THE IMPACT OF CORPORATE SABBATICAL PROGRAMS ON FIRM VALUE

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ABSTRACT

Corporate sabbaticals are a relatively recent human resource benefit, compared to academic practices. In academia, sabbaticals are used for such purposes as to refresh a professor's mental health, allow learning of a new subject, promote development of new techniques, doing research, etc. In the modern corporation, a sabbatical can be the pause that refreshes (Clark, 2006), the best defense against the post-Covid "Great Resignation" (Kadet, 2022), and an important benefit to recruit and retain high quality employees (Fields et al., 2006). There has always been a question whether an employee benefit is a cost or a benefit to the firm. This research takes the first investigation into the evaluation of the cost-benefit analysis of companies starting a sabbatical program. Using event study methods, the announcements of the initiation of corporate sabbatical programs result in significant positive abnormal returns. The increase in firm value is large, significant, and long-term.

Keywords: *Sabbaticals, Event Study, Cumulative Abnormal Return, Firm Value*

1. INTRODUCTION

"Sabbaticals are not just for college professors" anymore (Clark, 2014). Corporate sabbaticals, paid or unpaid, are reported to have first started at McDonald's Corporation in 1977 in "what was arguably the first corporate sabbatical program in the United States" (Burkus, 2017). An earlier report (Semus, 1997) finds that Intel Corporation started its sabbatical program when it was founded as a private company in 1969. Intel continues its program today (Intel, 2022).

Although the practice of corporate sabbaticals has received a lot of attention, according to the annual Employee Benefits Survey conducted by the Society for Human Resource Management, less than 10 percent of U.S. businesses offer paid or unpaid sabbatical programs (SHRM, 2023) Is this well-known human resource management tool being underutilized, and could its more widespread use unleash the innovative potential of employees at many organizations?

As with any new corporate initiative, the question of whether the benefits obtained justify the costs incurred is warranted. Costs of corporate sabbatical programs include full or partial salary and benefits of the employee on sabbatical leave, that employee's lost productivity for the organization (at least in the near term), and the potential for employees to pursue new opportunities presented during their time away from typical work responsibilities. Potential benefits of corporate sabbatical programs include opportunities for skill development, a reduction of employee burnout, and increased employee creativity and innovation (Semas, 1997; Cooks-Campbell, 2022).

Using event study methods, we examine the cumulative abnormal returns accruing to firms initiating corporate sabbatical programs. As reported in Table 1, our results indicate that mean cumulative abnormal returns for such firms are 2.13 percent.