

Firms' Employee Relations and Bondholder Risk

Rob Bauer, Jeroen Derwall, Daniel Hann

[†] Maastricht University

This Version: May 24th, 2009

Preliminary, please do not cite. Comments are welcome!

Abstract

Consistent with the theory that investments in employees influence firm performance and risk, we find that bondholder wealth is affected by the quality of employee relations. We construct an aggregate measure for the quality of employee relations based on the firm's engagement in employment practices and policies, and document that firms with stronger employee relations enjoy (1) a statistically and economically lower cost of debt financing, (2) higher credit ratings, and (3) lower firm-specific risk. These findings are robust to the inclusion of a comprehensive set of controls.

Key Words: Non-financial stakeholders; Employee relations; Credit risk, Cost of debt