THE WIN-WIN OF JUST BUSINESS BEHAVIOR: THREE WAYS TO TREAT WORKERS BETTER AND IMPROVE YOUR BOTTOM LINE

BY DOTTIE JONES & HERNANDO CORTINA

OCTOBER 2018

JUST capital

THE WIN-WIN OF JUST BUSINESS BEHAVIOR:

THREE WAYS TO TREAT WORKERS BETTER AND IMPROVE YOUR BOTTOM LINE

Every company wants to be as successful as possible, with an overarching goal of maximizing profit. At JUST Capital, we, too, care about the success of companies, but also if they are successful in crafting a more just and equitable marketplace that benefits not just management and shareholders, but also their workers, customers, and communities. This is why our approach to analyzing U.S. corporations' business behavior is driven by the issues Americans care most about, including worker pay and well-being, customer treatment and privacy, beneficial products, environmental impact, job creation, strong communities, and ethical leadership, as derived from extensive polling and corporate research. Over the last three years, we have surveyed more than 81,000 Americans to determine how they define just business behavior, and each year have tracked, analyzed, and ranked companies in accordance with these values. Consistently, Americans value the way companies treat their workers most, which is why worker pay and well-being garner the most weight (23%) in our rankings model.

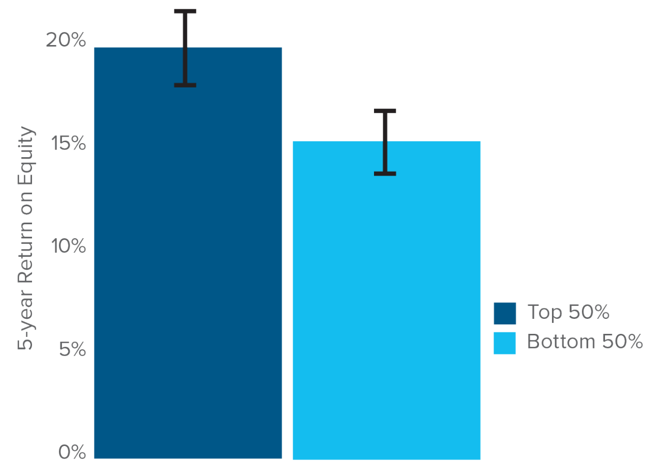
If companies place the most weight on maximizing profit and Americans on worker treatment, is there a way to create a win-win strategy for both? The answer is yes. In fact, we have identified three key things companies can do to enhance worker treatment *and* improve their returns: promote work-life balance, provide career development opportunities, and commit to anti-discrimination in the workplace.

1.

PROMOTE WORK-LIFE BALANCE

Good work-life balance is crucial to maintaining a happy and engaged workforce. Promoting work-life balance, such as providing flexibility and autonomy in the workplace, reduces employee stress by allowing them to manage both their private and professional lives more effectively. Happier employees are found to be more engaged and thus more successful and productive at work. Moreover, happy employees show lower levels of stress, leading to reduced absences, higher retention rates, and overall increased productivity. This is in part due to the neurological effects of positive emotions – such as expanding and energizing cooperation, innovation, memory, and creativity – which can contribute to boosted productivity for individual employees, and thus companies as a whole. 3M, one of America's Most JUST Companies, is a great example of a traditional manufacturer benefiting from providing good work-life balance. At 3M, employees have a FlexAbility plan to help create balance between their professional and personal schedules through remote work. As one employee said, "FlexAbility means sanity...it means being a more happy and successful 3M employee." And 3M's financial performance only benefits from their work-life balance initiative: in 2017, 3M had an average trailing 5-year return on equity of 34%, an average 5-year shareholder return of 22%, and a reported employee turnover rate less than 5%.

COMPANIES THAT PROMOTE WORK-LIFE BALANCE HAVE SIGNIFICANTLY HIGHER RETURNS ON EQUITY



Support for proper work-life balance extends beyond the academic literature. Our analysis shows that companies with a higher work-life balance score show a significantly higher ($p<0.05$) ROE. At JUST Capital, we assign higher scores for work-life balance to companies that provide employees with flexible working hours, day care services, and have a higher crowd-sourced work-life balance rating from current and former employees. As displayed above, the companies that score in the top 50% on work-life balance have an average ROE of 19.2% while those in the bottom 50% have an average ROE of 14.8%.

2.

PROVIDE CAREER-DEVELOPMENT OPPORTUNITIES

Career development opportunities are also central to maximizing employee motivation and minimizing turnover. Employees who participate in training and development programs perform better and are more motivated and productive. A 2018 report from LinkedIn Learning found that 93% of employees would stay longer at a company if it better invested in their careers. Providing room for employees to learn and grow is essential not only for maintaining talent, but also in ensuring that employees are working to the best of their ability.

As is the case for work-life balance, companies that score in the top 50% on the career development metric have a significantly (p<0.03) higher return on equity than those that score in the bottom 50%. The mean for the top half is 19.4% while that of the bottom half is 14.5%. Companies receive higher scores on career development when they have formal policies to support employees' job growth, improve their skills training, and have a high crowd-sourced rating for career opportunities from current and former employees.

CAREER DEVELOPMENT OPPORTUNITIES AND PROGRAMS LEAD TO SIGNIFICANTLY HIGHER RETURNS ON EQUITY

Texas Instruments, which ranks second in the JUST 100, is exemplary in this area with its "Make an Impact" program, a one-year global development program designed to help new employees build on their education and learn how to make an impact at TI. Like at 3M, this investment pays off: Texas Instruments has an average ROE of 25% over the last five years. So, while implementing career development programs may be costly in the short-term, in the long-term it could foster a consistent, more motivated, and more productive workforce that helps to drive profit.

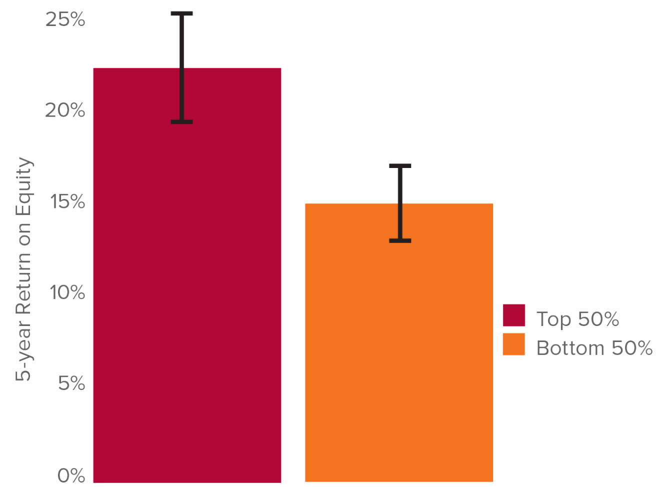
3.

COMMIT TO ANTI-DISCRIMINATION

The third thing companies can do to improve their returns is to strive for a more equal workplace. In the 1960s, psychologist John Stacey Adams outlined Equity theory, explaining that inequities – perceived or real – diminish employee motivation. This is in large part due to the fact that unfair treatment increases stress and decreases employee morale. But beyond reducing motivation, when employees do not feel they are being treated fairly, they are more likely to exhibit counterproductive workplace behaviors, such as failing to follow instructions, purposefully doing work incorrectly, or even stealing. In light of this research, implementing anti-discrimination policies and ensuring equity in the workplace is paramount, especially with an increasingly diverse workforce. Discrimination is not only morally unacceptable, it is bad for the bottom line.

At JUST Capital, companies receive higher scores if they have set diversity targets and objectives, have avoided severe controversies pertaining to discrimination in employment, and have not been subject to fines by the Equal Employment Opportunity Commission. The difference in the average ROE between companies that meet the above criteria and those that do not is astounding: 21% and 14%, respectively over the last five years. Such a difference is statistically significant (p<0.04), providing further support for the organizational research outlining the benefits of promoting equality in the workplace.

COMPANIES COMMITTED TO ANTI-DISCRIMINATION HAVE SIGNIFICANTLY HIGHER RETURNS ON EQUITY



PepsiCo, an Industry Leader for the Food & Beverage Sector, promotes several policies to ensure a diverse workforce. From having eleven employee resource groups, to career development programs for individuals with disabilities, to global anti-harassment and anti-discrimination policies, PepsiCo management understands that to be as successful as possible, they must have a team that reflects the diversity of their consumers. Accenture, also an Industry Leader, has taken a stand for equality in the workplace, with women making up 41% of its workforce and 29% of its executives worldwide. Not only are these two companies working to help their employees feel they are treated fairly, but they have impressive returns to show for it. Accenture and PepsiCo have a return on equity of 60% and 36% over the last five years respectively, well above the 17% mean for the 875 companies JUST Capital ranks.

IS A HIGHER RETURN INDUSTRY-SPECIFIC?

A long-standing critique of implementing policies related to work-life balance or career development is that they are specific to newer industries – like software and tech – and not applicable to more traditional industries. Everyone always hears of the lavish worker benefits at the Googles of the world, but not necessarily at the Chevrons or Boeings of the world. But, this is not the case; any company, regardless of industry, can implement the strategies above to help boost profit and improve worker treatment, and see results. In fact, at least one company from all thirty-three industries is represented within the top 50% of the three categories mentioned, demonstrating these are attainable workforce attributes for companies in any industry. Moreover, tech companies do not hold a monopoly on just worker treatment. When examining companies above the 90th percentile for work-life balance, career development, *and* anti-discrimination, we find that while tech giants such as Intel, Microsoft, and NVIDIA fall within this range, so do General Motors, PG&E Corp, and Sonoco Products – three companies representing fairly traditional manufacturing and utility industries. As a result, these are not industry-specific organizational attributes, but relevant and important workplace staples whether your company was founded a decade or a century ago.

INVESTING IN WORKERS IS INVESTING IN THE FUTURE

This report has outlined three ways companies can improve both their worker treatment and their returns. Happier and engaged employees are more motivated to produce results and see their company succeed, which is why investing in employees is investing in company success. If companies can allow for flexibility and autonomy in the workplace, provide opportunities for employees to develop and grow, and make their workers feel they are treated equally, they should see their businesses grow, as well. This is great news not only for companies seeking to boost their just business behavior and returns, but also for employees and shareholders. It also is something every company should be able to do because these results are observed across all industries. In being just, everyone wins: investors, employees, companies and overtime, society as a whole.

Please see our related study, Looking for Strong Returns? Ask the American People (Cortina/Jones), which considers whether sources of alpha – active, excess investment return – can be attributable to just business behavior.

ABOUT JUST CAPITAL

JUST Capital, an independent, nonprofit organization, makes it easier for people, companies, and markets to do the right thing by tracking the business behaviors Americans care about most. Our research, rankings, indexes, and data-driven tools help people make more informed decisions about where to invest, work, and buy to direct capital towards companies advancing a more just future. America's Most JUST Companies, including the groundbreaking JUST 100, is published annually in Forbes and on JUSTCapital.com.

JUST Capital was co-founded in 2013 by a group of concerned people from the world of business, finance, and civil society – including Paul Tudor Jones II, Deepak Chopra, Rinaldo Brutoco, Arianna Huffington, Paul Scialla, and others. Our mission is to build a more just marketplace that better reflects the true priorities of the American people. We believe that business, and capitalism, can and must be a positive force for change. We believe that if they have the right information, people will buy from, invest in, work for, and otherwise support companies that align with their values. And we believe that business leaders are searching to win back the trust of the public in ways that go beyond money. By shifting the immense resources and ingenuity of the $15 trillion private sector onto a more balanced – and more just – course, we can help build a better future for everyone.

ABOUT THE AUTHORS

DOTTIE JONES graduated with a B.A. in Psychology from Stanford University and a Master's in Organizational and Business Psychology from University College London. Prior to working at JUST Capital, Dottie worked at the Clinton Foundation, Nima Capital, and Engineers Gate. She is currently back at Stanford pursuing a Master's in Statistics.

HERNANDO CORTINA is the Director of Indexes & Analytics at JUST Capital, focused on ranking methodology, investable indexes, and analysis of financial-sector companies. Prior to joining JUST Capital, Hernando was a portfolio manager with Morgan Stanley Wealth Management, a macro analyst with Lyncean Capital, and a global research strategist and equity index trader with Morgan Stanley. He started his career in Latin America equity research at Goldman Sachs. Hernando earned Bachelor of Science degrees in Electrical Engineering and Economics from MIT and an M.A. in Mathematical Finance from Columbia University. He was also awarded the Chartered Financial Analyst designation.

CONNECT WITH US

www.justcapital.com
contactus@justcapital.com
@justcapital_
(646) 854-2141

JUST Capital
44 East 30th Street, 11th Floor
New York, NY 1001

JUST capital