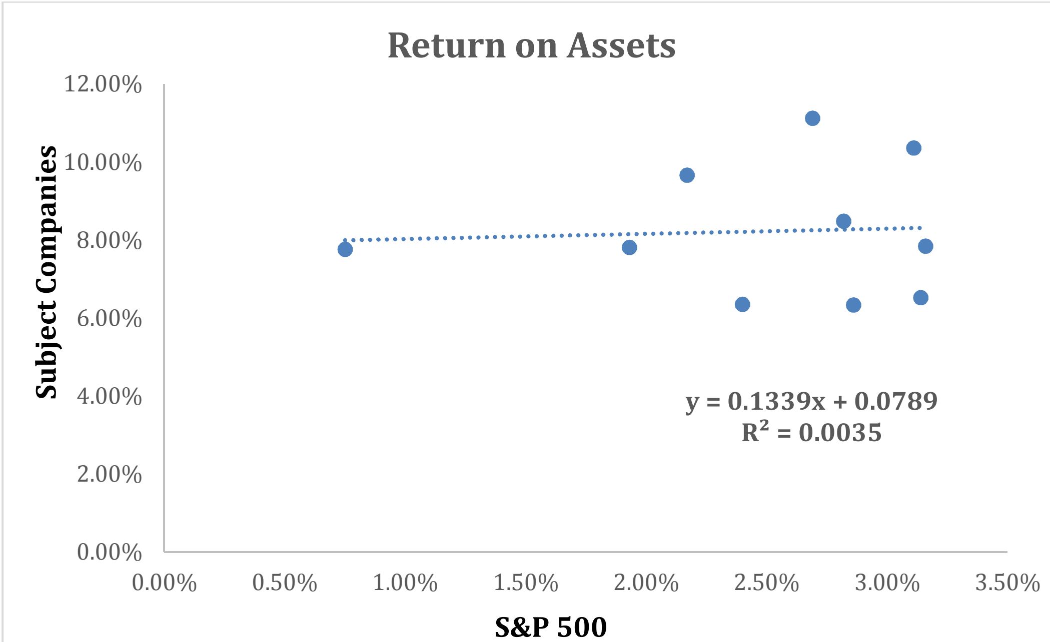
After comparing the return on equity for the two sets of data, once again a simple regression was performed on the values in order to gain any insights into correlation between the numbers. The average return on equity for all ten companies for each year was matched with the market's return for that year. As can be seen above, the subject companies' returns on equity have a very low correlation with that of the S&P 500, containing an r-squared value of 0.07. This indicates that over the last ten years the subject companies' returns have greatly varied with those of the market. It is interesting to note that over the past five years the market has outperformed the average value of the ten companies used within this analysis.

Return on Assets Analysis

Return on Assets			
	Return on Assets	Standard Deviation	Risk-Adjusted ROA
S&P 500	**2.5%**	**0.7%**	**3.36**
Google	16.5%	3.6%	4.62
Facebook	9.6%	0.7%	13.12
Chevron	11.4%	2.9%	3.86
Qualcomm	14.1%	4.0%	3.53
Stryker	11.8%	4.0%	2.91
Salesforce	0.8%	4.0%	0.21
Camden	3.2%	2.6%	1.23
NuStar	2.8%	3.9%	0.71
St. Jude	9.9%	2.0%	5.03
Southwest	3.0%	1.7%	1.80

The third and final metric used in analyzing the companies versus the S&P 500 is return on assets (ROA). Once again, risk has been taken into account above and the numbers presented reflect both the ROA and the risk-adjusted ROA. Five, or half, of the companies had better risk-adjusted returns on assets than the S&P 500: Google, Facebook, Chevron, Qualcomm, and St. Jude Medical. Stryker, Salesforce, Camden Property Trust, NuStar Energy, and Southwest Airlines all fell short of the S&P's risk-adjusted ROA of 3.36. In looking at the return on assets, similar to ROE, it is also important to note the standard deviation, or risk involved, with the return on assets figures. Shown above, Facebook has the same standard deviation as the S&P 500, but the nine other companies' ROA figures fluctuated more greatly than the overall market. The S&P 500 consistently produced an ROA of 2%-3.14% over this ten-year period, excluding 2008 and 2009 (Yahoo Finance).

Like ROE, perhaps a better measure of performance in regard to this metric is to take out the fluctuations in ROA. This shows that all companies excluding Salesforce utilized their assets better than did the overall S&P 500. Even though the S&P 500 may have fluctuated less than all of the companies excluding Facebook, all of the companies presented have been able to better utilize their assets than the average company within the S&P 500 (Morningstar).



Once comparing the return on assets for the two sets of data, once again a simple regression was performed on the values in order to gain any insights into correlation between the numbers. The average return on assets for all ten companies for each year was matched with the market's return for that year. As can be seen above, the subject companies' returns on assets have an even lower correlation than equity did with that of the S&P 500, containing an r-squared value of 0.0035. This indicates that over the last ten years the subject companies' returns on assets have greatly varied with those of the market. This is the one metric that when taking the average of the ten companies employed within the analysis, they substantially outperformed the market ROA over the course of the ten years analyzed.

CONCLUSION

In today's market, with social media and the constant scrutiny that companies face from the public, employee treatment has become a very popular talking point when discussing a firm's practices. Because of this, many companies have become more sensitive concerning the way that they address their internal CSR measures. Based on the analysis performed within this paper, internal CSR has some effect on a company's financial performance, with return on assets (ROA) being a metric in which the selected companies substantially outperform the market. However, market returns and return on equity (ROE) paint a much less clear picture on the benefits of internal CSR measures, and thus more research must be undertaken to understand the full impact of commitment to an internal CSR overhaul. Although the results within the research are inconclusive, the majority of well-known, publicly traded companies are instituting some measures to benefit their respective workforces. Satisfied employees tend to be more productive, work harder, contribute more, and call in sick less. Strong employee reviews tend to attract more top talent. As time passes, focusing on internal CSR measures will play an even stronger role in a company's mission as the job market becomes more competitive. Richard Branson, who has run a number of successful companies, said, "Your employees are your company's real competitive advantage. They're the ones making the magic happen—so long as their needs are being met" (Patterson). Within the next 5-10 years the impact of internal CSR measures will begin to become much clearer.

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