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December 26, 2007

Screening for Satisfaction

by Anne Moore Odell

The 2007 Moskowitz Prize for Socially Responsible Investir that shows higher employee satisfaction has historically coı prices.

SocialFunds.com -- Making your shareholders richer might ʂ employees happier. The 2007 Moskowitz Prize for Socially awarded last month to a study that draws a parallel betwee satisfaction and higher stock prices.

"Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices" by Alex Edmans of the University of Pennsylvania's The Wharton School was awarded the $5,000 prize named after socially responsible investment innovator Milt Moskowitz. The prize supports SRI research and is presented by Center for Responsible Business at the Haas School of Business, in cooperation with the Social Investment Forum.

Lloyd Kurtz, Portfolio Manager at Nelson Capital Management and a Lecturer at the Haas School of Busines at Berkeley is the Moskowitz Prize Program Administrator. K SocialFunds.com: "In my career I have seen perhaps two a persuasively make the case that a social investment variab positive long-term risk-adjusted returns. The first was Nadja Innovest environmental ratings that won the Prize in 2005.

The Prize-winning study is chosen each year from a field of studies, both published and unpublished. An all-volunteer j award winning study.

The sponsors of the Moskowitz Prize are Calvert Group, Fir Network, Nelson Capital Management, Rockefeller and Co., Management.

"Employee satisfaction can improve shareholder returns," E seem obvious that firms do better if their employees are ha counter to traditional management theories. Conventional v value is maximized by minimizing the returns to other stake employees as little as possible, both in terms of cash salary This paper suggests the opposite: it's not a zero-sum game

Edmans' study starts with a portfolio of stocks created from

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Companies to Work For in America" in 1998. By the end of
over twice the market return while also outperforming indus
Interestingly, the award's namesake Moskowitz is the co-au

For socially responsible investors, Edmans' research helps
responsibly, at least screening for employee satisfaction, ca
study didn't examine other SRI screens.

"Studies often find that SRI screens worsen returns, or at b
returns," explained Edmans. "The conventional view is that
returns to invest responsibly: it's an either-or decision. This
investors may not face a trade-off."

The role of employees has greatly changed over the past
years ago, consumers demanded low-cost, standardized p
were produced by instructing employees to perform unskille
on assembly lines. There was no need to provide pleasant
retain workers since they undertook simple tasks, departure
by new recruitment. Employee satisfaction had no role in m
of firing, and pay-for-effort were sufficient to induce effort.

However, employees' roles have changed. "Nowadays, pro
innovation are increasingly important - perhaps because gr
consumers are willing to pay for quality. This in turn require
creativity and initiative, rather than simply following instructi
the main source of value creation in many companies," Edi

This explains the increasing importance of employee satisfa
retaining key workers, allowing the firm to build competitive
superior workforce. In addition, it is a powerful motivator. Sa
identifying with the firm, and thus exerting more effort than
employment contract. Pay-for-output is a less effective tool,
outputs (e.g. building customer relations) are hard to meas

The second part of Edmans' study looks at how the market
undervalued intangibles, such as investments in human ca
intangibles as "any asset that is valuable to a firm but cann
outsiders, e.g. a strong corporate culture, good relationship
customers."

The study uses Fortune magazine's list of "100 Best Compa
because it is highly visible to investors in the market and is
verification of intangibles. Edmans formed his portfolio of co
list several weeks after its publication, after the response to
visible in stock prices.

Since these portfolios earned superior returns, the Fortune
stock market. This suggests that intangibles in general (the
not independently verified) are not incorporated into prices.

The study goes onto state that managers concerned with t
invest too little in intangibles. This can have serious conse
growth of the firm.

Parnassus Investments' Workplace Fund has created a po
offer excellent workplaces with the help of Moskowitz. Kurtz
incorporates the "100 Best Companies to Work For" data ir
decisions, for both SRI and non-SRI portfolios. Edmans, lik
invest his prize money in a mutual fund that invests in com

workplace practices.

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