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The Good Job Score Assessment Tool in Practice

By FoW Partners[1]

After launching the Good Job Score Assessment Tool in April 2023, we sought to improve the tool's efficacy by establishing sector-level benchmarks and more clearly validating the relationship between the Good Job Score and company performance. Further, given we created this tool for practical application by management teams and investors, FoW Partners has applied the Good Job Score across their portfolio of companies. We have included real-world case studies to demonstrate how FoW Partners has leveraged the Good Job Score within its portfolio.

[1] FoW Partners, LP was formerly known as Two Sigma Impact. On April 1, 2024, Two Sigma Impact transitioned to become FoW Partners, LP, an independent, employee-owned, SEC registered investment adviser.

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Introduction

The Good Job Score (GJS) Assessment Tool, developed collaboratively by FoW Partners,[2] Two Sigma data scientists, and PwC, was launched last year alongside preliminary analysis suggesting that a company's GJS is positively correlated with employee engagement metrics and key financial outcomes. The focus since then has been to further this research by expanding the number of companies sampled with the goal of:

- Establishing more robust benchmarks for the GJS across industries/sectors; and
- Validating the relationship between the GJS and business outcomes from a broader panel of companies.

In this second phase of research, completed in late 2023, over 3,000 employees were surveyed in 2023 from 125 companies in the Russell 1000 universe, bringing our overall sample to 9,000 employees from 186 companies. In an effort to develop peer group benchmarks, we focused our sample on seven sectors within the Russell 1000, capturing 23% of the Russell 1000 universe and over 60% of the workforce within these sectors.

This paper will highlight the findings from this recent phase of research including the insights we have derived on differences in the GJS across employee groups and our efforts to provide sector-level benchmarks. We will then summarize our updated results on how the GJS tracks with company financial metrics and how these associations may differ by sector.

Establishing sector-level benchmarks

Understanding how a company compares to others in that same sector is necessary for putting the GJS into context and comparing across peer groups, however our initial sample was too small to establish representative benchmarks for different sectors.

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Fortunately, with data from 186 companies across seven sectors, we have developed reliable benchmarks for the GJS and its dimension subscores. We used the Global Industry Classification System (GICS) and sampled across the Communication Services, Consumer Discretionary, Consumer Staples, Financials, Healthcare, Industrials and Information Technology sectors.

Figure 1. Good Job Scores and Subscores by GICS Sector (2023)

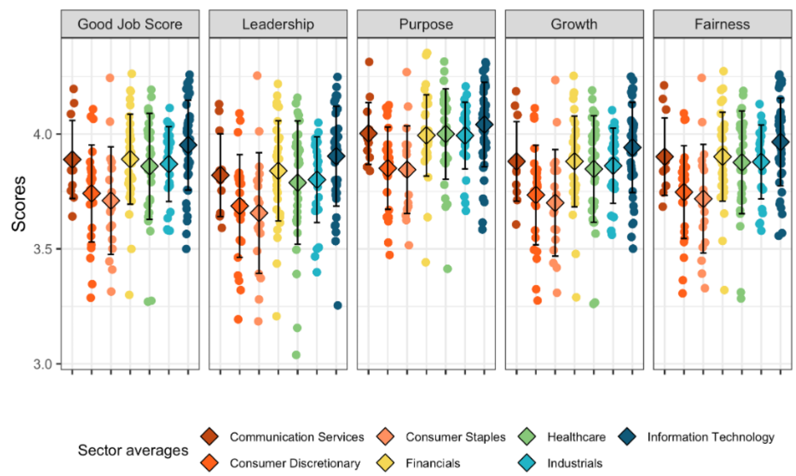


Figure 1 illustrates the GJS and its subscores by sector for the updated sample. As detailed in our preliminary analysis, the four dimensions of the GJS are:

Leadership

Senior leadership has the skills, capabilities, and genuine desire to engage the workforce

Purpose

The company's mission and values are clear to employees and connected to their work

Growth

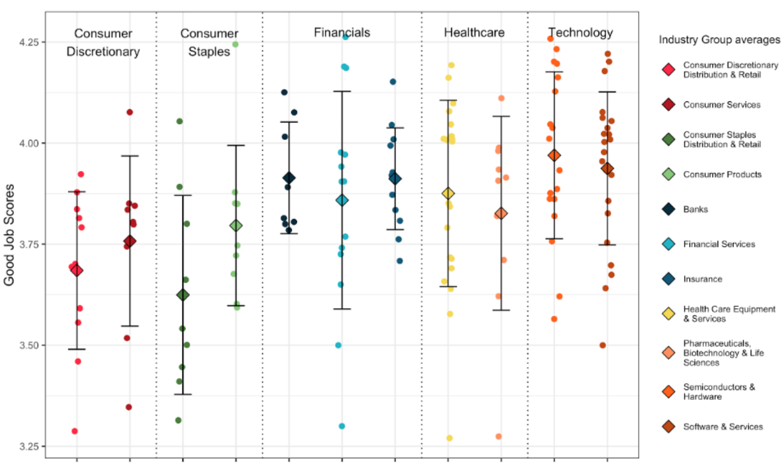
Employees feel they have the feedback, support, and opportunities to learn and grow in their careers

Fairness

Employees feel they are safe in the workplace, fairly compensated and have sufficient flexibility to maintain work-life balance

We now see greater variation in company scores within each sector, with some sectors (e.g., Consumer Discretionary, Consumer Staples) having greater spread than others (e.g., Industrials, Information Technology). Trends in the data remain consistent with our observations from last year with the Consumer Sectors (Discretionary and Staples) lagging behind the other sectors on the GJS. The average GJS in our sample is 3.86, with scores ranging between 3.25 and 4.30. As a company's GJS is estimated by averaging the responses from all the employees sampled, it is expected that the overall scores fall within a narrow range due to the variation among employees being averaged out. This is one of the main reasons why we also report on the variation in scores within a company.

Figure 2. GJS by GICS Industry Groups (2023)



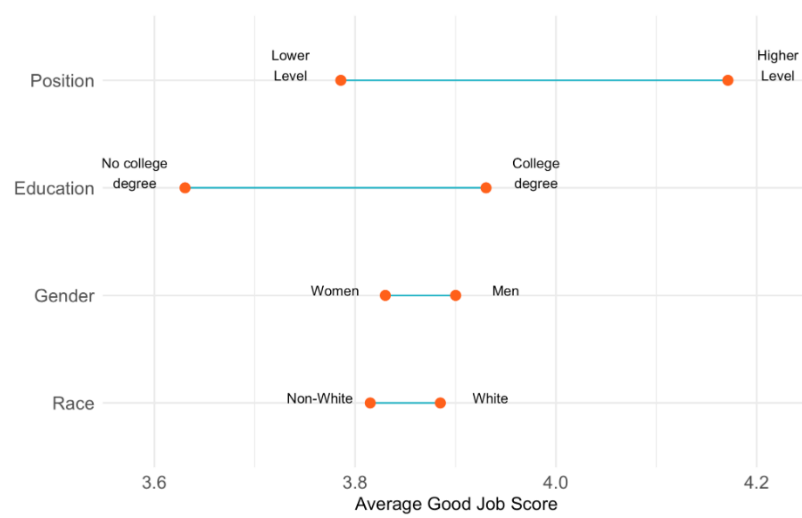
A larger sample also enables us to look at scores within a sector. Figure 2 illustrates the distribution of GJS across industry groups within some of these sectors where we have a large enough sample of companies. Note that we have also combined some of the industry groups where the distribution of scores were similar for easier comparison. The biggest differences within a sector can be seen in the Consumer Discretionary and Staples sectors. Consumer Distribution and Retail industry groups have lower scores compared to Consumer Services and Consumer Products in the two sectors respectively. We also observe a larger variation in scores in Financial Services compared to Banks and Insurance companies.

While there are marginal differences between industry groups in Healthcare and Technology sectors, these could be due to the relatively small sample of companies in this category. Other uncaptured company level characteristics may also impact these scores (e.g., number of full-time employees, market capitalization, etc.).

Exploring differences in GJS by employee characteristics

In addition to analyzing differences in the GJS across sectors and industry groups, we can also see how perceptions of job quality vary by employee characteristics. Figure 3 shows the differences in the average GJS across gender, race, education level and position within the company. For example, men and white employees appear to rate their jobs higher than women and non-white employees with a small but statistically significant difference of 0.07 in their respective GJS. More interestingly, we observe much higher differences (0.3-0.4) between groups at different education and seniority levels, with employees without a college degree and less senior employees (ICs, supervisors/managers) having lower GJS than those with a college degree and more seniority (VPs, directors and executive leadership).

Figure 3. Average GJS by employee characteristics



We were also curious to see whether these differences vary by sector. It is important to keep in mind that this analysis is limited by the fact that for some sectors, there was not a large enough or an evenly distributed sample. An additional challenge with this type of inquiry is the difficulty in establishing cases where smaller sample sizes are actually representative of the labor market in the respective sectors (e.g., women in Industrials and Technology sectors, employees with no college degrees in Financials, Healthcare and Technology sectors). However, even with these caveats, we were able to identify some preliminary trends, for example:

- Greater differences across education levels in the Consumer Staples and Consumer Discretionary sectors compared to the other sectors
- Larger differences between men and women in the Financials sector compared to Communication Services, Healthcare and both Consumer sectors where we have comparable samples
- Low to no difference across race in the Communication Services and both Consumer sectors where we have a larger sample of employees per company indicating that the overall differences in race we observe are influenced by small sample sizes in the other sectors
- Difference by position within a company largely similar across different sectors, indicating that this might be a more general trend

We believe that identifying and surfacing such differences within a company is a key benefit of the GJS Assessment Tool to target action. We hope to continue developing insights in this domain as we expand our data collection and evaluation processes.

Validating the relationship between the GJS and company performance

One of the driving motivations behind the development of the GJS is our central thesis that providing good jobs will lead to better outcomes for a company and therefore better investment outcomes. The main challenge with this hypothesis was that, until now, we could not rigorously test whether this was indeed the case. While it is still nearly impossible to answer this question in a causal sense, we can get a better picture of the relationships between GJS and company performance.

In our research last year, we focused on validating the GJS Assessment Tool against external employee engagement indicators and only reported on preliminary results from our analysis with financial metrics. This was due to our small sample and the limited scale and statistical reliability of any observed trends. With more company-level data in hand, this second phase of research centered on getting a more robust understanding of the correlations between GJS and company financials.

The GJS is positively correlated with company financial metrics

Using publicly available data for our updated sample, we collected metrics such as share price, gross margin, operating margin, free cash flow and current ratio, among others, along with their respective changes over the 2019-2023 period. We also collected data for all of the Russell 1000 companies in each of the seven sectors represented in our sample (n=790) to allow us to control for variations in financials across sectors.

Overall, we observe a positive relationship between GJS and company financials. In particular, we see:

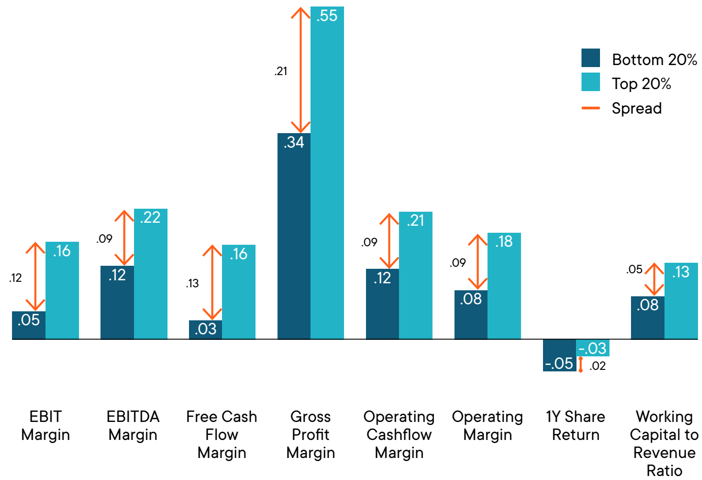
- Moderate positive correlation (30-40%) with gross profit margin and free cash flow to revenue ratios
- A slightly weaker signal (20-30% correlation) with other profitability metrics such as operating margin, EBIT margin, EBITDA margin and operating cash flow margin
- Moderate negative correlations (-30-40%) with the capital expenditure to cash flow and debt to market capitalization ratios indicating, in our view, that companies with a higher GJS are more likely to be financially healthier

We also noticed weak negative correlations with other measures of a company's debt such as net debt ratio and debt paydown, but there was a lot more variation in these metrics across companies and sectors. This is somewhat expected as companies vary highly in their appetite to use debt for financing.

Companies with higher GJS perform better financially

The above analysis validated our prior research investigating the high-level correlations between the GJS and financial outcomes. We next sought to get an understanding of how much better these companies perform if they have a higher GJS. To study this, we classified companies into quantiles based on their GJS and compared those in the top 20% against companies in the bottom 20%. Figure 4 illustrates these differences with companies in the top quantile of GJS out performing those in the bottom quantile across all of the profitability metrics.

Figure 4. Difference in profitability across top and bottom quantiles of GJS



We find that compared to companies with lower GJS, companies in the top 20% have

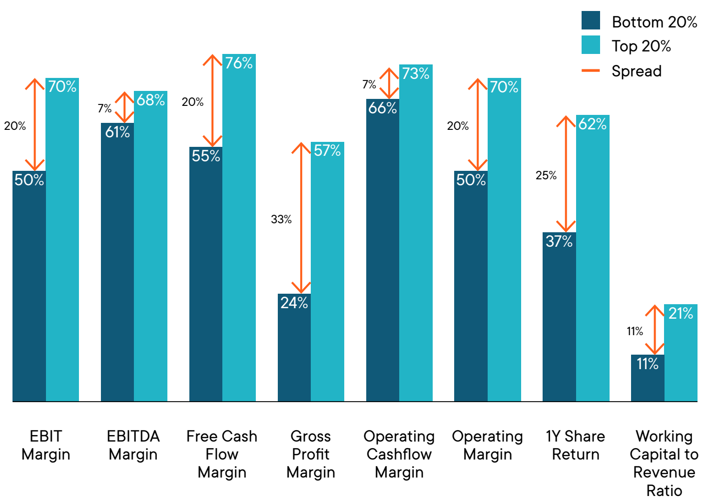
- ~1.5x higher Gross Profit margin
- ~2x higher Operating margin
- ~4x higher EBIT margin
- ~1.8x higher EBITDA margin
- ~5x higher FCF to revenue
- ~1.75x higher operating cash flow margin
- ~2x more share price return over the last year (12-month period from April 2022 to April 2023)

It is also useful to note that the bottom 20% of companies represent those with GJS less than 3.7 and top 20% correspond to GJS greater than 4.05. What might seem like small differences in the GJS are associated with relatively larger differences in a company's financial performance.

Companies with a higher GJS more likely to outperform sector peers

We next sought to understand whether overall differences in financial performance across GJS quantiles were disproportionately influenced by companies in a few sectors. In order to look at within sector relationships, we calculated the same metrics for the entire Russell 1000 universe and evaluated whether companies in our sample demonstrated better financial performance than average. Figure 5 illustrates the likelihood of a company performing better than its sector's average across the same quantiles of GJS.

Figure 5. Likelihood of outperforming sector averages



For example, in comparison to sector averages, companies with higher GJS are:

- 30% more likely to outperform on gross profit margin
- 20% more likely to outperform on EBIT margin, free cash flow margin and operating margin

These results help us further solidify the idea that companies with higher GJS do indeed perform better financially even after controlling for differences across sectors. It is important to note that our sample is not evenly distributed across all of the sectors with fewer companies in some sectors (e.g., Communication Services). Also, as we scale the survey to a larger pool of companies, we have fewer employees per company in the sample. It is therefore important to recognize that the sample of employees within each company might not be representative. Having said this, we have validated our analysis through statistical tests where possible and verified that all of the observed trends are consistent with our findings from our earlier research where our sample included a larger number of employees per company.

The GJS in practice: lessons from FoW Partners

The GJS Assessment Tool was designed to be a practical and scalable tool that drives better business performance by helping companies identify both strengths and opportunities for improvement across various workforce levers. FoW Partners has been implementing the GJS Assessment Tool and tracking progress for a number of years across its portfolio of private companies, using the tool to gain key insights as part of their internal playbook. We have highlighted two illustrative FoW Partners case studies for a private equity owner or business operator leveraging the GJS Assessment Tool for business decision-making.

Case Study #1: Community Medical Services ("CMS"): Ongoing Portfolio / Company Governance

FoW Partners invested in CMS in December 2021. CMS is an opioid use disorder treatment program provider, focusing on breaking down the barriers that are preventing people from seeking and succeeding in treatment.

The CMS management team, with FoW Partners' support, administers the GJS Assessment annually. When analyzing the results, the team reviews the overall GJS score and subscores, as well as a deeper level of detail based on employee segmentation by division, role and demographics.

Analysis of recent GJS results by the team highlighted the opportunity to improve job quality for the company's frontline healthcare workers. These frontline workers are primarily comprised of nurses and counselors who are providing life-changing care to patients. The team found that counselors scored significantly lower than corporate employees on the GJS (3.5 versus 3.9), particularly in relation to the Growth subscore, indicating a desire for greater opportunities for professional growth and advancement. Further analysis to supplement the GJS revealed relatively high turnover and low productivity amongst CMS's counselors. These were interrelated issues – counselor job quality, productivity, turnover and ultimately patient care, that the team sought to better understand.

The CMS management team and FoW Partners collaborated with counselors to diagnose the root causes of low job quality, low productivity and high turnover. A listening tour, including site visits, focus groups, one-on-ones and pulse surveys were conducted, providing frontline-worker perspectives on the key challenges and opportunities for improvement. The primary challenges identified were (i) lack of clarity around counselor goals and limited access to training opportunities; and (ii) inefficient workflows with significant administrative burden.

Armed with these insights, CMS's management team has begun implementing solutions to address the root causes identified. Firstly, the team is upgrading CMS's training program to provide counselors with clear, purpose-driven objectives and a stronger clinical foundation to fulfill these objectives. Secondly, the team is developing operational playbooks and digital dashboards to help streamline counseling workflows. Thirdly, the team seeks to procure technology tools for counselors to help reduce the administrative burden, for example in relation to scheduling, and improve patient access to care, for example via telehealth.

Initial action on these initiatives has already led to positive impact at CMS for workers, patients and the company. Counselors' GJS recently increased from 3.5 to 3.8 and turnover has fallen significantly. For patients, more counselor time is being spent on patient-facing services and patients are getting better access to care. The company has seen this translate into better business performance, providing a tangible example of the collinear relationship between improvements in the GJS and company performance.

The CMS management team and FoW Partners are continuing to find opportunities to empower frontline counselors, improve job quality, increase productivity and deliver both better patient outcomes and business performance.

Case Study #2: ResiXperts: Due Diligence

ResiXperts is a consumer services platform formed and sponsored by FoW Partners in May 2023, bringing together businesses that provide residential heating, cooling, plumbing and electrical services.

Prior to making its first investment out of the ResiXperts platform, FoW Partners ran the GJS Assessment at Rescue One Air, the target company, with support from its management team. FoW Partners had previously surveyed nearly 300 employees in the residential heating, cooling, plumbing and electrical space to establish a baseline for the industry. Upon reviewing the GJS results, the FoW Partners team found that Rescue One Air compared favorably overall, achieving a GJS that surpassed the industry sample.

In addition, the FoW Partners team went a level deeper and analyzed the GJS results for frontline workers at Rescue One Air, specifically technicians and installers. The team found that Rescue One Air's frontline workers scored favorably compared to peers surveyed in the residential services industry sample. These findings were reinforced by lower turnover rates experienced by Rescue One Air's frontline workers relative to the broader industry – a competitive advantage for Rescue One Air given industry-wide shortages for residential services technicians and installers. The GJS Assessment was part of a broader due diligence effort that ultimately resulted in Rescue One Air becoming the first investment out of the ResiXperts platform.

Running the GJS Assessment during due diligence of target investments has now become an embedded part of FoW Partners' playbook for future acquisitions at ResiXperts. The FoW Partners team has received positive engagement and support from business owners for running the GJS Assessment given the perceived value of insights derived from the tool.

As FoW Partners continues to deploy the GJS Assessment across its portfolio, both in relation to portfolio value creation initiatives as well as investment due diligence, it is refining its internal workforce playbook and developing cross-portfolio learnings that it believes enhance the traditional private equity investment process.

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