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Turning the "S" in ESG into Alpha: Organizational Health, Human Capital, and Alpha Potential

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Abstract

This paper positions Organizational Health (OH) as an underpriced intangible asset that drives superior firm performance. Defined as a firm's operational capacity to align, execute, and self-renew, OH enhances human-capital productivity. Using external OH proxies such as "Great Place to Work" rankings and McKinsey & Company's Organizational Health Index, the paper finds a measurable OH premium. Firms in the top quartile of OH deliver, on average, three times higher Total Shareholder Return (TSR) than those in the bottom quartile and exhibit lower employee turnover, resulting in reduced depreciation of firm-specific human capital. High-OH firms also demonstrate a 4.0 % higher ROIC over a three-year horizon, trade at a higher Tobin's Q ratio, and generate superior stock returns, confirming that markets capitalize OH as an intangible asset. Organizational Health is a causal driver of Total Factor Productivity creation. For boards, managers, and institutional investors, OH should be treated as an important KPI—a leading indicator of long-term value rather than a soft factor. The paper calls for future research to develop causal models that quantify the incremental contribution of OH to firm-level performance and valuation.

Keywords: Organizational Health (OH), Human Capital, ESG (Social), Return on Invested Capital (ROIC), Great Places to Work.

Introduction

Unclear management and shifting strategic goals—often the byproduct of shorter strategy cycles and recurring restructurings—gradually erode Organizational Health. As priorities shift, past strategies remain unexecuted, promised projects are abandoned, and employees are repeatedly redeployed. As a result, agency costs rise, execution slows, and firm-specific human capital begins to depreciate. Consequently, disengagement spreads, turnover increases, and tacit knowledge drains from the organization, leaving human potential underutilized. Ultimately, this translates into weaker ROIC, lower productivity, and workforce reductions—demonstrating that the "S" in ESG is fundamentally operational rather than cosmetic.

Organizational Health is a differentiated "S" signal that bridges human capital and financial performance. Traditional ESG frameworks often treat the Social pillar as a catch-all, but MSCI's methodology already embeds Human Capital Development in "Key Issues." [1]. MSCI indexes already integrate ESG ratings into portfolio construction to assess resiliency versus industry-specific sustainability risks [2]. This paper examines investable proxies and an OH factor model.

Organizational Health is distinct from organizational culture [3]. Organizational Health, however, may be of high interest to managers and institutional investors, as evidence is emerging of links to performance and total shareholder returns. Therefore, understanding OH as a strategic rather than merely a cultural factor provides a stronger analytical lens for investors, boards, and policymakers—one that connects internal organizational dynamics directly to long-term value creation, resilience, and risk mitigation. Fund managers pursuing outperformance through active stock selection and robust investment frameworks may start to treat human capital and organizational health as core, measurable sources of sustainable alpha.

Concept & Framework: What Organizational Health Is and Why It Creates Value

Organizational Health as the Multiplier for Human Capital and Execution

While traditional financial analysis focuses heavily on tangible assets and market positioning, peer analysis of operating margins and cash flows, a comprehensive understanding of long-term value creation must incorporate a company's intangible assets [4]. Corporate performance is increasingly constrained by internal inefficiency, not just market forces. Traditional analysis overlooks intangibles. OH—the synchronization of strategy, culture, and execution—reduces friction, improves Total Factor Productivity (TFP), and justifies valuation premiums. Strong OH firms typically show higher asset utilization and more resilient multiples [4, 5].

OH amplifies human capital. While growth accounting focuses on labor quantity and education, OH increases effective deployment. Higher retention slows HC depreciation, preserves training value, and raises effective labor quality.

Without OH, even strong strategies are undermined by friction—turnover, silos, weak communication, and political costs. This misalignment erodes capacity and creates measurable execution losses [6]. For investors, such inefficiency lowers returns on all capital. McKinsey's Organizational Health Index (OHI) provides a structured framework for diagnosing and improving OH [7].

Empirical evidence shows that investing in alignment and cohesion—core to OH—is an overlooked path to durable returns. OH functions as a key element of governance and control. Globally, human capital drives economic growth and competitive advantage, reinforcing why investors should treat workforce quality as a strategic asset [8, 9].

Research Questions and Objectives

To validate these arguments, the following research objectives and questions frame the empirical investigation.

Research Objectives

Measure Organizational Health: To test whether public data such as Great Place to Work rankings, worker scores, and employee turnover can reliably indicate a company's level of Organizational Health.

Explain How OH Drives Performance: To examine how strong Organizational Health improves results by reducing turnover and internal friction, leading to higher productivity and stronger financial performance.

Show How OH Affects Market Value: To find out whether companies with strong Organizational Health earn higher returns, enjoy a valuation premium, and can be tracked through simple, rules-based investment strategies.

Research Questions

Measurement: Do public third-party proxies for Organizational Health (e.g., Great Place to Work rankings, employee-sentiment and disclosed turnover) capture a common OH construct that is distinct from generic culture/ESG composites?

Mechanism → Performance: To what extent do reduced turnover and agency costs mediate the relationship between higher OH and firm-level outcomes (TFP and ROIC)?

Market Pricing & Investability: Is there a persistent "OH premium" reflected in abnormal returns, higher Tobin's Q, and lower downside risk—and can a transparent, rules-based index built from public OH proxies replicate these payoffs comparably to active OH strategies?

Defining and Quantifying Organizational Health: Mitigating Agency Costs

Organizational Health is distinct from culture. Culture fosters shared norms and motivation, while OH provides the operational structures—alignment, execution, self-renewal—that turn motivation into results [3, 10, 11]. Clear governance, strong control systems, and accountability reduce execution risk and internal friction.

OH is rooted in systems that govern behavior: clear governance, disciplined control mechanisms, and consistent accountability. Addressing core dysfunctions—lack of trust, conflict avoidance, weak commitment, blurred accountability, and poor results focus—frees resources for productive work instead of internal politics [3].

Dysfunction has a clear financial footprint. High attrition accelerates depreciation of firm-specific human capital and drains institutional knowledge [12]. Replacing employees costs 0.5–2× annual salary, plus lost productivity. This creates a self-reinforcing cycle of stress, morale decline, and further turnover [13].

Human Capital, Competitive Advantage, and Organizational Health

This section details how human capital drives competitive advantage. It covers human capital management strategies, defining organizational knowledge, and analyzing how Organizational Health (OH) investment reduces risk, lowers turnover, and affects market valuation.

Human capital is generally defined as the sum of innate and acquired knowledge, skills, abilities, and experiences possessed by individuals. In a business context, it is considered an asset, and it is the human factor that provides an organization with its distinctive character. This element includes an employee's intelligence, expertise, personal energy, and capacity for learning and innovation.

Economically, human capital is central to Total Factor Productivity and both extensive and intensive growth [14]. Research by Joshi (2012) highlights how talent development, fair compensation, and supportive work environments reduce turnover and sustain high performance [15].

To translate human capital into durable advantage, firms must harness knowledge—turning information and human potential into performance. Frameworks like Balanced Scorecards and knowledge KPIs help measure and leverage these intangible assets [16].

Mechanisms: From Organizational Health to ROIC and Valuation.

Employee Turnover and Return on Invested Human Capital

By minimizing employee turnover and internal friction, OH ensures that larger shares of invested capital in HC (e.g., wages, training costs) translates into productive capacity rather than getting consumed by recruitment and onboarding overhead. This is the mechanism through which OH drives superior firm-level TFP: it acts as an investment that maximizes the utilization rate and productivity of the HC stock, pushing it closer toward maximum potential output.

Moreover, lower attrition stabilizes tacit knowledge flows, protects firm-specific skills, and strengthens team-based complementarities, creating compounding productivity effects over time. This retention effect raises marginal returns on each additional dollar invested in human capital and improves forecastability of operational outcomes. The efficiency gain sits outside conventional factor inputs. Higher labor efficiency appears as an increase in TFP. Thus, OH is a capital allocation strategy that yields a higher return on human capital investment.

High employee turnover clearly weakens company performance. A meta-analysis of over 300,000 organisations found that higher turnover rates are significantly negatively correlated with organisational performance. Turnover is a symptom of poor organizational health, and a one-standard-deviation rise in turnover is linked to about a 0.15-standard-deviation fall in overall organizational performance, according to the meta-analysis [17].

Link to ROIC

A direct and material financial implication of reduced turnover and operational friction is an improvement in Return on Invested Capital (ROIC). ROIC measures the return generated from the total capital deployed by the firm: ROIC=NOPAT/Invested Capital, where NOPAT is Net Operating Profit After Tax.

Elevated employee turnover directly increases the cost base (operating expenses for recruitment and training) and often reduces top-line revenue due to lost productivity and customer service degradation during the vacancy period. Both effects negatively impact the ROIC ratio's numerator (NOPAT). By stabilizing its workforce and enhancing operational efficiency, thereby allowing for clearer strategic focus, a high-OH firm reduces this pervasive drag on invested capital, translating directly into higher, more consistent ROIC [18, 19].

As investor and strategist Michael Mauboussin notes, sustained ROIC above the cost of capital is the single most reliable indicator of value creation over time [20]. As Charlie Munger — the late investor and Berkshire Hathaway vice chairman, widely regarded as one of the most disciplined capital allocators of the modern era — observed: “Over the long term, it’s hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years … you’re not going to make much different than a 6% return … Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you’ll end up with a fine result” [21]. Thus, Munger frames ROIC as a core signal of investor value creation, if you permit the company to compound through long holding periods.

Investors closely track ROIC durability because it reflects a firm’s competitive advantage, management quality, and capital discipline [20]. Again, such attributes are reinforced by high organizational health. As a result, improvements in OH expand NOPAT and lower effective capital intensity, lifting ROIC via both levers and reinforcing the valuation premium observed in markets.

In fact, one study focusing on companies with superior practices in employee commitment found that these firms were associated with about 4.0% higher ROIC on an absolute basis over a three-year horizon compared to their lower-performing counterparts [18]. This finding validates the thesis that effective management of the social and organizational infrastructure is a powerful determinant of asset utilization efficiency.

The Market's Capitalization of Organizational Health: The Tobin’s Q Premium

This superior operational performance, reflected in higher ROIC, directly influences market valuation through the Tobin’s Q (5): market value / replacement cost. A Q ratio greater than one implies that the market values the firm’s expected future profitability beyond its current book value, effectively capitalizing its intangible assets.

Firms with robust organizational capital often trade at a higher Tobin’s Q ratio (10), as the market recognizes that low operational friction and high execution fidelity will allow the company to successfully exploit future growth opportunities. This premium reflects the market's anticipation of superior future profitability. The company’s sustained growth stemming from the firm's efficient, friction-minimized operational structure, which consistently supports a high ROIC.

In essence, the market does not merely observe current profit ratios, cash flows and ROIC levels; it is the discounted cash flows into an uncertain future that matter. Here, stability, reduced agency costs and superior execution capability that high OH promises can function as incremental information for the analysts. Empirical studies use third-party assessments (e.g., Great Place to Work) as externally validated proxies for high OH and Organizational Capital. The data reveal a consistent, financially significant “Culture Premium” in capital markets.

Table 1: Conceptual Building Blocks of the Organizational Health Thesis

Key Concept	Definition / Description	Function / Relevance
Organizational Health (OH)	The firm's operational capacity to align, execute, and self-renew, distinct from culture. It focuses on governance, management control systems, and accountability structures.	Reduces agency costs, operational friction, and execution risk. Acts as a proximal driver of productivity and financial performance.
Great Place to Work™	An independent, research-based certification and ranking system assessing workplace trust, engagement, and employee experience across industries and regions. It provides standardized, comparable data on organizational culture and employee sentiment.	Serves as a reliable external proxy for Organizational Health (OH). High GPTW-certified firms exhibit lower turnover, stronger engagement, and superior financial performance—making GPTW rankings a practical screening tool for investors assessing human-capital quality.
Agency Costs	Inefficiencies arising from misaligned incentives, shirking, or internal conflict between principals and agents.	High OH mitigates agency costs through clear accountability, trust, and governance — improving execution fidelity.
Human Capital (HC)	The accumulated stock of knowledge, skills, abilities, experience, and innovative capacity embodied in employees, forming a key source of organizational value and learning.	Drives firm productivity, innovation, and competitive advantage, supporting long-term sustainability and growth; strongly linked to the quality and strength of Organizational Health (OH).
Return on Invested Capital (ROIC)	ROIC measures a firm's capital efficiency and value creation. It is calculated as: ROIC = NOPAT / Invested Capital, where NOPAT = Net Operating Profit After Tax.	High organizational health increases ROIC by reducing turnover costs, stabilizing operations, and improving managerial focus, leading to more consistent and efficient capital use.
Tobin's Q	Ratio of a firm's market value to the replacement cost of its assets. Q>1 indicates market confidence in future profitability.	Captures how intangible assets like OH and human capital are priced into valuation premiums.

Evidence & Proxies: Market Data, OHI, and 'Great Place to Work'

Empirical Evidence from the Literature Review: The Organizational Health Premium

Empirical studies utilize third-party assessments, such as the "Great Place to Work" rankings, as an objective, externally validated proxy for high Organizational Health and associated Organizational Capital. The data reveal a consistent, financially significant "Culture Premium" in capital markets.

Consequently, the pricing of OH becomes a practical consideration for portfolio construction and valuation analysis, and the evidence can be summarized across four main dimensions:

- Stock Market Outperformance: Portfolios of firms with superior organizational practices generate positive abnormal returns, outpacing benchmarks like the Russell 3000 over multi-decade periods [22]. Effective management practices improve intangibles (intellectual capital), directly supporting superior stock returns [23]. Mispricing tends to correct via re-rating as advantages compound and visibility rises.
- Productivity and Revenue: High-OH workplaces deliver markedly higher output. Analyses show ~6.25× more revenue per FTE than national averages, underscoring how health translates into efficiency and TFP by minimizing wasted effort and bottlenecks [22].
- Valuation and Tobin's Q: As detailed previously, the market's willingness to assign a premium to high-OH firms, indicated by a higher Tobin's Q ratio (10), confirms that Organizational Health is viewed as a value-generating intangible asset by investors.
- Total Shareholder Return (TSR): Across industries, organizations in the top quartile of Organizational Health deliver, on average, three times the Total Shareholder Return compared to those in the bottom quartile [11]. This long-term gap in returns emphasizes that the benefits of OH, such as stability, efficiency, and alignment, may compound over time, making it a sustainable source of competitive advantage.

Organizational Health and the Investor: A Leading Indicator for Stock Analysis

While OHI is proprietary, and not currently linked to any funds as a screening tool, and also difficult to assess for academics as it is proprietary, OH is recognized as a key benchmark.

McKinsey uses OHI to assess an organization's ability to sustain high performance by analyzing health outcomes, management practices, and employee experience. The index draws on 2,600+ clients and ~8 million survey responses, offering a robust benchmark for predicting performance [24].

The framework assesses nine health outcomes capturing both soft and hard elements of effectiveness. It identifies 43 management practices shaping critical behaviors and explores ten employee experience dimensions to reveal workplace perceptions. Unlike standard engagement surveys, OHI measures organizational health at the macro level and guides targeted behavioral and cultural strategies. This improves productivity, resilience, and financial results. The methodology is regularly updated to incorporate emerging themes such as leadership, decision making, and inclusion.

The Quantitative Link Between Health and Superior Returns

McKinsey's extensive research, built over two decades and encompassing data from millions of employee responses worldwide, provides the foundational evidence used by the financial community. This research consistently demonstrates a strong, statistical correlation between a company's organizational health and its financial success [25].

Top-quartile OHI companies deliver roughly 3× greater total shareholder return over time than bottom-quartile peers. This sustained outperformance positions OH as a leading indicator of predictable, durable value [26].

Moreover, evidence suggests health is causal to long-term performance. Companies that actively improved their organizational-health metrics achieved an 18 % EBITDA uplift in the following year, and 10% TSR uplift, underlining the short-term financial impact of organizational health interventions [27, 28]. Moving from second to top quartile produced the largest gains [29].

Direct Use by Institutional Investors and Performance Prediction

The financial community's belief is reinforced by McKinsey's internal data. McKinsey research on institutional investors (including public pension funds, sovereign wealth funds, and endowments) found that the OHI scores and benchmarking data for the funds themselves statistically explained nearly 60% of the variation in their average five-year net investment returns [30].

Furthermore, the predictive power extends to operational units. In one analysis across 16 refineries in a single energy group, OHI scores exhibited a strong linear relationship with operational performance, explaining 54% of the variation in the units' gross profit per unit [31]. This demonstrates that organizational health is a quantifiable predictor of financial results at both the corporate and operational levels.

Translating Health into Stock Analysis via Proxy Indicators

Since external investors cannot typically access a company's proprietary OHI score, sophisticated analysts use public, quantitative metrics as "proxies" for the nine core dimensions of organizational health (such as Direction, Leadership, and Accountability). Investors are confident in this translation because the academic community also acknowledges that organizational culture and performance have an indirect but crucial impact on investment return [32].

Beyond the OHI's direct findings, independent research on related metrics provides quantitative backing for investment decisions:

1. Workplace Wellbeing and Profitability: Studies analyzing crowd-sourced data from over a thousand US companies have shown that a one-point increase in company happiness (on a 1-5 scale) predicted a 1.7 percentage-point increase in Return on Assets (ROA) and a $2–3 billion USD increase in annual profit [33].
2. M&A Success: Cultural alignment, a key component of organizational health, is critical during mergers. Firms with high Corporate Social Responsibility (CSR) similarity (a proxy for cultural alignment) showed 3.5% higher combined announcement returns and a 26% increase in the odds of successful deal completion [34].
3. Employee Commitment: Firms that actively invest in employees (high commitment) show a 4.0% higher Return on Invested Capital (ROIC) over a three-year period than peers who do not, highlighting the financial payoff of a healthy "People Factor" [35].
4. Employee Turnover Cost: High employee turnover is negatively associated with organizational profit. Quantifying this, the cost of losing a single hourly employee is estimated to be between $3,000 and $10,000, reinforcing the value of health and retention to the bottom line [9].

In conclusion, organizational health, as defined by the OHI, is a validated driver of stock market outperformance. Its proven link to superior Total Shareholder Return, combined with statistical evidence from proxy metrics, has cemented the underlying principles—that a strong, aligned, and adaptable organization is the a reliable predictor of future returns—as an essential pillar of modern, fundamental stock analysis for leading fund managers.

Lessons from 'Great Places to Work' and Total Shareholder Returns

Investment in OH, therefore, is a highly effective human capital risk mitigation strategy. It directly counters this costly turnover cycles. A report from "Great Place To Work" states that voluntary turnover among high-trust (certified) firms is less than half the U.S. average. The same report links high trust to improved financial performance, suggesting that cultural investments yield returns [36]. Similarly, Gallup data indicate that organizations with high trust experience 50 % lower turnover rates. Similarly, in high-trust workplaces certified by Great Place to Work®, voluntary turnover is reported at less than half the U.S. national average. This offers a quantifiable dimension to how health and human-capital retention interplay [37, 38].

The resulting reduction in recruitment and training costs leads to an immediate and sustained improvement in operating margins. The financial impact of Organizational Health is reflected in its probable effect on ROIC and market-based valuation metrics.

Table 2: World's Best Workplaces™ 2024 by "Great Place to Work"

Rank	Company Name	Location	Industry
1	DHL Express	Germany	Transportation
2	Hilton	United States	Hospitality
3	AbbVie	United States	Biotechnology & Pharmaceuticals
4	Cisco	United States	Information Technology
5	Hilti	Liechtenstein	Construction & Infrastructure
6	Accenture	Ireland	Professional Services
7	Teleperformance	France	Professional Services
8	Stryker	United States	Health Care
9	Cadence	United States	Information Technology
10	Salesforce	United States	Information Technology
11	Agilent Technologies	United States	Health Care
12	SC Johnson	United States	Manufacturing & Production
13	MetLife	United States	Financial Services & Insurance
14	Experian	Ireland	Information Technology
15	SAP	Germany	Information Technology
16	Specsavers	United Kingdom	Retail
17	Allianz	Germany	Financial Services & Insurance
18	Marriott	United States	Hospitality
19	Trek Bicycle	United States	Retail
20	DOW	United States	Manufacturing & Production

The composition of the World's Best Workplaces™ 2024 shows that organizational excellence is neither industry-specific nor geographically concentrated. The list encompasses sectors as diverse as transportation, biotechnology, hospitality, information technology, and financial services. This dispersion suggests that high OH is a transferable, structural capability rather than a niche characteristic [39].

Consequently, these top-ranked companies offer investors and analysts a valuable external proxy for OH, signaling lower agency costs, stable human capital, and superior execution. Their inclusion in portfolios can implicitly capture an "OH premium," which remains underpriced in traditional valuation models. This link connects directly to the study's thesis: OH as a driver of Total Factor Productivity and long-term shareholder returns.

Portfolio Performance of Top-Ranked Workplaces

To assess this relationship empirically, an equal-weighted portfolio of the top 15 U.S.-listed "Best Places to Work" was backtested [40].

Table 3: An Equal Weighted and Concentrated Best Places to Work Portfolio

Ticker		Name	Weight
1.	HLT	Hilton Worldwide Holdings Inc	6.67%
2.	ABBV	AbbVie Inc	6.67%
3.	CSCO	Cisco Systems Inc	6.67%
4.	ACN	Accenture plc	6.67%
5.	TLPFY	Teleperformance PK	6.67%
6.	SYK	Stryker Corporation	6.67%
7.	CDNS	Cadence Design Systems Inc	6.67%
8.	CRM	Salesforce.com Inc	6.67%
9.	A	Agilent Technologies Inc	6.67%
10.	MET	MetLife Inc	6.67%
11.	EXPGY	Experian plc PK	6.67%
12.	SAP	SAP SE ADR	6.67%
13.	ALIZY	Allianz SE ADR	6.67%
14.	MAR	Marriott International Inc	6.67%
15.	DOW	Dow Inc	6.67%

Note: The Backtest Tool Portfolio Visualizer only permitted U.S. listed companies, or foreign companies ADR's listed on American stock exchanges. Also, the time period was constrained by the available data for Dow Inc (DOW) [Apr 2019 - Sep2025] and AbbVie Inc (ABBV) [Jan 2013 - Sep 2025].

Results

A $10,000 investment in January 2020 grew to $19,244 by September 2025, outperforming the benchmark ($19,044). Annualized returns were 12.06% for the portfolio versus 11.85% for the benchmark. The Sharpe ratio was slightly lower (0.54 vs. 0.60), but drawdown and recovery times were similar, showing competitive risk-return characteristics [41].

Table 4: Portfolio return and risk metrics

Metric	Top 15 Listed Best Places to Work Equal Weighted	iShares MSCI ACWI ETF
Arithmetic Mean (monthly)	1.12%	1.05%
Arithmetic Mean (annualized)	14.23%	13.38%
Geometric Mean (annualized)	12.06%	11.85%
Standard Deviation (annualized)	19.88%	16.59%
Benchmark Correlation	0.93	1.00
Beta(*)	1.11	1.00
Alpha (annualized)	-0.61%	0.00%
Sharpe Ratio	0.54	0.60

These results support the argument that OH leaders match or exceed broad market performance while offering greater workforce stability. In other words, investors may be capturing underpriced organizational quality.

From Thesis to Strategy: Building an OH Factor and Existing Products

The next step is translating these insights into practice. The table below presents existing funds that integrate human capital and workplace factors into their methodology. Each reflects a different dimension of OH—trust, engagement, leadership quality, execution strength—illustrating how organizational health can move from theory to strategy.

Table 5: Existing Funds and Strategies

ETF	Full name	Issuer	Core Signal	Description	Link to "Organizational Health"
Harbor Human Capital Factor US Large Cap ETF (HAPI)	Harbor Human Capital Factor U.S. Large Cap ETF	Harbor Capital Advisors	"Human Capital Factor" from Irrational Capital	Uses behavioral data from millions of employees (e.g., engagement, trust, motivation) to identify firms with strong human capital alpha	Very close proxy for Organizational Health: captures trust, execution, employee alignment (1).
JUST U.S. Large Cap Equity ETF (JUST)	JUST U.S. Large Cap ETF	Goldman Sachs + JUST Capital	Stakeholder scores (worker weight ~40%)	Scores firms on worker treatment, pay, DEI, community, environment; selects top 50% by sector	Worker dimension maps to OH's "motivation," "direction," and "accountability" domains (2).
HAPY ETF (liquidated)	Harbor Corporate Culture Leaders ETF	Harbor Capital	Great Place to Work survey data	Targeted firms ranked highly on workplace culture & engagement	Even more direct cultural proxy, but assets remained small (3).
"Best Places to Work" UIT	Great Place to Work / Fortune 100	First Trust Portfolios (historical)	GPTW ranking	Unit investment trust of GPTW-ranked firms	Conceptual overlap with trust, leadership, execution quality (3).

The core investment hypothesis is straightforward and rooted in workforce economics. Firms with high levels of Organizational Health exhibit lower turnover, higher human capital productivity, and reduced agency costs. These structural advantages translate into persistently higher ROIC and alpha potential. This is not an abstract claim. It is anchored in measurable financial indicators and repeated performance patterns [42-45].

Empirical evidence shows that companies ranked highly on the Great Place To Work index have outperformed the S&P Dow Jones Indices S&P 500 [46]. Harbor Human Capital Factor U.S. Large Cap ETF has delivered superior risk-adjusted returns relative to the MSCI ACWI Index (1), while JUST U.S. Large Cap ETF worker scores correlate with lower turnover and more stable earnings (2).

Unpacking a Model for an Organizational Health ETF

A conceptual model for an OHI-based ETF would operationalize this factor systematically. The investable universe would comprise developed market large- and mid-cap firms. A scoring model would rank companies on key dimensions of organizational health—leadership, direction, accountability, innovation, trust, and execution—using McKinsey's OHI or credible proxies. Portfolio construction would select the top 30–50% sector-neutral by OH score. Rebalancing would occur annually, with exclusions for severe ESG breaches.

Because McKinsey & Company's OHI is proprietary, implementation would rely on public data proxies such as Great Place to Work rankings (3), JUST Capital worker scores (2), employee sentiment data from Glassdoor and LinkedIn, and reported turnover metrics. This rules-based OH factor would yield a sharper, more targeted "S" signal. It could offer investors a more actionable framework than today's broad and often diluted social scores. Subsequently, this could enable the creation of structured products that translate organizational excellence into tangible investment performance.

Table 6: HAPI vs JUST — Methodology Snapshot

Dimension	HAPI	JUST
Core signal	Human Capital Factor (behavioral)	Stakeholder ESG (worker + other pillars)
Data	Proprietary engagement dataset	JUST surveys + company disclosures
Portfolio size	~150 holdings	~450 holdings
Concentration	Strong focus	Broader exposure
Tilt	Active HC alpha	ESG + quality blend
ESG classification	S-focused	ESG broad
Style	Quality / profitability bias	Moderate quality + ESG blend

Table 7: Performance Snapshot (Nov 2022 - Sep 2025)

Metric	HAPI	JUST	iShares MSCI ACWI ETF
Annualized Return CAGR	25.8%	22.76%	21.36%
Standard Deviation	12.58	12.34	11.95
Sharpe ratio	1.52	1.34	1.28
Max drawdown	-7.49%	-8.26%	-9.43%

Note: The time period was constrained by the available data for Harbor Human Capital Factor US LargeCapETF (HAPI) [Nov 2022 - Sep 2025].

These returns reinforce the alpha hypothesis: human capital factors may encapsulate a mispriced intangible, aligning directly with your thesis on Organizational Health.

Thus, existing products exist. But an OHI-based ETF could offer a sharper, more distinct "S" signal than conventional ESG products. Its edge lies in measurable financial outcomes driven by higher employee retention and greater productivity. It would provide investors with exposure to a less crowded factor than climate or tech ESG tilts. Two challenges must be addressed to realize this potential: ensuring reliable data access and standardization, and navigating regulatory classification under frameworks such as Sustainable Finance Disclosure Regulation. Partnerships with platforms such as Great Place to Work, JUST Capital, Glassdoor, or academic data providers could strengthen its empirical foundation. Investors seeking quality and credible ESG exposure would find an OHI ETF appealing [48].

Rules-Based ETF vs. Active Fund Manager Approaches

There are two practical approaches for making OH investable:

1. Rules-Based ETF / Index: Transparent, quantitative screens systematically weight top decile companies based on GPTW rankings, JUST worker metrics, or sentiment data. This provides scale, cost efficiency, and alignment with how MSCI integrates ESG signals.
2. Active Management: Firm-specific analysis (site visits, proprietary surveys, engagement assessments) identifies alpha opportunities beyond public data. Fund managers could overweight firms improving their OH trajectory, not just current leaders.

Both approaches have merit: one delivers scale and consistency, the other exploits inefficiencies. A hybrid model — quantitative core with an active overlay — could price human capital quality more effectively into portfolios.

Current Market Gaps and the Investment Case for Organizational Health

No public ETF or mutual fund currently tracks Great Place to Work rankings or McKinsey's OHI. Yet the foundation is clear. High OH and strong workplace cultures are linked to lower turnover, higher productivity, and superior shareholder returns. This represents the intangible value ESG frameworks aim to capture [49-52].

Such a strategy would use OH as a positive screen within the "S" dimension, rebalanced annually in line with published rankings. While McKinsey's proprietary data limits full transparency, public proxies allow viable implementation. This gap represents an innovation opportunity for asset managers to reward organizational excellence and offer investors a differentiated ESG product.

Conclusion

Organizational health is concrete, measurable, and tied directly to financial results. It is a strategic resource that systematically strengthens a firm's internal operating model. Research on turnover and retention shows that improving trust, internal support, and culture can cut turnover and related costs. Organizational health turns strategy into measurable performance by reducing agency costs and keeping human capital in place. Evidence clearly shows that firms with strong organizational health deliver higher returns on invested capital (ROIC) and trade at a premium through Tobin's Q—proof that markets value health as an intangible asset.

For boards and executives, organizational health should be treated as a core KPI, tracked through employee satisfaction, turnover rates, and external workplace ratings. Including these indicators in management dashboards ensures that health becomes part of daily decision-making, not only an annual report. Strengthening it is not a soft priority but a strategic condition for better execution, higher asset use, and sustained shareholder value.

Finally, organizational health should be built into market practice: link executive pay to verified health metrics, disclose under CSRD, and include health indicators in credit ratings, loan covenants, and cost-of-capital models. Investors can also use health data as a forward-looking screen to identify firms that turn human-capital strength into durable performance and lower long-term risk. Healthier firms should command tighter spreads, lower volatility, smaller drawdowns, and faster recoveries in downturns, which are clear and measurable benefits that support the valuation thesis.

This paper has limitations. Its analysis draws mainly on secondary data and established proxies such as McKinsey's Organizational Health Index (OHI) and Great Place to Work rankings, rather than direct firm-level datasets. Nevertheless, the case for organizational health as a financial driver remains compelling. Future research should deepen causal modeling and examine how organizational-health metrics can be systematically integrated into investment processes within fund-management teams, creating an explicit "human-capital factor" in modern portfolio construction.

Disclaimer

The contents of this research article are not meant to recommend stocks, investments or investment strategies to you as a reader. Every investor must conduct their own due diligence. Any financial gain or loss incurred by a reader because of this article will result from an investment decision taken by the reader as an individual. I am not a certified financial advisor. The opinions expressed are my own as an individual, and do not reflect my current employer as such.

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