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The Human Capital Impact on the Shareholder Value Creation

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Summary - PART I - Shareholder value theory, value metrics and research financial results - 1.1. Shareholder value theory - 1.2. Performance metrics for measuring value - 1.3. Research method and financial results – 1.4 Conclusion - PART II – The human capital impact on company results - 2.1 Human capital as intangible asset: measuring importance and literature - 2.2. Human capital impact on shareholder return and firm value - 2.3. Research method and human capital results – 2.4 Conclusion.

Abstract

From the mid-eighties until 2000 the United States experienced a period of economic growth at rates higher than those of the other main industrial countries, in particular Germany and Japan. Other economic indicators also gave clearly superior results: lower unemployment and inflation rates and a higher capital productivity. In a dynamic economy new opportunities continually arise. Under such a stimulus to growth – according to Copeland, Koller and Murrin (2000), managing consultants for research undertaken by McKinsey – management is constantly searching for new capital to finance its latest investment, and this leads to continuous pressure to come up with strategies that give value to the invested capital. Since there is competition for capital and capital flows toward those investment projects that guarantee the highest return, the management of growing companies select strategies and investment projects on the basis of the differential between return and cost of capital.
A significant number of firms claim to have obtained a relevant increase in shareholder value. These successes occurred toward the end of the 1990s, a time when stock markets were growing and national economies were able to absorb without too much disruption the restructuring dictated by rigid laws, such as the abandoning of undertakings or projects that did not create shareholder value. Behind this rapid spread of the shareholder value theory, in particular in the U.S. and Britain, are concerns about defending against raiders, the entry of institutional investors in capital markets, the remuneration of management, and the crises in the pension systems.
Following the acceptance of the principle that management must aim toward the production of shareholder value, much has been written about the advantages in creating shareholder value and the operating policies to obtain this (Rappaport, 1998; Hennel, Warner, 1998; Cornelius, Davies, 1997). *"Shareholder value is therefore defined as the difference between corporate value and debt, where corporate value is the sum of the future (or free) cash flows discounted at the WACC"* (Black, Wright, Davies, 2001). *"To maximize shareholder wealth, management must generate, evaluate, and select business strategies that will increase the corporate value"* (Morin, Jarrel, 2001).*"Strictly speaking, firms are considered as systems for the creation of economic and financial value for their shareholders, and their performance – profit and the value of capital – is measured by a coherent system of monetary values."* (Mella, Gazzola, 2004).

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On the other hand, human resources are considered a very important strategic lever in companies. So "managing people" in organizations doesn't mean just managing and organizing workforce as the others costs we can find in the balance sheet and, what's more, the traditional corporate balance cannot account for the ethical values and other intangibles which are fundamental to the success of the enterprise in creating economic values. This shows the relevance of human capital and intangible assets (Bahra, 2001) in value creation decisions (Griliches, 1996) and the need for: *creativity*, by which products and processes are continually innovated (Christensen, 1997; Deephouse, 1999), thereby favouring applied scientific research and technological innovation (Von Hippel, 1995); *intelligence* in understanding internal and external processes, in order to rationalize the technical processes of production; *organizational learning* and the formation of learning organizations to meet the competitive challenges through new work rules; *a good reputation* for the firm in its environment (Carter; Manaster, 1990).
Theories supporting the relationship between employee development and responsibility and productivity improvement, and employee satisfaction and financial performances now have more importance, but this is not all: the impact of the most advanced ways for managing people enable companies to achieve very positive long terms results. This can confirm that people managing practices need to be integrated in workplaces to obtain real advantages such as greater productivity and, as a consequence, greater shareholder value creation (Rappaport, 2006). Undoubtedly a calibrated grade of turnover, a correct allocation of financial resources for internal training, and appropriate methods of incentive and recruiting contribute to value creation.
Most research studies have shown that the human factor enables organizations to face markets in which they are competing, and competitive advantage has been the most important factor in changing the labour market and people management (Pfeffer, 1999; Caudron, 1994; Armstrong, 2006; Kaplan, Norton 2004). For instance, Jac Fitz-Enz (2001), pioneer of human capital impact valuation, provided the bases for empirical support of theories that claim how the workforce is strategic to obtaining great financial results. In other words, organizations *can* measure and maximize the value of their investment in employees.
Other researchers have demonstrated that companies with superior human capital practices can create substantially more shareholder value than companies with average human capital practices and that advanced human capital practices prevail, regardless of the economy; the same key practices that are associated with higher value show up in bull, bear and flat markets.

Our research starts with the valuation of financial results for the best companies to work for, in terms of shareholder value creation. The Great Place to Work Institute conducted the most extensive employee survey in corporate America in order to choose the "100 Best Companies to Work for" (more than 105,000 employees from 446 companies responded to a 57-question survey).
As we aim to prove, companies giving greater attention to the working conditions of their own workforce not only make people working inside more faithful and involved, but also handle a strategic lever able to create value for shareholders.
In the first part of the paper (M. Pellicelli) we shall present the shareholder value theory and the principal corporate value measures usually used to communicate value to investors of the largest corporations. In particular we will analyse the significant results obtained by a sample of the "100 Best Companies to Work for" in terms of market value added and total shareholder return.
In the second part of the paper (C. Casalegno) we will present the human resource theory and analyse the principal factors adopted by the "100 Best Companies to Work for" that have obtained the best shareholder value results.

Keywords: shareholder value, value creation, corporate value measures, human capital, strategic human resources management.

PART I - Shareholder value theory, value metrics and research financial results

1.1 – Shareholder value theory

Many firms in recent years have shown particular interest in the creation of shareholder value. This success occurred toward the end of the 1990s, a time when stock markets were growing and national economies were able to absorb without too much disruption the restructuring dic-

tated by rigid laws, such as the abandoning of undertakings or projects that did not create shareholder value.

Several factors were behind the rapid spread of the theory, in particular in the United States and Britain already midway through the 1980s: defending against raiders, the increase in stock prices, the crisis in the pension system, and the entry of institutional investors in capital markets. Only subsequently, in the mid-1990s, did a mix of other factors, such as globalization, the end of controls on capital and exchange rates, market liberalization and information technology help spread the theory throughout Europe, Latin America and Asia, thereby changing corporate culture and the role of managers. In particular, apart from Britain, whose laws and regulations are very similar to those in the U.S., the spread of the theory was limited, due both to slower economic growth and several other important differences, such as the capital structure, the systems of corporate governance, and the forms in which the interests of other stakeholders are safeguarded. In Italy and other countries where the "family-run enterprise" is prevalent, the creation of value is clearly limited due to the difficulties for new partners to participate in the capital structure and management of enterprises alongside the few family-member shareholders.

According to shareholder value theory, the firm creates value for shareholders through higher share prices and the distribution of dividends. The value added required of management is generally represented by the gap between invested capital and market capitalization. If data on share prices and distributed dividends are available, it is easy to calculate the value created for shareholders. It is more difficult to predict future values, to determine which quantitative measure to adopt, and to identify those variables management can influence in order to create value.

If we accept the creation of value as the primary objective of the firm, then we must also accept the principle that shareholders assign value to what they obtain from their investment through a flow of dividends, and they give value to the extent that dividends compensate for the investment risk they are willing to accept. *"To maximize shareholder wealth, management must generate, evaluate, and select business strategies that will increase the corporate value"* (Morin, Jarrel, 2001). In particular *"... the more fundamental principle is that a company only adds value for its shareholders when equity returns exceed equity cost.*" (Black, Wright, Davies, 2001). Value is created when investment produces a rate of return greater than that required for the risk class of the investment. According to Copelan, Koller and Murrin (2000) shareholder value is driven by four factors: 1) increase the return on existing capital; raise investment in positive performance; spread business units; 2) divest assets from negative performance; spread units to release capital for more productive use; 3) extend the planning horizon (competitive advantage period); 4) lower the required rate of return.

Following the acceptance of the principle that management must aim toward the production of shareholder value, much has been written about the advantages and operating policies

in order to obtain shareholder value (Rappaport, 1998; Hennel, Warner, 1998; Cornelius, Davies, 1997).

“The ability of the American academic-consulting complex (Grey & Mitev, 1995) to generate seductive panaceas for organisational action is not in doubt. Recent years have seen the quality movement (Oakland, 1993), the excellence tradition (Peters & Waterman, 1982), and business process re-engineering (Hammer & Champy 1993) become part of the corporate lexicon, a feature of the organisational world. Shareholder value is part of this tradition; it is a device, a set of techniques; a philosophy which lays claim to improving organisational performance, and therefore the returns to shareholders” (Carter, Conwey, 2000, p. 61).

Shareholder value theory is also connected to the firm’s survival and growth prospects, in addition to the social expectations (individual and collective) that complete the overall framework of goals attributed to this wealth- and value-creating institution. The production of value is a “consensus-generating” goal, since it can be favourably received and accepted by a majority of stakeholders that can, through the creation of value and organizational prosperity associated with this goal, have their expectations of security, well-being and progress satisfied against the widest possible economic, social and environmental background.

This context shows the central and increasingly important role played by the firm’s intangible resources. The strategic role of intangible resources[3] has been recognized thanks to the appearance of the *Resource Based View*, according to which every managerial activity must involve a preliminary survey and analysis of the intangible, or immaterial resources[4] – knowledge, in particular – which give rise to competitive differences (Hamel, Prahalad, 1994; Kay, 1993; Stalk, Evans, Shulman, 1992).

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[3] The intangible resources capable of generating competitive advantages can be classified as follows: 1) *resources at the basis of legal differences*, which ensure advantages guaranteed by the regulatory framework – laws or regulations – such as patents, trademarks and other instruments protected by law; 2) *resources at the basis of functional differences*, which guarantee the workings of internal operational mechanisms, such as the know-how of personnel and agents that inter-react with the company; 3) *resources at the basis of cultural differences* – linked to the presence of highly-qualified human capital – which “animate” the organizational culture: that is, the mix of convictions, knowledge, mental attitudes and habits individuals are exposed to and that permeate the organization; 4) *resources that explain positional differences* – linked to exploiting a privileged position acquired over time and difficult to lose – that come about through barriers to market entry, concentration, location, etc.

[4] The concept of an immaterial resource is not easy to define; in any case, it refers to a group of heterogeneous elements which have in common the fact of being based on knowledge, which at different times can take on the following meanings: 1) the knowledge possessed by individuals: the set of individual know-how – business, managerial, professional or operational – possessed by the members of the organizational team; 2) knowledge of the company: the set of system, specialistic or organizational know-how, which can take on a variety of forms and be expressed in non-formalized routines or translated into true immaterial goods, with or without legal protection; 3) knowledge that comes from the firm’s activities: the set of information that is exchanged in the company’s internal relations and which gives rise to the culture that permeates the entire organizational system and can create cohesion and motivation among its members; 4) knowledge about the firm: the set of information disseminated regarding relations between the firm and a vast array of external stakeholders that account for the firm's reputation, credibility and, consequently, corporate image in the market-environment of reference.

According to the Resource Based View (and its extension in terms of the Knowledge Based View), the characteristics of appropriateness, singleness, defendability and renewability of assets – extended to include intangible resources – are at the origin of a firm's competitive position and economic performance. The role of management is crucial since, given the importance of its role in generating value linked to intangible assets, it must be enable the company to face the growing levels of complexity and evolution both within the organization as well as in its relations with the market-environment of reference. This requires both skill and trust: the former involves management's ability to identify, deal with and solve management problems in the context of value creation, while the latter (whether in reference to the internal or external environments) improves the firm's capacity to inter-react with its stakeholders. Value is created from these resources, whose levels depend on the value created and on the efforts to strengthen the influence of these intangible assets.

In fact, 4 of the 10 ways Alfred Rappaport (2006) proposes to create shareholder value are directly linked to the salary of the CEO and the managers, and to how human resources contribute to the objective of value creation for shareholders. In order to respond to the following question: *"Companies profess devotion to shareholder value but rarely follow the practices that maximize it. What will it take to make your company a level 10 value creator?"*, Rappaport suggests the following actions, among others[5]: 1) reward CEOs and other senior executives for delivering superior long-term returns; 2) reward operating-unit executives for adding superior multi-year value; 3) reward middle managers and frontline employees for delivering superior performance on the key value drivers that they influence directly; 4) require senior executives to bear the risks of ownership just as shareholders do.

1.2 – Performance metrics for measuring value

In large companies the owners entrust their capital to management, who thus is responsible for managing the company and achieving maximum results. An important aspect concerns the measurement of the results obtained in relation to the resources available to management, and the relative choice of indices to measure the success of a company's strategies and the effectiveness of the current management.

It is a long-standing tradition to adopt accounting indices mainly based on earnings, for example Return on Investment (ROI), Return on Equity (ROE), Return on Sales (ROS), Earning per Share (EPS), and indices of profitability that compare the accounting indices with stock market valuations, for example Price to book ratio and Dividend Yield.

However, if the primary objective of the company is the creation of value, it is necessary to adopt indices more capable of expressing this. "Strictly speaking, firms are considered as

[5] The other rules Rappaport (2006) suggests are: 1) do not manage earnings or provide earnings guidance; 2) make strategic decisions that maximize expected value, even at the expense of lowering near-term earnings; 3) make acquisitions that maximize expected value, even at the expense of lowering near-term earnings; 4) carry only assets that maximize value; 5) return cash to shareholders when there are no credible value-creating opportunities to invest in the business; 6) provide investors with value-relevant information.

systems for the creation of economic and financial value for their shareholders, and their performance – profit and the value of capital – is measured by a coherent system of monetary values." (Mella, Gazzola, 2004). In fact, the creation of value is based on two fundamental postulates: 1) the objective of management is to maximize the return for the shareholders. Management is an "agent" whose task is to manage shareholder interests; 2) stock markets give a value to the company's shares based on investor expectations regarding the present value of the cash flow, which will be generated by the firm itself. A company creates value for investors in a certain period of time when the increase in the value of capital is greater than what the investor would have had with an alternative investment of equal risk.

Given that the data is taken from accounting, there are weaknesses in the calculation of the creation of value. For example, Earnings per Share is the most common index, even though it is not suitable for comparing companies in different sectors. It is less significant for evaluating results and the expectations of investors, and it also depends to a large extent on the accounting principles and the criteria adopted in the balance sheet valuations. Moreover, it is based on accrued earnings, while the conversion of earnings into cash (for example, the payment of dividends) can be close or distant in time. Thus EPS does not consider the value of money in relation to time. We must also remember that EPS, and ROE as well, often have no correlation with the trend in stock prices.

Over time other measures have been introduced to give more precise indications of shareholder value. The "market based" (or "external") measures are the most important ones for the creation of shareholder value, but they have various weaknesses that limit their use in the choice of strategies and in verifying the latter. Each of them incorporates the value of equity as a measure of the value of an investment by shareholders in the company. As a result the analysis brings up three problems in the interpretation of the data. 1) The first problem derives from the fluctuation in the price of shares. This value is determined by multiplying the number of shares issued and their market price. 2) The market price at any moment also expresses the valuation of the future flow of dividends (discounted at a given rate). When the market receives new information about the future of the company, the valuation changes. 3) The information on which the market bases its valuations is the same as that available to the general public or to the financial analysts (during conferences and press releases), but such information is not necessarily always true. The future is always uncertain; only those within the company have the means at their disposal to reduce uncertainty. The most important of these measures is Market value added (MVA)[6]. MVA represents the difference between the value at a certain date of shareholder investments and the value of the capital invested by shareholders up until the time the valuation is made (Hennel, Warner, 1998). Nevertheless it does not explain when the value was created, nor whether there will be further increases in the future. In addition, a balance sheet prepared to determine the income for the balance sheet is not suitable for measuring the economic value of a company, and thus is not a reliable point of refer-

[6] MVA is a concept developed by the consulting firm Stern Stewart & Co.

ence. Accounting data expresses "prudent" or "conservative" valuations and thus not the economic reality. Finally, a lot of the data included in a balance sheet is the result of estimates and conjecture. The relative value that corresponds to Market value added is Market to book ratio (MBR). In general, MBR is calculated starting from the balance sheet. It is calculated by dividing the market value of share capital (price per share times the number of shares) by the capital invested in the company (initial capital plus any increases, plus retained earnings). The latter figure is taken from accounting. This makes the calculation easier, but it subjects the index to accounting distortions. An effective market-based measure is Total shareholder return (TSR). Total shareholder returns determines how much shareholders have received over a certain period of time (dividends) plus the appreciation of share values. Thus, while TSR is not a new concept, it is important because it expresses what is of most interest to investors. TSR is the sum of the increase in share prices and the distributed dividends over a given period of time (usually less than three years).

The TSR formula presented by Cornelius and Davies (1997, p.113) is:

$$TSR = \frac{\text{Dividend per share} + (\text{Share price at period-end} - \text{Original share price})}{\text{Share price at start of period}} \times 100$$

It is easy to calculate and interpret; it is not based on accounting data, and thus is not subject to distortions due to valuation criteria; and it is not affected by the size of the company, unlike MVA, which greatly favours large companies. On the other hand, TSR does not express the creation of value if used alone. It needs to be compared with the return the investor would have obtained from an investment of equal risk. This problem can easily be overcome by comparing over the same period the TSR of a company with that of a sample of companies with similar characteristics. The price per share is affected by forces other than those of management alone.

Moreover, firms often use "internal" measures as well, which are based on accounting data. The most common internal measures are Economic profit (EP) and Economic value added (EVA). Economic profit has the advantage of using accounting data, which thus makes it more suitable for: constructing an integrated valuation system and thus measuring and assessing the results of the SBU; measuring the performance; assessing the corporate in order to determine remunerations.

The EP formula presented by Cornelius and Davies (1997, p. 136) is:

$$\text{Economic profit} = \text{Invested capital} \times (\text{Return on capital} - \text{WACC})$$

According to Stern Stewart (1991), the calculation of EP is distorted by three factors: 1) the “non-cash” influences on the balance sheet (for example, accruals); 2) the “prudential” (conservative) criteria of balance sheet accounting; 3) unsuccessful investment write-offs. Economic value added[7] is an improved version that seeks to correct some weaknesses in the concept of Economic Profit.

In particular the EVA formula indicated by Cornelius and Davies (1997, p. 150) is:

$$EVA = \text{Adjusted invested capital} \times (\text{Adjusted return on capital} - WACC)$$

In order to overcome these distortions, Stern Stewart has proposed 164 adjustments. Brealey and Myers is one of the most authoritative critics of Eva. They highlight the positive aspects of Eva that relate to the ability to get managers to take account of the invested capital; however, they also emphasize that Eva is still excessively conditioned by the current or succeeding year's earnings, thus tending to reward the pursuit of short-term investment projects (Brealey & Myers, 2000, p. 328). According to A. Damodaran, the Eva method can give rise to significant errors in interpretation; he believes that this method is suitable only for those companies that obtain a significant part of their value from previously acquired assets (Damodaran, 1997, p. 670). Madden compares Eva with the CFROI method, and argues that Eva is inferior with respect to all valuation criteria (Madden, 1999, p. 202). Olsen (1998, p. 191) underscores the tendency to discourage investment and to promote disinvestment. Two other effective internal measures, though less well known, are Shareholder value analysis and Total business return. Shareholder value analysis is a variant of Discounted cash flows (DCF), and its analysis centers on seven “value drivers”[8]. SVA is held to be very useful for evaluating a company or business unit and for assessing a strategy. Moreover, the seven “value drivers” are also useful for planning. Total business return is the “internal” equivalent of the “external” measure, TSR, described above. Companies that adopt TBR ask their business units to convert their long-term plans into cash flow, similar to what they would do with a disinvestment project. The cash flow is then converted into present value[9]. The time period of reference is important, and this varies according to the characteristics of the company and the sector.

1.3. Research method and financial results

In this paragraph we shall present the significant results obtained by a sample of the “100 Best Companies to Work for” in terms of market value added and total shareholder return[10]. In particular, we have first of all noted that all the firms chosen have positive results in terms of

[7] EVA is a protected registered trademark of Stern Stewart & Co.

[8] The seven value drivers are determined from the equation: value for shareholders = value of the business entity – value of debts (Rappaport, 1986). They are: growth rate of sales; operating earnings margin; cash tax rate – taxes expressed as a percentage of operating earnings before taxes; investment in fixed capital over the period in question; investment in circulating capital over the period; planning horizon; cost of capital.

[9] As pointed out by BCG (1996, p. 19): TBR = IRR over the period, where IRR is the Internal rate of return.

short and medium term EPS. Nevertheless, since EPS is an accounting measure that cannot be considered exhaustive, we have chosen TSR as an effective external measure of the creation of shareholder value in the long run. Thus, we have observed the results for TSR for 2006 as well as the long-term trend in order to eliminate short-term volatility in the market. As we intend to prove, companies paying greater attention to the working conditions of their own workforce not only make people working inside more faithful and involved but also handle a strategic lever able to create value for shareholders. Thus, the second part of this article will identify and explain the principal factors adopted by the "100 Best Companies to Work for" that have obtained the best results in 2006 in terms of TSR.

The Great Place to Work Institute conducted the most extensive employee survey in corporate America in order to choose the "100 Best Companies to Work for" (more than 105,000 employees from 446 companies responded to a 57-question survey). Two-thirds of a company's score is based on the survey, which is sent to a minimum of 400 randomly selected employees from each company. The survey asks about things such as attitudes toward management, job satisfaction and camaraderie. The remaining third of the score comes from our evaluation of each company's responses to the institute's Culture Audit, which includes detailed questions about demographic make-up, pay and benefits programs, and open-ended questions about the company's people-management philosophy, internal communications, opportunities, compensation practices, diversity programs, etc.

At a general level, several research studies have shown that the results for shareholders of the "100 Best Companies to Work for" have exceeded the indices of the major stocks. For example, Deloitte & Touche USA found that companies on the list outperformed the S&P 500 in total shareholder value return over a ten-year period (18.9 percent to 8.4 percent) as well as over a five-period (15.7 percent to 6.2 percent) and a three-year period (18.1 percent to 10.5 percent).

Moreover, the Great Place to Work Institute compared the financial results of the "100 Best Companies to Work for" with both the S&P 500 index and the Russell 3000 index, with the former always showing better results over the long term.

Our research method concentrates mainly on the Largest Corporations, for whom we intend to present the value created for their shareholders. With regard to the 100 Best Companies to Work for, 37 are among the largest U.S. corporations[11] (table 1).

Of these we have selected the top 20 companies in order to analyze their results in terms of market value[12] and total shareholder return.

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[10] Data source is Fortune (2007), *500 Largest U.S. Corporations*.

[11] Revenues are as reported, including revenues from discontinued operations when they are published on a consolidated basis (except when the divested company's revenues equal 50% or more of the surviving company's revenues on an annualized basis). Data shown are for the fiscal year ended on or before January 31, 2007.

As we wish to point out, companies focusing more on the working conditions of their own workforce not only make people working inside more faithful and involved but also handle a strategic lever able to create value for shareholders.

Table 1 – *The Top Best Companies to Work for 2007 Largest U.S. Corporations*

1. Google	11. Goldman Sachs Grp.	21. Procter & Gamble	31. Standard Pacific
2. Whole Foods Market	12. J.M. Smucker	22. Nike	32. Texas Instruments
3. Network Appliance	13. Amgen	23. Paychex	33. CarMax
4. Cisco Systems	14. Genzyme	24. Medtronic	34. Marriott International
5. Qualcomm	15. Yahoo	25. Aflac	35. Men's Wearhouse
6. Starbucks Coffee	16. First Horizon National	26. American Express	36. Synovus
7. Valero Energy	17. Microsoft	27. Principal Financial Grp.	37. A.G. Edwards
8. Nordstrom	18. Granite Construction	28. CDW	
9. Adobe Sustems	19. Publix Super Markets	29. EOG Resources	
10. Intuit	20. Jones Lang LaSalle	30. Capital One Financial	

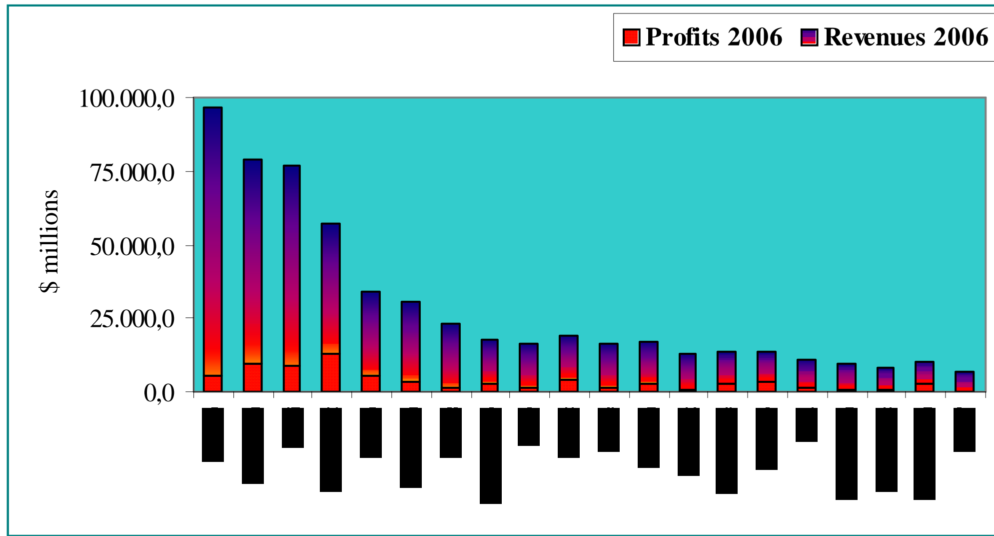
The sample includes the following 20 firms: Google, Cisco Systems, Qualcomm, Starbuckks Coffee, Valero Energy, Nordstrom, Goldman Sachs Grp., Amgen, Microsoft, Publix Super Markets, Procter & Gamble, Nike, Medtronic, Aflac, American Express, Principal Financial Grp., CDW, Capital One Financial, Texas Instruments, Marriott International. The ranking in terms of revenue for 2006 is shown in table 2. In addition, Figure 1 shows what the same firms achieved in 2006 in terms of both revenues and profits.

Table 2 – *The Top Largest Best Companies to Work for 2007 in terms of revenues*

	Top Largest Best Companies to Work for	**Revenues 2006** ($ millions)		**Top Largest Best Companies to Work for**	**Revenues 2006** ($ millions)
1.	Valero Energy	91.051,0	11.	Aflac	14.616,0
2.	Goldman Sachs Grp.	69.353,0	12.	Amgen	14.268,0
3.	Procter & Gamble	68.222,0	13.	Marriott International	12.160,0
4.	Microsoft	44.282,0	14.	Medtronic	11.292,0
5.	Cisco Systems	28.484,0	15.	Google	10.604,9
6.	American Express	27.145,0	16.	Principal Financial Grp.	9.870,0
7.	Publix Super Markets	21.819,7	17.	Nordstrom	8.560,7
8.	Capital One Financial	15.191,0	18.	Starbucks Coffee	7.786,9
9.	Nike	14.954,9	19.	Qualcomm	7.526,0
10.	Texas Instruments	14.630,0	20.	CDW	6.785,5

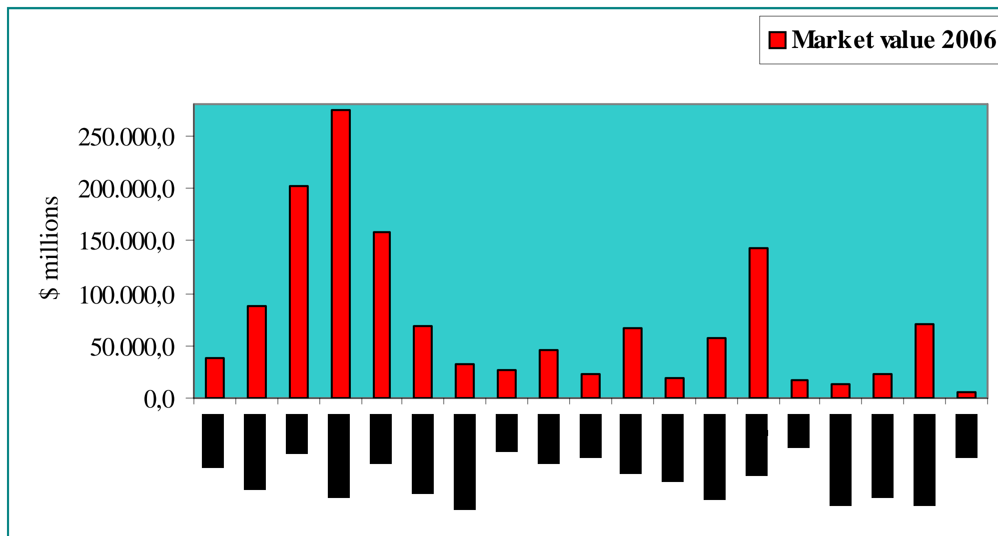
[12] The market-value figure shown was arrived at by multiplying the number of common shares outstanding by the price per common share as of March 23, 2007.

Figure 1 - *The Top Largest Best Companies to Work for 2007 in terms of revenues and profits*



All of these companies had positive results in terms of EPS in 2006 and in the medium and long run. We can also observe the market value in 2006 for the selected firms[13] (Figure 2). Microsoft, Procter & Gamble, Cisco Systems have market value amounts that even exceed $150 billion.

Figure 2 - *The Top Largest Best Companies to Work for 2007 in terms of market value*



[13] With the exception of Publix Super Market, from which data is not available since the company is not listed on the stock exchange.

As Figure 3 shows, the 2006 results in terms of TSR for the firms in the sample are for the most part positive. Only Valero Energy, Capital One Financial, Texas Instruments, Amgen, Medtronic and Qualcomm obtained negative results for this year.

Figure 3 - *The Top Largest Best Companies to Work for 2007 in terms of TSR*

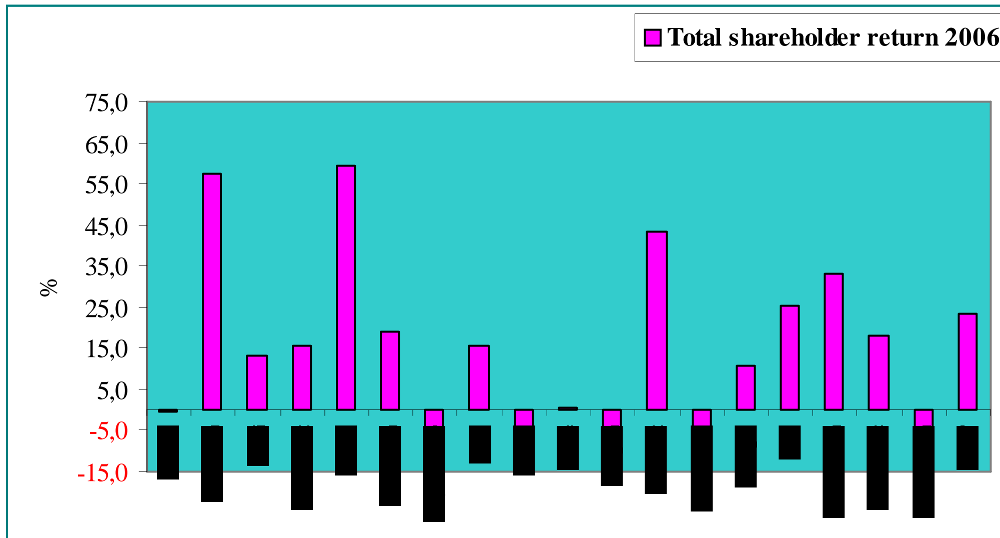
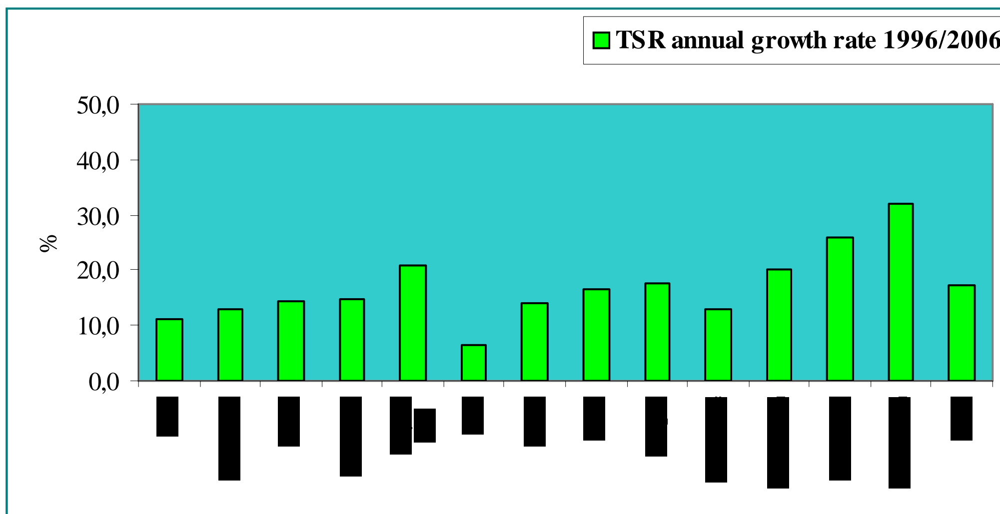


Figure 4 - *The Top Largest Best Companies to Work for 2007 in terms of TSR annual growth rate*



Moreover, if we examine the annual growth rate in TSR for the period 1996-2006[14], in order to consider the long-term comparisons and eliminate short term volatility in the market, we see there is an overall positive trend for those firms chosen by the Best Companies to Work for 2007 (Figure 4).

[14] With the exception of Publix Super Market, from which data is not available since the company is not listed on the stock exchange; from 1996-2006 data is not available from: Valero Energy, Goldman Sachs Grp., Publix Super Markets, Marriott International, Google and Principal Financial Grp.

For those companies whose data for 1996 was not available, because they were not yet listed on the stock market (while some were not yet in existence at this time), we have nonetheless observed a positive trend in the medium run in terms of both total shareholder returns and earnings per share.

This shows that companies that are more committed to improving their human capital practices and their intellectual capital have also achieved good results in terms of annual TSR and shown positive trends in the previous years.

In order to complete our analysis, the second part of this article also identifies and explains the main actions undertaken to improve human capital which, at the same time, have had a positive effect on the creation of shareholder value.

To this end, we have considered those firms in our sample that had the best results in 2006 in terms of TSR (with TSR > 15%), in consideration of the fact that over the long term the EPS and TSR results are positive.

As Figure 3 shows, these companies are: Cisco Systems, Goldman Sachs Group, Marriott International, Nordstrom, Principal Financial Grp., CDW, American Express, Starbucks Coffee, Microsoft and Nike.

1.4 Conclusion

The first part of the article has highlighted the positive results in terms of shareholder value for the Largest U.S. Companies that the Great Place to Work Institute had chosen as the best in terms of the quality of the work environment and the application of human resource practices (for example, job satisfaction, internal communication opportunities, compensation practices and diversity programs).

We have observed that companies that correctly develop human resource practices achieve good results in terms of shareholder value creation as well. This corroborates what has often been observed by writers on human resource management (Ulrich, 2005; Armstrong, 2006; Burke, 2006).

In studies on shareholder value theory, a number of authors have given importance to instruments and factors belonging to human resource management which are useful in creating integrated approaches aimed at the creation of value for shareholders. In this context, the intent is to make sure that at each level of the organization management is induced to act as if it owned the business; the decision-making processes, planning and the systems of control must be closely related to the objective of maximizing the creation of value for shareholders.

Thus, in order to create value it is not enough to adopt the measures proposed by Ashworth and James (2001) to evaluate management by identifying corporate measures (such as TSR or EVA) and, below these, value drivers (for example, volume) and key performance indicators (such as market share and percentage growth).

We must also emphasize, following Morin, Jarrel (2001) and Knight (1998), the importance of communication and teamwork, from top management down to the operational levels.

Organizational cohesion and internal and external communication processes are fundamental for the spread of value based management: in order to diffuse the principles of VBM throughout the organization a communications campaign is needed.

Some concepts are complex, and if they are not adequately understood the message will be lost (Pellicelli, 2007). Communication requires a precise plan and should be adjusted to the organizational level (Hennel, Warner, 1998; Ashworth, James 2001; Kamhi, 2000): 1) top management decides the "key measures" to apply to its businesses and plans the communications process; 2) senior management translates the objectives of VBM into actions; 3) the operational management plans the communications process to spread the principles of Value Based Management throughout the firm.

In particular, Cornelius and Davies (1997) identify integrated systems where not only is it necessary to define *objectives* in line with the creation of shareholder value and a suitable *organizational structure,* but also to focus attention on *organizational culture,* resource allocation*, target setting* and *performance measurement* in order to decide on *managerial rewards.*

Moreover, despite the numerous criticisms of shareholder value theory – for example, the accusation that it has damaged the other stakeholders in various ways, that management decisions are often disadvantageous for the firm's long-term interests, and that many managers have accumulated large personal fortunes – even opponents of the theory have recognized its merits in making management more responsible with regard to the resources entrusted to them by shareholders and in developing useful instruments for management, such as those held to be fundamental for human resource practices.

In recent years economic prospects have changed considerably: stock market failures, recession (or slow growth), the unethical behaviour of some managers, and financial scandals have given substantial strength to opposing views.

Thus, the need has been felt for new rules, both accounting rules that guarantee the correctness of accounts and corporate governance regulations that safeguard the interests of all stakeholders.

It is widely believed that in the post-Enron/WorldCom/Parmalat era companies can improve the creation of value through greater transparency in their strategies, decisions, actions and reporting, and, in our view, also by giving greater importance to the foundations of human resource management.

This can occur by developing *integrated and value based human resource management systems* and, as a number of authors have indicated (Armstrong, 2006; Fitz-Enz, 2001; Bahra, 2001; Deephouse, 1999; Christensen, 1997; Griliches, 1996; Von Hippel, 1995; Carter; Manaster, 1990), by focusing attention on the value of intellectual capital.

PART II – The human capital impact on company results

2.1 Human capital as intangible asset: measuring importance and literature

According to authors as De Cenzo and Robbins (1996), Armstrong (2006), hierarchy as been substituted by networks in the last twenty years and the bureaucratic system[15] has been transformed in a more flexible process. What is called control-based management is evolving in a more friendly approach in witch the communication is the most important tool[16].

Barlett e Ghoshal (2002) identify important changes managers should lead in this war of talent era. The hardest mind-set to alter is the longstanding, deeply embedded belief that capital is the critical strategic resource to be managed and that senior managers key responsibilities should center around its acquisition, allocation and effective use. Without denying the need for prudent use of financial resources, for most companies today capital is not the resource that constrains growth; human, not financial, capital must be the starting point and ongoing foundation of a successful strategy. For instance, in capital-intensive company like General Electric at 10 times its book value, it is seeing something of greater worth than the physical assets recorded in financial accounts; we can talk about intangible assets as human capital and employees talent.

Kiessling and Harvey (2006) recognize that when a company is acquired, the amount of money paid for the company is normally some multiple of earnings. The assumption is that the purchase price is higher than the tangible assets of the company. Frequently, some percentage of the 'premium' paid by the acquiring company is for the top management team and/or key managers.

People detain human capital, intellectual capital[17]; this is considered and valuated by Fitz-Enz (1998, 2000, 2001) as a profit lever in the knowledge economy. People are knowledge lever (Bahra 2001); they have intellectual capital that is the intangible asset that stays behind when the employees leave. According to Fitz-Enz, this asset can and should be measured as a fundamental asset for achieving competitive advantage. This is a precious resource, a lever to create organization value [18].

We can talk about a double level of human capital; one is about the single employee, one is about community that represents the whole organization knowledge.

[15] Auteri E.(2002), Management delle Risorse Umane, Guerini & Associati

[16] For more references: Malone T., (2004) The future of work: How the new order of business will shape your organization, your management style and your life. Harvard Business School Press.

[17] See also Rodov I., Leliaert P., FiMIAM: Financial method of intangible assets measurement, Journal of Intellectual Capital; Sept 2002

[18]*" Jac Fitz-enz been arguing about the importance of human resource metrics and measurement for close to three decades. At first, few people listened, cared or agreed with him. Today, he's considered a hero. […]IN 1978, JAC FITZ-ENZ published an article in Personnel Journal (the predecessor to Workforce Management) titled "The Measurement Imperative." In it, he proposed a radical, anti-establishment idea: that human resources activities and their impact on the bottom line could be measured. The reaction? Apathy. Disagreement. Disbelief" Shari* Caudron, Metrics Maveric, 2004

According to Ulrich et al (1999), human capital can be valuated by employee capability multiplied for his/her commitment.

Managers can increase employees results thought the level of employee capability and the average commitment of the whole workforce.

To make human capital be the most strategic lever for achieving competitive advantage, it is necessary to understand this intangible is portable, it doesn't loose his value in the course of time and it can correlate customers perception and company values; that's true, for instance, for the front line witch can show company value outside the firm.

But the most important thing is that human capital can *put everything together*; physical assets investments, technology, new product, distribution system work thanks to human capital and that's must be a mantra for leaders.

According to Barber (2005), capital-oriented measures don't help to valuate what is called "people business", because they cover weakness and show volatility where doesn't exist. So he suggests a *people-oriented* equation witch uses employees productivity instead of capital productivity (ROI).

The average cost of employees per person employed is equivalent to the cost if capital. The amount of people employed correspond to invested capital amount.

The standard calculation for economic profit can be reformulated - by substituting some basic components and by using standard algebra - to focus on the productivity of people rather than capital. This equation yields the same result but highlights the employee-related performance drivers of a people-intensive business that is the amount of strategic choices about strategic resources.

It's possible to calculate economic profit using the Return of Investment Index (ROI), the Cost of Capital (COC) and the percentage of Invested Capital, as shown below:

ECONOMIC PROFIT: [ROI-COC]IC

Replace "return on investment" with its equivalent "earnings divided by invested capital"

$$= \left[\frac{E}{IC} - COC \right] IC$$

Using algebra the equation becomes $= E - [COCxIC]$

Replace "earnings" with its equivalent, "revenue minus personnel costs minus supplier costs minus depreciation" $= R - PC\left(personel\,costs\right) - SC - D - [COCxIC]$

Use algebra to factor in a key people-oriented element, the number of people employed, and introduce two metrics, namely, employee productivity and average personnel cost per employee

$$=\left(\underbrace{\frac{R-SC-D-[COC\,x\,IC]}{P}}_{\text{Employee Productivity}}-\underbrace{\frac{PC}{P}}_{\text{Avg.Cost/Person}}\right)P \quad \text{People Employed}$$

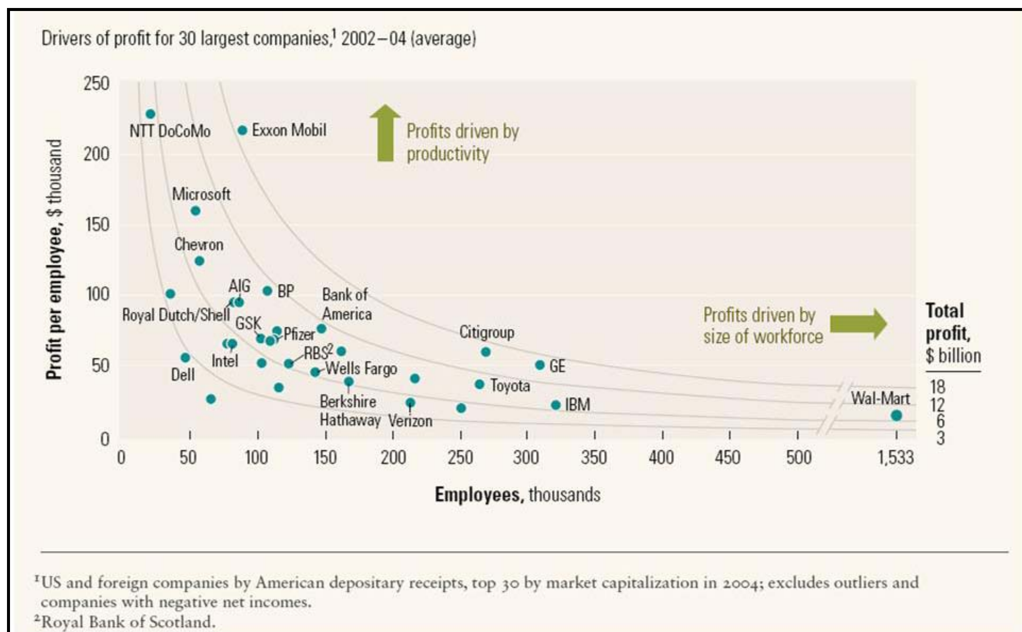
$$\text{ECONOMIC PROFIT}=[EPR-ACP]\,P$$

EPR is the *employee productivity* and ACP is the *average cost per person.*

Intangibles are embedded in the value chain, so it's not so clear what kind of intangible is source of profit or what specific balance of intangible and tangible assets should get the credit (or blame) for results; the computation is always difficult.

An important measuring tool tied to final company results – and also to human resources- is the one called *profit per employee* (PPE) (Lowell, 2005, 2007). Some researchers argue that analyzing company performances with classical financial index (as the balance sheet, cash flows, ROIC) is something of incomplete and obsolete; the major weight is in intangible capital.

Figure 5 - *Talent as a profits lever*



Source: McKinsey 2007

From 1995 to 2005, Lowell L.B. et al (McKinsey Company) have examined how, the top 30 of the very largest companies in the world (ranked by market capitalization) have seen their profit per employee rise to $83,000, from $35,000. On average, the number of people these companies employ has grown to 198,000, from 92,000, and their ROIC (or book value, in the case of financial institutions) has increased to 2.3 percent, from 17 percent. As a result, the median market cap of this group of companies rose to $168 billion, from $34 billion, with total returns to shareholders (TRS) at 17 percent a year.

The driver of this dramatic rise in market cap was a fivefold increase in average profits, an increase brought on in turn by a more than 100 percent jump in profit per employee and a doubling in the number of employees. By comparison, these companies ROIC increased, over this same period, by only a third.

Jac Fitz-Enz (1978) was the first to argue that human resources - as an intangible asset - decisions affect real dollars and, consequently, have a real impact on the bottom line. He was the first to develop a set of useful and systematic measurements for practitioners to utilize in their companies; so people and human capital must be measured in company because they have a big impact on final results and, above all, on company value creation. Over the last 25 years, he has nudged, prodded, poked, argued and written more words about the business effects of human resources than just about anyone else on the planet.

He has developed a set of measures and index to assess human capital impact on value creation. In his book *The ROI of Human Capital* (2000), he explain how we can measure the human capital return on investments.

The fisrt step in looking at the human capital aspect of financials is to revise the traditional index; we can redefine the return on investments in the following way, putting into account human resources investments:

$$HCROI = \frac{Revenue - (Expenses - pay\ and\ benefits)}{Pay\ and\ benefits}$$

This is a traditional ROI without the computation of non human expenses; we can find the amount of profit derived for every dollar invested in human capital compensation. By subtracting expenses except for pay and benefits, we have an adjusted profit figure.

If we want consider every single expense concerning human capital, we have to use non only the amount of pay and benefits, but also the *human capital cost factor* witch is composed by items as contingents + absence costs + turnover costs.

Fitz-Enz suggests others measures, as the *human economic value added* (HEVA); according to the author, the work of Stern Steward organization has popularized the term of economic value added (EVA) witch is defined as net operating profit after tax minus the cost of capital. Eva is very useful, in that shows much true profit is left not only after paying every expense, including taxes, but also subtracting the cost of invested capital. By converting EVA

into HEVA, it is possible to see how much EVA can be ascribed to the average amount of labor contracted for (labor=employees).

EVA can be given a human capital perspective by dividing it by the FTE denominator[19].

$$HEVA = \frac{net\ operating\ profit\ after\ tax - cost\ of\ capital}{FTEs}\ .$$

An other index used is the *Human Capital Market Value*

$$HCMV = \frac{Market\ value - Book\ value}{FTEs}$$

Measurement of the return on human capital starts, according to Fitz-Enz, with an understanding of the tasks involved with managing human capital from the workforce planning stage on ward.

Many measurement projects fail for one of two reasons: they star in the middle of the process, or they don't take into account how all elements of the process interact.

Is interesting to see how Fitz-Enz has displayed the six major tacks involved in managing the human capital.

The framework has a star shape and the task he has considered at the top of every tip of this star are: planning, retaining, acquiring, developing maintaining. In the middle of the framework we can find the task "evaluation"; evaluating the management of human capital is not a separate task, but it is integral to the efficient and effective exercise of the other five assessment must be involved into the process to be effective.

2.2. Human capital impact on shareholder return and firm value

The importance of the human capital and his impact on the competitive advantage creation and on value creation has made rise up a wide literature; we can read about that from Ulrich et al (2005), Amstrong (2006), Pfeffer (1999; 2005), Hamel e Prahalad (2005), Cohn et al (2005), Storey (1998), Burke (2006).

This point of view comes from the grown importance of the value creation management and the shareholder value creation; many authors have wrote a lot (Arnold, Davies, 2000; Ashworth, 1999; Black, Wright, Davies, 2001; Kaen, 2003; Rappapport 1986, 1998) to show how companies witch have positive results in a long period are those pay attention on shareholder value creation in every strategic decision.

To create shareholder value, Schiemann (2007) suggests to think about the concept he calls *people equity*, that is a concept lied to talent. Three areas underlying people equity; alignment, capability, and engagement (ACE). Alignment means going in the same direction. Capabilities refer to whether we have the right talent, information, and resources coming to-

[19] Full time equivalent. As a simple example, if ten people work half time, the FTE is five, although the number of employee is ten. The number ten represents what is commonly referred to as head count.

gether at the moment of truth. Engagement extends beyond job satisfaction or employee commitment; it's when employees become ambassadors for the company, encouraging friends to work there, buy its products, or invest in its stock.

According to Schiemann, having strong people equity does not guarantee success because you can still make strategic mistakes; however, without strong people equity, you have little hope of success. High ACE scores are driven by several factors: the supervisor, the top leadership, the clarity of strategy, a strong set of values, HR systems aligned with the business, innovation, structure, communication, teamwork, and unique strategy elements. The over-all correct management leads to strong economics-financial results for companies.

Thesis supporting the relationship between human resource development and financial results have more and more importance (Bassi, Mcmurrer, 2007), but that's not all; human resources best practices impact in a very strong way on value creation (Rappaport 2006).

From Fitz-Enz on (Ulrich, Smallwood, 2005) a new ROI has been determined – *human resource's return on intangibles* – where intangibles represent the hidden part of a company, the part you ca not see, the shareholder value not determined by financial results. Intangibles are becoming an increasingly important portion of a firm's total market capitalization.

Investments in HR practices are able to increase employees commitment and an increased commitment is a driver to customers commitment witch is a driver to profitability (Rucci, Kirn, Quinn,1998); so the more firms invest in human capital practices, the higher is the financial return.

Human resources practices shape company organization and company culture, identity, reputation and brand.

Ulrich and Smallwood (2005) report that a research by accounting professors Baruch Lev and Paul Zarowin at the Stern the School of Business, New York University, shows that the regression between earnings and shareholder value has traditionally (1960 through 1990) been between 75% and 90%. This means that 75–90% of the market value of a firm (stock price × shares outstanding) could be predicted by the financial performance of the firm. However, since 1990, this percentage has dropped to about 50% in both up and down markets. This means that an increasingly large portion of the market value of a firm is not directly tied to present earnings; it is tied to what the financial community calls "intangibles." Intangibles represent the value of an organization not directly derived from physical assets.

Ulrich and Smallwood propose their *Architecture of intangibles*. The framework has four basic levels: *maintaining promises, compelling strategy, aligned technical competencies, building value through organization and people.*

This architecture is progressive. Keeping promises is what builds trust and delivers credibility, so it has to come first. With credibility, trusted leaders can envision a future state that

captures imagination and generates enthusiasm, which means they can hope to bring it into existence.

An organization's capabilities are the deliverables from HR work. These capabilities give investors confidence (or lack thereof) in future earnings and increase (or decrease) market capitalization. HR professionals who link their work to capabilities and who then find ways to communicate those capabilities to investors deliver shareholder value. A typical list of capabilities includes: talent, speed of change, shared mind-set, accountability, collaboration, learning, and leadership.

HR professionals (Ulrich, Brockbank, 2005) must do six basic actions to connect their job to shareholders value, so they have to:

1. Become literate about shareholders and about the reason why they are investing their money in the firm

2. Understand the importance of intangibles

3. Create human resources practices leading the increasing of intangibles

4. Understand and sponsor the importance of intangible on total shareholder return (TRS)

5. Plan and put in practice an intangibles audit

6 Align HR practices and shareholders expectations

The Watson Wyatt[20] Institute worked out an index that takes the guesswork out of human capital practices. Since the study's inception in 1998, the WW research has drawn a clear relationship between HR practices and firm performance. The findings present in The Human Capital Index Report are interesting. First of all, companies with superior human capital practices can create substantially more shareholder value than companies with average human capital practices. Great human capital practices prevail, regardless of the economy. The same key practices that are associated with higher value show up in bull, bear and flat markets.

The 2005 HCI report confirms that organizations with strong human capital practices create superior shareholder value.

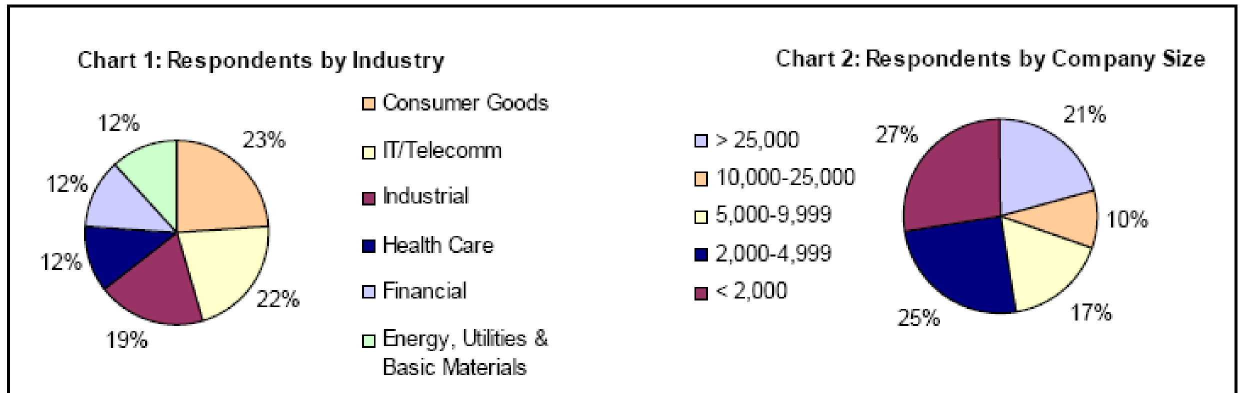
The 2005 Watson Wyatt Human Capital Index survey asked organizations to provide detailed information on their human capital budgets, programs and policies, and focused on practices that could be measured objectively.

Recruiting Excellence, Employees development, Reward management, Turnover management and Communication. Those the key tools for Watson Wyatt that asked to interviewed firms information about their human capital budget, programs and policies. The 147 organiza-

[20] *Maximizing your return on your human capital investment*, The 2005 Watson Wyatt human capital index report. *Maximizing your return on your human capital investment*, The 2002 Watson Wyatt human capital index report.

tions that completed the survey represent all major North American industries. Average company size was $6.4 billion in revenue and 15,400 employees.

Figure. 6 – *Watson Wyatt respondets companies*



Souce: The 2005 Watson Wyatt Human Capital Index Report

The Human Capital Index uses TSR (is the change in a company's share price over a period of time, plus dividends, and is expressed as a plus or minus percentage of the share's opening value.) and the market premium (measures the extent to which the market value of a company exceeds the cost of its assets and is expressed as a percentage of assets).

The key findings are the following.

Recruiting Excellence. Companies that fill vacancies faster reduced the disruption and lost productivity associated with turnover. Organizations that fill positions quickly (in about two weeks) outperformed those that take longer (around seven weeks) by 48 percentage points (59 percent three-year Total Returns to Shareholders [TRS] vs. 11 percent).

Employee Development. The best firms take a balanced approach to hiring non-entry-level positions, filling roughly half of these positions internally, which resulted in a three-year TRS of 56 percent. Firms that fill fewer non-entry-level positions internally (12 percent) tended to have the lowest returns (-2 percent), while those that fill the most (80 percent or more) also had lower performance (32 percent three-year TRS).

Total Rewards. Targeting pay and benefit levels above the market is associated with superior shareholder returns. The best organizations also make substantial distinctions based on performance. Organizations that pay top performers more than 4.5 times the bonus payout of lower performers earned a three-year TRS of 47 percent, 49 points higher than that of organizations which make smaller distinctions, paying top performers about two times the payout for lower performers.

Turnover Management. Firms with moderate turnover (15 percent) had a three-year TRS of 43 percent, outperforming firms with higher and lower turnover rates by at least 10 points.

Communication. Structure is a key component of effective and efficient communication. Organizations that place their internal and external communication functions in separate departments with separate directors had a three-year TRS of 50 percent, 35 percentage points higher than that of firms which combine these functions in the same department under the same director.

2.3. Research method and human capital results

Data from researches studied try to give an empirical value to human capital practices and to the relative management.

As a proof of the big importance of a correct and strategic human resource management through corporate culture and employees motivation, we have singled out in the first part of this paper the 10 U.S Company (see tab.below).

Those firms show good final results in terms of workplace even in terms of financial results and shareholder return.

In this part we have analyzed these 10 organizations considered in relation to people management. Firms with a more high rank present practices concerning: turnover management, people development and commitment, diversity management, attention in work-life balance and communication.

*Turnover management***.** Concerning turnover management, we can see that every company shows a moderate voluntary turnover rate, that means a rate between 5 percent (Cisco Systems, with the 3% year job growth and more than 220.000 worldwide employees) and 20 percent (Marriott, with about 150.000 employees); according to what is written above, a moderate turnover rate supports a positive TSR.

People development and commitment. Every firm shows human resources development programs and every program is planed to encourage internal communication, a communication through social barricades with a special attention to diversity management.

Cisco (n.4 tab. 1) is 11th in 100 Best ranking and 77th in 2007 US Largest (Fortune ranking). Diversity management and people development are important as lever for maintaining what Porter (1985) calls competitive advantage. Cisco also provides a program in which selected employees rotate through a range of two- to three-year local and global assignments to broaden their skill sets while addressing career and business goals. Company provides specialized training and learning experiences to help leaders, managers, and employees develop their careers: The Cisco Leadership Series. These programs enhance the leadership capacity of employees and encourage cross-functional collaboration.

People commitment is fundamental; Cisco offers stock options plans - Employee Stock Purchase Plan - which includes its sub-plan, the International Employee Stock Purchase Plan (together, the “Purchase Plan”), under which 321.4 million shares of the Company’s stock have been reserved for issuance. Eligible employees may purchase a limited number of shares

of the Company's stock at a discount of up to 15% of the market value at either the subscription date or the purchase date, which is approximately six months after the subscription date. The Purchase Plan terminates on January 3, 2010. In fiscal 2006, 2005 and 2004, the shares issued under the Purchase Plan were 21 million, 19 million, and 26 million shares, respectively. At July 29, 2006, 99 million shares were available for issuance under the Purchase Plan.

Goldman Sacks (36th 100 Best ranking and n. 11 in tab 1) aims to make employees faithful with high salaries and benefit management; this policy brings a moderate turnover (about 10 percent above a population of 22.000 employees). The firm strength is the employees commitment, due to networking policy; employee networks (Asian Professionals Network, Firmwide Black Network, Firmwide Hispanic/Latin Network, Gay and Lesbian Network, Goldman Sachs Women's Network) are an important part of the firm's diversity strategy because they can increase the engagement and retention of traditionally under-represented employee populations, enhance recruitment efforts, create business development opportunities and promote employee development.

Diversity management. Regarding diversity management, we can note that for NordStrom (24th place in 100 Best ranking and n. 8 in tab 1) diversity is a key priority at this chain of upscale fashion stores. In 1988 people of color made up 24% of staff; that's now 41%. In managerial ranks, 31% are now people of color and 72% are women. Diversity programs are important also for Starbucks Coffee (16th in the 100 Best and n. 6 in tab. 1) the overall makeup of U.S. workforce underscores a commitment to the guiding principle of embracing diversity as an essential component in the way to do business. Similarly, Starbucks executive leadership reflects a comparable dedication to diversity, with a roster of Senior Officers (senior vice presidents and above) that includes 28% women and 22% people of color. The inclusion in the DiversityInc "Top 50 Companies for Diversity" and "Top 10 Companies for Latinos" acknowledges the commitment to creating a diverse, inclusive global workforce.

Marriott International (n. 34 in tab. 1) also is present in "Top 50 Companies for Diversity" and "Top 10 Companies for Latinos"; this shows a very high commitment to diversity.

Building people involved in firm mission is a priority also for American Express (n. 26 tab. 1). The company pays attention in attracting and retaining people with team working, development programs and diversity management

Attention in work-life balance. Companies are discovering the importance of a work-life balance to make employees more effective and involved in the business firm life; regarding that, we can see Nike (n. 22 in tab.1) , with its headquarter. The Oregon campus is a sporting paradise, with tennis courts, indoor and outdoor tracks, soccer fields, running trails, two sports centers, an 11-lane pool used for swimming, scuba, and kayaking lessons. We can also look at Microsoft (n. 17 in tab 1) and at its new perks in 2006 included free grocery delivery, dry-cleaning service, and valet parking. That's not all; Microsoft takes care about its employees

by making what are called The Microsoft WorkLife programs (including Flexible work arrangements, Financial planning, Grocery service, Fitness benefits, Adoption assistance, Legal assistance, Backup child-care program, Maternity and paternity leave program, Disease management programs, Dry cleaning and laundry service, Employee affinity groups, Employee development courses, Smoking cessation program, Ergonomics program, Weight management program).

Cisco develops programs and policies to support employees work-life integration, and provide a stimulating and inclusive work environment to foster their development.

Communication. Communication is an important tool for every considered company; networking across countries and races is possible through worldwide intranet networks. That's to make every single employee involved and embedded in company structure; in this way people feel part of the firm and give to best of themselves. Committed people is the only way for companies to achieve competitive advantage and best final results for stock owners; that's the reason why every organization have changed its approach to people and their development in the workplace.

Table 3 – *Human capital results*

DATA	COMPANY									
	Cisco	Goldman Sacks	Marriott	NordStrom	Principal Finanacial	CDV	American Express	Starbucks Coffee	Microsoft	Nike
100 Best Ranking	11	36	89	24	77	82	74	16	50	69
Employees										
U.S. employees	27,493	12,542	124,35	48,374	13,075	4,293	29,145	109,873	44,298	13,664
Employees outside U.S.	13,002	8,924	17	6	1,834	137	36,665	20,462	27,255	11,746
Jobs										
New jobs (1 year)	860	655	-681	1,69	378	332	-12,661	2,314	5,203	458
% job growth (1 year)	3	6	-1	6	3	8	-4	15	13	5
% voluntary turnover	5	10	20	N.A.	9	18	17	14	6	8
Applicants	222,082	70,22	N.A.	273,904	19,752	18,497	245,462	594,638	947,25	229,582
Benefits										
Job sharing program?	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Professional training (hrs./yr.)	N.A.	33	112	60	44	82	20	37	N.A.	N.A.
Paid sabbaticals?	No	Yes	No	No	No	Yes	Yes	No	No	Yes
100% health care coverage	No	No	No	No	No	No	No	No	Yes	No
Diversity										
% minorities	42%	31%	60%	41%	8%	28%	34%	28%	29%	40%
% women	24%	38%	54%	73%	69%	29%	67%	65%	25%	48%
Has nondiscrimination policy that includes sexual orientation?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Best Practices and particular info	Virtually all employees are shareholders (Employee Stock Purchase Plan). Benefit plans related to employee pensions and other post-employment benefits. Training and development programs (career development programs). Worklife integrations programs. Diversity programs.	Great salaries. Talent management and workforce retention. Workforce diversity management (Global Diversity Task Force 2001). Carrer development and mentoring programs. Employees networking around the word.	Training and development programs. Very high commitment to diversity. Present in the following rankins:"Top 50 Company for Diversity 2007", "Working Mothers 100 Best Comanies", "Latina Style 50 2007", "Best Company for diversity 2007" (Black Enterprise Magazine).	Diversity as a key priority; In managerial ranks, 31% are now people of color and 72% are women.	Umphasized Personal development with classes, mentoring, and networking groups (Development Week). Diveristy programs for maintaining a work environment of inclusion, respect, and community.	Employees care and health programs. Equal opportunity employer	Building employees involved in company mission. Attention in attracting and retaining a highly talented and engaged workforce in order toprovide a superior return to our shareholders. Team working and diversity management programs.	Diversity and minority care management programs. Success plannings for leader in order to continue the leadership development. Every emploee viewed as a company partner. High employees commitment. Healt care benefits in order to build a strong employees commitment.	Every year new perks are delivered to employees (New perks in 2006 included free grocery delivery, dry-cleaning service, and valet parking). Worklife balance (The Microsoft WorkLife programs). Diversity and inclusions programs and initiatives.	High quality of worklife balance in connection with sport life. The head quarter is full of sports facilities in order to make employees inoelved in the corporate mission and culture

U.S. employees includes part-timers. Job growth, new jobs, and voluntary turnover are full-time only. Revenues are for 2005 or latest fiscal year. All data based on U.S. employees.

Source: data from www.fortune.com.

2.4 Conclusion

The second part of this research shows the importance of corporate culture you can find in a company; this issue reveals itself as something of necessary for employees commitment in corporate business strategies, because every single employee is an important part of the firm.

Firms climate and behaviours you can find in are important, but researches and studies have shown that also communication is a basic tool coming from human resources professionals and – what's important – directly from company boards, from seniors managers and CEOs.

What's called *strategic human resources management* starts directly from Top managers; we can talk about leaders, not just *managers*. Leaders job is above all managing workforce and communicate with it at every level, to let everybody know the importance of his own contribution to achieve corporate strategic goals. To make it happen, strategic goals must be clear and well known by everybody in the organization structure.

When human resource management function rose, focus was on processes helping managers to negotiate with labour unions. Today this organizational function have changed his approach and now is more strategic; human resources managers are strategic designers and facilitators to allow company leaders managing an intangible assets as human capital is (Ulrich, Smallwood, 2001; Armstrong 2006); as shown in our research, people are a fundamental asset for the shareholder value creation.

Building a strong corporate culture is necessary and important, as well as building an effective *corporate brand*. The most important thing is that every employee must feel embedded in the organizational structure and must experience the firm reality as he would be a customer; this is the best way to lead the change and to obtain real results for the long term.

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