Employee Satisfaction, Labor Market Flexibility, and Stock Returns Around The World [*]

Alex Edmans [a]
London Business School, CEPR, and ECGI

Lucius Li [b]
London School of Economics

Chendi Zhang [c]
Warwick Business School

This draft: July 18, 2017

Abstract

We study the relationship between employee satisfaction and stock returns across 14 countries. Employee satisfaction is associated with superior long-run returns in flexible labor markets, such as the US and UK, but not rigid labor markets, such as Germany. The same results hold for current valuation ratios, future profitability, and future earnings surprises, inconsistent with an omitted risk explanation and identifying channels through which employee satisfaction may affect stock returns. These results are consistent with employee satisfaction improving recruitment, retention, and motivation in flexible labor markets, where firms face fewer constraints on hiring and firing and employees have greater ability to respond to higher satisfaction. The findings have implications for the differential profitability of socially responsible investing strategies around the world – in particular, the importance of considering institutional factors when forming such strategies.

JEL classifications: G12, G23, G38, J53, J81, J83, J88, K31

Keywords: Employee Satisfaction, Labor Market Flexibility, Socially Responsible Investing, Corporate Social Responsibility

---

[*] We thank Seong Byun, Dan Cable, Francesco D'Acunto, Paul Edwards, Moqi Groen-Xu, Norbert Häring, Ioannis Ioannou, Frank Weikai Li, Dong Lou, Jong Min Oh, Andrew Oswald, Marco Pagano, Michael Parke, Madan Pillutla, Elena Simintzi, Jan Starmans, Pin Sun, Vikrant Vig, Paolo Volpin, and Bin Wang, and conference/seminar participants at FIRS, LBS, LSE, Piraeus, SFS Cavalcade, and the Surrey-IFABS Conference for helpful comments.

[a] *Email:* aedmans@london.edu, London Business School, Regent's Park, London NW1 4SA, UK
[b] *Email:* L.Li25@lse.ac.uk, London School of Economics, Houghton Street, London WC2A 2AE, UK
[c] *Email:* Chendi.Zhang@wbs.ac.uk, Warwick Business School, University of Warwick, Gibbet Hill Rd, Coventry CV4 7AL, UK

This paper studies the relationship between employee satisfaction and stock returns around the world. Theory provides conflicting predictions as to whether employee satisfaction is beneficial or harmful to firm value. On the one hand, it can be a valuable tool for recruitment and retention. For the typical 20th-century firm, the bulk of its value stemmed from its physical capital. In contrast, most modern firms' key assets are their rank-and-file employees. For example, in knowledge-based industries such as software, pharmaceuticals, and financial services, non-managerial employees engage in product innovation, build customer and supplier relationships, and mentor subordinates. Employee-friendly policies can attract and retain high-quality workers skilled at these tasks.

Employee satisfaction can also be a valuable motivational tool. The above tasks are difficult to measure and thus motivate with the monetary "piece rates" often used in 20th-century manufacturing firms. This reduced effectiveness of extrinsic motivators increases the role for intrinsic motivators such as satisfaction. The efficiency wage hypothesis highlights numerous channels through which satisfaction may increase motivation. For example, Akerlof (1982) posits that employees view a positive working environment as a "gift" from the firm and respond with a "gift" of increased effort.[1] Separately, employees are more likely to innovate if companies have a culture that tolerates failure and a reputation for providing job security.

On the other hand, employee satisfaction can represent wasteful expenditure by management. Employee satisfaction is an intangible asset and, like any other asset, firms may invest in it excessively. Taylor (1911) argues that workers should be treated like any input – management's goal is to extract maximum output from them while minimizing their cost. Under this view,

[1] These theories imply a high *level* of compensation, but do not suggest that the *form* of compensation should be in satisfaction compared to cash, which is believed to be fungible. However, Maslow (1943) and Hertzberg (1959) stress that cash is only effective up to a point: once workers' physical needs are met, they are motivated by non-pecuniary factors such as job satisfaction, which cannot be purchased with cash and can only be provided by the firm.

satisfaction is an indicator that employees are overpaid or underworked, both of which reduce firm value.

The relative importance of the above costs and benefits depends on the institutional context. In flexible labor markets, the recruitment benefits of satisfaction are more important since firms engage in more hiring – both because hiring is easier (due to fewer restrictions on the contracts firms can offer) and because firing underperformers is easier, creating more vacancies. The retention benefits are also more important because the rate of departures is higher. Rivals face fewer constraints on hiring away workers; in addition, the greater firing risk encourages employees to invest in general rather than firm-specific skills (Thelen (2001)), which increases their ability to be recruited elsewhere.

The motivational benefits of employee satisfaction are also likely greater in flexible labor markets. First, the motivational benefits from communicating with workers, providing a positive working environment, and not engaging in discrimination are stronger if these are not mandated by law and thus more likely to be seen as a "gift". Second, the motivation to work hard to avoid being fired from a satisfying job (Shapiro and Stiglitz (1984)) is stronger if firing is more likely. Third, a cost of greater autonomy – a key element of employee satisfaction – is that workers may abuse it by slacking, which is alleviated by the firm's ability to fire shirkers. Fourth, the value of autonomy is reduced by collective bargaining (a feature of rigid labor markets) because workers' tasks are decided centrally, giving less freedom for a satisfied worker to voluntarily take value-creating actions.[2] Fifth, where dismissal laws are weak, employees may be less willing to innovate, because the firm may punish failure or hold up workers in the case of success (Acharya, Baghai, and Subrahmanian (2013)). Thus, a reputation for treating workers fairly and tolerating failure is

[2] Hypothetically, a satisfied employee could choose to exert effort in excess of the centrally bargained standard. However, a large literature on alienation of "rate-busters" highlights the social costs of doing so (e.g. Roethlisberger and Dickson (1939), Mayo (1949), Lam et al. (2011)).

particularly likely to spur innovation. Finally, in flexible labor markets, firm-worker matches are typically superior (Acemoglu and Pischke (1998)). Increased motivation has a greater effect when employees are in jobs for which their skill set is best suited.

Testing the link between employee satisfaction and firm value is challenging, because causality may run from the latter to the former. Edmans (2011, 2012) partially addresses this challenge by using stock returns (rather than, say, accounting profits) as the dependent variable. If satisfaction were the result, rather than cause, of high profits, these profits should already be incorporated into the stock price at the start of the return compounding window, since they are tangible (controlling for momentum to address any slowness in incorporation.) Thus, firms with high employee satisfaction should not outperform going forwards.[3] In contrast, he finds that the "100 Best Companies to Work For in America" subsequently beat their peers by 2-3% per year over a 26-year period. These results suggest that employee satisfaction has value but is not immediately capitalized by the market, consistent with prior evidence on the mispricing of other intangible assets discussed in Section 1. However, these papers only study the US – a country with particularly flexible labor markets – and so their external validity is limited. It is unclear whether these results are generalizable to other countries, especially those with less flexible labor markets.

This paper addresses this open question. We study the link between employee satisfaction and stock returns in 14 countries, and how this link depends on a country labor market flexibility. The US Best Companies ("BC") list is produced by the Great Place to Work® Institute. The Institute produces similar lists in 44 other countries, of which 15 have at least 10 BCs publicly traded in the domestic market. We use two measures of country-level labor market flexibility, which are available for 14 of these 15 countries: the OECD Employment Protection Legislation ("EPL")

[3] A separate advantage of studying stock returns is that they capture all the channels through which satisfaction may improve firm value – in addition to profits, satisfaction may also lead to new products or contracts.

index, also used in Blanchard and Portugal (2000), Messina and Vallanti (2007), Pagano and Volpin (2005b), and Simintzi, Vig, and Volpin (2015), and the labor market flexibility categories of the Fraser Institute's Economic Freedom of the World ("EFW") index, also used by Bernal-Verdugo, Furceri, and Guillaume (2012a, 2012b), Freeman, Kruse, and Blasi (2008), and Haltiwanger, Scarpetta, and Schweiger (2008).

We find that the alphas previously documented for the US are not anomalous in a global context. An equal-weighted BC portfolio generates a significant Carhart (1997) 4-factor monthly alpha of 34 basis points in the US. This alpha is only the 10^{th} highest out of the 14 countries. However, we also document sizable heterogeneity across countries. For example, Germany exhibits an insignificantly negative alpha of -0.45%. Thus, prior results do not automatically extend to every country.

We next show that the abnormal returns to the BCs are higher in flexible labor markets, using both measures. We conduct a pooled panel regression of firm-level stock returns on BC status interacted with labor market flexibility, controlling for the firm-level determinants of stock returns identified by Brennan, Chordia, and Subrahmanyam (1998), such as size, book-to-market, dividend yield, past returns, trading volume, and the stock price. To ensure that labor market flexibility is not simply proxying for other differences between countries, we control for other country-level variables, both independently and interacted with BC status, and country fixed effects. Examples include price efficiency (Fernandes and Ferreira (2009)), GDP per capita, and the ratio of stock market capitalization to GDP (proxies for stock market development), since abnormal returns to depend not only on the value (if any) of satisfaction but also the extent to which it is not priced by the market.

We find that a one standard deviation increase in EPL (EFW) is associated with a 0.64% (0.54%) higher industry-adjusted monthly return to being a BC, significant at the 1% level. The result suggests that the link between employee satisfaction and stock returns depends critically on the institutional context. This has important implications for both managers and investors. Starting with the former, even if the Edmans (2011, 2012) results can be interpreted as causal, they do not suggest that managers should necessarily increase expenditure on employee satisfaction in countries with low labor market flexibility. Moving to the latter, investors can only expect to earn alpha from investing in firms with high employee satisfaction in countries with high labor market flexibility.

However, our stock return results admit alternative explanations. First, the high stock returns of BCs in flexible labor markets could represent compensation for an omitted risk factor, perhaps because employee satisfaction is worth little upon bankruptcy. This explanation is not clearly reconcilable with the sheer magnitude of the excess returns in certain countries and their negativity in others, or the variation of excess returns with labor market flexibility, but further analyses can be conducted. Second, it could be that employee satisfaction has zero value, but the market erroneously believes that it represents wasteful expenditure and thus discounts BCs upon list inclusion; the positive future returns represent an unwinding of this undervaluation.

We conduct additional tests to address these alternative explanations. If the superior returns to BCs in flexible labor markets stem from an initial discount – either due to risk or a misperception that employee satisfaction is value-destructive – then the BCs should initially trade at low valuation ratios. In contrast, we show that, at the start of the return compounding window, they enjoy superior industry-adjusted Tobin's Qs, and this premium is significantly increasing in labor market flexibility. These results are consistent the market at least partially impounding the (positive or negative) value of employee satisfaction upon list publication.

To further distinguish between whether the returns to BCs arise from risk or employee satisfaction having value that the market misprices, we study future accounting performance. We find that the BCs higher future profitability than their peers, particularly in flexible labor markets.

A one standard deviation increase in EPL (EFW) is associated with BCs having a next-year return on assets that is 1.23 (1.20) percentage points higher. We find similar results for return on assets two years out, and the net profit margin over both a one- and two-year horizon.

Finally, superior future accounting performance should only manifest in higher stock returns if it was unanticipated by the market. We find that the BCs exhibit significantly higher earnings surprises than peer firms in flexible but not rigid labor markets. A one standard deviation increase in EPL is associated the BCs enjoying a 0.16% (0.50%) higher earnings surprise one year (two years) ahead, significant at the 5% level. However, the results are not significant for EFW.

This paper contributes to a number of literatures. The first is the link between employee satisfaction and various measures of firm performance, e.g. Abowd (1989), Diltz (1995), Dhrymes (1998), and Edmans (2011, 2012). These studies only analyze the US. Given the importance of labor market institutions, it is unclear whether their results generalize more widely. Second, while an established literature highlights the importance of CEOs for firm outcomes, a newer literature suggests that rank-and-file employees are important for firm value (Kim and Ouimet (2014)), operating performance (Hochberg and Lindsey (2010)), M&A success (Ouimet and Zarutskie (2016), Tate and Yang (2016)) and innovation (D'Acunto (2016)). Third, since employee satisfaction is a common socially responsible investing ("SRI") screen, this paper contributes to research on the link between SRI and investor returns. This literature has mixed results.[4] Moreover, nearly all studies use US data and their generalizability is again unclear. The value of various social screens – employee satisfaction, gender diversity, animal rights, environmental

[4] Hamilton, Jo and Statman (1993), Kurtz and DiBartolomeo (1996), Guerard (1997), Bauer, Koedijk, and Otten (2005), Schröder (2007), and Statman and Glushkov (2009) find no or a mixed effect of SRI screens on investment returns; Brammer, Brooks, and Pavelin (2006), Renneboog, Ter Horst, and Zhang (2008), and Hong and Kacperczyk (2009) find a negative effect; and Derwall et al. (2005), Fornell et al. (2006), Edmans (2011, 2012), and Eccles, Ioannou, and Serafeim (2014) find a positive one. Relatedly, Servaes and Tamayo (2013), Dimson, Karakas, and Li (2015), Flammer (2015), and Krüger (2015) find evidence that corporate social responsibility positively impacts shareholder value.

protection, and whether the firm is in a "sin" industry (such as tobacco, alcohol, and gambling) – likely depends on the institutional context and cultural norms. To our knowledge, this is the first paper to study the investment performance of a SRI screen in a global context. Finally, this paper adds to the literature comparing the performance of investment strategies across countries. Asness, Moskowitz, and Pedersen (2013) find that value strategies are profitable not only in the US, but also in the UK, Europe, and Japan. Momentum strategies are profitable in the first three regions, but not Japan. A more individualist national culture is associated with a stronger momentum anomaly (Chui, Titman, and Wei (2010)) and distress anomaly (Gao, Parsons, and Shen (2017)).

1. Hypothesis development

We first discuss whether we should expect any long-run returns to the Best Companies lists at all, in either direction. Our return compounding window starts at the beginning of the month after list publication. Thus, since these lists are public, we should find no abnormal returns in a semi-strong efficient market. Regardless of the institutional context, and thus regardless of whether employee satisfaction has positive or negative value, this value should already be capitalized by the market.

However, there is significant prior evidence that intangible assets are not fully priced by the stock market. Firms with superior governance (Gompers, Ishii, and Metrick (2003), Giroud and Mueller (2011)), customer satisfaction (Fornell et al. (2006)), environmental efficiency (Derwall et al. (2005)), and high R&D and advertising expenditure (Chan, Lakonishok, and Sougiannis (2001)) all earn higher long-run returns. Edmans (2011) documents that the value of BC list inclusion is not fully capitalized by the market until 4-5 years later in the US, which is arguably the most efficient stock market. Thus, it is reasonable to hypothesize that the value of employee satisfaction will not be immediately capitalized by non-US stock markets. The magnitudes of the abnormal returns to other intangible-based portfolios found by prior work range from 4-8.5%/year, and so the mispricings found in this paper are plausible given these findings.

As explained in the introduction, the use of future stock returns as the dependent variable alleviates concerns that employee satisfaction is correlated with an omitted variable that also drives firm value, or that there is reverse causality from firm value to satisfaction. However, reverse causality can still arise if employees have superior information about their firm's future stock returns and those with positive information report higher satisfaction today. This explanation is unlikely for a number of reasons. Existing studies suggest that employees do not have private information: Benartzi (2001) shows that employees make incorrect decisions when allocating their 401(k) accounts to company stock, and Bergman and Jenter (2007) find that firms are able to lower total compensation by granting their workers overvalued options in lieu of salary. Even if employees do have superior information, it is likely to be about near-term returns, given that executives are unable to forecast returns past 100 days (Jenter, Lewellen, and Warner (2011)). There is a significant time lag between the survey completion deadline and the start of the return compounding window – for example, this lag is seven months in the United States. It is also plausible that employees who predict higher future returns will perceive the stock as undervalued today, potentially reducing satisfaction. In addition, it is not clear why employees' ability to forecast future returns would depend on labor market flexibility.

We now discuss why the value of employee satisfaction might depend on a country's labor market flexibility. A key branch of the human resource management (e.g. Huselid (1995), Macduffie (1995)) and organizational economics (e.g. Milgrom and Roberts (1995)) literatures, known as contingency theory, emphasizes that the value of investing in employee satisfaction is highly contingent on the setting. Specifically, the introduction gave several reasons for why the recruitment, retention, and motivation benefits of employee satisfaction may be higher in more flexible labor markets. These same reasons imply that these benefits are lower in rigid labor markets, causing a downward shift in the marginal benefit curve, potentially into negative territory. Moreover, rigid labor markets may also entail a downward movement along the marginal benefit curve. When regulations already ensure that the average firm is offering a certain level of wages, job security, and employee representation, companies with high satisfaction relative to their peers may be in negative territory. [5]

Indeed, a manager may spend excessively on employee satisfaction due to an agency problem. He may enjoy more pleasant relationships with his workers by overpaying them (Jensen and Meckling (1976)), or use employee benefits as a takeover defense (Pagano and Volpin (2005a)). Indeed, Simintzi, Vig, and Volpin (2015) find that employment protection increases labor costs and reduces profitability. Cronqvist et al. (2009) show that high worker pay is correlated with managerial entrenchment. Excessive expenditure on employee satisfaction may also result from labor control. In countries where employees have more bargaining power (e.g. there is centralized collective bargaining, a feature of rigid labor markets), it could be workers who are determining human resource policies, and so satisfaction could be excessive from shareholders' perspective. Indeed, Gorton and Schmid (2004) find that German firms where one-half of the supervisory board consists of employees trade at a 31% discount to firms with one-third worker representation. Faleye, Mehrotra, and Morck (2006) find that labor-controlled U.S. firms deviate more from value maximization and exhibit lower labor and total factor productivity. Chen, Kacperczyk, and Ortiz-Molina (2011) find that trade unions increase a firm's operating leverage and cost of equity, and

[5] For many years, US supermarket Costco famously paid its rank-and-file employees nearly double that of its close competitor Walmart, contributing to its high level of employee satisfaction. (In 2015, Walmart voluntarily announced a significant increase in worker pay, largely driven by the perceived benefits of employee satisfaction, so the difference with Costco is now smaller.) Due to the US's flexible labor markets and thus relatively low minimum wage, many Walmart employees were low-paid and. Thus, Costco was able to offer a wage premium without paying exceeding employees' marginal product; indeed, its profit per employee was over 40% higher than Walmart's. Source: "Why Wal-Mart Will Never Pay Like Costco", *Bloomberg*, August 27, 2013.

Lee and Mas (2012) find that they reduce firm value by an average of $40,500 per unionized employee.

2. Data and summary statistics

2.1. Measures of employee satisfaction

Our main data source is the Best Companies lists compiled by the Great Place to Work® Institute. The first list focused on US companies and was published in a 1984 book entitled the "The 100 Best Companies to Work for in America", later updated in 1993; from 1998 onwards it has been published every January in *Fortune* magazine. Two-thirds of the score comes from a 58-question survey that the Institute administers to 250 employees randomly selected in each firm. The remaining one-third comes from the Institute's evaluation of factors such as a company's demographic makeup, pay and benefits programs, and culture. The companies are scored in four areas: Credibility (communication to employees), Respect (opportunities and benefits), Fairness (compensation and diversity), and Pride/Camaraderie (teamwork, philanthropy, and celebrations), and the top firms are publicly announced in a list. The list is highly regarded as a thorough measure of employee satisfaction, receiving significant attention from shareholders, management, employees, and the media, and has since been extended to 44 other countries around the world.

The recruitment, retention, and motivation benefits of *aggregate* employee satisfaction likely depend on labor market flexibility, as discussed in the introduction. Moreover, the benefits of *specific* dimensions of employee satisfaction captured in the survey also likely depend on labor market flexibility – in other words, the survey questions reflect the dimensions of satisfaction that are relevant for our hypothesized mechanisms. Certain survey dimensions may already be mandated by law, and thus would not be seen as a "gift" under Akerlof's (1982) model. For example, the Credibility area contains questions on informative communication ("management keeps me informed about important issues and changes", "management makes its expectations clear") and accessible communication ("I can ask management any reasonable question and get a straight answer", "management is approachable, easy to talk with"); the Respect area contains questions on collaboration ("management genuinely seeks and responds to suggestions and ideas", "management involves people in decisions that affect their jobs or work environment"). These dimensions would likely be satisfied for the average firm in Germany, where worker representation on the board is mandatory. Thus, a firm that is well above-average may be excessively collaborative and allow workers to take decisions at the expense of firm value. The Respect area also contains questions on work environment, and the Fairness area contains questions on discrimination, all of which may also be mandated by law.

A second dimension discussed in our hypothesis development is autonomy, which is captured by many areas. For example, the Respect area contains questions such as "management genuinely seeks and responds to suggestions and ideas", "management involves people in decisions that affect their jobs or work environment", "I am able to take time off from work when I think it's necessary", and "people are encouraged to balance their work life and their personal life." A third dimension is that, where firing is easier, employees may innovate less due to fear of firing either if the innovation fails or if it succeeds (due to expropriation). Indeed, the Credibility area contains questions on reliability ("I believe management would lay people off only as a last resort") and honesty ("Management is honest and ethical in its business practices"); the Respect area contains a question on tolerance for failure ("Management recognizes honest mistakes as part of doing business").

Note also that most of the dimensions of employee satisfaction captured by the survey are cultural, and thus cannot be easily improved (e.g. by firms spending more money). Thus, even if executives were aware of the link between employee satisfaction and future stock returns, and even if the link were causal, they may be unable to exploit it since employee satisfaction – like many other intangible assets (such as a firm's brand strength, customer loyalty, or innovative capability) – cannot be easily increased. In addition, the stock market only *fully* incorporates the benefits of employee satisfaction in the long-term (Edmans (2011)), so even if executives were able to exploit any link, they may not have incentives to do so, given short-term stock price concerns. Moreover, executives may not be aware of any link, in particular given the mixed or negative findings of prior research on other dimensions of worker welfare (Abowd (1989), Diltz (1995), Dhrymes (1998)).

Firms apply to be considered for the list. Such selection issues either have no effect or likely bias the results downwards. For it to affect the results, the selection decision must be correlated with either the independent variable (satisfaction) or outcome variable (future returns). If firms with low satisfaction choose not to apply because they expect not to make the list, this simply increases its accuracy. If a firm with high satisfaction chooses not to apply because it believes this quality is already publicly known, this reduces the satisfaction level of the firms in the list and attenuates the results. Turning to the outcome variable, even if the decision to apply were correlated with current profitability or past stock returns, both of these variables should be incorporated into the stock price at the start of the return compounding window and thus not affect future stock returns (controlling for momentum). Even if management has temporary private information on future returns, this likely has little effect since list applications must be made by several months before the return window (e.g. 8 months[6] for the US). As discussed previously, Jenter, Lewellen, and Warner (2011) show that managers' private information is confined to the next 100 days.

We include countries with more than five years' history of BC listings. For each country, we only include BCs that are both headquartered and primarily listed in that country, to prevent the

[6] This contrasts with the 7-month window between employee survey responses and the return window since employees have one month to fill in the survey.

results being driven by a small number of multinational firms that are on the BC list of several countries. Table 1 describes the 14 countries that have data on labor market flexibility (which we will describe in Section 2.2) and where at least 10 BCs are headquartered and listed. Column (1) shows the start year of BC listings for each country. Since the earliest start year for a non-US country is 1997 (for Brazil), our sample period is from September 1997 to December 2013. As a result, we start the US data from 1998 when the lists were first published in *Fortune*.

To form BC portfolios, we use the beginning of the month after the list publication date for each country as our portfolio formation date. For example, the US list is typically published in mid-January, and so we use February 1 as the portfolio formation date. Thus, our analyses are joint tests of the value of employee satisfaction and the extent to which this value is immediately capitalized by the market. The constituents of BC portfolios are rebalanced once a year on the same day. Column (2) reports the portfolio formation dates for each country.

For the UK and US, the number of firms in the list has remained constant over time. For the other countries, it has increased over time – for example, the first list in Germany (in 2003) contains 50 firms, while in 2013 it contains 100. Column (6) of Table 1 indicates the number of BCs selected in the initial list and the 2013 list for each country.

Just as the US list has been published in *Fortune* every year since 1998, the BC lists in other countries have similarly been widely publicized, and so an efficient market should rapidly incorporate them into the stock price. Column (7) lists the current publisher for the list in each country; each is a major newspaper or magazine.[7]

2.2. Measures of labor market flexibility

[7] In some cases, the publisher has changed over time, or there is more than one outlet; we report the current publisher, and the main outlet in the case of multiple ones.

We use two measures of labor market flexibility. The first is the OECD's Employment Protection Legislation ("EPL") index. The index measures the procedures involved in hiring workers on either fixed-term or temporary contracts, and in dismissing individuals and groups of workers. It is based on statutory laws, collective bargaining agreements, case law, contributions from OECD member countries, and experts' advice from each country. It has three components:

Individual dismissal of workers with regular contracts (category EPR) measures three aspects of dismissal protection: (i) procedural inconveniences of the dismissal process faced by employers, such as notification and consultation requirements; (ii) length of notice periods and conditions of severance pay; and (iii) difficulty of dismissal, such as the circumstances under which a dismissal is possible, and repercussions for the employer if an unfair dismissal is discovered.

Additional costs for collective dismissals (category EPC) measures the extra costs faced by employers when they dismiss several workers simultaneously, over and above the costs applicable for individual dismissals.

Regulation of temporary contracts (category EPT) measures regulations for fixed-term and temporary work contracts in terms of job type and duration, requirements for such workers to receive equal pay and working conditions as permanent employees, and regulations for the setup and operations of work agencies.

The first two measures capture the ease of dismissal. As mentioned in the introduction, fewer firing constraints increase the motivational benefits of employee satisfaction (as workers will exert greater effort to avoid being fired from a satisfying job), and its recruitment benefits (since the ease of firing raises the number of vacancies). The third measure captures constraints on hiring, which reduce the recruitment and retention benefits of satisfaction. Separately, regulations on hiring and firing mean that the average firm already exhibits a certain level of satisfaction, and so an above-average firm may be exceeding the optimal level.

We calculate *EPL* as the 10 minus the average of the three sub-indicators' scores,[8] so that a high *EPL* score implies high labor market flexibility. Columns (1)-(4) of Table 1, Panel B reports the time series mean of *EPL* and each sub-index for each country from 1997-2013. As a rough check that *EPL* is linked to labor mobility, we were able to collect data on labor turnover rates for seven countries in our sample from OECD (1996). Their correlation with the time series mean of *EPL* in our sample period is 0.73. Similarly, Messina and Vallanti (2007) and the OECD (2013) show that EPL is negatively associated with labor turnover. This is consistent with our motivation, that the recruitment and retention benefits of employee satisfaction are higher in flexible labor markets.

Our second measure of labor market flexibility uses indices from the Fraser Institute's Economic Freedom of the World ("EFW") database. Feldmann (2009) refers to these indices as a comprehensive measure of the "de facto strictness of labor regulations". We use the EFW indices across six policy categories. All indices are standardized on a 0-10 scale, with higher values indicating greater flexibility.

Hiring regulations and minimum wage (category 5Bi) is based on the World Bank's Doing Business Difficulty of Hiring Index. The index measures: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; and (iii) the ratio of the minimum wage for a first-time employee to the average value added per worker.

Hiring and firing regulations (category 5Bii) is derived from the World Economic Forum's Global Competitiveness Report's survey question "How would you characterize the hiring and firing of workers in your country?" Respondents assign a score from 1 ("impeded by regulations") to 7 ("flexibly determined by employers") which are then standardized onto a 0-10 scale.

---

[8] The OECD reports *EPL* as a weighted average of the three broad categories, where the weights depend on the number of sub-indicators in each group. Our results are robust to this weighted measure of *EPL*.

Centralized collective bargaining (category 5Biii) is based on the World Economic Forum's Global Competitiveness Report's survey question "How are wages generally set in your country?" Respondents assign a score from 1 ("by a centralized bargaining process by regulations") to 7 ("up to each individual company") which are then standardized onto a 0-10 scale.

Hours regulations (category 5Biv, previously called "mandated cost of hiring a worker") is based on the World Bank's Doing Business Rigidity of Hours Index, which measures (i) whether there are restrictions on night work; (ii) whether there are restrictions on weekly holiday work; (iii) whether the work-week can consist of 5.5 days; (iv) whether the work-week can extend to 50 hours or more (including overtime) for 2 months a year to respond to a seasonal increase in production; and (v) whether paid annual vacation is 21 working days or fewer.

Mandated cost of worker dismissal (category 5Bv) is based on the World Bank's Doing Business data. It includes the cost of the advance notice requirements, severance payments, and penalties due when dismissing a redundant worker.

Conscription (category 5Bvi) is based on the use and duration of military conscription. Lower ratings of labor market flexibility are assigned to countries with longer conscription periods.

Categories 5Bi, 5Bii and 5Biv capture the ease of hiring (similar to EPL's category EPT, although the latter focuses on temporary contracts), and category 5Bv captures the ease of firing (similar to EPL's categories EPR and EPC). Category 5Biii measures the power of labor unions. Labor unions impose restrictions on contracts which hinder both hiring and firing, and may press for higher employee satisfaction even if not in shareholders' interest. Category 5Bvi captures a regulatory intervention to the supply-side. Where conscription is greater, the recruitment benefits of employee satisfaction are smaller since individuals have less freedom to join firms.

The current form of the EFW data is available annually from 2002 to 2013.[9] We construct a composite measure (*EFW*) that equals the average of the six indices in each country-year. Column (5)-(11) of Table 1, Panel B reports the time-series mean of *EFW* and each sub-index for each country. The correlation of country-year *EFW* and *EPL* is 0.62, which shows that these measures capture different dimensions of labor market flexibility.

3. Results

3.1. Country-level alphas

We first calculate the Carhart (1997) four-factor alphas to the BC portfolios in each country:

$$R_{ct} = \alpha + \beta_{MKT}MKT_{ct} + \beta_{HML}HML_{ct} + \beta_{SMB}SMB_{ct} + \beta_{MOM}MOM_{ct} + \varepsilon_{ct}, \qquad (1)$$

where R_{ct} is the US dollar returns to a BC portfolio (either equal-weighted or value-weighted) in month t for country c in excess of the US one-month treasury rate (as in Fama and French (2012)). We use dollar returns, consistent with the literature on international asset pricing (e.g. Fama and French (2015), Griffin (2002), and Hou, Karolyi, and Kho (2011)) and also because the Fama and French (2012) factors, described shortly, are in dollars. Stock returns are taken from the Center for Research in Security Prices ("CRSP") for US firms and Datastream for other firms. Both active and inactive firms are included to avoid survivorship bias. We winsorize stock returns at the 0.5% and 99.5% level in each country; results are very similar without winsorization.

α is an intercept that captures the abnormal risk-adjusted return. *MKT, HML, SMB,* and *MOM* are, respectively, the Fama and French (2012) regional factors on market, value, size, and

[9] The EFW also provided labor market flexibility data in 2000 and 2001 but on different components, which are not comparable to the data from 2002 onwards.

momentum, collected from Kenneth French's website. We use the Europe factors for all European countries, the North American factors for Brazil, Chile, Canada and the US, the Japan factors for Japan, and the Asia-Pacific Excluding Japan factors for Korea and India.

ε is an error term. Standard errors are corrected for heteroscedasticity and autocorrelation using Newey-West's (1987) estimator with four lags.

Panel A of Table 2 reports results for equal-weighted portfolios. Three of the 14 countries (Denmark, Germany, and Greece) have insignificantly negative alphas. The remaining 11 countries have positive alphas, which are significant at the 10% level or better for Chile, Japan, Sweden, and the US. In terms of economic significance, the US has the 10th highest alpha out of the 14 countries, suggesting that it is not an outlier. Panel B of Table 2 reports results for value-weighted portfolios. Denmark, France, Germany, and Greece have negative alphas, with Denmark's being significant at the 10% level. The alphas for Chile and the UK are significantly positive at the 10% level or better.

3.2. Characteristics controls

While Section 3.1 controls for the BCs' covariance with risk factors, this section controls for firm characteristics that may also affect stock returns. We first run the following pooled panel regression across all firms (both BCs and non-BCs) within a country, at the firm-month level:

$$R_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 FirmControls_{it} + \varepsilon_{it}. \qquad (2)$$

R_{it} is the return on stock i in month t. We use three different variables for the stock return. The first is the raw return. The second is the market-adjusted return, i.e. in excess of the local country market return.[10] The local market return is the MSCI stock market index for each country, from Datastream. The third is the industry-adjusted return, where the industry return is the median return among non-BC firms in the same industry and same country as firm *i* in month *t*, using the Fama and French (1997) 48-industry classifications. BC_{it} is a dummy variable that equals one if firm *i* was included in the most recent BC list prior to month *t*, and zero otherwise. $FirmControls_{it}$ are the control variables used in Brennan, Chordia, and Subrahmanyam (1998), calculated using CRSP and Compustat for US firms and Datastream and Worldscope for non-US firms. *SIZE* is the log of firm *i*'s market capitalization at the end of month *t-2*. *BM* is the log of firm *i*'s book-to-market ratio at the end of month *t-2*. *YLD* is firm *i*'s dividend yield: the total dividend paid over the 12 months prior to month *t*, divided by the share price at the end of month *t-2*. *RET2-3* is the log of one plus firm *i*'s cumulative return over months *t-3* through *t-2*. *RET4-6* and *RET7-12* are defined similarly. *VOL* is the log of firm *i*'s dollar trading volume in month *t-2*. *PRC* is the log of firm *i*'s price at the end of month *t-2*. We also include year-month fixed effects to control for macroeconomic conditions that may affect stock returns in a given month. Standard errors are clustered by year-month (clustering by firm does not change the results).

The results are presented in Table 3; we only present the coefficient on the *BC* dummy for brevity. For raw returns, it is significantly positive for Canada, Chile, India, Japan, Korea, and the US.[11] For example, in the US, being a BC is associated with an additional monthly return of 36 basis points. Denmark, Finland, France, Germany, and Sweden have negative coefficients on the *BC* dummy; the coefficient is only significant in Denmark.

[10] Results are similar using the CAPM-adjusted abnormal return (AR_{cit}) with either a 5- or 3-year rolling-window beta.

[11] The coefficient on the *BC* dummy in Canada is very high (e.g. 210 basis points for raw returns). We have re-run the cross-county analyses that follow excluding Canada for robustness. The results are very similar, since the Canada data is only available for a short time period.

4. The role of labor market flexibility

This section examines how the relationship between employee satisfaction and stock returns depends on the degree of labor market flexibility. Specifically, we enhance the pooled panel regression in equation (2) with measures of labor market flexibility and country-level controls, and estimate it across the full sample of all countries[12]:

$$R_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times LMF_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 LMF_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls_{cit} + \varepsilon_{cit}. \quad (3)$$

where R_{cit} is either the raw, market-adjusted, or industry-adjusted return. *LMF* refers to our two labor market flexibility measures: *EPL* and *EFW*. To ensure that our *LMF* variables are not simply proxying for other country-level differences, we include $CountryControls_{ct}$, a vector of other country-level control variables. $RuleofLaw_c$ measures the rule of law from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997). $GDPg_{ct}$ measures GDP growth taken from the World Bank, and $ADRI_c$ measures the anti-director rights index corrected by Spamann (2010). IDV_c is Hofstede's (1980) measure of a country's cultural individualism, which we include because Chui, Titman, and Wei (2010) and Gao, Parsons, and Shen (2017) find that profits to two other trading strategies (momentum and distress, respectively) depend on individualism. $PriceInf_{ct}$ is a measure of price informativeness based on Fernandes and Ferreira (2009): one minus the R-squared of a regression of monthly equity excess returns on value-weighted local market excess returns and US market excess returns each year. We take the median value over all firms for a particular country-

[12] Holderness (2016) argues that international empirical analyses should be conducted at the firm level, rather than at the country level, as the latter approach ignores between-firm, within-country variation. Our equation (3) controls for firm characteristics.

year.[13] Since the returns to BCs capture not only the value of employee satisfaction, but the extent to which this value is not immediately capitalized by the market, we include price informativeness as a proxy for market efficiency. (Note that the control for firm size may also proxy for arbitrage costs and investor sophistication (Lakonishok, Shleifer, and Vishny (1994)). We also include GDP_{ct} (GDP per capita) and $MktCapGDP_{ct}$ (stock market capitalization over GDP), both taken from the World Bank, which proxy for the development of a country's economy and stock market, and thus may also be related to market efficiency.

We include the country-level controls both independently (except for the time-invariant country-level variables *RuleofLaw, ADRI* and *IDV* due to the presence of country fixed effects) and also interacted with *BC*, to ensure that any significance of the *BC**LMF* interaction does not simply arise because *LMF* proxies for another country-level variable that is causing cross-country differences in the returns to the BCs. We include year-month fixed effects as in equation (2), and country fixed effects to capture country-level variation in average stock market returns. Following Petersen (2009), we double-cluster standard errors. We do so at the country and year-month levels as it is the most conservative specification; the results remain robust to double-clustering at the firm and year-month levels.

While we include country fixed effects and time-varying country controls (both independently and interacted with *BC*), it may be that *LMF* is correlated with time-varying unobservable country-level factors that are captured by neither our observable controls nor time-invariant fixed effects. To explain our results, not only would the unobservable factors have to be associated with future

[13] Following Fernandes and Ferreira (2009), our sample screening criteria in the calculation are: 1) excluding firms with negative sales in a particular year; 2) excluding firms with total assets of under $100 million; and 3) requiring stock returns data in Datastream in every month of a given year.

stock returns, but also the association would have to depend on a firm's BC status. While not impossible, this narrows the range of admissible alternative explanations for our findings.[14]

Panel A of Table 4 presents the results using EPL as the measure of labor market flexibility. Columns (1)-(3) use raw returns as the dependent variable. In column (1), which contains no measures of labor market flexibility or country controls, *BC* has a positive coefficient of 0.74, which is significant at the 1% level. However, in column (3) when interactions with *EPL* and the country controls are added, the coefficient on *BC* becomes significantly negative, but the coefficient on *BC*EPL* is significantly positive at the 1% level. Thus, BCs are not associated with higher returns on average, but only in countries with flexible labor markets. Columns (4)-(6) ((7)-(9)) use the market-adjusted (industry-adjusted) return as the dependent variable. The results are equally strong, with the coefficient on *BC*EPL* being 0.94 (1.09) for market-adjusted (industry-adjusted) returns. A one standard deviation increase in *EPL* is associated with a 0.55% (0.64%) increase in the monthly market-adjusted (industry-adjusted) return to being a BC.

Panel B presents the results using EFW as the measure of labor market flexibility, which are similar to Panel A. For raw, market-adjusted, and industry-adjusted returns in columns (3), (6), and (9) respectively, the coefficient on *BC*EFW* is positive and significant at the 1% level. For example, the coefficient of 0.31 in column (9) indicates that a one standard deviation increase in *EFW* is associated with a 0.54% increase in the monthly industry-adjusted return to being a BC.

5. Potential mechanisms

[14] Unfortunately, we were unable to find (either in prior literature or institutional study) any exogenous shocks to labor laws during our sample period that we could exploit for identification. OECD (2013, Figure 2.1) documents changes in *EPL*, but only Greece and Brazil experience large changes in our sample period. In addition, such changes are themselves likely to be endogenous, since countries choose when to enforce labor laws.

The results of Section 4 are consistent with a number of potential mechanisms. Our hypothesis is that employee satisfaction has particularly high value in flexible labor markets, but the market does not fully incorporate this value immediately upon list publication. However, there are a number of alternative explanations. First, the abnormal returns stem from risk rather than mispricing – since employee satisfaction is an intangible asset worth little in bankruptcy, the BCs may be particularly vulnerable to changes in economic conditions. The sheer magnitude of the positive excess returns in some countries, documented in Table 2, seems difficult to fully explain by risk, as do the negative returns in others. In addition, it is unclear why an omitted risk factor would vary with labor market flexibility, but additional analyses can be conducted to assess this hypothesis. Second, employee satisfaction creates neither positive nor negative value, but the market erroneously thinks that it represents wasteful expenditure, and so reacts negatively to list inclusion; the subsequent superior returns reflect the correction of this mispricing. This explanation would require the negative returns to employee satisfaction in other countries to result from the market erroneously thinking that it is value-creating and incorrectly reacting positively to list inclusion.[15]

Both of these alternative hypotheses would imply that the BCs in flexible (rigid) labor markets trade at a valuation discount (premium) at the beginning of the return compounding window, i.e. at the start of the month following list publication. We thus study the effect of being a Best Company on industry-adjusted Tobin's Q by running the following regression:

[15] A third channel is that list inclusion itself attracts demand from socially responsible investors, leading to price pressure. Edmans (2011) estimates this effect for the US and found it to be very small compared to the magnitude of the abnormal returns. Relatedly, it might be that list inclusion attracts talented employees who subsequently move to the BCs, and the market fails to anticipate this. Edmans (2011) finds that outperformance of the BCs is significant even in the first year after list inclusion, whereas it likely takes time for employees to move and then integrate following list inclusion.

$$Q_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times LMF_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 LMF_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls2_{cit} + \varepsilon_{cit}. \qquad (4)$$

Q_{cit} is industry-adjusted Tobin's Q for firm i in country c in year t at the start of the return compounding window, i.e. at the start of the month following list publication, where Tobin's Q is calculated as the sum of book assets plus market equity, minus the sum of book equity plus balance sheet deferred taxes, all divided by book assets, and winsorized at the 0.5% and 99.5% level in each country. The industry adjustment is conducted by subtracting the median Q across all non-BC firms in the same industry in country c and year t. *FirmControls2* is a vector of firm controls: *BM* is the log of firm i's book-to-market ratio, *LBVA* is the log of book assets, *ROE* is firm i's return on equity as measured by income divided by book equity, and *FROE*, *F2ROE*, and *F3ROE* represent the return on equity for the next three years. The choice of these variables follows Gompers, Ishii, and Metrick (2003) and Edmans (2011). The country-level controls are defined as in Table 4. We include country and year-month fixed effects, and double-cluster standard errors at the country and year-month level.[16]

The results in Table 5 show that, without country controls or *LMF*, the BCs enjoy Tobin's Qs that are 0.84 units higher at the start of the return compounding window; the magnitude is consistent with Edmans (2011) for the US. Moreover, this premium is particularly high in flexible labor markets. When the *BC*LMF* interactions are included, they are significant at the 5% level or better (both with and without country controls), but the coefficient on *BC* as a standalone becomes either insignificant or significantly negative, suggesting that the BCs are *only* associated with higher Q in flexible labor markets. With country fixed effects and country controls, a one standard

[16] The fixed effects and clustering are at the year-month (rather than year) level, because the month following list publication differs across countries.

deviation increase in *EPL (EFW)* is associated with BCs having a 0.09 (0.19) unit higher Q. These results are inconsistent with the alternative explanation that the superior returns to the BCs in flexible labor markets result from them initially trading at a discount. In contrast, they are consistent with the hypothesis that employee satisfaction is valuable, particularly in flexible labor markets, and the market partially incorporates its value upon list publication.

We now study the future accounting performance of the BCs, to investigate whether their excess returns result from the (positive or negative) value of employee satisfaction rather than risk. We run the following regression:

$$Perf_{cit+j} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times LMF_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 LMF_{ct} + \delta_2 CountryControls_{ct} + \delta_3 BM_{cit} + \varepsilon_{cit}. \quad (5)$$

$Perf_{cit+j}$ is industry-adjusted accounting performance for firm i in country c in year $t+j$ (for $j \in \{1, 2\}$), measured in two ways. ROA_{cit+j} is the industry-adjusted return on assets, calculated as operating income before depreciation divided by book value of assets following Chan and Chen (1991).[17] NPM_{cit+j} is the industry-adjusted net profit margin, calculated as operating income before depreciation divided by sales following Jacobson (1987). Following Gompers, Ishii, and Metrick (2003), we include BM_{cit} as a firm-level control. The country-level controls are defined as in Section 4. We winsorize operating performance at the 0.5% and 99.5% level in each country and include country and year fixed effects. Also as in Gompers, Ishii, and Metrick (2003), we run least absolute deviation ("LAD") regressions to mitigate the effect of large outliers. Standard errors are

[17] The results remain significant when replacing operating income before depreciation by net income.

robust to heteroscedasticity and misspecification (Angrist, Chernozhukov, and Fernández-Val (2006)), and clustered at the country level.[18]

The results are shown in Table 6. The BCs enjoy return on asset ratios that are 3.7 (2.8) percentage points higher than their peers one year (two years) after list inclusion.[19] When the *BC*LMF* interactions are added, they are significant at the 1% level, both with and without country controls; the coefficient on *BC* alone either becomes insignificant or significantly negative. A one standard deviation increase in *EPL (EFW)* is associated with BCs having a next-year return on assets that is 1.23 (1.20) percentage points higher. We find similar results using net profit margin as the dependent variable. Out of the 16 specifications (with and without controls, using *EPL* or *EFW,* for *ROA* and *NPM* as the performance measure, and studying performance one or two years ahead), 13 of the *BC*LMF* interaction terms are significant at least at the 5% level, and two at the 10% level.

The superior operating performance of the BCs in flexible labor markets can only account for their superior stock returns to the extent that they are unanticipated by the market. Thus, Table 7 follows Core, Guay, and Rusticus (2006), Giroud and Mueller (2011), and Edmans (2011) by studying the earnings surprises of the BCs. We run the following pooled panel regression across countries:

$$Surprise_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times LMF_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 LMF_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls3_{cit} + \varepsilon_{cit}, \quad (6)$$

[18] We use the Stata "qreg2" command which only allows clustering of standard errors along one dimension. To our knowledge, the econometrics literature has not proposed an estimator for two-way clustering in a quantile regression and no such code is available.

[19] As benchmarks against which to evaluate the economic significance of this result, if we take the inter-quartile range (standard deviation) of *ROA* for each country and calculate the median across the 14 countries, we obtain 7.0% (10.3%). Thus, the 3.7% or 2.8% higher return on assets of the BCs appear plausible.

where *Surprise* is the one or two-year earnings surprise. The one-year earnings surprise is the actual earnings per share for the fiscal year ending in year *t* minus the median I/B/E/S analyst forecast, deflated by the stock price two months prior. The I/B/E/S consensus forecast is taken eight months prior to the end of the forecast period, i.e. four months after the previous fiscal year-end. Since most annual reports are filed within three months of the fiscal year-end, this ensures that analysts know prior earnings when making their forecasts. The two-year earnings surprise is calculated in a similar fashion, with the consensus forecast taken 20 months before the year-end. As in Easterwood and Nutt (1999), Lim (2001), Teoh and Wong (2002), Giroud and Mueller (2011), and Edmans (2011), we remove observations for which the forecast error is larger than 10% of the price. *FirmControls3* is a vector of control variables. Columns (1) and (4) include no firm controls; (2) and (5) include *BM* one and two years prior, and (3) and (6) also include *SIZE* one and two years prior. All specifications include country and year-month fixed effects.

Our hypothesis is not only that the BCs exhibit superior earnings surprises, but also that this superiority is increasing in labor market flexibility. This is a difficult test to pass: Core, Guay, and Rusticus (2006) show that, even though well-governed firms deliver higher stock returns than poorly-governed firms (Gompers, Ishii, and Metrick (2003)), they do not deliver superior earnings surprises – even in unconditional regressions that do not interact the variable of interest (governance) with a country-level variable.

Panel A of Table 7 illustrates the results using *EPL* as the measure of labor market flexibility. Columns (1)-(3) show that the BCs enjoy significantly higher one-year earnings surprises in flexible labor markets: the coefficient on *BC*EPL* is significant at the 1% level in columns (1), and at the 5% level in column (2) and (3) which include either one or both firm controls. Columns (4)-(6) study two-year earnings surprises and show that the interaction is significant at at least the 5% level in all columns. In terms of economic significance, a one standard deviation increase in the *EPL* measure is associated with a 0.16% (0.50%) increase in the one-year (two-year) earnings surprise. However, Panel B shows positive but insignificant results using *EFW*. Thus, overall, the earnings surprise results are more mixed.

Overall, our results suggest that companies with high employee satisfaction exhibit higher future stock returns, current valuation ratios, future operating performance, particularly in countries with high labor market flexibility. We also find higher earnings surprises in flexible labor markets under the EPL measure, but not the EFW measure. These findings are consistent with employee satisfaction being a valuable intangible asset that is not fully priced by the market in countries with flexible labor markets, but reflecting wasteful expenditure in countries with rigid labor markets.

6. Conclusions

This paper studies how the relationship between employee satisfaction and stock returns depends critically on a country's labor market flexibility. The alphas documented by Edmans (2011, 2012) for the US are not anomalous in a global context, in terms of economic significance. However, they do not automatically generalize to every country – being listed as a Best Company to Work For is associated with superior returns only in countries with high labor market flexibility. We find similar results for current valuation ratios, operating performance, and (under the EPL measure) future earnings surprises – these are higher for the Best Companies, but only in countries with flexible labor markets.

Our findings are consistent with the recruitment, retention, and motivational benefits of employee satisfaction being most valuable in flexible labor markets. The results emphasize the importance of the institutional context for both managers and investors. Even if prior results using US data can be interpreted as causal, it is not the case that managers can hope to increase stock returns by investing in employee satisfaction, because a positive link only exists in countries with high labor market flexibility. Turning to investors, a strategy of investing in firms with high employee satisfaction will only generate superior returns in countries with high labor market flexibility. This conclusion holds regardless of whether the link between employee satisfaction and stock returns is causal, or whether employee satisfaction is a proxy for other sources of underpricing – whatever investment signal is captured in employee satisfaction, the value of this signal depend on labor market flexibility. Given that the vast majority of empirical asset pricing studies that uncover alpha are based on US data, the results emphasize caution in applying these strategies overseas. This caution is especially warranted for strategies that are likely to be dependent on the institutional or cultural environment, such as socially responsible investing. Just as the value of employee satisfaction depends on the flexibility of labor markets and existing regulations on worker welfare, the value of other SRI screens, such as gender diversity, animal rights, environmental protection, and operating in an ethical industry, also likely depend on the context.

References

Abowd, John M. (1989): "The Effect of Wage Bargains on the Stock Market Value of the Firm." *American Economic Review* 79, 774–800.

Acemoglu, Daron and Jörn-Steffen Pischke: (1998) "Why do Firms Train? Theory and Evidence." *Quarterly Journal of Economics* 63, 79–119.

Acharya, Viral V., Ramin P. Baghai, and Krishnamurthy V. Subrahmanian (2013): "Labor Laws and Innovation." *Journal of Law and Economics* 56, 997–1037.

Akerlof, George A. (1982): "Labor Contracts as Partial Gift Exchange." *Quarterly Journal of Economics* 97, 543–569.

Agrawal, Anup, Jeffrey Jaffe, and Gerson Mandelker (1992): "The Post-Merger Performance of Acquiring Firms: A Re-Examination of an Anomaly." *Journal of Finance* 47, 1605–1621.

Angrist, Joshua D., Victor Chernozhukov, and Iván Fernández-Val (2006): "Quantile Regression Under Misspecification, with an Application to the US Wage Structure." *Econometrica* 74, 539–563.

Asness, Clifford S., Tobias J. Moskowitz, and Lasse Heje Pedersen (2013): "Value and Momentum Everywhere." *Journal of Finance* 68, 929–985.

Bauer, Rob, Kees Koedijk, and Roger Otten (2005): "International Evidence on Ethical Mutual Fund Performance and Investment Style." *Journal of Banking and Finance* 29, 1751–1767.

Benartzi, Shlomo (2001): "Excessive extrapolation and the allocation of 401(k) accounts to company stock." *Journal of Finance* 56, 1747–1764.

Bergman, Nittai and Dirk Jenter (2007): "Employee sentiment and stock option compensation." *Journal of Financial Economics* 84, 667–712.

Bernal-Verdugo, Lorenzo E., David Furceri, and Dominique Guillaume (2012a): "Labor Market Flexibility and Unemployment: New Empirical Evidence of Static and Dynamic Effects." *Comparative Economic Studies* 54, 251–273.

Bernal-Verdugo, Lorenzo E., David Furceri, and Dominique Guillaume (2012b): "Crises, Labor Market Policy, and Unemployment." Working Paper, International Monetary Fund.

Blanchard, Olivier and Pedro Portugal (2001): "What Hides Behind an Unemployment Rate: Comparing Portuguese and US Labor Markets." *American Economic Review* 91, 187–207.

Brammer, Stephen, Chris Brooks, and Stephen Pavelin (2006): "Corporate Social Performance and Stock Returns: UK Evidence from Disaggregate Measures." *Financial Management* 35, 97–116.

Brennan, Michael J., Tarun Chordia, and Avanidhar Subrahmanyam (1998): "Alternative Factor Specifications, Security Characteristics, and the Cross-Section of Expected Returns." *Journal of Financial Economics* 49, 345–373.

Carhart, Mark M. (1997): "On Persistence in Mutual Fund Performance." *Journal of Finance* 52, 57–82.

Chan, K. C. and Nai-Fu Chen (1991): "Structural and Return Characteristics of Small and Large Firms." *Journal of Finance* 46, 1467–1484.

Chan, Louis K. C., Josef Lakonishok, and Theodore Sougiannis (2001): "The Stock Market Valuation of Research and Development Expenditures." *Journal of Finance* 56, 2431–2456.

Chen, Huafeng Jason, Marcin Kacperczyk, and Hernan Ortiz-Molina (2011): "Labor Unions, Operating Flexibility, and the Cost of Equity." *Journal of Financial and Quantitative Analysis* 46, 25–58.

Cheng, Beiting, Ioannis Ioannou, and George Serafeim (2014): "Corporate Sustainability and Access to Finance." *Strategic Management Journal* 35, 1–23.

Chui, Andy C.W., Sheridan Titman, and K.C. John Wei (2010): "Individualism and Momentum around the World." *Journal of Finance* 65, 361–392.

Core, John E., Wayne R. Guay, and Tjomme O. Rusticus (2006): "Does Weak Governance Cause Weak Stock Returns? An Examination of Firm Operating Performance and Investors' Expectations." *Journal of Finance* 61, 655–687.

Cronqvist, Henrik, Fredrik Heyman, Mattias Nilsson, Helena Svaleryd, and Jonas Vlachos (2009): "Do Entrenched Managers Pay Their Workers More?" *Journal of Finance* 64, 309–339.

D'Acunto, Francesco (2016): "Innovating to Invest: The Role of Basic Education." Working Paper, University of Maryland.

Derwall, Jeroen, Nadja Guenster, Rob Bauer, and Kees Koedijk (2005): "The Eco-Efficiency Premium Puzzle." *Financial Analysts Journal* 61, 51–63.

Dhrymes, Phoebus J. (1998): "Socially Responsible Investment: Is It Profitable?" In: Bruce, B. (Ed.), *The Investment Research Guide to Socially Responsible Investing*. The Colloquium on Socially Responsible Investing, Plano, TX, 264–284.

Diltz, J. David (1995): "Does Social Screening Affect Portfolio Performance?" *Journal of Investing* 4, 64–69.

Dimson, Elroy, Oguzhan Karakas, and Xi Li (2015): "Active Ownership." *Review of Financial Studies* 28, 3225–3268.

Eccles, Robert, Ioannis Ioannou, and George Serafeim (2014) "The Impact of Corporate Sustainability on Organizational Processes and Performance." *Management Science* 60, 2835–2857.

Easterwood, John C. and Stacey R. Nutt (1999): "Inefficiency in Analysts' Earnings Forecasts: Systematic Misreaction or Systematic Optimism?" *Journal of Finance* 43, 153–193.

Edmans, Alex (2011): "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices." *Journal of Financial Economics* 101, 621–640.

Edmans, Alex (2012): "The Link between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility." *Academy of Management Perspectives* 26, 1–19.

Faleye, Olubunmi, Vikas Mehrotra, and Randall Morck (2006): "When Labor Has a Voice in Corporate Governance." *Journal of Financial and Quantitative Analysis* 41, 489–510.

Fama, Eugene F. and Kenneth R. French (1997): "Industry Costs of Equity." *Journal of Financial Economics* 43, 153–193.

Fama, Eugene F. and Kenneth R. French (2012): "Size, Value, and Momentum in International Stock Returns." *Journal of Financial Economics* 105, 457–472.

Fama, Eugene F. and Kenneth R. French (2015): "International Tests of a Five-Factor Asset Pricing Model." Working Paper, University of Chicago.

Fama, Eugene F. and James D. MacBeth (1973): "Risk, Return, and Equilibrium: Empirical Tests." *Journal of Political Economy* 81, 607–636.

Feldmann, Horst (2009): "The Unemployment Effects of Labor Regulation around the World." *Journal of Comparative Economics* 37, 76–90.

Fernandes, Nuno and Miguel A. Ferreira (2009): "Insider Trading Laws and Stock Price Informativeness." *Review of Financial Studies* 22, 1845–1887.

Flammer, Caroline (2015): "Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach." *Management Science* 61, 2549–2568.

Fornell, Claes, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan (2006): "Customer Satisfaction and Stock Prices: High Returns, Low Risk." *Journal of Marketing* 70, 3–14.

Freeman, Richard B., Douglas Kruse, and Joseph Blasi (2008): "The Same Yet Different: Worker Reports on Labor Practices and Outcomes in a Single Firm across Countries." *Labor Economics* 15, 750–771.

Gao, Pengjie, Christopher A. Parsons, and Jianfeng Shen (2017): "The Global Relation Between Financial Distress and Equity Returns." *Review of Financial Studies*, forthcoming.

Giroud, Xavier and Holger M. Mueller (2011): "Corporate Governance, Product Market Competition, and Equity Prices." *Journal of Finance* 66, 563–600.

Gompers, Paul, Joy Ishii, and Andrew Metrick (2003): "Corporate Governance and Equity Prices." *Quarterly Journal of Economics* 118, 107–156.

Gorton, Gary and Frank A. Schmid (2004): "Capital, Labor, and the Firm: A Study of German Codetermination." *Journal of the European Economic Association* 2, 863–905.

Griffin, John M. (2009): "Are the Fama and French Factors Global or Country Specific?" *Review of Financial Studies* 15, 783–803.

Guerard, Jr., John B. (1997): "Is there a Cost to Being Socially Responsible in Investing?" *Journal of Investing* 6, 11–18.

Haltiwanger, John, Stefano Scarpetta, and Helena Schweiger (2008): "Assessing Job Flows across Countries: The Role of Industry, Firm Size and Regulations." NBER Working Paper No. 13920.

Hamilton, Sally, Hoje Jo, and Meir Statman (1993): "Doing Well while Doing Good: the Investment Performance of Socially Responsible Mutual Funds." *Financial Analysts Journal* 49, 62–66.

Hertzberg, Frederick (1959): *The Motivation to Work.* New York: John Wiley & Sons.

Hochberg, Yael V. and Laura Lindsey (2010): "Incentives, Targeting, and Firm Performance: An Analysis of Non-Executive Stock Options." *Review of Financial Studies* 23, 4148–4186.

Hofstede, Geert (1980): *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills CA: Sage Publications.

Holderness, Clifford G. (2016): "Problems with using Aggregate Data to Infer Individual Behavior: Evidence from Law, Finance, and Ownership." *Critical Finance Review* 5, 1–40.

Hong, Harrison and Marcin Kacperczyk (2009): "The Price of Sin: the Effect of Social Norms on Markets." *Journal of Financial Economics* 93, 15–36.

Hou, Kewei, G. Andrew Karolyi, and Bong-Chan Kho (2009): "What Factors Drive Global Stock Returns?" *Review of Financial Studies* 24, 2527–2574.

Huselid, Mark A. (1995): "The Impact of Human Resource Practices on Turnover, Productivity, and Corporate Financial Performance." *Journal of Financial Economics* 38, 635–672.

Ioannou, Ioannis and George Serafeim (2012): "What Drives Corporate Social Performance? The Role of Nation-Level Institutions." *Journal of International Business Studies* 43, 834–864.

Jacobson, Robert (1987): "The Validity of ROI as a Measure of Business Performance." *American Economic Review* 77, 470–478.

Jensen, Michael C. and William H. Meckling (1976): "Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure." *Journal of Financial Economics* 3, 305–360.

Jenter, Dirk, Katharina A. Lewellen, and Jerold B. Warner (2011): "Security Issue Timing: What Do Managers Know, and When Do They Know It?" *Journal of Finance* 66, 413–443.

Kim, E. Han and Paige Ouimet (2014): "Employee Stock Option Plans: Employee Compensation and Firm Value." *Journal of Finance* 69, 1273–1319.

Krüger, Philipp (2015): "Corporate Goodness and Shareholder Wealth." *Journal of Financial Economics* 115, 304–329.

Kurtz, Lloyd and Dan DiBartolomeo (1996): "Socially Screened Portfolios: An Attribution Analysis of Relative Performance." *Journal of Investing* 5, 35–41.

La Porta, Rafael, Florencio López-de-Silanes, Andrei Shleifer, and Robert W. Vishny (1997): "Legal Determinants of External Finance." *Journal of Finance* 52, 1131–1150.

Lakonishok, Josef, Andrei Shleifer, and Robert W. Vishny (1994): "Contrarian Investment, Extrapolation, and Risk." *Journal of Finance* 49, 1541–1578.

Lam, Catherine K., Gerben S. Van der Vegt, Frank Walter, and Xin Huang (2011): "Harming High Performers: A Social Comparison Perspective on Interpersonal Harming in Work Teams." *Journal of Applied Psychology* 96, 588–601.

Lee, David. S. and Alexandre Mas (2012): "Long-run Impacts of Unions on Firms: New Evidence from Financial Markets, 1961–1999." *Quarterly Journal of Economics* 127, 333–378.

Macduffie, John Paul (1995): "Human Resource Bundles and Manufacturing Performance: Organizational Logic and Flexible Production Systems in the World Auto Industry." *Industrial and Labor Relations Review* 48, 179–221.

Maslow, Abraham H. (1943): "A Theory of Human Motivation." *Psychological Review* 50, 370–396.

Mayo, Edwin (1949): *Hawthorne and the Western Electric Company: The Social Problems of an Industrial Civilisation.* London*:* Routledge.

Messina, Julian and Giovanna Vallanti (2007): "Job Flow Dynamics and Firing Restrictions: Evidence from Europe." *Economic Journal* 117, F279–F301.

Milgrom, Paul and John Roberts (1995): "Complementarities and Fit: Strategy, Structure, and Organizational Design in Manufacturing." *Journal of Accounting and Economics* 19, 179–208.

Newey, Whitney K. and Kenneth West (1987): "A Simple, Positive Semidefinite, Heteroskedasticity and Autocorrelation Consistent Covariance Matrix." *Econometrica* 55, 703–708.

OECD (1996): "Employment Adjustment, Workers and Unemployment." *OECD Employment Outlook*, Chapter 5.

OECD (2013): "Protecting Jobs, Enhancing Flexibility: A New Look at Employment Protection Legislation." *OECD Employment Outlook*, Chapter 2.

Ouimet, Paige and Rebecca Zarutskie (2016): "Acquiring Labor." Working Paper, University of North Carolina.

Pagano, Marco and Paolo F. Volpin (2005a): "Managers, Workers, and Corporate Control." *Journal of Finance* 60, 843–870.

Pagano, Marco and Paolo F. Volpin (2005b): "The Political Economy of Corporate Governance." *American Economic Review* 95, 1005–1030.

Petersen, Mitchell A. (2009): "Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches." *Review of Financial Studies* 22, 435–480.

Renneboog, Luc, Jenke Ter Horst, and Chendi Zhang (2008): "The Price of Ethics and Stakeholder Governance: The Performance of Socially Responsible Mutual Funds." *Journal of Corporate Finance* 14, 302–328.

Roethlisberger, F. J. and William J. Dickson (1939). *Management and the Worker*. Cambridge: Harvard University Press.

Schröder, Michael (2007): "Is there a Difference? The Performance Characteristics of SRI Equity Indices." *Journal of Business Finance and Accounting* 34, 331–348.

Servaes, Henri and Ane Tamayo (2013): The Impact of Corporate Social Responsibility on Firm Value: The Role of Customer Awareness." *Management Science* 59, 1045–1061.

Shapiro, Carl and Joseph E. Stiglitz (1984): "Equilibrium Unemployment as a Worker Discipline Device." *American Economic Review* 74, 433–444.

Simintzi, Elena, Vikrant Vig, and Paolo Volpin (2015): "Labor Protection and Leverage." *Review of Financial Studies* 28, 561–591.

Spamann, Holger (2010): "The Antidirector Rights Index Revisited." *Review of Financial Studies* 23, 467–486.

Statman, Meir and Denys Glushkov (2008): "The Wages of Social Responsibility." *Financial Analysts Journal* 65, 33–46.

Tate, Geoffrey A. and Liu Yang (2016): "The Bright Side of Corporate Diversification: Evidence From Internal Labor Markets." Working Paper, University of North Carolina.

Taylor, Frederick Winslow (1911): *The Principles of Scientific Management.* Harper Brothers, New York.

Thelen, Kathleen (2001): "Varieties of Labor Politics in the Developed Democracies." In Hall, P. A. and Soskice, D. (eds) (2001) *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 71–103.

Wasmer, Etienne (2006): "General versus Specific Skills in Labor Markets with Search Frictions and Firing Costs." *American Economic Review* 96, 811–831.

Table 1
Summary statistics

Panel A: Publicly-listed Best Companies to Work For

Panel A reports the list of countries in which at least ten publicly-listed Best Companies (BCs) are headquartered and publicly listed. Column (1) presents the years of BC lists that we use for each country. Column (2) reports our portfolio formation date for each country. Column (3) gives the number of listed BC per country. Column (4) presents the total number of listed firms in each country including BCs. Column (5) records the total number of firm-month observations for each country. Column (6) indicates for each country the number of BCs in the year the list was initiated and also in 2013. The last row shows the current publication outlet for each country. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)		(7)
Country	**Listing years**	**Formation date**	**Total no. of public BCs**	**Total no. of firms**	**Total no. of obs.**	**Size of BC lists Initial**	**2013**	**Current Publication Outlet**
Brazil	1997-2013	01-Sep	70	652	30,883	50	100	Época
Canada	2006-2013	01-May	15	4,405	172,724	30	50	The Globe and Mail
Chile	2001-2013	01-Dec	11	304	22,050	25	50	El Mercurio
Denmark	2001-2013	01-Dec	23	461	26,960	50	75	GPTW Europe
Finland	2003-2013	01-Mar	14	241	19,448	20	50	Talouselämä
France	2002-2013	01-Apr	18	1,765	92,813	25	49	Le Figaro
Germany	2003-2013	01-Mar	24	1,646	84,252	50	100	Handelsblatt
Greece	2003-2013	01-May	12	443	39,570	10	25	To Vima
India	2003-2013	01-Jun	46	2,578	131,432	25	100	The Economic Times
Japan	2007-2013	01-Apr	38	4,981	510,977	20	40	Nikkei Business
Korea	2002-2013	01-Nov	49	2,019	128,687	20	100	The Korea Economic Daily
Sweden	2003-2013	01-Apr	11	823	44,418	25	38	GPTW Sweden
UK	2001-2013	01-May	33	4,943	199,276	50	50	The Guardian
US	1998-2013	01-Feb	188	11,478	1,209,671	100	100	Fortune
All	–	–	552	39,239	2,713,161	500	927	–

Table 1 (Cont'd)

Panel B: Employment protection legislation and labor market flexibility

Panel B summarizes the employment protection legislation (*EPL*) indicators from OECD and the labor market flexibility index (*EFW*) based on the Fraser Institute's Economic Freedom of the World database. Column (1) presents the time-series average of *EPL* for each country. *EPL*, for a given country-year, is 10 minus the average of three components: individual dismissal of workers with regular contracts (EPR), additional costs for collective dismissals (EPC), and regulation of temporary contracts (EPT). Columns (2)-(4) gives the time-series average of these individual components. Column (5) presents the time-series average of *EFW* for each country. *EFW* for a given country-year is the average of six components: hiring regulations and minimum wage per country (5Bi), hiring and firing regulations (5Bii), centralized collective bargaining (5Biii), hours regulations (5Biv), mandated cost of worker dismissal (5Bv), and military conscription (5Bvi). Columns (6)-(11) gives the time-series average of these individual components. The sample period is 1997-2013 for *EPL* and 2002-2013 for *EFW*.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**
Country	**EPL**	**Individual dismissals (regular contracts)**	**Collective dismissals (additional costs)**	**Temporary contracts**	**EFW**	**Hiring regulations and min. wage**	**Hiring and firing regulations**	**Centralized collective bargaining**	**Hours regulations**	**Mandated cost of worker dismissal**	**Conscription**
		EPR	**EPC**	**EPT**		**5Bi**	**5Bii**	**5Biii**	**5Biv**	**5Bv**	**5Bvi**
Brazil	7.841	1.452	0.900	4.125	4.643	3.620	4.410	5.335	5.175	6.315	3.000
Canada	8.620	0.921	2.969	0.250	7.916	7.740	6.055	7.485	8.430	7.785	10.00
Chile	8.124	2.627	0.000	3.000	5.766	6.120	4.900	7.965	8.625	6.215	0.769
Denmark	7.743	2.147	3.250	1.375	6.753	7.795	7.580	5.490	6.650	10.00	3.000
Finland	8.151	2.203	1.781	1.563	4.931	4.625	4.335	3.635	5.280	8.708	3.000
France	6.866	2.402	3.375	3.625	5.528	3.245	2.885	5.870	3.570	7.600	10.00
Germany	7.409	2.798	3.625	1.352	4.515	5.500	2.870	3.410	5.045	4.800	5.462
Greece	6.883	2.680	3.250	3.422	4.472	5.405	3.655	4.010	4.360	7.015	2.385
India	8.154	3.286	0.438	1.813	6.990	8.370	3.335	6.940	7.850	5.446	10.00
Japan	8.080	1.556	3.250	0.953	8.085	8.250	3.785	8.005	8.685	9.785	10.00
Korea	7.856	2.369	1.875	2.188	4.376	6.600	4.110	7.135	6.475	1.938	0.000
Sweden	7.891	2.333	2.500	2.945	5.285	5.535	3.080	3.975	4.725	8.708	5.692
UK	8.541	1.159	2.860	0.338	7.968	7.920	6.045	7.555	7.825	8.462	10.00
US	8.873	0.257	2.875	0.250	8.673	8.355	7.015	7.790	8.875	10.00	10.00
Average	7.931	1.937	2.852	1.681	6.396	6.363	4.576	6.043	6.541	7.341	5.951
Std. Dev.	0.585	0.767	1.016	1.201	1.711	2.459	1.754	1.763	2.479	1.891	3.993

Table 2
Country-level alphas

Panel A: Risk-adjusted returns of equal-weighted BC portfolios

This table reports regression results of monthly returns of equal-weighted portfolios of Best Compa Carhart's (1997) four-factor model:

$$R_{ct} = \alpha + \beta_{MKT}MKT_{ct} + \beta_{HML}HML_{ct} + \beta_{SMB}SMB_{ct} + \beta_{MOM}MOM_{ct} + \varepsilon_{ct},$$

where R_{ct} is the return on an equal-weighted portfolio of listed BCs in month t for country c in exc risk-free rate. α is the intercept that captures the abnormal risk-adjusted return. MKT_{ct}, HML_{ct}, S MOM_{ct}, are, respectively, the Fama and French (2012) regional factors on market, value, momentum. Standard errors, given in parentheses, are adjusted for heteroscedasticity and fou autocorrelation. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Tl period is September 1997 to December 2013.

Country	α	β_{MKT}	β_{HML}	β_{SMB}	β_{MOM}	Adj.R^2	O
Brazil	**0.942**	**0.969*****	**0.349****	**0.535****	**-0.057**	0.312	
	(0.606)	(0.135)	(0.147)	(0.211)	(0.142)		
Canada	**0.091**	**1.280*****	**-0.209**	**-0.320**	**-0.113**	0.648	
	(0.485)	(0.113)	(0.217)	(0.277)	(0.142)		
Chile	**0.971***	**0.716*****	**-0.264**	**0.464****	**0.003**	0.280	
	(0.503)	(0.146)	(0.211)	(0.216)	(0.109)		
Denmark	**-0.629**	**0.934*****	**0.074**	**0.788*****	**0.095**	0.685	
	(0.403)	(0.076)	(0.160)	(0.154)	(0.077)		
Finland	**0.957**	**0.947*****	**0.295**	**0.501**	**-0.232**	0.471	
	(0.715)	(0.165)	(0.390)	(0.359)	(0.156)		
France	**0.346**	**0.891*****	**-0.415***	**-0.366**	**-0.240**	0.592	
	(0.453)	(0.093)	(0.242)	(0.252)	(0.101)		
Germany	**-0.445**	**1.028*****	**0.310**	**-0.167**	**-0.193****	0.642	
	(0.437)	(0.092)	(0.301)	(0.189)	(0.096)		
Greece	**-0.584**	**1.143*****	**-0.275**	**0.282**	**-0.462**	0.488	
	(0.791)	(0.227)	(0.630)	(0.461)	(0.180)		
India	**1.076**	**1.029*****	**0.274**	**0.089**	**-0.413*****	0.533	
	(0.670)	(0.099)	(0.269)	(0.224)	(0.141)		
Japan	**0.768****	**0.985*****	**-0.083**	**0.623*****	**0.008**	0.701	
	(0.332)	(0.076)	(0.156)	(0.156)	(0.096)		
Korea	**0.602**	**1.037*****	**-0.000**	**-0.194**	**-0.159**	0.552	
	(0.570)	(0.082)	(0.209)	(0.229)	(0.200)		
Sweden	**0.870***	**1.136*****	**-0.623****	**0.377**	**0.129**	0.497	
	(0.497)	(0.106)	(0.262)	(0.328)	(0.159)		
UK	**0.812**	**0.835*****	**-0.617*****	**0.405***	**-0.279****	0.446	
	(0.569)	(0.081)	(0.195)	(0.216)	(0.126)		
US	**0.341*****	**1.036*****	**0.041*****	**0.201*****	**-0.125**	0.926	
	(0.112)	(0.025)	(0.033)	(0.038)	(0.008)		

Table 2 (Cont'd)

Panel B: Risk-adjusted returns of value-weighted BC portfolios

This table reports regression results of monthly returns of value-weighted portfolios of Best Companies using Carhart's (1997) four-factor model:

$$R_{ct} = \alpha + \beta_{MKT}MKT_{ct} + \beta_{HML}HML_{ct} + \beta_{SMB}SMB_{ct} + \beta_{MOM}MOM_{ct} + \varepsilon_{ct},$$

where R_{ct} is the return on a value-weighted portfolio of listed BCs in month t for country c in excess of the risk-free rate. α is the intercept that captures the abnormal risk-adjusted return. MKT_{ct}, HML_{ct}, SMB_{ct}, and MOM_{ct}, are, respectively, the Fama and French (2012) regional factors on market, value, size, and momentum. Standard errors, given in parentheses, are adjusted for heteroscedasticity and four lags of autocorrelation. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

Country	α	β_{MKT}	β_{HML}	β_{SMB}	β_{MOM}	Adj.R^2	Obs. No.
Brazil	**0.591**	**0.944*****	**0.228**	**0.420****	**-0.119**	0.306	183
	(0.580)	(0.134)	(0.168)	(0.204)	(0.123)		
Canada	**0.203**	**1.148*****	**0.093**	**-0.227**	**-0.137**	0.757	90
	(0.326)	(0.089)	(0.197)	(0.162)	(0.092)		
Chile	**1.039***	**0.762*****	**-0.288**	**0.580***	**0.070**	0.240	143
	(0.563)	(0.144)	(0.230)	(0.337)	(0.148)		
Denmark	**-1.020***	**1.045*****	**-0.220**	**0.442***	**0.151**	0.490	143
	(0.572)	(0.105)	(0.288)	(0.230)	(0.136)		
Finland	**0.739**	**0.960*****	**0.135**	**0.325**	**-0.298****	0.455	92
	(0.717)	(0.169)	(0.395)	(0.374)	(0.149)		
France	**-0.200**	**0.891*****	**-0.129**	**0.161**	**0.083**	0.478	127
	(0.424)	(0.081)	(0.257)	(0.212)	(0.100)		
Germany	**-0.453**	**0.957*****	**0.338**	**-0.285**	**-0.106**	0.509	128
	(0.549)	(0.092)	(0.289)	(0.205)	(0.101)		
Greece	**-0.582**	**1.216*****	**-0.050**	**-0.219**	**-0.734****	0.542	96
	(0.843)	(0.229)	(0.685)	(0.503)	(0.243)		
India	**0.861**	**1.022*****	**-0.085**	**0.172**	**-0.264***	0.559	113
	(0.608)	(0.097)	(0.222)	(0.200)	(0.149)		
Japan	**0.365**	**0.938*****	**-0.276****	**-0.011**	**-0.015**	0.721	79
	(0.308)	(0.074)	(0.130)	(0.155)	(0.103)		
Korea	**0.135**	**1.121*****	**0.107**	**-0.384**	**-0.158**	0.527	132
	(0.623)	(0.092)	(0.262)	(0.284)	(0.247)		
Sweden	**0.212**	**1.165*****	**-0.761*****	**0.313**	**0.140**	0.475	127
	(0.517)	(0.127)	(0.280)	(0.358)	(0.138)		
UK	**0.988****	**0.727*****	**-0.400****	**-0.243**	**-0.010**	0.360	150
	(0.475)	(0.081)	(0.156)	(0.202)	(0.096)		
US	**0.182**	**1.069*****	**-0.410*****	**-0.193*****	**-0.006**	0.864	190
	(0.160)	(0.036)	(0.047)	(0.055)	(0.030)		

Table 3
Stock returns by country, controlling for firm characteristics

This table reports results of monthly firm-level pooled panel regressions:

$$R_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 FirmControls_{it} + \varepsilon_{it},$$

where R_{it} is the return for firm *i* in month *t*, either raw, market-adjusted, or industry-adjusted using the Fama and French (1997) 48-industry classification. BC_{it} is a dummy variable that equals one if firm *i* has been included in the most recent BC list prior to month *t*, and zero otherwise. $FirmControls_{it}$ include the following firm-level controls: *SIZE* is the log of firm *i*'s market capitalization at the end of month *t-2*; *BM* is the log of firm *i*'s book-to-market ratio at the end of month *t-2*; *YLD* is firm *i*'s dividend yield as measured by the total dividends paid over the 12 months prior to month *t*, divided by the share price at the end of month *t-2*; *RET2-3* is the log of one plus firm *i*'s cumulative return over months *t-3* through *t-2*; *RET4-6* and *RET7-12* are defined similarly; *VOL* is the log of firm *i*'s dollar trading volume in month *t-2*; *PRC* is the log of firm *i*'s price at the end of month *t-2*. We include year-month fixed effects and winsorize stock returns at 0.5% in each tail. We report only the coefficient on *BC* for brevity. Standard errors, given in parentheses, are clustered by year-month. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

Country	Dependent Variable		
	Raw returns	**Market-adjusted returns**	**Industry-adjusted returns**
Brazil	**0.090**	**0.095**	**-0.405**
	(0.520)	(0.512)	(0.495)
Canada	**2.017*** **	**2.031*** **	**1.499*** **
	(0.569)	(0.569)	(0.526)
Chile	**0.325**	**0.326**	**0.557**
	(0.402)	(0.401)	(0.408)
Denmark	**-0.588**	**-0.592**	**-0.295**
	(0.382)	(0.381)	(0.409)
Finland	**-0.613**	**-0.627**	**-0.541**
	(0.715)	(0.710)	(0.854)
France	**-0.334**	**-0.262**	**-0.510**
	(0.754)	(0.783)	(0.758)
Germany	**-0.541**	**-0.453**	**-0.425**
	(0.458)	(0.466)	(0.443)
Greece	**0.493**	**0.600**	**0.633**
	(0.786)	(0.831)	(0.785)
India	**1.265*** **	**1.317*** **	**1.317*** **
	(0.451)	(0.464)	(0.420)
Japan	**1.081*** **	**1.089*** **	**0.973*** **
	(0.320)	(0.321)	(0.308)
Korea	**1.396*** **	**1.392*** **	**1.132*** **
	(0.391)	(0.392)	(0.387)
Sweden	**-0.044**	**-0.040**	**-0.007**
	(0.511)	(0.513)	(0.527)
UK	**0.382**	**0.397**	**0.240**
	(0.444)	(0.444)	(0.444)
US	**0.362** **	**0.409** **	**0.424*** **
	(0.160)	(0.162)	(0.162)

Table 4
Stock returns across countries

Panel A: Measuring labor market flexibility with EPL

This table reports the results of pooled panel regressions across countries:

$$R_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EPL_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EPL_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls_{cit} + \varepsilon_{cit},$$

where R_{cit} is the return for firm i in month t, either raw, market-adjusted, or industry-adjusted using the Fama and French (1997) 48-industry classification. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EPL_{ct} is the employment protection legislation described in Table 1, Panel B for country c at month t. $CountryControls_{ct}$ include the following country-level controls: *RuleofLaw* measures the rule of law from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997); *GDPg* measures GDP growth taken from the World Bank; *GDPpc* measures GDP per capita taken from the World Bank; *ADRI* measures the anti-director rights index corrected by Spamann (2010); *IDV* is Hofstede measure of cultural individualism; *PriceInf* measures the efficiency of a firm's stock markets constructed following Fernandes and Ferreira (2009); *MktCapGDP* is the stock market capitalization over GDP taken from the World Bank. $FirmControls_{cit}$ include the firm-level controls described in Table 3. We include country and year-month fixed effects, and winsorize stock returns at 0.5% in each tail. The regression constant is not reported for brevity. Standard errors, given in parentheses, are double clustered by country and year-month. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dependent variables		**Raw returns**			**Market-adjusted returns**			**Industry-adjusted returns**	
BC_{cit}	**0.743*** **	**-4.059** **	**-4.888*** **	**0.770*** **	**-4.332** **	**-5.243*** **	**0.734*** **	**-4.358** **	**-4.960*** **
	(0.188)	(1.931)	(0.712)	(0.182)	(1.830)	(0.593)	(0.155)	(1.903)	(1.268)
BC_{cit}*EPL_{ct}		**0.569** **	**0.941*** **		**0.596** **	**0.938*** **		**0.600** **	**1.094*** **
		(0.246)	(0.130)		(0.234)	(0.121)		(0.236)	(0.161)
BC_{cit}*$RuleofLaw_c$			**0.040**			**0.021**			**-0.046**
			(0.149)			(0.128)			(0.167)
BC_{cit}*$GDPg_{ct}$			**0.089**			**0.101**			**0.129**
			(0.096)			(0.095)			(0.103)
BC_{cit}*$GDPpc_{ct}$			**-0.000**			**-0.000**			**0.000**
			(0.000)			(0.000)			(0.000)
BC_{cit}*$ADRI_c$			**-0.275** **			**-0.247** **			**-0.504*** **
			(0.116)			(0.113)			(0.134)
BC_{cit}*IDV_c			**-0.007**			**-0.005**			**-0.010**

$BC_{cit}*MktCapGDP_{ct}$			**0.004**			**0.004**			**0.003**
			(0.007)			(0.007)			(0.007)
EPL_{ct}		**0.570**	**-1.101**		**2.209**	**1.646**		**0.768**	**-0.925**
		(1.266)	(1.756)		(1.883)	(1.754)		(1.176)	(1.302)
$GDPg_{ct}$			**0.152**			**-0.096**			**-0.153**
			(0.144)			(0.111)			(0.115)
$GDPpc_{ct}$			**-0.001*** **			**-0.000** **			**-0.000*** **
			(0.000)			(0.000)			(0.000)
$PriceInf_{ct}$			**-1.200***			**0.229**			**-0.671**
			(0.648)			(0.353)			(0.482)
$MktCapGDP_{ct}$			**0.107*** **			**0.047** **			**0.035** **
			(0.025)			(0.019)			(0.017)
SIZE	**-0.298*** **	**-0.272** **	**-0.246***	**-0.272** **	**-0.246** **	**-0.241***	**-0.325*** **	**-0.325*** **	**-0.323*** **
	(0.112)	(0.117)	(0.126)	(0.112)	(0.120)	(0.125)	(0.102)	(0.103)	(0.109)
BM	**0.244**	**0.223**	**0.209**	**0.223**	**0.197**	**0.179**	**0.126**	**0.105**	**0.083**
	(0.262)	(0.255)	(0.254)	(0.258)	(0.245)	(0.240)	(0.245)	(0.240)	(0.232)
YIELD	**0.000**	**0.000**	**0.001*** **	**0.000**	**0.000**	**0.001*** **	**0.000***	**0.000***	**0.001*** **
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
RET2-3	**-0.398**	**-0.447**	**-0.744**	**-0.517**	**-0.497**	**-0.622**	**-0.457**	**-0.482**	**-0.616**
	(0.434)	(0.486)	(0.601)	(0.440)	(0.474)	(0.538)	(0.376)	(0.412)	(0.443)
RET4-6	**-0.045**	**-0.326**	**-0.473**	**-0.066**	**-0.231**	**-0.302**	**-0.072**	**-0.213**	**-0.257**
	(0.554)	(0.561)	(0.586)	(0.469)	(0.463)	(0.491)	(0.408)	(0.420)	(0.427)
RET7-12	**0.167**	**0.126**	**0.197**	**0.326**	**0.370**	**0.358**	**0.065**	**0.065**	**0.102**
	(0.451)	(0.523)	(0.487)	(0.343)	(0.364)	(0.370)	(0.334)	(0.343)	(0.341)
VOL	**0.158** **	**0.148***	**0.123**	**0.137***	**0.127**	**0.118**	**0.181*** **	**0.192*** **	**0.186*** **
	(0.077)	(0.085)	(0.086)	(0.078)	(0.087)	(0.086)	(0.061)	(0.066)	(0.068)
PRC	**0.149** **	**0.146***	**0.151***	**0.161***	**0.147***	**0.154**	**0.210** **	**0.212** **	**0.219** **
	(0.069)	(0.079)	(0.092)	(0.086)	(0.088)	(0.095)	(0.097)	(0.103)	(0.109)
Year-month fixed effects	included	included	included	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included	included	included	included
R^2	0.13	0.13	0.13	0.02	0.02	0.02	0.02	0.02	0.02
Number of obs.	2,608,146	2,400,861	2,283,051	2,551,638	2,400,734	2,283,051	2,607,984	2,400,749	2,282,962

Table 4 (Cont'd)

Panel B: Measuring labor market flexibility with EFW

This table reports the results of pooled panel regressions across countries:

$$R_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EFW_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EFW_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls_{cit} + \varepsilon_{cit},$$

where R_{cit} is the return for firm *i* in month *t*, either raw, market-adjusted, or industry-adjusted using the Fama and French (1997) 48-industry classification. BC_{cit} is a dummy variable that equals one if firm *i* has been included in the most recent BC list in country *c* prior to month *t*, and zero otherwise. EFW_{ct} is the labor market flexibility index based on the Fraser Institute's Economic Freedom of the World database described in Table 1, Panel B for country *c* at month *t*. $CountryControls_{ct}$ include the following country-level controls: *RuleofLaw* measures the rule of law from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997); *GDPg* measures GDP growth taken from the World Bank; *GDPpc* measures GDP per capita taken from the World Bank; *ADRI* measures the anti-director rights index corrected by Spamann (2010); *IDV* is Hofstede measure of cultural individualism; *PriceInf* measures the efficiency of a firm's stock markets constructed following Fernandes and Ferreira (2009); *MktCapGDP* is the stock market capitalization over GDP taken from the World Bank. $FirmControls_{cit}$ include the firm-level controls described in Table 3. We include country and year-month fixed effects, and winsorize stock returns at 0.5% in each tail. The regression constant is not reported for brevity. Standard errors, given in parentheses, are double clustered by country and year-month. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dependent variables		**Raw returns**			**Market-adjusted returns**			**Industry-adjusted returns**	
BC_{cit}	**0.608****	**-0.516***	**1.478**	**0.636****	**-0.571**	**1.855**	**0.600*****	**-0.361**	**3.015**
	(0.264)	(0.263)	(1.004)	(0.248)	(0.366)	(1.333)	(0.223)	(0.377)	(2.032)
$BC_{cit}*EFW_{ct}$		**0.145****	**0.309*****		**0.155****	**0.330*****		**0.123****	**0.313*****
		(0.057)	(0.081)		(0.063)	(0.076)		(0.062)	(0.111)
$BC_{cit}*RuleofLaw_c$			**-0.281*****			**-0.276*****			**-0.312****
			(0.096)			(0.083)			(0.139)
$BC_{cit}*GDPg_{ct}$			**-0.004**			**0.001**			**0.017**
			(0.066)			(0.063)			(0.050)
$BC_{cit}*GDPpc_{ct}$			**0.000**			**0.000**			**0.000**
			(0.000)			(0.000)			(0.000)
$BC_{cit}*ADRI_c$			**-0.050**			**-0.201**			**-0.400**
			(0.116)			(0.113)			(0.134)
$BC_{cit}*IDV_c$			**0.002**			**0.001**			**-0.004**
			(0.007)			(0.006)			(0.010)
$BC_{cit}*PriceInf_{ct}$			**0.061**			**-0.296**			**-0.457***
			(0.357)			(0.294)			(0.258)

$BC_{cit}*MktCapGDP_{ct}$			**-0.009**			**-0.005**			**-0.006**
			(0.009)			(0.008)			(0.007)
EFW_{ct}		**-0.816**	**-0.879**		**-0.159**	**0.071**		**-0.148**	**-0.112**
		(0.664)	(1.194)		(0.276)	(0.503)		(0.346)	(0.505)
$GDPg_{ct}$			**0.206***			**-0.082**			**-0.089**
			(0.119)			(0.107)			(0.106)
$GDPpc_{ct}$			**-0.001**			**-0.000**			**-0.000****
			(0.000)			(0.000)			(0.000)
$PriceInf_{ct}$			**-0.611**			**0.363**			**-0.303**
			(0.652)			(0.398)			(0.544)
$MktCapGDP_{ct}$			**0.076*****			**0.039*****			**0.026****
			(0.019)			(0.012)			(0.011)
SIZE	**-0.311****	**-0.300****	**-0.309*****	**-0.274****	**-0.272****	**-0.276****	**-0.316****	**-0.315****	**-0.341*****
	(0.123)	(0.126)	(0.120)	(0.124)	(0.123)	(0.127)	(0.126)	(0.125)	(0.121)
BM	**0.334**	**0.331**	**0.355**	**0.310**	**0.310**	**0.303**	**0.230**	**0.229**	**0.228**
	(0.280)	(0.280)	(0.302)	(0.272)	(0.272)	(0.277)	(0.256)	(0.256)	(0.264)
YIELD	**0.000**	**0.000**	**0.001*****	**0.000**	**0.000**	**0.001*****	**0.000**	**0.000**	**0.001*****
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
RET2-3	**-0.279**	**-0.289**	**-0.622**	**-0.473**	**-0.475**	**-0.621**	**-0.329**	**-0.330**	**-0.484**
	(0.541)	(0.543)	(0.605)	(0.532)	(0.533)	(0.587)	(0.484)	(0.484)	(0.509)
RET4-6	**-0.443**	**-0.464**	**-0.680**	**-0.472**	**-0.476**	**-0.588**	**-0.320**	**-0.324**	**-0.406**
	(0.719)	(0.713)	(0.691)	(0.642)	(0.641)	(0.653)	(0.536)	(0.533)	(0.543)
RET7-12	**0.220**	**0.189**	**0.301**	**0.380**	**0.374**	**0.389**	**0.096**	**0.091**	**0.131**
	(0.498)	(0.501)	(0.486)	(0.370)	(0.369)	(0.379)	(0.370)	(0.365)	(0.368)
VOL	**0.166***	**0.158***	**0.160****	**0.136**	**0.134**	**0.133**	**0.169****	**0.167****	**0.179****
	(0.086)	(0.088)	(0.081)	(0.088)	(0.088)	(0.087)	(0.079)	(0.079)	(0.076)
PRC	**0.128****	**0.129****	**0.144***	**0.138***	**0.138***	**0.140***	**0.183****	**0.183****	**0.195****
	(0.062)	(0.063)	(0.074)	(0.076)	(0.077)	(0.080)	(0.087)	(0.087)	(0.095)
Year-month fixed effects	included	included	included	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included	included	included	included
R^2	0.09	0.09	0.10	0.01	0.01	0.01	0.02	0.02	0.02
Number of obs.	2,251,334	2,251,334	2,058,667	2,195,782	2,195,782	2,058,667	2,251,209	2,251,209	2,058,565

Table 5
Tobin's Q across countries

This table reports results of pooled panel regressions across countries:

$$Q_{cit} \text{ or } Q_{cit+1} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times LMF_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 LMF_{ct} + \delta_2 Country($$
$$+ \delta_3 FirmControls2_{cit} + \varepsilon_{cit},$$

where Q_{cit} *or* Q_{cit+1} is industry-adjusted Tobin's Q for firm *i* in country *c* in year *t or t+1* at the st return compounding window, i.e. at the start of the month following list publication. Tobin's Q is (as the sum of book assets plus market equity, minus the sum of book equity plus balance shee taxes, all divided by book assets. Industry Tobin's Q is the median among non-BC firms. BC_{cit} is variable that equals one if firm *i* has been included in the most recent BC list in country *c* prior tc and zero otherwise. LMF_{ct} refers to our the labor market flexibility measures, *EPL* or *EFW,* as de Table 1, Panel B. $CountryControls_{ct}$ include the country-level controls described in $FirmControls2_{cit}$ include the following firm-level controls: *ROE* is the return on equity as mea income divided by book equity. *LBVA* is the log of book value of assets. *FROE*, *F2ROE*, and *F* the return on equity for the next three years. We include country and year-month fixed effects, and Tobin's Q at 0.5% in each tail. The regression constant is not reported for brevity. Standard errors parentheses, are double clustered by country and year-month. ***, **, and * indicate significance a 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	
Dependent variables			**Contemporaneous Industry-adjusted Tobin's Q**			
		EPL			**EFW**	
BC_{cit}	**0.839*****	**-3.356*****	**-0.993**	**0.684*****	**-0.063**	
	(0.148)	(0.810)	(1.176)	(0.110)	(0.217)	(
$BC_{cit}*LMF_{ct}$		**0.490*****	**0.157****		**0.095*****	**0**
		(0.094)	(0.072)		(0.020)	(
$BC_{cit}*RuleofLaw_c$			**0.085**			-
			(0.192)			(
$BC_{cit}*GDPg_{ct}$			**0.043*****			**(**
			(0.015)			(
$BC_{cit}*GDPpc_{ct}$			**-0.000**			-
			(0.000)			(
$BC_{cit}*ADRI_c$			**-0.105**			-
			(0.082)			(
$BC_{cit}*IDV_c$			**0.008**			**0**
			(0.006)			(
$BC_{cit}*PriceInf_{ct}$			**0.032**			**0.**
			(0.051)			(
$BC_{cit}*MktCapGDP_{ct}$			**0.002***			**-**
			(0.001)			(
LMF_{ct}		**-0.080**	**-0.134*****		**-0.048**	**-**
		(0.134)	(0.037)		(0.048)	(
$GDPg_{ct}$			**0.008**			**(**
			(0.007)			(
$GDPpc_{ct}$			**-0.000**			-
			(0.000)			(
$PriceInf_{ct}$			**0.010**			

			(0.027)			(0.024)
MktCapGDP$_{ct}$			**-0.002***			**-0.001**
			(0.001)			(0.001)
LBVA	**-0.001**	**-0.001**	**-0.000**	**-0.001**	**-0.001**	**-0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ROE	**-0.000**	**-0.000**	**-0.000**	**-0.000**	**-0.000**	**-0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FROE	**0.000*****	**0.000*****	**0.000*****	**0.000**	**0.000**	**0.001**
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)
F2ROE	**0.002**	**0.002**	**0.002**	**0.002**	**0.002**	**0.002**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
F3ROE	**0.001**	**0.001**	**0.002**	**0.001**	**0.001**	**0.001**
	(0.003)	(0.003)	(0.002)	(0.003)	(0.003)	(0.003)
Year-month fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
R^2	0.02	0.02	0.02	0.01	0.01	0.01
Number of obs.	109,032	102,057	97,884	94,144	94,144	89,383

Table 6
Operating performance across countries

Panel A: Measuring labor market flexibility with EPL: Industry-adjusted return on assets

This table reports results of the least absolute deviation regressions across countries:

$$ROA_{cit+j} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EPL_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EPL_{ct} + \delta_2 CountryControls_{ct} + \delta_3 BM_{cit} + \varepsilon_{cit},$$

where ROA_{cit+j} is the return on assets calculated as operating income before depreciation divided by book value of assets for firm i in country c in year $t+j$ (for $j \in \{1, 2\}$), and then industry adjusted. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EPL_{ct} is the employment protection legislation described in Table 1, Panel B. $CountryControls_{ct}$ include the country-level controls described in Table 4. BM is firm i's log book-to-market ratio at the previous year end. We include country and year fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and clustered by country. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variables		**One year ahead**			**Two years ahead**	
BC_{cit}	**0.037*** **	**-0.121*** **	**-0.048**	**0.028*** **	**-0.093*** **	**0.011**
	(0.007)	(0.037)	(0.069)	(0.004)	(0.026)	(0.071)
$BC_{cit}*EPL_{ct}$		**0.019*** **	**0.021*** **		**0.015*** **	**0.016*** **
		(0.005)	(0.004)		(0.003)	(0.004)
$BC_{cit}*RuleofLaw_c$			**-0.012** **			**-0.018*** **
			(0.006)			(0.005)
$BC_{cit}*GDPg_{ct}$			**0.001**			**-0.000**
			(0.001)			(0.001)
$BC_{cit}*GDPpc_{ct}$			**0.000*** **			**0.000*** **
			(0.000)			(0.000)
$BC_{cit}*ADRI_c$			**-0.009**			**-0.009**
			(0.007)			(0.008)
$BC_{cit}*IDV_c$			**-0.000**			**-0.000**
			(0.000)			(0.000)
$BC_{cit}*PriceInf_{ct}$			**0.003**			**-0.003**
			(0.003)			(0.004)
$BC_{cit}*MktCapGDP_{ct}$			**-0.000**			**-0.000**
			(0.000)			(0.000)
EPL_{ct}		**0.008**	**0.011*** **		**0.011***	**0.016*** **
		(0.005)	(0.003)		(0.006)	(0.005)
$GDPg_{ct}$			**0.000**			**-0.000**
			(0.000)			(0.000)
$GDPpc_{ct}$			**-0.000**			**0.000**
			(0.000)			(0.000)
$PriceInf_{ct}$			**0.002***			**0.002**
			(0.001)			(0.002)
$MktCapGDP_{ct}$			**-0.000*** **			**-0.000** **
			(0.000)			(0.000)
BM	**-0.011*** **	**-0.011*** **	**-0.011*** **	**-0.014*** **	**-0.014*** **	**-0.015*** **
	(0.001)	(0.001)	(0.001)	(0.002)	(0.003)	(0.003)
Year fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	135,541	127,760	119,504	94,274	86,818	80,767

Table 6 (Cont'd)

Panel B: Measuring labor market flexibility with EFW: Industry-adjusted return on assets

This table reports results of the least absolute deviation regressions across countries:

$$ROA_{cit+j} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EFW_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EFW_{ct} + \delta_2 CountryControls_{ct} + \delta_3 BM_{cit} + \varepsilon_{cit},$$

where ROA_{cit+j} is the return on assets calculated as operating income before depreciation divided by book value of assets for firm i in country c in year $t+j$ (for $j \in \{1, 2\}$), and then industry adjusted. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EFW_{ct} is the labor market flexibility index based on the Fraser Institute's Economic Freedom of the World database described in Table 1, Panel B. $CountryControls_{ct}$ include the country-level controls described in Table 4. BM is firm i's log book-to-market ratio at the previous year end. We include country and year fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and clustered by country. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Dependent variables		**One year ahead**			**Two years ahead**	
BC BC_{cit}	**0.034*****	**-0.009**	**0.085*****	**0.027*****	**-0.012**	**0.106**
	(0.006)	(0.013)	(0.026)	(0.004)	(0.022)	(0.087)
$BC_{cit}*EFW_{ct}$		**0.005*****	**0.007****		**0.005****	**0.006*****
		(0.002)	(0.003)		(0.002)	(0.002)
$BC_{cit}*RuleofLaw_{c}$			**-0.016*****			**-0.019*****
			(0.004)			(0.007)
$BC_{cit}*GDPg_{ct}$			**0.001**			**-0.000**
			(0.002)			(0.001)
$BC_{cit}*GDPpc_{ct}$			**0.000****			**0.000*****
			(0.000)			(0.000)
$BC_{cit}*ADRI_{c}$			**-0.006**			**-0.007**
			(0.004)			(0.009)
$BC_{cit}*IDV_{c}$			**0.000**			**-0.000**
			(0.000)			(0.000)
$BC_{cit}*PriceInf_{ct}$			**0.017****			**0.006**
			(0.008)			(0.007)
$BC_{cit}*MktCapGDP_{ct}$			**-0.000****			**-0.000**
			(0.000)			(0.000)
EFW_{ct}		**-0.001**	**-0.001***		**-0.001**	**-0.000**
		(0.001)	(0.000)		(0.001)	(0.001)
$GDPg_{ct}$			**0.000**			**-0.000**
			(0.000)			(0.000)
$GDPpc_{ct}$			**-0.000**			**0.000**
			(0.000)			(0.000)
$PriceInf_{ct}$			**0.002**			**0.002**
			(0.001)			(0.002)
$MktCapGDP_{ct}$			**-0.000*****			**-0.000*****
			(0.000)			(0.000)
BM	**-0.012*****	**-0.012*****	**-0.012*****	**-0.014*****	**-0.014*****	**-0.014*****
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.003)
Year fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	121,800	121,800	112,746	87,706	87,706	80,926

Table 6 (Cont'd)

Panel C: Measuring labor market flexibility with EPL: Industry-adjusted net profit margin

This table reports results of the least absolute deviation regressions across countries:

$$NPM_{cit+j} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EPL_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EPL_{ct} + \delta_2 CountryControls_{ct} + \delta_3 BM_{cit} + \varepsilon_{cit},$$

where NPM_{cit+j} is the net profit margin calculated as operating income before depreciation divided by sales for firm i in country c in year $t+j$ (for $j \in \{1, 2\}$), and then industry adjusted. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EPL_{ct} is the employment protection legislation described in Table 1, Panel B. $CountryControls_{ct}$ include the country-level controls described in Table 4. BM is firm i's log book-to-market ratio at the previous year end. We include country and year fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and clustered by country. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Dependent variables		**One year ahead**			**Two years ahead**	
BC_{cit}	**0.036*** **	**-0.147** **	**-0.006**	**0.031*** **	**-0.165*** **	**-0.040**
	(0.011)	(0.064)	(0.048)	(0.007)	(0.057)	(0.055)
BC_{cit}*EPL_{ct}		**0.022*** **	**0.014***		**0.024*** **	**0.026*** **
		(0.008)	(0.008)		(0.007)	(0.006)
BC_{cit}*$RuleofLaw_c$			**-0.018*** **			**-0.035*** **
			(0.004)			(0.004)
BC_{cit}*$GDPg_{ct}$			**0.002**			**-0.001**
			(0.001)			(0.002)
BC_{cit}*$GDPpc_{ct}$			**0.000*** **			**0.000*** **
			(0.000)			(0.000)
BC_{cit}*$ADRI_c$			**-0.007**			**-0.006**
			(0.005)			(0.005)
BC_{cit}*IDV_c			**0.000** **			**0.001*** **
			(0.000)			(0.000)
BC_{cit}*$PriceInf_{ct}$			**0.007**			**-0.005**
			(0.008)			(0.006)
BC_{cit}*$MktCapGDP_{ct}$			**-0.000*** **			**-0.000*** **
			(0.000)			(0.000)
EPL_{ct}		**0.011**	**0.012**		**0.012** **	**0.014*** **
		(0.009)	(0.008)		(0.005)	(0.005)
$GDPg_{ct}$			**-0.000**			**-0.000**
			(0.000)			(0.000)
$GDPpc_{ct}$			**-0.000**			**0.000**
			(0.000)			(0.000)
$PriceInf_{ct}$			**0.001**			**0.001**
			(0.001)			(0.003)
$MktCapGDP_{ct}$			**-0.000*** **			**-0.000** **
			(0.000)			(0.000)
BM	**-0.011*** **	**-0.011*** **	**-0.012*** **	**-0.012*** **	**-0.012*** **	**-0.013*** **
	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.004)
Year fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	130,948	123,240	115,291	90,836	83,453	77,588

Table 6 (Cont'd)

Panel D: Measuring labor market flexibility with EFW: Industry-adjusted net profit margin

This table reports results of the least absolute deviation regressions across countries:

$$NPM_{cit+j} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EFW_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EFW_{ct} + \delta_2 CountryControls_{ct} + \delta_3 BM_{cit} + \varepsilon_{cit},$$

where NPM_{cit+j} is the net profit margin calculated as operating income before depreciation divided by sales for firm *i* in country *c* in year *t+j* (for $j \in \{1, 2\}$), and then industry adjusted. BC_{cit} is a dummy variable that equals one if firm *i* has been included in the most recent BC list in country *c* prior to month *t*, and zero otherwise. EFW_{ct} is the labor market flexibility index based on the Fraser Institute's Economic Freedom of the World database described in Table 1, Panel B. $CountryControls_{ct}$ include the country-level controls described in Table 4. *BM* is the log of firm *i*'s book-to-market ratio at the previous year end. We include country and year fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and clustered by country. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Dependent variables		**One year ahead**			**Two years ahead**	
BC_{cit}	**0.036*** **	**-0.019**	**0.040**	**0.035*** **	**-0.040**	**0.085*** **
	(0.013)	(0.016)	(0.030)	(0.013)	(0.026)	(0.032)
$BC_{cit}*EFW_{ct}$		**0.008*** **	**0.002**		**0.010** **	**0.003* **
		(0.003)	(0.003)		(0.005)	(0.002)
$BC_{cit}*RuleofLaw_c$			**-0.010**			**-0.027*** **
			(0.007)			(0.005)
$BC_{cit}*GDPg_{ct}$			**0.002**			**-0.001**
			(0.001)			(0.002)
$BC_{cit}*GDPpc_{ct}$			**0.000** **			**0.000*** **
			(0.000)			(0.000)
$BC_{cit}*ADRI_c$			**-0.005**			**-0.004**
			(0.003)			(0.003)
$BC_{cit}*IDV_c$			**0.000* **			**0.001*** **
			(0.000)			(0.000)
$BC_{cit}*PriceInf_{ct}$			**0.013**			**0.008**
			(0.010)			(0.008)
$BC_{cit}*MktCapGDP_{ct}$			**-0.000**			**0.000**
			(0.000)			(0.000)
EFW_{ct}		**-0.001**	**-0.001* **		**-0.001**	**0.000**
		(0.001)	(0.001)		(0.001)	(0.001)
$GDPg_{ct}$			**-0.000**			**-0.000**
			(0.000)			(0.000)
$GDPpc_{ct}$			**-0.000* **			**0.000**
			(0.000)			(0.000)
$PriceInf_{ct}$			**0.001**			**0.000**
			(0.002)			(0.002)
$MktCapGDP_{ct}$			**-0.000** **			**-0.000* **
			(0.000)			(0.000)
BM	**-0.012*** **	**-0.012*** **	**-0.012*** **	**-0.012*** **	**-0.012*** **	**-0.013*** **
	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)
Year fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	130,948	123,240	115,291	84,319	84,319	77,741

Table 7
Earnings surprises across countries

Panel A: Measuring labor market flexibility with EPL

This table reports the results of pooled panel regressions across countries:

$$Surprise_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EPL_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EPL_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls3_{cit} + \varepsilon_{cit},$$

where $Surprise_{cit}$ is the one- or two-year earnings surprise for firm i in country c in year t. The one- (two)-year earnings surprise is the actual earnings per share for the fiscal year ending in year t minus the median I/B/E/S analyst forecast, deflated by the stock price two months prior. The I/B/E/S consensus forecast is taken 8 (20) months prior to the end of the forecast period. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EPL_{ct} is the employment protection legislation described in Table 1, Panel B for country c at month t. $CountryControls_{ct}$ include the country-level controls described in Table 4. $FirmControls3_{cit}$ include *BM* which is firm i's log book-to-market ratio and *SIZE* which is firm i's log market capitalization, both calculated one-year (two-year) prior for one-year (two-year) earnings surprises. We include country and yea-month fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and double clustered by country and year-month. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variables	**One-year earnings surprises**			**Two-year earnings surprises**		
BC_{cit}	**1.016**	**1.147**	**0.871**	**4.320**	**3.823**	**3.482**
	(1.241)	(1.300)	(1.264)	(3.064)	(3.303)	(3.294)
BC_{cit}*EPL_{ct}	**0.218*****	**0.225****	**0.273****	**0.632****	**0.791*****	**0.848*****
	(0.080)	(0.109)	(0.108)	(0.251)	(0.276)	(0.275)
BC_{cit}*$RuleofLaw_c$	**-0.012**	**-0.064**	**-0.090**	**-0.558*****	**-0.598****	**-0.630*****
	(0.199)	(0.201)	(0.203)	(0.177)	(0.242)	(0.243)
BC_{cit}*$GDPg_{ct}$	**0.080*****	**0.068*****	**0.073*****	**0.054**	**0.046**	**0.049**
	(0.014)	(0.016)	(0.018)	(0.096)	(0.110)	(0.110)
BC_{cit}*$GDPpc_{ct}$	**0.000**	**0.000**	**0.000**	**0.000****	**0.000***	**0.000****
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
BC_{cit}*$ADRI_c$	**-0.404*****	**-0.406*****	**-0.387*****	**-0.844*****	**-0.886*****	**-0.867*****
	(0.081)	(0.077)	(0.074)	(0.230)	(0.283)	(0.274)
BC_{cit}*IDV_c	**-0.019**	**-0.019**	**-0.023***	**-0.043****	**-0.047****	**-0.051*****
	(0.014)	(0.013)	(0.013)	(0.017)	(0.019)	(0.019)
BC_{cit}*$PriceInf_{ct}$	**-0.204**	**-0.264***	**-0.257***	**-0.290***	**-0.223**	**-0.231**
	(0.143)	(0.143)	(0.139)	(0.164)	(0.210)	(0.210)
BC_{cit}*$MktCapGDP_{ct}$	**0.003**	**0.004**	**0.004**	**0.006**	**0.006**	**0.006**
	(0.003)	(0.003)	(0.003)	(0.005)	(0.006)	(0.006)
EPL_{ct}	**1.035**	**1.314**	**1.344**	**0.682***	**0.636**	**0.630**
	(0.755)	(1.008)	(1.026)	(0.403)	(0.477)	(0.478)
$GDPg_{ct}$	**0.095*****	**0.105*****	**0.101*****	**0.193*****	**0.193*****	**0.194*****
	(0.023)	(0.025)	(0.025)	(0.044)	(0.045)	(0.046)
$GDPpc_{ct}$	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$PriceInf_{ct}$	**0.201****	**0.188****	**0.178****	**0.168***	**0.145**	**0.150**
	(0.085)	(0.076)	(0.079)	(0.087)	(0.093)	(0.095)

$MktCapGDP_{ct}$	**-0.009**	**-0.008**	**-0.008**	**-0.011***	**-0.012***	**-0.012***
	(0.007)	(0.007)	(0.007)	(0.006)	(0.006)	(0.006)
BM		**-0.046*****	**-0.018**		**0.054*****	**0.078*****
		(0.008)	(0.013)		(0.011)	(0.013)
SIZE			**0.093*****			**0.081*****
			(0.017)			(0.019)
Year-month fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	62,571	58,307	58,307	54,423	46,626	46,626

Table 7 (Cont'd)

Panel B: Measuring labor market flexibility with EFW

This table reports the results of pooled panel regressions across countries:

$$Surprise_{cit} = \beta_0 + \beta_1 BC_{cit} + \beta_2 BC_{cit} \times EFW_{ct} + \beta_3 BC_{cit} \times CountryControls_{ct} + \delta_1 EFW_{ct} + \delta_2 CountryControls_{ct} + \delta_3 FirmControls3_{cit} + \varepsilon_{cit},$$

where $Surprise_{cit}$ is the one- or two-year earnings surprise for firm i in country c in year t. The one- (two)-year earnings surprise is the actual earnings per share for the fiscal year ending in year t minus the median I/B/E/S analyst forecast, deflated by the stock price two months prior. The I/B/E/S consensus forecast is taken 8 (20) months prior to the end of the forecast period. BC_{cit} is a dummy variable that equals one if firm i has been included in the most recent BC list in country c prior to month t, and zero otherwise. EFW_{ct} is the labor market flexibility index based on the Fraser Institute's Economic Freedom of the World database described in Table 1, Panel B for country c at month t. $CountryControls_{ct}$ include the country-level controls described in Table 4. $FirmControls3_{cit}$ include *BM* which is firm i's log book-to-market ratio and *SIZE* which is firm i's log market capitalization, both calculated one-year (two-year) prior for one-year (two-year) earnings surprises. We include country and year-month fixed effects. The regression constant is not reported for brevity. Standard errors, given in parentheses, are robust to heteroscedasticity and misspecification, and double clustered by country and year-month. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. The sample period is September 1997 to December 2013.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variables	**One-year earnings surprises**			**Two-year earnings surprises**		
BC_{cit}	**1.942*** **	**2.236*** **	**2.171*** **	**6.925*** **	**6.966*** **	**6.884*** **
	(0.559)	(0.583)	(0.580)	(1.624)	(1.739)	(1.675)
$BC_{cit}*EFW_{ct}$	**0.017**	**0.059**	**0.081**	**0.151**	**0.220**	**0.240**
	(0.064)	(0.078)	(0.069)	(0.158)	(0.172)	(0.167)
$BC_{cit}*RuleofLaw_{c}$	**-0.020**	**-0.183**	**-0.194**	**-0.389** **	**-0.288**	**-0.301** **
	(0.142)	(0.176)	(0.173)	(0.162)	(0.200)	(0.182)
$BC_{cit}*GDPg_{ct}$	**0.093** **	**0.090** **	**0.095** **	**-0.003**	**-0.003**	**-0.001**
	(0.045)	(0.050)	(0.052)	(0.091)	(0.101)	(0.102)
$BC_{cit}*GDPpc_{ct}$	**-0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$BC_{cit}*ADRI_{c}$	**-0.260**	**-0.261**	**-0.243**	**-0.770*** **	**-0.906*** **	**-0.888*** **
	(0.175)	(0.178)	(0.177)	(0.249)	(0.320)	(0.314)
$BC_{cit}*IDV_{c}$	**-0.008**	**-0.007**	**-0.012**	**-0.044*** **	**-0.052*** **	**-0.056*** **
	(0.010)	(0.009)	(0.009)	(0.017)	(0.019)	(0.019)
$BC_{cit}*PriceInf_{ct}$	**-0.064**	**-0.216**	**-0.194**	**-0.172**	**-0.145**	**-0.136**
	(0.141)	(0.182)	(0.170)	(0.221)	(0.239)	(0.236)
$BC_{cit}*MktCapGDP_{ct}$	**0.003**	**0.004**	**0.004**	**0.009**	**0.011**	**0.011**
	(0.005)	(0.005)	(0.005)	(0.008)	(0.009)	(0.009)
EFW_{ct}	**-0.149**	**-0.191** **	**-0.193** **	**-0.184** **	**-0.214*** **	**-0.214*** **
	(0.113)	(0.110)	(0.108)	(0.078)	(0.073)	(0.074)
$GDPg_{ct}$	**0.083*** **	**0.092*** **	**0.088*** **	**0.185*** **	**0.186*** **	**0.187*** **
	(0.024)	(0.026)	(0.025)	(0.036)	(0.037)	(0.038)
$GDPpc_{ct}$	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$PriceInf_{ct}$	**0.090**	**0.054**	**0.045**	**0.113** **	**0.082** **	**0.088** **
	(0.077)	(0.072)	(0.073)	(0.059)	(0.047)	(0.051)
$MktCapGDP_{ct}$	**-0.004**	**-0.003**	**-0.003**	**-0.007**	**-0.008**	**-0.008**

	(0.007)	(0.008)	(0.008)	(0.007)	(0.007)	(0.007)
BM		**-0.034*****	**-0.007**		**0.042*****	**0.066*****
		(0.010)	(0.015)		(0.014)	(0.016)
SIZE			**0.099*****			**0.084*****
			(0.018)			(0.023)
Year-month fixed effects	included	included	included	included	included	included
Country fixed effects	included	included	included	included	included	included
Number of obs.	49,420	47,401	47,401	43,500	40,657	40,657