McBASSI & company

RESEARCH BRIEF

WHAT DRIVES ROE FOR BANKS?

INTRODUCTION

What differentiates top-performing banks from others?
How employees rate the bank as an employer.

In particular, those banks ranked higher by their employees as a place to work have higher returns on equity (ROE) and larger year-over-year increases in ROE relative to their peers in lower-ranked banking institutions. This holds true for employee ratings overall, as well as for multiple aspects of each organization's work environment: senior management, career opportunities, culture/values, compensation/benefits, and work/life balance.

We examined financial metrics and employee ratings for the 200 largest banks in the United States.[1] Financial metrics came from publicly-available 2018 data compiled by the Federal Deposit Insurance Corporation (FDIC), a US government corporation the insures depositors in US commercial banks and savings banks. Employee ratings came from Glassdoor, an online website where employees can provide anonymous reviews of their employers.

We compared financial measures[2] for those 25 percent of banks with the highest employee ratings on the measures listed above (the top quartile) versus those for the 25 percent of banks with the lowest ratings (bottom quartile).[3] For context, the banks in the top quartile for overall Glassdoor employee scores had a mean score of 3.9 (on a 1-to-5 scale), compared to the bottom quartile, which had a mean Glassdoor score of 2.8.

RESULTS

We found that ROE was notably higher and that ROE had increased at a higher rate since the previous year for those banks with higher Glassdoor scores on each aspect of work environment rated by employees (see table below).[4] Among the banks in the top 25 percent on overall Glassdoor score, average ROE was 2.9 percentage points higher than those in the bottom 25 percent overall (an average of 12.8 percent versus 9.9 percent).

ROE was also higher for banks in the top quartile in each of the employee rating subcategories (and was at least 2 percentage points higher in 4 of the 5 subcategories). Increases in ROE between 2017 and 2018 were

[1] Among the 200 largest banks (ranked by total assets by the FDIC), we used all US-based banks with at least 25 reviews on Glassdoor, which resulted in a research dataset of 154 banks.

[2] We examined return on equity, assets per employee, and (for publicly-traded companies) stock return.

[3] To ensure banks would be ranked only against other similar-type banks, we ranked banks' Glassdoor scores separately within three charter types (nationally-chartered, state-chartered Federal Reserve member, and state-chartered non-member). (The research findings were quite similar, however, even when rankings against the entire database were used.)

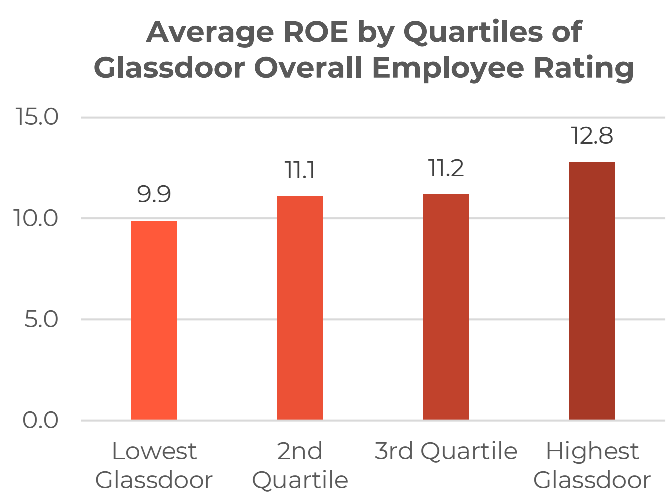
[4] It is possible, of course, that some portion of this relationship is due to banks with better financials being in a stronger position to improve employee satisfaction. There is a large and growing research literature across a variety of industries and financial metrics that shows that organizations with more satisfied employees have stronger subsequent financial results. As additional years of data become available, we will supplement our analysis by estimating the extent to which employee satisfaction predicts future financial performance of banks.

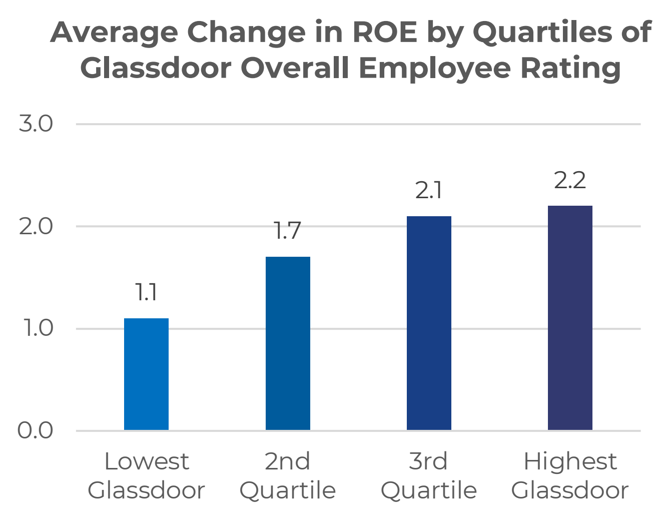
higher in the top quartile of each employee rating subcategory as well. Full details are in the table below.[5] Those differences marked with asterisks are statistically-significantly different at a confidence level of 95 percent or higher.

	Return on equity (ROE), June 2018			1-Year Percentage Point Change in ROE		
	Top 25% Glassdoor	Bottom 25% Glassdoor	Difference	Top 25% Glassdoor	Bottom 25% Glassdoor	Difference
Overall	12.8	9.9	2.9*	2.2	1.1	1.1*
Senior management	12.8	9.9	2.9*	2.3	1.1	1.2*
Career opportunities	12.6	10.3	2.3*	2.3	1.1	1.2*
Culture/values	12.5	10.3	2.2*	2.3	1.0	1.3*
Compensation/benefits	12.9	10.8	2.1*	2.3	1.5	0.8
Work/life balance	11.9	10.9	1.0	1.9	1.6	0.3

- Statistically-significant difference (95%+ confidence level)

These relationships can be seen graphically in the two figures below (which also include data on the two middle quartiles).





IMPLICATIONS

Banks have long known their success is particularly dependent on their customer-facing employees. Banks looking to improve their ROE and financial performance generally must actively seek to develop a workforce that is fully engaged, satisfied, and committed to the organization. This means taking specific steps to improve the quality of employee management, employee career opportunities, workplace culture, and other factors that earn employees' loyalty and best efforts.

Those banks successful in pursuing this strategy can expect to develop highly-engaged employees who will serve effectively as ambassadors for the bank. Unsuccessful banks, on the other hand, will find themselves falling further behind in the ultra-competitive financial services marketplace.

[5] Assets per employee were also higher for banks in the top 25 percent of each Glassdoor employee rating category versus those in the bottom 25 percent. There was no clear pattern of results for stock returns or for 1-year changes in assets per employee.