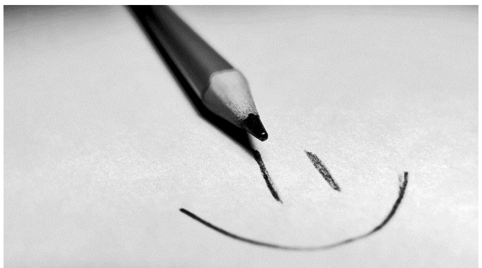
The Proof Is In The Profits: America's Happiest Companies Make More Money

By Mark C. Crowley   February 22, 2013

Workplace happiness may seem like a fuzzy concept when it comes to financial value. But as the Parnassus Workplace Fund has proven, dignity has--and creates--value.



“Goodness is the only investment that never fails.” --Henry David Thoreau

Every year around this time, a new edition of the “100 Best Companies To Work For” is released, and employers deemed to have the happiest and most satisfied workers are heartily celebrated by the media.

What’s perplexing about all this fanfare, of course, is that we know most workplaces in the U.S. aren’t at all that good in sustaining employee morale. Gallup’s announcement a few months ago that only 19% of American workers are fully engaged in their jobs sufficiently validates this. It also suggests that few organizations have made it a priority to learn and model the leadership practices known to produce high employee contentment.

The question needing to be asked is whether or not we fully believe there’s a direct connection between having happy workers and improved profitability.

At this point, the evidence suggests many of us remain suspicious of any firm that, say, allows its employees to play foosball or shoot hoops during work hours. But our enduring cynicism may also have its roots in traditional beliefs about leadership effectiveness. Many of us have been taught that it’s actually desirable to have some worker unhappiness. The idea is that keeping people under some constant tension actually is a more powerful driver of productivity. There’s also the concern that when employees are cared for to any extent they’re likely to get soft in the middle--so sufficiently sated that motivation to work hard and produce is spoiled.

One person who may have the answer is Jerome Dodson, the founder in 1984 of Parnassus Mutual Funds. Since April 2005, Dodson has held the additional role of portfolio manager for the Parnassus Workplace Fund, a mutual fund that invests exclusively in large American firms proven to have outstanding workplaces.

“The idea of creating a fund that only invested in organizations where employees were really happy,” Dodson told me recently, “was brought to me a decade or so ago by a journalist named Milton Moskowitz.” In 1998, Moskowitz and his associate Robert Levering (cofounder of the Great Place To Work Institute) oversaw the production of the first “Best Companies To Work For” list ever published in *Fortune* magazine.

“He told me that the Russell Investments, publishers of the Russell 2000 Index, had performed an investment return analysis of all the “100 Best Companies To Work For” and proved it was phenomenal and much better than the S&P Index, one of the most commonly used benchmarks for the overall U.S. stock market. So, Moskowitz said, 'Why don’t *you* start a fund like this?'"

Initially, Dodson, a Harvard Business School graduate, was resistant and told Moskowitz directly, “It’s a little different using real money compared to doing an analysis on a hypothetical basis.” But soon after their conversation, Dodson said, “the idea struck a chord in me because I’d always felt that having a happy workforce really meant a much better business as an investment. But until then I had no way of proving it.”

To get the fund going, Dodson and his firm invested $600,000 and solicited investors in other Parnassus funds to contribute more. In the first few years, with no track record of performance to draw on, along with an unproven premise, the fund grew very slowly.

Treating people well and authentically respecting them does lead to far better business performance. We proved it works.Dodson spent his time scouring the country for companies that had built solid reputations for treating employees with profound respect and which supported them through ongoing training and personal development. To quote Moskowitz, they were the kinds of firms that “genuinely cared about their employees as people, not just hired hands.”

Other important characteristics of the firms Dodson inevitably selected: they provided some meaningful form of profit sharing, health care, and retirement benefits while also being especially supportive of working mothers. He found many of these firms amongst the “100 Best Companies To Work For” list and discovered others that had never submitted the documentation to be officially considered an outstanding workplace. Ultimately, he chose companies like Intel, Google, Charles Schwab, Microsoft, and Gilead Sciences and then waited to see how they would all perform.

To Dodson--and Moskowitz’s--delight, the Parnassus Workplace Fund proved immediately, enormously, and enduringly successful. Since the fund’s inception (April 2005-January 2013) it’s had a 9.63% annualized return. This compares to the S&P Index which has earned just 5.58% during the same period. “Our fund has had returns over 4% better than the S&P Index every year,” Dodson noted. “Eight years later, the performance of the fund confirms what I’ve always believed. Treating people well and authentically respecting them does lead to far better business performance. We proved it works.”

Another compelling statistic buried in the Parnassus prospectus: Over the past five years--the height of the Great Recession--the average annual return on the Workplace Fund was an incredible 10.81%. The S&P Index for the same period was just 3.97%, a 6.84% difference. Dodson believes the wide gap in performance is easily explained: "I think what happens when you have a contented workplace, people are willing to put out more effort to improve operations during really difficult times. While I think every organization has their ups and downs, the downs are not as pronounced because everybody pulls together to try to get through the crisis. And, of course, this consistently more engaged performance inevitably reveals itself in the firm's bottom line."

After five years, investments in the Workplace Fund had grown to $80 million. Today, less than 3 years later, balances have ballooned to over $300 million. As reported by rating agency Morningstar, the fund also ranks highest in shareholder return compared to 1,303 other peer funds.

According to a 1997 article in the *San Francisco Chronicle*, many business leaders dismissed Moskowitz's earliest list of "Best Places To Work" and derided it as being "a 'beauty contest' that didn't matter to anyone outside of corporate personnel departments." But Moskowitz, and soon after, Dodson, have gone on to prove that the leaders at organizations which ensure employees feel valued, supported, developed, and rewarded are the most enlightened. They inspire a greatly expanded bottom line and set an example for all to follow in this 21st century.

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