

Does Shareholder Value Maximization Destroy or Create Jobs?

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Most models we use in corporate finance implicitly assume that the objective of running a firm is to maximize its value. Shareholder value maximization on the other hand is far away from being popular or generally accepted, be it within academia and even more in public. The acquisition of Opel by Peugeot is a current topic in Germany: 1.7 billion Euro of expected annual synergies to be realized until 2026 – difficult to imagine that this can be achieved without cutting jobs. Grist to the mill for those who consider shareholder value maximization as the root of all evil.

What I ask my students (who come from all over the world) to do when we discuss the “one and only” objective in corporate finance in class is to identify the five companies in their home countries with the biggest increase in shareholder value in the past five or ten years and analyze whether this growth was achieved at the cost of employment. The idea is to get a sense whether examples like Opel/Peugeot are more an exception than the rule or not. And in preparation for my class I do this for Germany, where I look at the DAX companies. I gather

- number of employees
- market capitalization (i.e. market value of equity, the value attributable to the shareholders)

and compare actuals with figures five and ten years back.

I am aware that this comes with inaccuracies and a lot of statistical noise. You can argue about the sample size, the selection of market capitalization and number of employees as proxies for the creation of shareholder value and employment as both can be affected by events that as such don't necessarily create or destroy jobs and value like mergers or divestments. But you must start somewhere, and this is what I get in early March 2017:

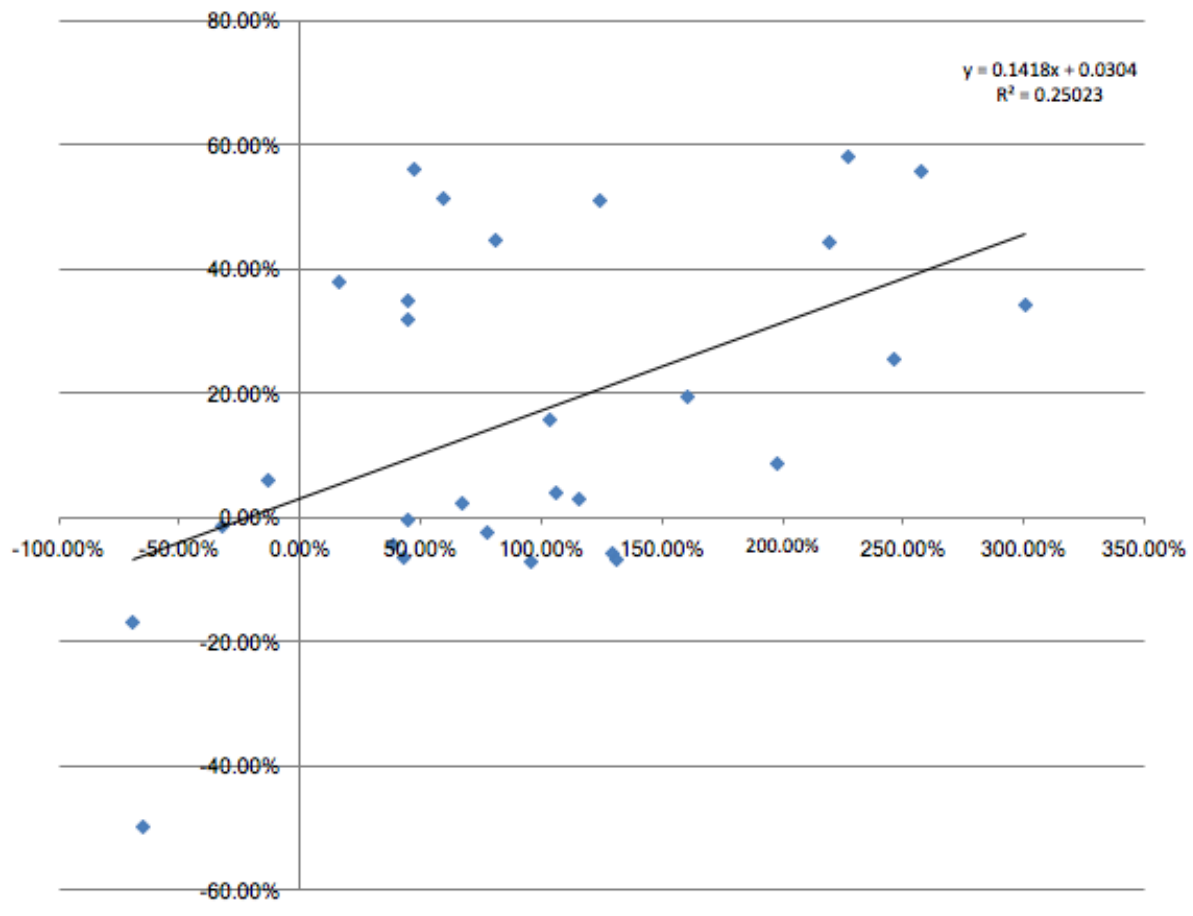
Name	Number of Employees:Y-10	Number of Employees:Y-5	Number of Employees LF	Market Cap:Y-10	Market Cap:Y-5	Market Cap
adidas AG	15,935	36,444	57,619	8,121,920,000	10,228,579,328	33,511,411,712
Allianz SE	177,625	151,338	142,697	66,564,296,704	33,442,281,472	76,680,028,160
BASF SE	95,247	111,141	113,830	36,996,308,992	49,496,817,664	82,686,967,808
Bayer AG	106,000	111,800	115,200	31,139,289,088	40,851,222,528	88,239,464,448
Bayerische Motoren Werke AG	105,798	95,453	126,013	24,744,900,608	38,556,082,176	55,906,344,960
Beiersdorf AG	17,172	19,128	17,806	7,847,937,024	9,418,658,816	21,785,147,392
Commerzbank AG	33,056	50,489	50,323	18,893,608,960	6,661,673,472	9,661,939,712
Continental AG	85,224	163,788	220,137	12,928,265,216	9,619,288,064	38,548,152,320
Daimler AG	360,385	271,370	282,488	48,315,998,208	36,168,896,512	74,449,977,344
Deutsche Bank AG	68,849	100,996	99,744	41,400,451,072	35,935,338,496	24,268,308,480
Deutsche Boerse AG	3,179	3,490	5,283	8,766,680,064	9,631,837,184	15,358,199,808
Deutsche Lufthansa AG	92,303	117,066	124,192	5,728,579,072	7,489,568,768	6,533,448,192
Deutsche Post AG	502,545	418,946	501,081	24,425,138,176	15,354,501,120	40,079,728,640
Deutsche Telekom AG	248,480	235,132	218,341	60,575,944,704	38,308,495,360	75,167,170,560
E.ON SE	80,612	85,105	42,731	57,616,613,376	43,700,551,680	15,103,547,392
Fresenius Medical Care AG & Co KGaA	56,803	79,159	109,319	13,073,536,000	20,661,729,280	24,026,116,096
Fresenius SE & Co KGaA	104,872	149,351	232,873	8,082,480,128	11,668,204,544	41,716,936,704
HeidelbergCement AG	41,260	53,437	61,945	8,703,842,304	8,793,749,504	17,873,950,720
Henkel AG & Co KGaA	51,716	47,265	51,350	15,187,933,184	16,242,003,968	48,325,492,736
Infineon Technologies AG	41,651	25,270	36,447	6,990,147,072	6,039,046,656	19,279,177,728
Linde AG	42,229	48,430	65,276	7,883,458,560	19,337,218,048	28,042,366,976
Merck KGaA	29,133	40,562	50,967	13,356,681,216	13,010,727,936	45,089,509,376
Munich Re	37,953	46,915	43,880	26,079,516,672	20,463,949,824	29,196,816,384
ProSiebenSat.1 Media SE	2,788	4,117	5,954	3,577,334,272	4,922,936,832	8,895,474,688
RWE AG	85,928	70,856	59,024	34,726,342,656	27,984,285,696	8,469,927,936
SAP SE	39,900	55,765	84,183	49,180,164,096	48,611,500,032	109,112,066,048
Siemens AG	371,000	359,000	351,000	61,315,686,400	59,291,725,824	105,546,194,944
thyssenkrupp AG	187,586	164,500	157,400	13,680,263,168	9,461,453,824	13,095,802,880
Volkswagen AG	344,902	399,381	624,003	17,701,009,408	49,263,443,968	72,549,474,304
Vonovia SE	1,385	1,101	7,074	--	--	15,352,838,144

There are companies that

- explicitly commit themselves to shareholder value maximization and act accordingly,
- state that their objective is to maximize shareholder value but follow different objectives,
- do not commit themselves to shareholder value maximization and follow other objectives like stakeholder value maximization.

Analyzing the market capitalization without any alignment to the stated objective of the company's management might be problematic. The same applies to the usage of the unmodified employment data. In our example, a large part of the increase in employees at Volkswagen is a result of the full consolidation of Porsche Holding and MAN. Nevertheless, I use market capitalization and the number of employees published in the companies' accounts as proxies – if you have better measures to answer the question put up, please feel free to use them.

Comparing actuals with figures of five years back and running a regression leads to the following result:



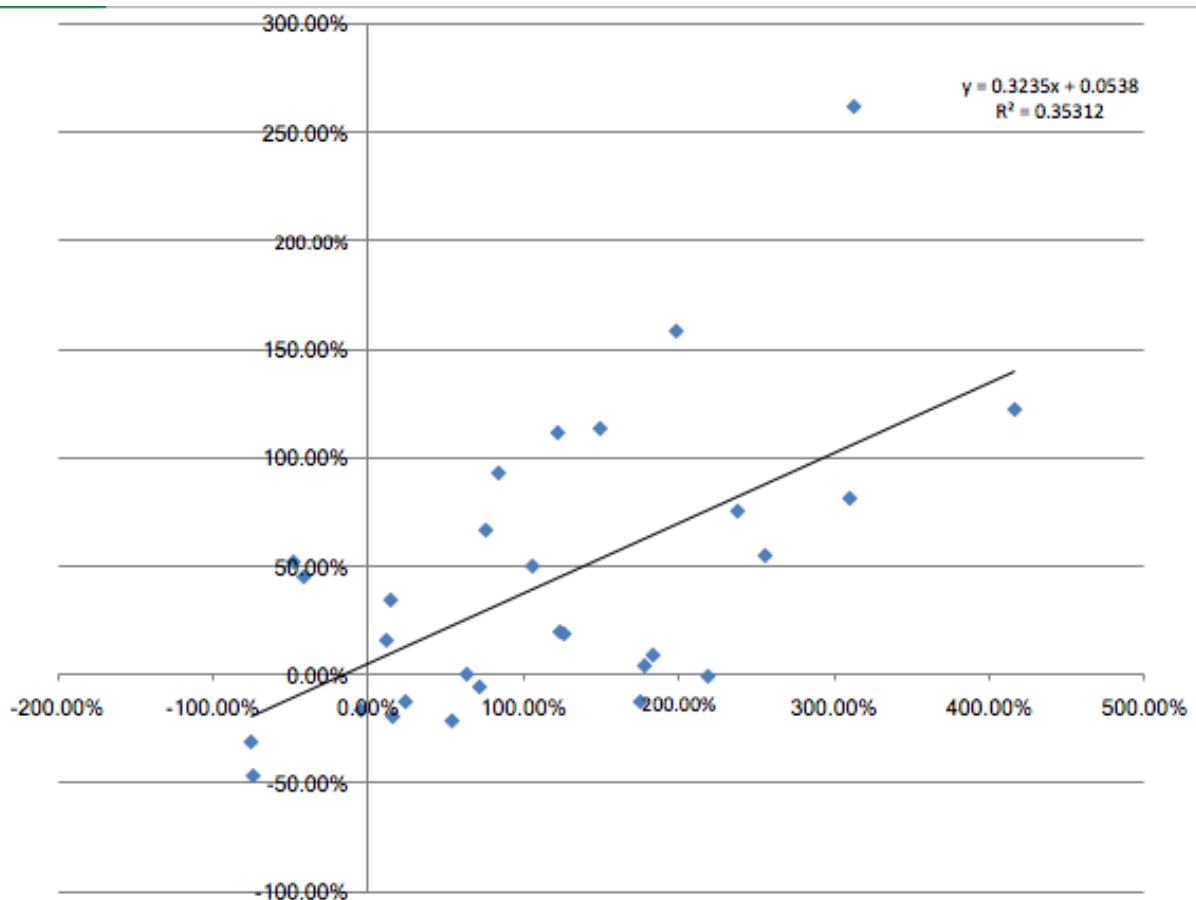
With all restraint (sample size etc.), there appears to be a positive correlation between market capitalization and number of employees. The r square of 25% is certainly not convincing, but the t-statistic of 3.0 suggests relevance. You may argue that this is nothing else than stating the obvious as companies with a larger market capitalization in general tend to be larger, and larger companies tend to have more employees. But let's look at the top five performers of the last five years in terms of increase in market capitalization in percent:

Name	Number of Employees:Y-5	Number of Employees LF	Market Cap:Y-5	Market Cap	Growth of Market Cap in % over the last 5 years	Growth of number of employees in % over the last 5 years
Continental AG	163,788	220,137	9,619,288,064	38,548,152,320	300.74%	34.40%
Fresenius SE & Co KGaA	149,351	232,873	11,668,204,544	41,716,936,704	257.53%	55.92%
Merck KGaA	40,562	50,967	13,010,727,936	45,089,509,376	246.56%	25.65%
adidas AG	36,444	57,619	10,228,579,328	33,511,411,712	227.63%	58.10%
Infineon Technologies AG	25,270	36,447	6,039,046,656	19,279,177,728	219.24%	44.23%

All five created a significant number of jobs, both in absolute and in relative terms. And here are the top five performers over the past ten years:

Name	Number of Employees:Y-10	Number of Employees LF	Market Cap:Y-10	Market Cap	Growth of Market Cap in % over the last 10 years	Growth of number of employees in % over the last 10 years
Fresenius SE & Co KGaA	104,872	232,873	8,082,480,128	41,716,936,704	416.14%	122.05%
adidas AG	15,935	57,619	8,121,920,000	33,511,411,712	312.60%	261.59%
Volkswagen AG	344,902	624,003	17,701,009,408	72,549,474,304	309.86%	80.92%
Linde AG	42,229	65,276	7,883,458,560	28,042,366,976	255.71%	54.58%
Merck KGaA	29,133	50,967	13,356,681,216	45,089,509,376	237.58%	74.95%

Three out of five companies are on both lists, the job creation is impressive and all companies appear on the “best employers” rankings published from several sources. So, they do not only generate jobs, it should (at least for most of the employees) be fun to work there, i.e. they treat their employees well.



The correlation between change in market capitalization and change in number of employees is stronger for the ten-year analysis compared to the five-year analysis (t-statistic is 3.84).

Bottom line, the analysis gives me confidence that cases like Opel are the exception and not the rule when it comes to the negative effects of shareholder value on employment. Opel must increase its efficiency to maintain its market position and to secure as many jobs as possible. I know this does not help the employees and their families that will be laid off, but if the management does not act now, all jobs will be at risk.

There is evidence to make a general statement, that companies that increase shareholder value also increase their employee base.