Firm Performance, Market Perceptions and Job Satisfaction

Vinita Ramaswamy, Ph.D
Professor, University of St. Thomas, Houston, Texas

Margaret Shelton, Ph.D
Associate Professor, University of St. Thomas, Houston, Texas

John Leavins, Ph.D
Professor, University of St. Thomas, Houston, Texas

ABSTRACT

The concept of workplace satisfaction is gaining popularity and importance in impacting firm performance and firm value (Blaconnier and Patten, 1994; Lemon and Linns, 2003). Traditional research in the past has found financial indicators such as earnings, abnormal earnings, cash flows, risk and return measures to be prime indicators of value and growth (Patell, 1977; Ou and Penman, 1989; Dechow, 1994). The stock market clearly responds to changes in financial numbers, as indicated when companies report earnings, for example. But changes in corporate culture, especially from the emerging tech industry, the big scandals of the past two decades, and a growing pressure from the current generation of investors have modified the definition of corporate success from a purely financial metric to larger and wider performance indicators that include social and environmental contributions as well. Though financial metrics are still important, factors such as Corporate Governance (Brown and Caylor, 2006), Human Resource Management (HRM) (Becker and Gerhart, 1996), and Sustainability (Yu and Zhao, 2015) have gained momentum in playing significant roles in valuation.

HRM theories suggest that satisfied workers contribute to increased firm value (Pfeffer, 1994). Today's millennial job seeker has very different expectations from a company than the past generations. The Millennial Impact Report released by the Case Foundation listed work culture as the second most important feature that young people look at, right behind the product the company makes or sells. Millennial workers also change jobs more frequently, leading to companies having to work harder to recruit and retain employees. Workers who are satisfied with their job and stay on to contribute to their companies create an intangible asset that the financial market takes into consideration (Edmans, 2012; Fulmer et. al 2003).

According to the research noted previously, having employees who trust their workplace, who find a sense of camaraderie at work, and who take pride in their job makes the difference between a good company and a great company. Managers are expected to be leaders who create and sustain a good workplace.

The following are important dimensions of a sustainable and satisfying workplace (Bass and Robin, 2011):

- Good communication: There is openness and transparency between management and employees
- Competence: Well thought out plans and resource allocation that are carried out with integrity.
- Support: Adequate training and support for employees
- Collaboration: Decisions are made with input from employees who are involved in the outcomes
- Equity: No discrimination or perceived favoritism with equal treatment for all employees
- Pride: Employees take price in their personal job, their group output, and in the company as a whole.
- Community: Employees relate to the company as a sense of family, with a friendly and welcoming workplace.

Within such a workplace, employees are able to contribute their creative best to the company, resulting with the company operating with greater efficiency, skill and productivity. This then should be reflected in the reported or calculated financial metrics used by investors and other interested groups that value firm performance. This paper explores the following performance metrics for companies that were selected for their excellent workplace environment:

Baseline measures of company value (V): This is the value that an investor expects from the company. This is measured by using

- Market capitalization
- Enterprise value (market value of common stock + market value of preferred equity + market value of debt + minority interest – cash and investments).
- Total Sales

Profitability Ratios(P): Investors measure performance of the company by using the following key ratios:

- Return on Assets
- Return on Equity

Risk (R): Financial metrics also provide information about the risk of a company as measured by:

- Debt ratio
- Beta
- Total Sales x risk metric (beta)

Market willingness to pay for the company (W): Based on performance and earnings, these ratios measure the market's willingness to pay for company stock:

- Price Earnings (PE) ratio
- Price to Book (PB) ratio

Market valuation (M): The following measures over or undervaluation of a company's stock:

- PEG ratio
- Tobin's q

This study looked at Fortune Magazine's 100 Best Companies to work for listed in 2015. This is an annual list based on an extensive survey of company employees. For each of the companies listed, the above metrics were computed. The industry means for each of the metrics was also obtained from COMPUSTAT. The following hypotheses were tested:

- Company values (V) for the listed companies were higher than the industry average
- Company profitability (P) was higher than the industry average
- Company risk (R) was lower than the industry average
- Market willingness to pay (W) was higher than the industry average
- Market valuation (M) for the listed companies was higher than the industry average.

Results indicate robust performance measures for the companies listed in the sample. Company values and profitability were higher than the industry average; investors were willing to pay more for those companies, and when compared to the industry averages, these companies were overvalued. However, the risk ratios did not show any significant difference from the industry averages.

The results seem to indicate that companies with high job satisfaction tend to perform better than the average. This reflects the basic attitude of these companies who treat profits as a sustainable outcome rather than as a short-term focus. The market also perceives and incorporates the better financial metrics and is willing to pay more for those companies.

REFERENCES

Becker, Brian and Barry Gerhart (1996) The Impact of Human Resource Management on Organizational Performance: Progress and Prospects, *Academy of Management Journal*, Volume 39, No. 4, pp.779-801.

Blacconiere, Walter and Dennis Patten (1994) Environmental Disclosures, Regulatory Costs and Changes in firm Value, Journal of Accounting and Economics, Volume 18.

Brown, Lawrence and Marcus Caylor (2006) Corporate Governance and Firm Valuation, Journal of Accounting and Public Policy, Volume 5, Issue 5

Burch, Michael and Jennifer Robin (2011) The Great Workplace Jossey Bass

Case Foundation (2015): Cause, Influence and the Next Generation Workforce – The 2015 Millennial Impact Report

Dechow, P.M (1994): Accounting Earnings and Cash Flows as Measures of Firm Performance: The Role of Accounting Accruals, Journal of Accounting and Economics, Volume 18

Edmans, Alex (2012) The Link between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility, Academy of Management Perspectives November 2012

Forum for Sustainable and Responsible Investment (2014), Report on US Sustainable Responsible and Impact Investing Trends

Fulmer, Ingrid, Barry Gerhart and Kimberley Scott (2003) Are the 100 Best Better? An Empirical Investigation of the Relationship between being a "Great Place to Work" and Firm Performance, Personnel Psychology, Winter 2003, Volume 56, Issue 4

Lemon, Michael and Karl Lins (2003) Ownership Structure, Corporate Governance and Firm Value: Evidence from the East Asian Financial Crisis, Journal of Finance, Volume 58, Issue 4

Ou, J., and S. Penman (1989) Financial Statement Analysis and the Prediction of Stock Returns. Journal of Accounting and Economics Volume 11

Patell, J.M (1977) Corporate Forecasts of Earnings per Share and Stock Price behavior: Empirical Tests, Journal of Accounting Research, Volume 14, Issue 2

Pfeffer, J. 1994. *Competitive Advantage through People: Unleashing the Power of the Workforce.* Boston: Harvard Business School Press.

Yu, Minna and Ronald Zhao (2015) Sustainability and Firm Valuation: an International Investigation, International Journal of Accounting and Information Management, Volume 23, Issue 3