

Fair Employee Treatment and Financial Characteristics of Firms

Prof. Himanshu Joshi
Associate Professor
FORE School of Management
New Delhi
Email: himanshu@fsm.ac.in

Abstract

Present paper attempts to investigate the interactions between firm's key financial decisions and its fair employee treatment and welfare plans. Fair employee treatment has two components-measurable and unmeasurable. Certain ratios like employee compensation to sales, employee compensation to total assets, and total employee welfare to sales are computed to capture the measurable part of fair employee treatment. To envisage the unmeasurable component, a dummy variable for fair employee treatment is used which is based on the listing of the firm in India's Best Companies to Work for 2017: The complete List prepared by Great Place to Work and published by Economic Times. Linear multiple regression analysis is conducted using firm's leverage, price to book value, and enterprise value to EBDITA as dependent variables, and fair employee treatment, and employee compensation to sales as independent variables. Results indicate a negative relationship between employee compensation and firm valuation, and confirms that high leverage firms are more likely to cut-down on employee compensation but ensure better and fair treatment of employees. The result of binary logistic regression model predicts that firm's dividend policy, employee stock options, and firm leverage positively impact the probability of fair employee treatment.

Key Words: Fair Employee Treatment, Leverage, Binary Logistic Regression, Employee Compensation.

Acknowledgement: The Infrastructural support provided by FORE School of Management, New Delhi is gratefully appreciated.