Share Price Analysis for Selected Companies based on Human Resource Practices

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Abstract

This paper investigates the links between human resources, finance and investments. These departments should work towards the same goal of producing profitability for the organisation and a high level performance. Without this, the organisation does not benefit from the skills in both teams. To highlight the link, finance and investment related measures linked to the price of 12 top ranking and 12 bottom ranking companies from the 2017 Workforce 100 list are evaluated to determine if differences exist in their share price performance. The selected companies are evaluated against selected benchmarks, NASDAQ Composite index as well as the NYSE Composite Index, to analyse their financial performance on a very high level. The analysis includes visual display of the logged share prices of the selected companies included in the study followed by year percentage change comparison and P/E ratio comparison to determine any fundamental differences. The top 12 ranking listed companies showed a higher year percentage change in 2017 based on share prices as well as a higher P/E ratio.

Keywords: Finance, Human Resource, P/E Ratio, Performance

1. Introduction

At the first thought, the overall principles of finance and investment do not seem to have much influence on human resources but without finance and investments, human resources

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will stagnate. The same applies vice versa- human resources also influence finance and investments. Without these three elements, as well as others, companies would not have the ability to grow beyond certain levels. The focus of this report will be on the three elements of human resources, finance and investment.

Human resources within an organisation are responsible for the recruitment of individuals, the payroll responsibilities, learning and development of employees, related administration and communication. In addition to these responsibilities, elements of risk management, regulation and corporate governance are also aspects that are looked into by the human resources team (Abe & Hoshi, 2007; Huselid, Jackson & Schuler, 1997).

The finance department of an organisation manages the organisation's money. The team will be involved in the strategic planning and organisation of the funds available and needed for the operation of the company. Additionally, the team will audit and account for the finances so that the required financial statements can be produced.

Investments are interlinked as well since the finance team will need investments for purposes of ongoing financial management of the company. A stronger investment portfolio results in more flexibility for financial and human resource decisions.

The finance and human resource teams in an organisation need to work together with the same goal as each plays a vital role. The goal of profitability and performance go hand in hand for growth in an organisation. The human resource function is the link between the business component and human component of an organisation (Quresh, Akbar, Khan, Sheikh & Hijazi, 2010).

A poorly functioning human resource division will result in an array of problems. Examples of issues are individuals being appointed that are not suitable for the organisation; poor performing individuals not being managed correctly; high quality individuals losing confidence in the company due to poor processes; top performers leaving the organisation due to no growth opportunities (Cascio & Boudreau, 2010; Xanthopoulou, Bakker, Demerouti & Schaufeli, 2009; Mirvis & Lawler, 1977) and so on.

A finance division that is not functioning optimally will produce inefficient decisions related to financing the organisation which will reduce funds available for use. With restricted funds available for use, the organisation will not be able to finance new projects or grow in areas that need to be expanded. With limited funds, human resources are affected in that if an individual leaves a company, he will most likely not be replaced. It does create the opportunity to evaluate human capital resources and allocations within an organisation but only for a limited time period.

Human resources have difficulty in providing financial values linked to return on investment on human capital as many metrics to evaluate performance and profitably are based on non-financial metrics (Cascio, 1991; Pfeffer, 1997). Metrics which are used are engagement scores, employee satisfaction scores, compensation values as well as budgeting which can be used to bridge the gap between human resources and finance.

The remainder of the report will evaluate top rated companies in section 2, followed by poor rated companies in section 3. Section 4 will evaluate the year on year percentage change of the selected companies, and section 5 will compare the P/E ratios of the companies. Section 6 will conclude the paper.

2. Methodology

In order to determine the effect on the share price of selected companies, a quantitative analysis will be done on top rated and poor rated companies as ranked by the 2017 Workplace 100 list.

Top rated companies can be classified in different ways. In this report, top rated companies will be companies that are seen as the best employers to work for based on the 2017 Workforce 100 list which ranks the top 100 companies in the world based on human resources. The list includes the following subsections: workplace culture; employee benefits; diversity and inclusion; employee development/talent management; HR innovation; leadership development; and talent acquisition. The methodology of the Workforce 100 methodology states that "high performance in these core categories provides a reasonable proxy for overall HR excellence" (Workforce, 2017). Data for the list was gathered from

publicly available data as well as from Glassdoor. The publicly available data was collected from benchmarks and ranking programmes that are established and are representative of the aim of the ranking (Workforce, 2017).

The top 12 listed companies with sufficient data from the Workforce 100 list will be included in the study.

The top ranked companies from the first place are:

1. Google (represented by Alphabet in this paper)
2. Facebook Inc.
3. Coca-Cola Co.
4. Deloitte (not listed)
5. AT&T Inc.
6. Walt Disney Co.
7. Marriott International Inc.
8. Comcast Corp.
9. Goldman Sachs
10. Apple Inc.
11. Intel Corp.
12. Nike Inc.
13. KPMG (not listed)
14. Accenture

The bottom 12 listed companies with sufficient data from the Workforce 100 list will be included in the study. The top and bottom rated companies will be evaluated against selected benchmarks to analyse their financial performance on a very high level. The benchmarks used in this paper are the NASDAQ Composite index as well as the NYSE Composite Index.

The bottom ranked companies from the 100th place, moving up the rankings are:

1. Blue Cross Blue Shield of North Carolina (not listed)
2. General Motors
3. Amazon.com Inc.
4. ADP (not listed)
5. TIAA (not listed)
6. Dell Inc. (not enough data)
7. Dow Chemical Co. (not listed)
8. Southern Co.
9. Grant Thornton (not listed)
10. TELUS Communications Co.
11. EMC Corp. (not listed)
12. Hormel Foods Corp.
13. Paychex Inc.
14. Synchrony Financial (not enough data)
15. Northrop Grumman Corp.
16. Fluor Corp.
17. Scripps Health
18. MasterCard Inc.
19. VF Corp. (not listed)
20. Humana Inc.
21. Edward Jones (not listed)
22. JetBlue Airways

The analysis will include a visual display of the logged share prices of the selected companies included in the study followed by year percentage change comparison of the selected companies. Lastly the P/E ratios of the companies will be evaluated to determine any fundamental differences.

3. Results and discussions

The top 12 listed companies with sufficient data were selected and the logged prices are shown in Figure 1.
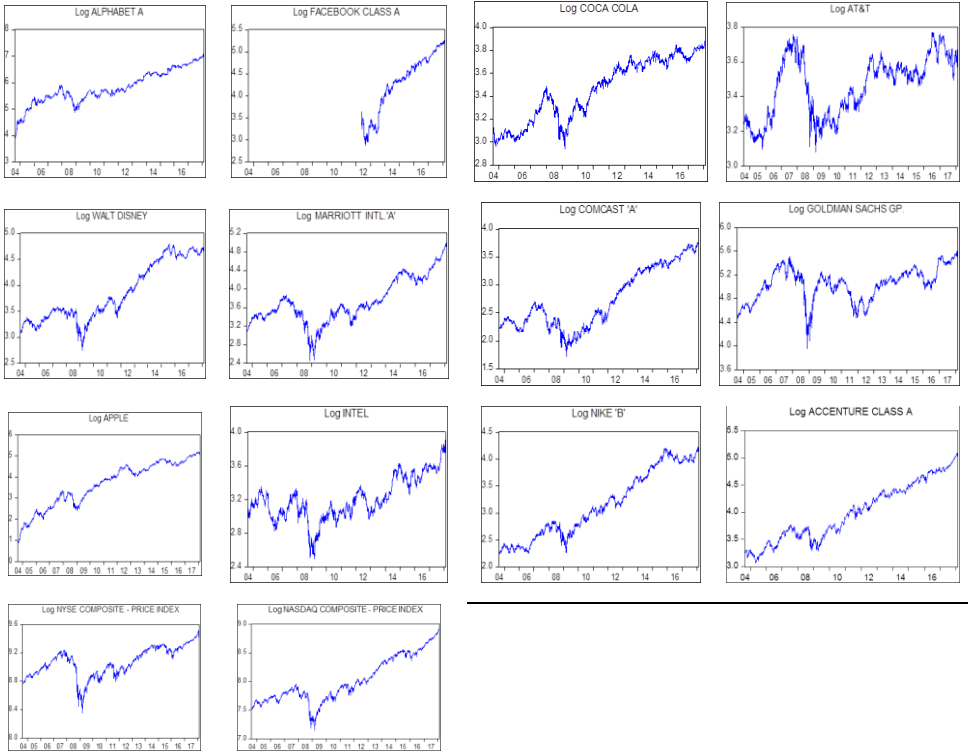

Fig 1 Logged prices of top 12 listed companies from Workforce 100 ranking

(Source: Researcher analysis)

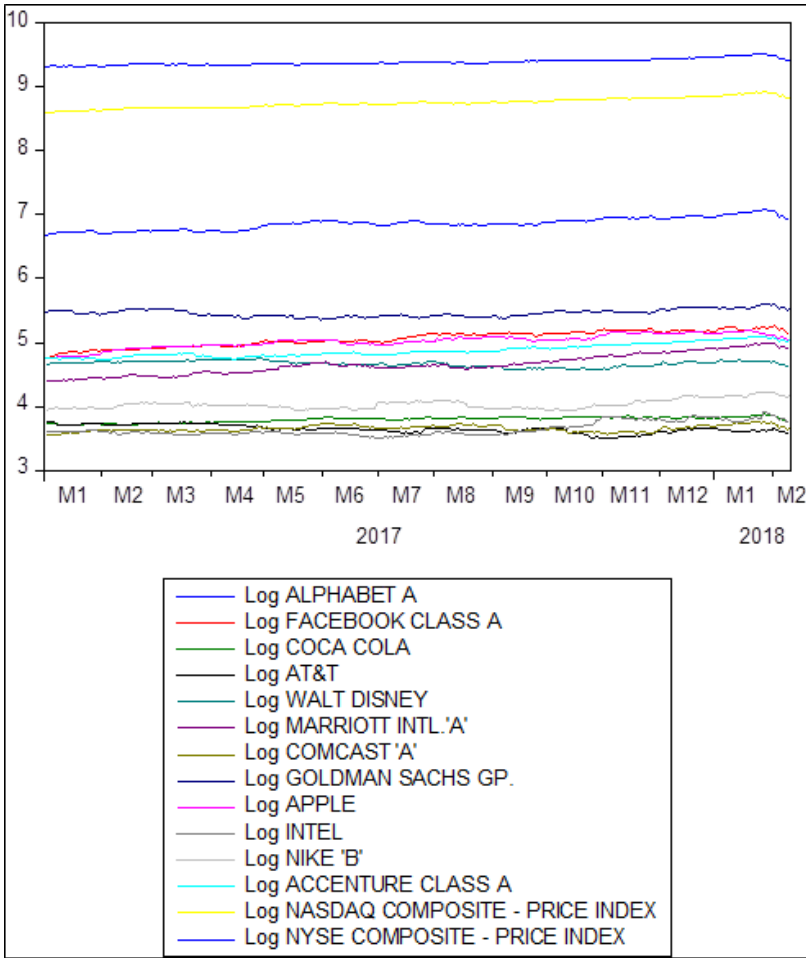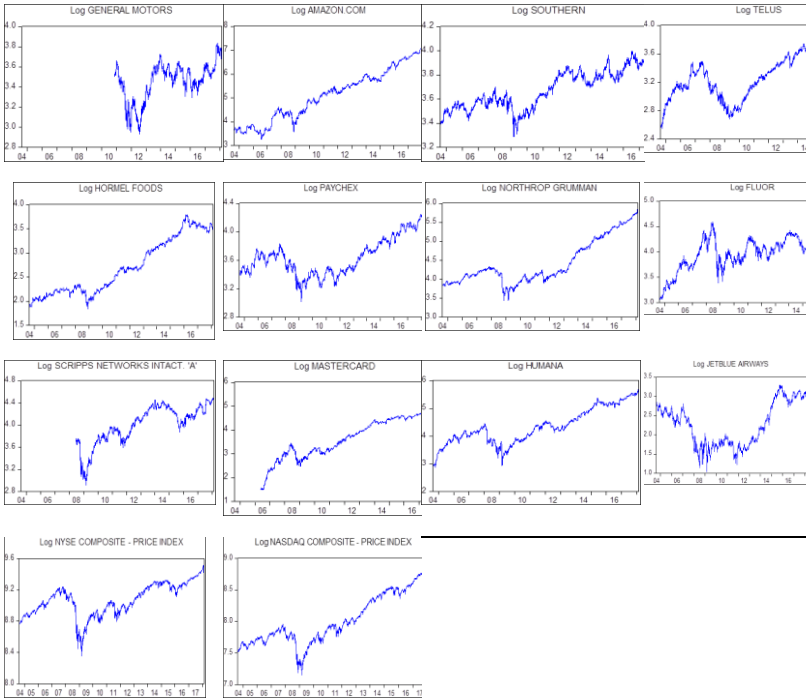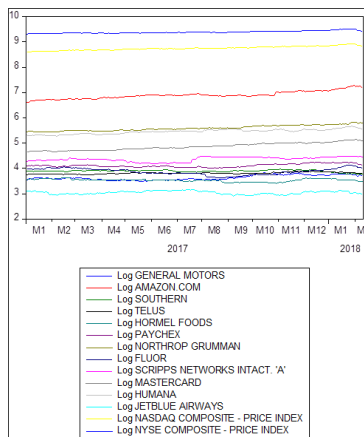The comparison of logged prices for 2017 is shown in Figure 2.

Fig 2 Comparison of logged prices for top 12 listed companies (Source: Researcher analysis)

The bottom 12 listed companies with sufficient data from the Workforce 100 list were selected and the logged prices are shown in Figure 3.

Fig 3 Logged prices of bottom 12 listed companies from Workforce 100 ranking (Source: Researcher analysis)

The comparison of logged prices for 2017 is shown in Figure 4.

Fig 4 Comparison of logged prices for bottom 12 listed companies (Source: Researcher analysis)

The year percentage change for 2017 is shown in Figure 5 and 6 for the top 12 rated as well as the bottom 12 rated companies respectively. The top 12 companies are mostly in the 0% to 40% bands whereas the bottom 12 companies are in the -20% to 20% bands.
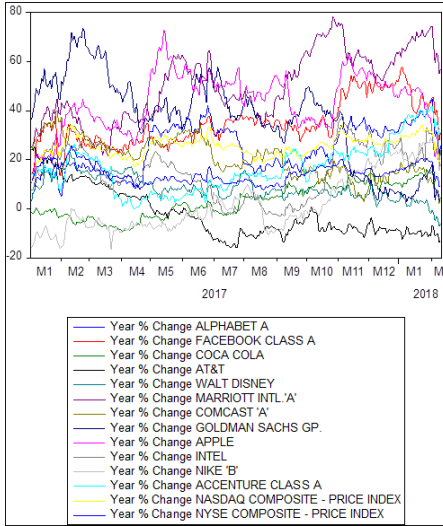

Fig 5 Year percentage change for 2017 for top 12 listed companies
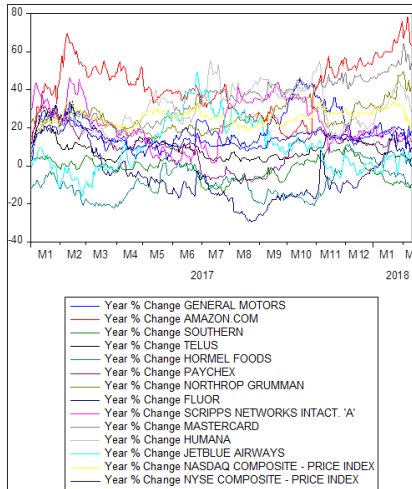
Source: Researcher analysis

Fig 6 Year percentage change for 2017 for bottom 12 listed companies

Source: Researcher analysis

The monthly P/E ratios for 2017 are shown in Figure 7 for the top 12 rated listed companies. Majority of the P/E ratios are between 15 and 30, with a few outliers.
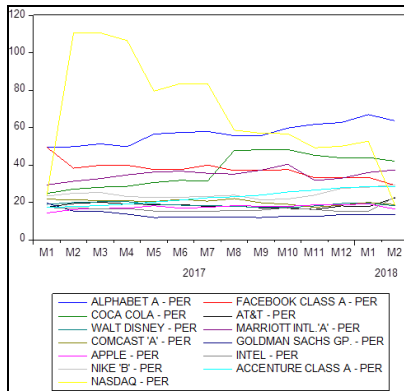

Fig 7 Monthly P/E ratio for 2017 for top 12 listed companies

(Source: Researcher analysis)

Figure 8 and 9 show the monthly P/E ratios for the bottom 12 listed companies. Figure 8 includes Amazon, whereas Figure 9 excludes Amazon so that the lower valued P/E ratios can be clearly seen. Figure 9 shows that majority of the P/E ratios are between 10 and 25.
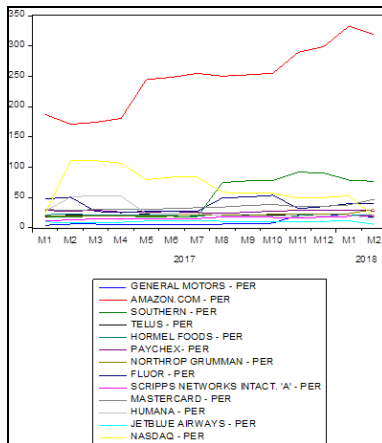

Fig 8 Monthly P/E ratio for 2017 for bottom 12 listed companies (including Amazon)
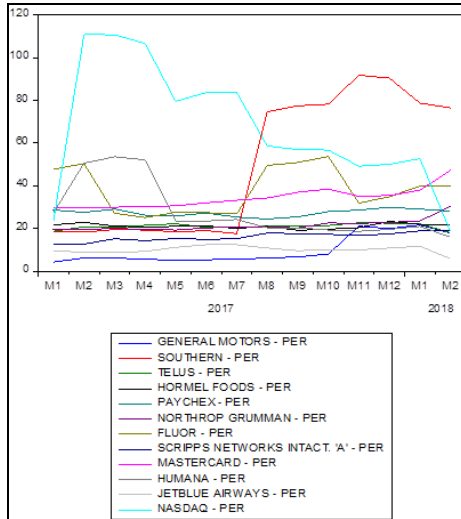
(Source: Researcher analysis)

Fig 9 Monthly P/E ratio for 2017 for bottom 12 listed companies (excluding Amazon)

(Source: Researcher analysis)

4. Conclusion

The objective of this paper was to illustrate a link between human resource management, finance, and investment management. The paper was focussed on the human resource element and what the financial impact and related investment opportunities are for companies with high ranking human resource performance compared to lower ranking human resource performance.

The top 12 and bottom 12 listed companies with sufficient data from the Workforce 100 list was selected to be included in the study. The selected companies were evaluated against selected benchmarks, NASDAQ Composite index as well as the NYSE Composite Index, to analyse their financial performance on a very high level. The analysis included visual display of the logged share prices of the selected companies included in the study followed by year percentage change comparison and P/E ratio comparison to determine any fundamental differences. Overall, the high ranking listed companies showed a higher year percentage change in 2017 as well as higher P/E ratios.

This paper only highlights a high level relationship between the two based on basic share price analysis. This limitation is important to consider as the results cannot be generalised. Further research can be focussed on analysing in more detail, the human resource metrics and information, other financial and investment related measures. Future research could also engage in a detailed investigation of the share price analysis of companies displaying top rated HR practices as compared to lower rated companies.

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