Workplace Drivers and Shareholder Value

For years, social investment has offered many investors the opportunity to achieve their financial objectives in a way that is consistent with their ethical and social concerns. There is a growing body of evidence to suggest that societal issues around the workplace, the environment and communities are becoming increasingly important business issues for many companies and industries. As a result, how companies integrate these issues into their operations can potentially impact their competitive opportunities and future growth possibilities.

This white paper examines the workplace factors driving this convergence and the implications of the convergence on a company’s current and future investment outlook.

THE CONVERGENCE

Recent events suggest that the characteristics of workplaces and jobs, as well as the characteristics of employees’ lives off the job, are becoming more connected to job commitment, performance, retention, and customer relationships and revenues. The burgeoning focus around “work redesign” has evolved into a dual agenda, that is, continued efficiency in output while enhancing the quality-of-life impact. Among the factors driving this change are:
- Increasingly diverse (gender, race and ethnicity) labor force in the United States, as well as in operations overseas
- Greater labor concentration in managerial and professional occupations
- Growing number of dual-earner households
- Expanding day-to-day family obligations (e.g., child care, elder care)
- Changing customer and market populations as a result of globalization
- A maturing workforce, which is growing older at the highest rate in history

We believe that the companies that will likely profit from the integration of these trends will be those whose leader ship, values and corporate culture enable them to derive and drive strategic value from their workplace initiatives.

THE VALUE-CREATION POTENTIAL

Recent studies by Families and Work Institute, Business for Social Responsibility and others suggest that strong employee benefits and flexible work arrangements can increase employee morale, decrease turnover and increase productivity, while a diverse workforce can increase a company’s talent pool and improve access to new markets. Along these lines, well-handled labor relations can decrease the threat of work stoppages and negative media exposure, and thereby help ensure the integrity of a company’s brand image. For example:
- According to the 2002 Cone Corporate Citizenship Study, 77% of participants stated that they believe a company’s commitment to social responsibility is important when they make a decision about where to work.
- According to a two-year Boston College study, Measuring the Impact of Workplace Flexibility, 70% of companies surveyed found that a flexible work strategy improved productivity, 65% said it had a positive impact on the quality of work, and 76% felt that flexibility had a favorable impact on retention.
- By improving training programs for entry-level employees around the knowledge supply chain, one technology company has reduced its hiring cycle from 90 days to 40 days, doubled the productive output of new hires and eliminated six weeks of “on the job” training, resulting in a reduction of a $50,000 in total cost per trained entry-level technician.
In 2002, a global technology company quantified the pay-off resulting from its stress-reducing employee wellness program and found that $3.96 was saved for every dollar spent to keep employees healthy.\(^1\)

According to a number of management consultants, the cost of turnover for a managerial and sales position can be as much as 250% of that person’s annual pay; while the cost of losing a nonmanagerial employee could easily reach 150%.\(^2\)

Recently, the National Study of the Changing Workforce found that almost 80% of participants who experience their corporate culture as being supportive say it is highly likely they will still be working there in one year.\(^3\)

**THE WORKPLACE/INVESTMENT INTEGRATION**

In addition to direct and indirect benefit to bottom-line costs, brand image and access to new markets, careful attention to workplace strategies can have positive implications on company performance. Our observations are consistent with the results of numerous studies indicating that companies with stronger workplace practices often have better financial performance compared to their competitors.\(^4\) For example:

- A study conducted by economists at UC Berkeley and University of Chicago found that companies allowing workers paid family leave reduced employee turnover and therefore recruitment and training costs. The authors estimated a cost of $2.10 per employee per month for allowing paid leave, versus a cost of $1,000 per replacement employee. Estimated total cost savings was $89 million.\(^5\)
- A food company stated that successful use of teamwork increased its productivity by more than 55% and reduced overall costs by more than 5% annually.\(^6\)

We believe that incorporating the convergence between workplace factors and business results into our financial analysis adds a new dimension to the valuation process that many investment advisors may miss. Moreover, our experience suggests that our integrated approach to financial analysis gives us a competitive advantage for identifying top-quality corporate managers that are better positioned to create strong, competitive advantages in their companies and stay on the leading edge of their industries.

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\(^1\) Weiser, John and Simon Zadek, “Beyond Built to Last: Stakeholder relations in the “built to last’ companies,” Work & Family Trend Report, November 2000.


\(^4\) The 2002 Cone Corporate Citizenship Study.
