Is What's Best for Employees Best for Shareholders?*

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Abstract

We study the effect of labor-friendly corporate practices using firms selected by *Fortune* magazine as the "Best 100 Companies to Work for in America" over 1998-2004. We find that investors react positively to the list's announcement and that list firms subsequently outperform a size- and industry-matched control group on productivity, profitability, and value creation. Human capital dependent firms are more likely to make the list and the benefits of improved performance accrue mostly to such firms. Our analysis of excess executive compensation and forced turnover suggests that top management derives no pecuniary benefits from labor-friendly practices. We therefore interpret our results as consistent with rational choice, noting that the benefits of devoting significant resources to employee welfare appear to outweigh the costs, especially for firms that depend more on human capital.

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1. Introduction

In 1996, First Tennessee National Corp., Tennessee's largest bank, formally declared that employees come first, followed by customers, and then shareholders.[1] The company instituted a wide array of family-friendly programs, including childcare subsidies, a sick-child center, health and fitness programs, and resources for all kinds of family issues.[2] These gestures are costly. Over the next eight years, First Tennessee spent an average of $67,000 in annual labor expenses per employee, compared to mean and median values of $50,000 and $45,000 for other firms in the same four-digit Standard Indistrial Classification (SIC) industry group, and its average annual labor expenses ranked above the 90th percentile of employee compensation in the industry. During this period, First Tennessee was clearly one of the best companies for employees. Our primary objective is to investigate if, and under what circumstances, this and comparable programs elsewhere translate into similar outcomes for shareholders.

The major argument in favor of employee-friendly programs is their potential to stimulate workforce loyalty and foster lower absenteeism, reduced turnover, higher productivity, and, ultimately, improved profitability and higher market valuation. Relying on social exchange theory, Eisenberger et al. (1986) and Whitener (2001) show that employees' perception of their organization's commitment to them as demonstrated by positive beneficial actions strongly influences the level of their commitment to the organization and its goals. Somers (1995) and Gellatly (1995) show that culpable absenteeism and voluntary turnover significantly decline with employee commitment

[1] Fortune magazine, January 12, 1998
[2] The Knoxville News-Sentinel, September 18, 1996, page B1.

while Reichheld (1996) and Davis and Landa (2000) posit the cultivation of employee loyalty as a necessary precursor for significant improvements in firm performance.

Notwithstanding these potential benefits, labor-friendly programs are not without their possible dark sides. First, management may use these programs to protect its self-interest, since "the manager's relation with the firm's workers is much easier and more enjoyable if workers are paid more." (Cronqvist et al., 2005, p. 2). Thus, management may use labor-friendly programs as a quid pro quo, in which labor turns a blind eye to managerial excesses and supports the incumbent in takeovers and other corporate control contests in return for above-market wages and cozy benefits. Hellwig (2000) argues of a "natural alliance" between managers and workers against takeovers and proxy contests while Pagano and Volpin (2005) present a formal model in which workers team up with management to resist hostile takeovers in order to protect their high wages. Moreover, employee-friendliness is an action variable that may be chosen to maximize firm value. Thus, it is possible for actual investments in these programs to deviate from the optimal level when implementation costs outweigh their expected benefits.

We study these issues using the sample of *Fortune* magazine's annual "Best 100 Companies to Work for in America" (Best Companies) between 1998 and 2004. *Fortune* selects these companies based on anonymous employee surveys that evaluate trust in management, pride in work and/or company, and camaraderie, as well as company responses to the 29-page Hewitt People Practices Inventory and additional corporate materials, including employee benefits booklets, company newsletters, and videos.

We begin with standard event study analysis of the stock price reaction to the annual announcements of companies that make the list. We find a statistically significant

average announcement period return of 1.63% over the entire seven-year period, suggesting that the market views investments in these programs as beneficial. Next, we examine several dimensions of operating performance, including firm value, operating profitability, labor productivity, and total factor productivity. We find that the Best Companies significantly outperform a size- and industry-matched control group on all measures. These results are robust to econometric and sample construction controls for endogeneity. We then consider the question of whether firms rationally engage in labor-friendly activities by focusing on research and development expenditure as a measure of dependence on human capital. In a rational choice regime, we expect firms whose success depends more on the quality of human capital to be more likely to adopt labor-friendly policies. Consistent with this, we find that R&D-intensive firms are more likely to make the Best Companies' list and that the benefits of improved performance accrue largely to such firms.

Finally, we explore possible managerial self-interest motives for adopting labor-friendly policies by examining excess executive compensation and forced CEO turnover. We find no evidence in support of this conjecture. Using several measures of compensation, we find no significant differences in excess compensation between CEOs at Best Companies and those at comparable firms. Likewise, forced CEO turnover rates are similar for both categories of firms.

Our paper contributes to two strands of literature. First, we complement and extend the literature on the valuation effects of a significant consideration of non-shareholder constituencies. Fisman et al. (2005) analyze community related social responsibility and find that socially responsible behavior is more positively related to

profitability in consumer-oriented and competitive industries. Dowell et al. (2000) show that firms adopting a stringent global environmental standard have significantly higher market values (as measured by Tobin's q) than firms adopting less stringent standards. Our results suggest similar effects for firms that devote sizeable resources to employee welfare while identifying the context within which such practices appear most valuable.

We also contribute to the literature on the alignment of shareholder and labor interests. Faleye et al. (2006) show that large, labor-controlled equity blocks are associated with significant reductions in firm value, long-term investment, corporate growth, and labor and total factor productivity. They conclude that labor-voted equity ownership may not be an efficient way to align shareholder and labor interests. Our results suggest that devoting substantial resources to employee welfare may be a better approach, especially for firms that rely significantly on human capital.

The remainder of the paper is organized as follows. In the next section, we provide a brief review of related studies and position our work within the literature. Section 3 discusses our data sources, while Section 4 presents our empirical analysis. We conclude with a brief summary in Section 5.

2. Background and related studies

A basic tenet of American capitalism is that corporations are expected to be run in their shareholders' best interest, with management choosing policy variables to maximize shareholder value. It is also widely recognized that management's ability to achieve this goal depends on several stakeholders, including customers, employees, regulators, and the community at large. Jensen (2001) argues that value maximization is a means of

keeping score and rewarding executives but that setting long-term value maximization as a goal does not provide management with a strategy for attaining that goal. He discusses enlightened value maximization as directing an extra dollar toward stakeholders when doing so is a positive net present value investment.

Prior work has considered if and how devoting significant corporate resources to satisfying various stakeholders affect firm performance. Griffin and Mahon (1997) provide a comprehensive review of 51 studies on the relation between corporate social responsibility and firm financial performance. The results, while mostly positive, are mixed. More recently, Fisman et al. (2005) report differential performance effects for community-focused corporate social responsibility, depending on industry characteristics. They find that the impact of socially responsible behavior on firm value and profitability increases in the level of industry competition. Statman (2000) and Geczy et al. (2003) evaluate the performance of mutual funds that invest in socially responsible firms. They find that these funds generally perform no worse than comparable funds.

Employees constitute what is perhaps the most important constituency that affects firm performance, since they are the ones who must execute the firm's strategies and tactics for creating value. Recognizing this, Davis and Landa (2000, p. 24) argue that "customer loyalty, the outcome of superior customer service, and investor loyalty, the outcome of protected and enhanced shareholder value, are each dependent upon the business gaining the commitment and loyalty of its employees." A crucial issue then is how to secure the loyalty of employees and align their interest with shareholder value maximization.

Although equity ownership is often suggested for this purpose, results of employee stock ownership plan (ESOP) studies have not been conclusive. Chang (1990) and Faria et al. (1993) report positive abnormal returns around ESOP announcements, while Gordon and Pound (1990) find insignificant average announcement returns. Bloom (1986) and Lougee (1999) analyze accounting data and conclude that employee ownership has little or no impact on corporate performance. Faleye et al. (2006) examine significant labor-controlled equity blocks and find that these are associated with large deviations from value maximization.

At the theoretical level, there are several reasons to expect a positive relation between employee-friendly corporate practices and firm performance. First, a worker-friendly environment may create a strong bond of loyalty to the firm. Social exchange theory and the norm of reciprocity (Blau, 1964; Eisenberger et al., 1986) suggest that employees interpret their organization's actions and practices as a reflection of its commitment to them, which they then reciprocate in their loyalty and commitment to the firm. Bridges and Harrison (2003) show that employee-focused perceptions (as measured by monetary and non-monetary benefits as well as services devoted to employees) are positively associated with employee commitment to the organization. Whitener (2001) show that employee perception of organizational support is positively related to their commitment to the firm.

Gellatly (1995, p. 470) argues that affectively committed employees would exhibit lower absenteeism rates because they are motivated "to engage, become involved, and identify with their work." He then shows an inverse relation between employee commitment and absence frequency and total days absent. Similarly, Somers (1995)

reports a negative association between employee commitment and voluntary turnover. Since absenteeism and turnover are costly, lower rates can facilitate improved firm performance, thus suggesting a positive impact for employee-friendly programs.

Furthermore, a demonstrated commitment to employee welfare may help the firm attract better employees and lead to greater productivity as employees view themselves as highly valued by the company. Finally, these practices may help create positive community goodwill toward the company, which may in turn help improve the firm's competitiveness and its financial performance.

Despite these potential benefits, there are reasons for labor-friendly practices to be detrimental to firm performance. First, there is the possibility for employees to become accustomed to generous benefits, resulting in these benefits failing to produce the expected payoff of higher productivity. Thus, firms may overinvest in these activities by spending more than can be justified by anticipated productivity gains. Second, management may use labor-friendly practices to further its own objectives at the expense of shareholders. In particular, these policies may create an entrenched, management friendly workforce that supports the incumbent in takeovers and other corporate control situations and ignores managerial excesses. Pagano and Volpin (2005) discuss a model in which management transforms workers into a shark repellant through generous long-term labor contracts and employees team up with management to resist hostile takeovers for the purpose of protecting their high wages. Thus, worker-friendly policies can help insulate management from shareholder and outside influence.

We analyze these trade-offs by focusing on firms with generous, employee-friendly working environments and investigating the manner in which this affects

corporate performance. We draw our sample from *Fortune* magazine's "100 Best Companies to Work for in America," utilizing the list from its inception in 1998 through 2004 to identify a sample of employee-friendly companies. In addition to examining the stock price reaction to announcements of the list, we also analyze operating performance, focusing on several measures of productivity, profitability, and shareholder value, while addressing possible self-selection biases. Furthermore, we consider the important question of how individual firm characteristics affect the relation between performance and labor-friendliness. Finally, we examine whether these practices serve the self-interest of managers by focusing on excess managerial compensation and forced executive turnover. We believe these are significant issues that enhance our understanding of the role of employee-friendly corporate policies and practices.[3]

3. Sample and data

Each January since 1998, *Fortune* magazine publishes its list of "100 Best Companies to Work for in America." These firms are selected from initial groups of more than 1,000 companies, based on employee responses on an anonymous survey that evaluates trust in management, pride in work/company, and camaraderie, as well as company responses to the 29-page Hewitt People Practices Inventory and additional corporate materials, including employee benefits booklets, company newsletters, and videos. Between 1998 and 2004, 234 unique companies appeared on this list. Of these,

[3] In a related study, Filbeck and Preece (2003) examine the announcement period and annual buy-and-hold abnormal returns for the 1998 *Fortune*'s 100 Best Companies. They find a statistically significant announcement day abnormal return but find no differences in buy-and-hold returns between the list companies and a portfolio of size- and industry-matched firms.

134 are public firms with data available in the Compustat and Center for Research in Security Prices (CRSP) databases. They form the test sample of our study.

These companies devote significant financial and non-financial resources to creating a worker-friendly environment and helping employees balance their home and work lives. For example, 36 of the 58 publicly traded companies on the 2000 list award stock options to all employees. Fifty-three percent offer on-site university courses and 91% reimburse tuition, with MBNA topping the list at up to $15,600 a year. Among firms on the 2002 list, AFLAC has two on-site childcare centers serving 540 children, while Genentech provides on-campus bicycles, a rental library of audio books, an on-site hair salon, free espresso, and weekly social gatherings. Stratus Technologies offers on-site mammograms and skin-cancer testing as well as a concierge service that makes employee dinner reservations. At Synovus Financial, supervisors meet with their subordinates at least three times a year to discuss their career development. In addition, management appears to succeed in fostering employee trust. At SRA International, 96% of employees say management trusts them to do a good job, while 97% of Edward Jones employees say management is honest.[4] We believe that these companies provide a good opportunity to study the impact of labor-friendly corporate practices.

For our operating performance tests, we select a size- and industry-match firm for each Best Company.[5] We require matching firms not to appear on the *Fortune* list during any of the seven years of our study. Starting out with firms in the same four-digit SIC group, we select the one with total assets closest to each Best Company (within ±30 percent of the Best Company's assets) during the first year it appears on the list. If we

[4] These examples were taken from the various annual *Fortune* issues announcing the 100 Best Companies.
[5] For these tests, we require a minimum of two years of post-inclusion data. Thus, we exclude firms on the 2004 list from this part of our analysis. This reduces the Best Companies sample to 125 unique firms.

cannot find an appropriate match within the four-digit SIC code, we choose a match from the three-digit or two-digit industry. We are unable to match 20 companies within the two-digit SIC group. We match them with control firms from the single-digit SIC group. Our results remain the same if we exclude these firms from the sample.

4. Empirical analysis

Our empirical tests are divided into two broad groups. First, we examine the stock price reaction to announcements of the *Fortune* list. In an efficient market, we expect positive announcement returns if investors believe that labor-friendly practices are beneficial to shareholders. When a firm appears more than once on the list, we include each year as a separate observation in this part of our analysis.

The second group of tests focuses on operating performance and uses Compustat data. For these tests, we employ case-control matching as described above. Each firm is included (along with its match) from the year it first appears on the list to the end of our window of empirical analysis, i.e., 2004.

4.1. Event study analysis

Since *Fortune* issues hit news stands two weeks prior to their publication dates, we define the event date as two weeks prior to the publication date of the issue containing the Best Companies list and employ standard event study methodology to calculate abnormal returns surrounding the announcement. We estimate the market model for each firm over a period of 255 days (-301,-46) preceding the event date and then use estimated parameters to calculate abnormal returns for various event windows. Results are summarized in Table 1. As the table shows, average cumulative abnormal return (CAR) is positive and statistically significant in each of the four windows examined. It ranges

from 0.36% for the [-1, 0] window to 1.63% for the [-5, +1] window. This is similar to the findings reported by Filbeck and Preece (2003) and suggests that investors view a labor-friendly working environment positively.

We recognize a potential problem with the above results arising from the common event window shared by all firms for each year since all list firms in a particular year are announced on the same day. We address this by forming event portfolios consisting of all events announced on the same date. Since there are seven different announcements (one for each year over 1998-2004), we form a total of seven event portfolios. We then rerun our event study using these portfolios. The results are similar to those in Table 1 and are omitted to conserve space.

4.2. Operating performance

We focus on four measures of firm value and operating performance: Tobin's q, return on assets, employee productivity, and total factor productivity. We measure firm value using Tobin's q, which we calculate as the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. We define return on assets as the ratio of operating income to total assets. We measure employee productivity using the natural logarithm of net sales per employee.

To estimate total factor productivity, we follow Faleye et al. (2006) and assume that each firm's sales are generated by a Cobb-Douglas production function of the form

$$Y_{it} = AL_{it}^{\beta} K_{it}^{\alpha} \qquad [1]$$

where Y is net sales; L is the number of employees; K is net property, plant, and equipment; A, α, and β are parameters; and the subscripts i and t represent firms and years, respectively. We estimate annual logarithmic transformations of [1] for each two-

digit SIC industry group and use residuals from these regressions as our measure of firm-level total factor productivity.

As a starting point, we perform univariate comparisons of the Best Companies with the control group on each variable. Results are reported in Table 2. As the table shows, average and median Tobin's q for the Best Companies are 2.41 and 1.73, compared to 1.58 and 1.13 for the control group. The difference is statistically significant at the 1% level in each case. Thus, relative to similar firms, the Best Companies create 52% more in shareholder value during this period. Other results in Table 2 suggest that this reflects the Best Companies' better operating performance and higher productivity. For example, mean and median return on assets are 11.1% and 9.9% for the Best Companies compared to 7.5% and 7.2% for the control group. Furthermore, (geometric) average sales per employee is $279,800 for the Best Companies but only $235,100 for the control group, while median excess total factor productivity is 19% for the Best Companies compared to the control group, which has zero median excess productivity. The differences are significant at the 1% level.

These results suggest that a worker-friendly environment enhances employee productivity, which helps to increase operating profitability and shareholder value. However, we recognize that firm value and operating performance are affected by other factors besides labor-friendliness. For example, prior research has shown that several corporate governance variables are correlated with firm performance. These include board size (Yermack, 1996), board composition (Rosenstein and Wyatt, 1990), board election method (Bebchuk and Cohen, 2005; Faleye, 2006), leadership structure (Rechner and Dalton, 1991), and managerial ownership (Morck et al, 1988). The availability or

lack of investment opportunities may also affect firm performance and value. Thus, to isolate the effect of our main variable of interest, we control for these variables within a multiple regression framework.

We obtain corporate governance data from the Investor Responsibility Research Center (IRRC) board structure database and measure investment opportunity set using the ratio of capital expenditures to total assets. Furthermore, we control for leverage because debt may enhance or hinder a firm's performance, for example, by changing its operating environment through constraints imposed by debt covenants. Using data from Compustat, we measure leverage as the ratio of long-term debt to total assets. Our regressions also include two-digit primary SIC code dummies to control for time-invariant industry differences and the natural logarithm of total assets to control for differences in firm size.

4.2.1 Shareholder value

Table 3 presents regression results for our measure of shareholder value. The first regression employs a Fama-MacBeth framework, while the second is a pooled times series cross-sectional regression with industry and year dummy variables and robust standard errors. The third regression utilizes variables averaged over 1998-2004. Thus, although data for all years are employed, there is only one observation per firm in this model. As the table shows, the Best Companies dummy variable is positive and statistically significant at the 1% level in each regression. Its coefficient in the Fama-MacBeth regression suggests that an employee-friendly work environment is associated with an increase of 86.8 percentage points in Tobin's q. Since average Tobin's q for the sample is 2.01, this translates into an economically significant 43.2% increase in shareholder value relative to similar firms in the same industry.

4.2.2. Operating profitability

Regression results for return on assets (ROA) are displayed in Table 4. We estimate three regressions similar to those for Tobin's q. As Table 4 shows, the Best Companies variable is positive and statistically significant at the 1% level in each regression. Its coefficients suggest that inclusion on the Best Companies list is associated with three- to four-percentage points increase in ROA. Note that average and median ROA for the sample are 9.33% and 8.40%, respectively. Thus, after controlling for other variables that potentially affect operating profitability, Best Companies achieve a 40% increase in profitability relative to comparable firms in the same industry.

4.2.3. Productivity

Panel A of Table 5 presents results of regressions of the natural logarithm of sales per employee on the Best Companies dummy variable and the control variables described in Section 4.2. In each case, the Best Companies variable is positive and significant at the 1% level. The Fama-MacBeth regression indicates that, on average, employees at the Best Companies generate approximately 20% more sales than employees at comparable firms. Relative to average sales per employee of $358,000 for the full sample, this implies an economically significant $68,000 improvement in annual sales per employee. Results in the other two specifications are comparable, in terms of both magnitude and statistical significance.

We obtain similar results for total factor productivity. Each regression in Panel B of Table 5 reveals significantly better total factor productivity in the Best Companies. Specifically, the coefficient in the Fama-MacBeth regression suggests that, relative to similar firms, actual output at the Best Companies is about 20 percentage points higher

than what we would expect based on factor inputs. These results are consistent with Beatty (1995) who reports enhanced post-ESOP productivity at firms where the ESOP does not replace an existing pension plan but lower productivity where it does. This suggests that productivity increases when workers perceive an increased managerial devotion to employee welfare, which is similar to our findings.

4.2.4. Addressing possible self-selection

A major concern with our operating performance results is the issue of the direction of causality, that is, do the Best Companies perform better because they engage in labor-friendly practices or do they engage in such behavior because they are superior performers with available resources? We address this in several ways. First, we estimate additional regressions controlling for performance over the five years immediately preceding each firm's inclusion on the list. Table 6 displays results of regressions in which we measure prior performance using five-year average ROA. As the table shows, our results are robust to this control. In particular, the Best Companies variable remains positive and statistically significant at the 1% level, although the coefficients are smaller in magnitude. We obtain similar results when we use five-year average pre-inclusion Tobin's q as our measure of prior performance. Results also remain unchanged when we include annual lagged performance variables.

As a further robustness check, we create a new group of control firms, matched to the Best Companies on the basis of size, industry, and operating performance as measured by average ROA during the five years immediately preceding inclusion on the list. We require each control firm to have its 5-year average ROA within ±30% of the corresponding Best Company's 5-year average ROA and be in the same four-, three-, or

two-digit SIC industry group. We then estimate regressions similar to those in Tables 3-5 using the new control firms. The results, which are summarized in Table 7, show that the Best Companies variable remains positive and significant in all regressions. We also obtain similar results in regressions employing a control group matched to the Best Companies on the basis of size, industry, and 5-year average pre-inclusion Tobin's q.

Finally, we employ three-stage least squares to estimate a system of simultaneous equations in which membership on the Best Companies list and our performance variables are jointly determined. We use five-year average pre-inclusion Tobin's q, CEO age, and CEO equity ownership in first stage regressions predicting membership on the Best Companies list. We then use predicted values in (unreported) second-stage regressions relating our performance measures to the Best Companies variable. We obtain results similar to those in Tables 3-5, that is, the Best Companies variable is significantly positively related to our performance measures.

Overall, we believe these results do not support a self-selection hypothesis. Rather, they suggest that the superior performance associated with the Best Companies is not a simple reflection of their past performance. It appears that a devotion of significant resources to employee welfare facilitates higher productivity, improved performance, and superior market valuation.

4.2.5. The effect of human capital dependence

In this section, we examine if the extent to which firms depend on highly skilled human capital affects the likelihood of engaging in labor-friendly practices and the relation between performance and such practices. These questions are important for at least two reasons. First, they are interesting in their own right because they allow us to

understand if firms rationally create worker-friendly corporate environments. If this is so, then we would expect a positive relation between human capital dependence and labor-friendliness. We would also expect firms that depend more on human capital to benefit more from such behavior. Secondly, such finding would shed additional light on the simultaneity issue raised in Section 4.2.4. Specifically, if a devotion to employee welfare merely arises from good performance, then we should find that dependence on human capital has no effect on the relation between performance and labor-friendliness, since every firm that engages in such practice would have superior performance in this case. On the other hand, a finding of a differential effect depending on the importance of human capital would suggest that having a labor-friendly corporate environment affects performance, with the impact depending on the extent to which the firm relies on human capital.

We measure the importance of human capital using the ratio of research and development expenditures to total assets. Our intuition is that R&D-intensive firms depend on highly skilled employees because of the technical expertise required to reap the firm-specific, potentially enormous but quite uncertain payoffs associated with R&D expenditures. We classify firms as R&D-intensive if their R&D investment is greater than the median R&D investment of 1.32% of total assets. Consistent with rational choice, we find that R&D-intensive firms are significantly more likely to appear on the Best Companies list. Specifically, 56.4% of the Best Companies are R&D-intensive, compared to only 41.2% of control firms. Similarly, 59% of R&D-intensive firms in our combined sample make the list, compared to 44% of non R&D-intensive firms. These differences are statistically significant at the 1% level.

We then test the effect of human capital dependence on the relation between performance and membership in the Best Companies' list by estimating regressions that include an additional term interacting the Best Companies and R&D-intensity dummy variables. If R&D-intensive firms benefit more from creating a worker-friendly environment, then the interaction term should be positive and statistically significant.

As Table 8 shows, the interaction term is positive and significant at the 1% level in the regression for Tobin's q. In contrast, the baseline Best Companies variable itself is no longer significant, although it remains positive. Similarly, while the interaction term is positive and significant at the 1% level in the regression for return on assets, the main effect is not statistically distinguishable from zero. Even where the main effect is significant in the labor and total factor productivity regressions, it is smaller in both magnitude and statistical significance than the interaction term. This suggests that the benefits of labor-friendly corporate practices accrue mainly to R&D-intensive firms, whose success depends more on the quality of human capital. We obtain similar results when we use the continuous ratio of R&D to total assets rather than a dummy variable as our measure of R&D intensity.

These findings suggest that firms rationally adopt labor-friendly policies and that these policies have a significant positive effect on performance mainly in those instances where success depends to a greater extent on employee quality and commitment. This is consistent with Fisman et al. (2005) who report that community-oriented socially responsible behavior mainly benefits firms in competitive product markets where success crucially depends on a favorable public image.

4.3. A smokescreen for managerial excesses?

Notwithstanding the results above, it is possible that management engages in labor-friendly practices to protect its self-interest. For instance, labor may be less inclined to protest excessive managerial compensation if the firm is generous to rank and file employees. Thus, labor-friendly practices may enable management to extract excessive resources from the firm. Similarly, labor-friendliness may cultivate manager-specific employee loyalty, thereby reducing the likelihood of forced executive turnover. We examine these issues by focusing on the impact of labor-friendly practices on excess managerial compensation and forced executive turnover.

4.3.1. Excess managerial compensation

We define three measures of compensation: salary, cash compensation, and total compensation. Cash compensation is the sum of salary and bonus, while total compensation includes salary, bonus, the value of stock options and restricted stock granted during the year, long-term incentive payouts, and other miscellaneous annual compensation amounts. These measures are based on data from Standard and Poor's Execucomp database.

Similar to Berger et al. (1997), we calculate excess CEO compensation using residuals from the following regression that predicts normal compensation as a function of firm size, market performance, operating performance, and CEO tenure. Each regression includes industry and year dummies and is estimated over all firms in the Execucomp panel from 1998 to 2002. The subscripts *i* and *t* refer to individual firms and years, respectively.

$$CEO\ Compensation_{i,t} = \alpha + \beta_1 Sales_{i,t} + \beta_2 Market\ Return_{i,t-1} + \beta_3 Return\ on\ Assets_{i,t-1} + \beta_4 Years\ as\ CEO_{t,1} + \gamma' Industry\ Dummies_i + \phi' Year\ Dummies_t + \varepsilon_{i,t} \quad [2]$$

We then compare excess CEO compensation for the Best Companies with that for the control group. Panel A of Table 9 presents univariate data for both groups. As the table shows, mean and median excess salary for CEOs at Best Companies are $56,880 and $74,300, respectively, compared to $123,550 and $99,150 for CEOs at control firms. The differences are both statistically significant at the 1% level, thus indicating that CEOs at Best Companies receive lower amounts in excess salary compared to their peers. Similarly, excess cash compensation is significantly lower for the Best Companies: mean and median of $141,120 and -$42,650, compared to $476,950 and $119,930 for control firms. However, Best Company CEOs enjoy a higher level of excess total compensation than CEOs at comparable firms. On average, they receive $3.57 million (median of $6,030) in excess total compensation, compared to $1.51 million (median of -$818,000) for CEOs at control firms. While the differences are statistically significant at the 10% level, we think it is more probable that they reflect the superior market performance of the Best Companies. Recall that total compensation includes the value of stock option and restricted stock grants, both of which depend significantly on the firm's market performance. Overall, we believe the univariate comparisons do not support the argument that Best Company CEOs extract excessive compensation from their firms relative to CEOs at comparable firms.

We recognize that other factors may affect excess CEO compensation. In particular, it is plausible that the CEO's ability to secure excessive compensation depends on the strength of the firm's monitoring mechanisms. Core et al. (1999) show that the

level of CEO compensation is significantly related to board of director characteristics and ownership structure. Therefore, we estimate regressions controlling for variables related to the firm's corporate governance structure, including board size, board composition, CEO duality, the number of external boards on which the CEO serves, CEO equity ownership, and CEO age. Each regression also controls for firm size, leverage, and performance (as measured by Tobin's q) as well as industry and year dummies. Results are presented in Panel B of Table 9.

As the first column in Panel B of Table 9 shows, the Best Companies variable is negative but statistically insignificant in the regression for excess salary. Thus, after controlling for the strength of internal monitoring and other firm-specific characteristics, the evidence suggests that CEOs of firms on the Best Companies list do not extract excessive salaries from their firms. The second and third columns of Panel B show similar results for cash compensation and total compensation.

4.3.2. Forced executive turnover

We use proxy statements in conjunction with newspaper and newswire reports in Dow Jones & Reuters' Factiva to identify terminated CEOs and the reasons for their replacement. We follow the CEOs of each Best Company and its matching control firm from January of the year the Best Company first appears on the list until the earlier of December 2004 or his/her termination date. This produces 143 turnovers, of which 15 are due to acquisitions, one is due to death, and three are due to health problems. We exclude these 19 cases and then read media reports and company press releases around each of the remaining replacements to classify them as voluntary or involuntary.

We define forced turnovers as those reported as due to dismissals or firings by the board, disagreements with the board, need for new leadership, and similar circumstances suggesting that the turnover is involuntary. When media reports are not specific about the nature of the departure, we follow Huson et al. (2001) and classify the turnover as forced if the CEO is under 60 and leaves within one month of the turnover announcement for no job or one of lower status. This yields a forced turnover sample of 26 chief executives. The remaining 98 turnovers are classified as voluntary, giving a 21% forced turnover rate, which is similar to the 23.4% reported by Huson et al. (2001) for the 1989-1994 period and the 23% reported by Faleye (2006) for the 1995-2002 period.

Of the 26 forced turnovers, 12 occurred at firms on the Best Companies list, while 14 occurred at control firms. This translates into forced turnover rates of 20% for the Best Companies and 22% for control firms. The difference is not statistically significant at conventional levels, with a p-value of 0.73. Thus, it does not appear that labor-friendly practices confer any significant job protection benefit on the chief executive officer.

We understand that other factors have been shown to affect the likelihood of forced executive turnover. However, we do not believe that meaningful regression analysis can be performed with a forced turnover sample of only 26 firms. Moreover, given the nearly even split in the forced turnover sample between Best Companies and control firms, it is unlikely that multiple regression analysis will provide significant value-added in this instance. Thus, we limit our analysis to the univariate comparison of relative frequencies.

Our excess compensation and forced turnover results suggest that top management derives no significant pecuniary benefits from engaging in labor-friendly

activities, either in the form of job protection or excessive managerial rent extraction. This complements our earlier findings and lends additional support to the hypothesis that these practices are rationally adopted to enhance shareholder wealth, rather than as a means of entrenching management.

5. Conclusions

We focus on firms selected by *Fortune* magazine as the 100 Best Companies to Work for in America between 1998 and 2004 to understand how a labor-friendly corporate environment affects shareholder outcomes. We find significantly positive announcement period returns, suggesting that the market values corporate concern for workers. We also find that companies selected for the list subsequently outperform a size- and industry-matched control sample in terms of value creation, profitability, and productivity. Thus, it appears that the positive announcement returns capitalize subsequently higher operating profitability as well as superior productivity.

Our results also suggest that firms rationally engage in labor-friendly practices. We find that R&D-intensive firms, whose success arguably depends on human capital, are more likely to show concern for workers and that the benefits of showing care accrue mostly to these firms. We do not find that top management derives significant pecuniary benefits from labor-friendly practices. Rather, we find that these CEOs do not extract excessive compensation from their firms and that they are just as likely to be forced out as their peers at similar firms. We interpret our results as consistent with a genuine concern for employees translating into higher productivity and profitability, which in turn facilitate value creation. It appears that the benefits of creating an employee-friendly

environment significantly outweigh the costs and that what is best for employees is, at least, good for shareholders.

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Table 1: Market response to announcement of the Best Companies list

This table reports average cumulative abnormal returns (CAR) for announcements of firms on *Fortune's* "100 Best Companies to Work for in America" over 1998-2004. The announcement date is two weeks prior to the publication date of the issue containing the Best Companies list. Levels of significance based on standardized z-statistics are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

Window	CAR	% Positive	Sample
[-1, 0]	0.36%**	53%	395
[-1, +1]	0.38%*	52%	395
[-5, 0]	1.61%***	58%	395
[-5, +1]	1.63%***	57%	395

Table 2: Univariate comparisons

Best Companies are firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003. The *Control Group* consists of a size- and industry-matched group of firms that did not appear on the list throughout the entire period. *Tobin's q* is the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *Return on Assets* is the ratio of operating income to total assets. *Employee Productivity* is the natural logarithm of net sales per employee. *Total Factor Productivity* is the residual of annual industry-specific Cobb-Douglas production functions estimated for each 2-digit SIC industry group. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

Variable	Best Companies		Control Group		Test Statistics	
	Mean	Median	Mean	Median	Mean	Median
Tobin's q	2.407	1.731	1.582	1.134	7.28***	7.82***
Return on assets	0.111	0.099	0.075	0.072	5.94***	5.66***
Employee productivity	5.634	5.604	5.460	5.402	3.99***	5.55***
Total factor productivity	0.235	0.190	0.096	-0.003	4.96***	6.83***

Table 3: Employee welfare and firm value

Model 1 employs a Fama-MacBeth framework, while Model 2 is a pooled times series cross-sectional regression with industry and year dummy variables and robust standard errors. Model 3 utilizes variables averaged over 1998-2004. The dependent variable is Tobin's q, calculated as is the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Capex* is the ratio of capital expenditures to total assets. *Classified Board* equals one when directors are elected to staggered terms, zero otherwise. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *CEO Duality* equals one when the CEO also serves as board chairman, zero otherwise. *P*-values are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	1	*2*	*3*
Best companies	0.8678***	0.8100***	0.8468***
	(0.000)	(0.000)	(0.001)
Firm size	0.0254	0.0025	-0.0142
	(0.703)	(0.971)	(0.896)
Leverage	-3.0363***	-2.5606***	-1.1976
	(0.006)	(0.000)	(0.285)
Capex	5.8385*	6.0622**	11.552*
	(0.096)	(0.041)	(0.065)
Classified board	-0.2351***	-0.2401*	-0.2790
	(0.010)	(0.077)	(0.287)
Board size	-0.0577	-0.0409	-0.0247
	(0.187)	(0.163)	(0.690)
Board independence	-0.0760	-0.1338	-0.2556
	(0.757)	(0.714)	(0.750)
CEO ownership	0.0420	0.0354**	0.0349**
	(0.151)	(0.035)	(0.048)
CEO duality	-0.0556	-0.0863	-0.0103
	(0.604)	(0.610)	(0.971)
R-square	---	0.3905	0.4293
Sample size	185	1052	182

Table 4: Employee welfare and operating profitability

Model 1 employs a Fama-MacBeth framework, while Model 2 is a pooled times series cross-sectional regression with industry and year dummy variables and robust standard errors. Model 3 utilizes variables averaged over 1998-2004. The dependent variable is *Return on Assets*, which is the ratio of operating income to total assets. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2004, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Capex* is the ratio of capital expenditures to total assets. *Classified Board* equals one when directors are elected to staggered terms, zero otherwise. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *CEO Duality* equals one when the CEO also serves as board chairman, zero otherwise. *P*-values are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	1	*2*	*3*
Best companies	0.0354***	0.0345***	0.0434***
	(0.000)	(0.000)	(0.002)
Firm size	-0.0036*	-0.0053	-0.0045
	(0.110)	(0.159)	(0.463)
Leverage	-0.0219	0.0069	0.1838*
	(0.644)	(0.902)	(0.060)
Capex	0.4902**	0.4273*	0.8533**
	(0.052)	(0.060)	(0.016)
Classified board	-0.0118**	-0.0118*	-0.0202
	(0.034)	(0.108)	(0.170)
Board size	0.0035*	0.0044***	0.0037
	(0.110)	(0.005)	(0.291)
Board independence	0.0062	-0.0095	-0.0104
	(0.830)	(0.678)	(0.816)
CEO ownership	-0.0008	-0.0008	-0.0008
	(0.498)	(0.553)	(0.431)
CEO duality	0.0224**	0.0221**	0.0264*
	(0.026)	(0.016)	(0.102)
R-square	---	0.2719	0.3482
Sample size	185	1050	182

Table 5: Employee welfare and productivity

Model 1 employs a Fama-MacBeth framework, while Model 2 is a pooled times series cross-sectional regression with industry and year dummy variables and robust standard errors. Model 3 utilizes variables averaged over 1998-2004. *Employee Productivity* is the natural logarithm of net sales per employee. *Total Factor Productivity* is the residual of annual industry-specific Cobb-Douglas production functions estimated for each 2-digit SIC industry group. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Capex* is the ratio of capital expenditures to total assets. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *CEO Duality* equals one when the CEO also serves as board chairman, zero otherwise. *P*-values are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	A: Employee Productivity			*B: Total Factor Productivity*		
	1	*2*	*3*	*1*	*2*	*3*
Best companies	0.2042***	0.2075***	0.2704***	0.1968***	0.1963***	0.2475***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm size	0.1146***	0.1126***	0.0834***	0.0282***	0.0301***	0.0144
	(0.000)	(0.000)	(0.009)	(0.009)	(0.013)	(0.627)
Leverage	-0.2427**	-0.2108	0.0194	-0.452***	-0.419***	-0.3559
	(0.048)	(0.218)	(0.952)	(0.001)	(0.013)	(0.240)
Capex	-1.4293**	-1.441***	-5.029***	-3.342***	-3.281***	-7.263***
	(0.055)	(0.007)	(0.006)	(0.000)	(0.000)	(0.000)
Classified board	-0.0139	-0.015	-0.0132	-0.0455**	-0.0411	-0.0231
	(0.396)	(0.660)	(0.863)	(0.041)	(0.212)	(0.745)
Board size	-0.023***	-0.025***	-0.0223	-0.028***	-0.031***	-0.0338**
	(0.001)	(0.001)	(0.217)	(0.001)	(0.000)	(0.050)
Board independence	-0.1463	-0.1662	-0.0699	-0.1266*	-0.1463	-0.2082
	(0.127)	(0.123)	(0.765)	(0.109)	(0.155)	(0.346)
CEO ownership	0.0066**	0.0049**	0.0051	0.0066**	0.0057***	0.0043
	(0.047)	(0.027)	(0.322)	(0.036)	(0.014)	(0.365)
CEO duality	-0.0406	-0.0383	-0.0639	-0.0093	-0.0125	0.0040
	(0.225)	(0.335)	(0.445)	(0.795)	(0.749)	(0.959)
R-square	---	0.6870	0.7139	---	0.4001	0.4394
Sample size	184	1048	182	182	1032	180

Table 6: Controlling for prior performance

Tobin's q is the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *ROA* is operating income divided by total assets. *SLE* is the natural logarithm of net sales per employee. *TFP* is the residual of annual industry-specific Cobb-Douglas production functions estimated for each 2-digit SIC industry group. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is long-term debt divided by total assets. *Capex* is capital expenditures divided by total assets. *Classified Board* equals one when directors are elected to staggered terms, zero otherwise. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the CEO. *CEO Duality* equals one if the CEO also serves as board chairman, zero otherwise. For *Best Companies*, *Prior Performance* is average ROA over five years preceding inclusion on the *Fortune* list. For control firms, *Prior Performance* is average ROA over five years before the corresponding Best Company was included on the list. Each regression includes industry and year dummies. *P*-values based on robust standard errors are reported in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	Tobin's Q	*ROA*	*SLE*	*TFP*
Best companies	0.6608***	0.0193***	0.1858***	0.1927***
	(0.000)	(0.004)	(0.000)	(0.000)
Firm size	0.0140	-0.0058**	0.1061***	0.0344***
	(0.838)	(0.051)	(0.000)	(0.005)
Leverage	-2.3507***	0.0182	-0.2551	-0.4546***
	(0.000)	(0.693)	(0.136)	(0.009)
Capex	4.0632	0.2344	-1.5256***	-3.2372***
	(0.150)	(0.274)	(0.004)	(0.000)
Classified board	-0.1194	-0.0012	-0.0171	-0.0458
	(0.409)	(0.865)	(0.618)	(0.173)
Board size	-0.0684**	0.0027**	-0.0167**	-0.0248***
	(0.016)	(0.039)	(0.020)	(0.000)
Board independence	-0.1659	-0.0087	-0.1736*	-0.1918*
	(0.640)	(0.675)	(0.108)	(0.061)
CEO ownership	0.0414**	-0.0002	0.0059***	0.0060***
	(0.011)	(0.858)	(0.009)	(0.011)
CEO duality	-0.0598	0.0247***	-0.0506	-0.0226
	(0.711)	(0.003)	(0.201)	(0.564)
Prior performance	5.5360***	0.4750***	0.2913	-0.0891
	(0.001)	(0.000)	(0.200)	(0.722)
R-square	0.4343	0.4147	0.6911	0.4173
Sample size	1036	1035	1032	1020

Table 7: Regressions using performance-matched control firms

Tobin's q is the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *ROA* is the ratio of operating income to total assets. *SLE* is the natural logarithm of net sales per employee. *TFP* is the residual of annual industry-specific Cobb-Douglas production functions estimated for each 2-digit SIC industry group. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Capex* is the ratio of capital expenditures to total assets. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *CEO Duality* equals one when the CEO also serves as board chairman, zero otherwise. We select control firms in these regressions based on industry, average total assets, and average return on assets during the five years preceding the Best Company's inclusion on the *Fortune* list. Each regression includes industry and year dummies. *P*-values based on robust standard errors are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	Tobin's Q	ROA	SLE	TFP
Best companies	0.7772***	0.0161**	0.1481***	0.1255***
	(0.000)	(0.051)	(0.000)	(0.000)
Firm size	0.1107	-0.0092**	0.8230***	0.0317**
	(0.146)	(0.030)	(0.000)	(0.021)
Leverage	-0.8208	0.1183**	0.1385	-0.0523
	(0.379)	(0.056)	(0.280)	(0.756)
Capex	4.0356**	0.2812	1.8114***	-2.8755***
	(0.056)	(0.116)	(0.000)	(0.000)
Classified board	-0.1303	-0.0007	0.0340	-0.0344
	(0.310)	(0.932)	(0.369)	(0.333)
Board size	-0.0265	0.0071***	0.0422***	-0.0245***
	(0.435)	(0.000)	(0.000)	(0.003)
Board independence	-0.7211*	-0.0262	0.0783	-0.1905*
	(0.068)	(0.296)	(0.483)	(0.092)
CEO ownership	0.0334***	-0.0011	0.0078**	0.0071**
	(0.018)	(0.513)	(0.031)	(0.038)
CEO duality	-0.0050	0.0252***	0.0707*	-0.0356
	(0.978)	(0.014)	(0.065)	(0.346)
R-square	0.393	0.347	0.925	0.353
Sample size	966	966	966	947

Table 8: Employee welfare, human capital intensity, and firm performance

Tobin's q is the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *ROA* is the ratio of operating income to total assets. *SLE* is the natural logarithm of net sales per employee. *TFP* is the residual of annual industry-specific Cobb-Douglas production functions estimated for each 2-digit SIC industry group. *Best Companies* equals one for firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2004, zero otherwise. *R&D* equals one for firms with research and development expenditures (as a percentage of total assets) higher than the sample median, zero otherwise. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Capex* is the ratio of capital expenditures to total assets. *Classified Board* equals one when directors are elected to staggered terms, zero otherwise. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *CEO Duality* is a dummy variable, which equals one when the CEO also serves as board chairman, zero otherwise. Robust *p*-values are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

	Tobin's Q	*ROA*	*SLE*	*TFP*
Best companies	0.0204	0.0001	0.1110*	0.1038*
	(0.896)	(0.995)	(0.081)	(0.078)
Best companies × R&D	1.1739***	0.0509***	0.1475**	0.1265**
	(0.000)	(0.001)	(0.034)	(0.052)
Firm size	-0.0080	-0.0063*	0.1075***	0.0244**
	(0.687)	(0.086)	(0.000)	(0.042)
Leverage	-2.4253***	0.0143	-0.2036	-0.4093**
	(0.001)	(0.803)	(0.250)	(0.018)
Capex	5.2447*	0.4146*	-1.6508***	-3.5115***
	(0.082)	(0.078)	(0.002)	(0.000)
Classified board	-0.2938**	-0.0107	-0.0240	-0.0462
	(0.036)	(0.155)	(0.491)	(0.172)
Board size	-0.0363	0.0046***	-0.0244***	-0.0289***
	(0.207)	(0.003)	(0.001)	(0.000)
Board independence	-0.3818	-0.0220	-0.1990*	-0.1759*
	(0.297)	(0.362)	(0.069)	(0.092)
CEO ownership	0.0296*	-0.0010	0.0041*	0.0050**
	(0.086)	(0.436)	(0.065)	(0.030)
CEO duality	0.0304	0.0276***	-0.0188	0.0031
	(0.858)	(0.003)	(0.638)	(0.937)
R-square	0.4109	0.2723	0.6704	0.4032
Sample size	1027	1025	1023	1007

Table 9: Employee welfare and excess executive compensation

Excess compensation variables are residuals from first-stage regressions predicting executive compensation as a function of economic determinants. These regressions were estimated over all Execucomp firms. *Cash Compensation* is the sum of salary and bonus. *Total Compensation* includes salary, bonus, the value of stock options and restricted stock granted during the year, long-term incentive payouts, and other miscellaneous annual compensation amounts. *Best Companies* are firms listed on *Fortune* magazine's 100 Best Companies to Work for in America between 1998 and 2003. The *Control Group* consists of a size- and industry-matched group of firms that did not appear on the list throughout the entire period. *Board Size* is the number of directors. *Board Independence* is the fraction of independent directors. *Classified Board* equals one when directors are elected to staggered terms, zero otherwise. *CEO Duality* is a dummy variable, which equals one when the CEO also serves as board chairman, zero otherwise. *CEO External Directorships* is the number of outside board on which the CEO serves. *CEO Ownership* is the fraction of shares owned by the chief executive officer. *Firm Size* is the natural logarithm of total assets. *Leverage* is the ratio of long-term debt to total assets. *Firm Performance* is Tobin's q, calculated as the market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets. *P*-values are provided in parentheses under parameter estimates. Levels of significance are indicated by ***, **, and * for 1%, 5%, and 10%, respectively.

Table 9 continued: Employee welfare and excess executive compensation

A: Univariate comparisons

Variable	Best Companies		Control Group		Test Statistics	
	Mean	Median	Mean	Median	Mean	Median
Excess salary	56.88	74.30	123.55	99.15	-2.66***	-2.76***
Excess cash compensation	141.12	-42.65	476.95	119.93	-1.83*	-2.18**
Excess total compensation	3568.57	6.03	1507.34	-818.05	1.79*	1.64*

B: Regression results

	Salary	Cash Compensation	Total Compensation
Best companies	-13.418	-327.047	-755.891
	(0.686)	(0.187)	(0.674)
Board size	-9.922	-136.138***	-940.533***
	(0.306)	(0.002)	(0.002)
Board independence	187.954*	-644.526	-610.365
	(0.065)	(0.449)	(0.895)
Classified board	69.717***	-24.589	173.472
	(0.013)	(0.892)	(0.903)
CEO duality	142.110***	275.782	-2091.288
	(0.000)	(0.346)	(0.242)
CEO external directorships	33.330***	205.151	1380.631**
	(0.011)	(0.128)	(0.047)
CEO ownership	-3.443	-14.892	28.388
	(0.262)	(0.331)	(0.898)
CEO age	3.469**	-110.652	-18.689
	(0.054)	(0.425)	(0.795)
Firm size	19.375	252.494***	2618.576***
	(0.170)	(0.002)	(0.003)
Leverage	185.811*	-17.981	-3999.498
	(0.084)	(0.981)	(0.419)
Firm performance	-14.616**	-16.644	1766.603**
	(0.015)	(0.639)	(0.045)
R-square	0.3183	0.2163	0.2731
Sample size	644	644	644