Sharing the wealth with loyal workers

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Susan Linz, economics professor at Michigan State University, led the first large-scale study that found a link between worker loyalty and increased earnings. Credit: Michigan State University

Workers who are loyal to their employers tend to be paid more, according to the first broad-scale study of worker loyalty and earnings.

Michigan State University researchers surveyed 10,800 employees in former socialist countries that introduced capitalist economies in the 1990s. While previous research has found that worker loyalty bolsters companies' bottom lines by lowering labor turnover costs and enhanced customer service, this study shows that employees benefit as well – by making more money, said Susan Linz, lead author and professor of economics.

"We know that firms realize financial gain from loyal workers, but we wanted to know if they share those benefits with the workers," Linz said. "And among the more than 650 workplaces included in our study the answer is yes, they are sharing the wealth."

The researchers surveyed employees from 2005 to 2011 in six culturally and economically diverse countries: Armenia, Azerbaijan, Kazahkstan, Kyrgyzstan, Russia and Serbia. The employees came from a wide range of sectors including manufacturing, retail and financial services, health care, education, public sector, construction and transportation.

Loyalty was measured in three ways: by workplace seniority; whether the employee would turn down an offer of slightly more money to change jobs; and whether the employee was committed to and engaged with the company – i.e., did they buy into the company's mission even when it was outside their job responsibilities.

Linz said she was surprised to find such a strong link between worker loyalty and higher earnings. In three countries, the contribution of loyalty to earnings was equivalent to the contribution to earnings of an additional year of experience.

Workers were more likely to be loyal if they expected to earn a bonus or learn new skills. In addition, loyalty was higher among employees who expected that doing their job well would result in job security and the feeling that they were accomplishing something worthwhile.

Contrary to previous studies, however, praise from supervisors was not always positively linked to worker loyalty.

The findings have implications in the global economy. Western-based companies looking to set up shop in countries such as Azerbaijan or Russia, for example, need to know how to train their managers to motivate workers. Knowing which strategies promote loyalty is crucial.

"If Western managers come in and start offering them praise, telling them they're doing a great job and so on, it might not have that big of an effect," Linz said. "Managers might have more success by offering the workers a chance to learn new skills, which can contribute to their sense of better job security or desire for more job autonomy, all of which were positively linked to loyalty in our study."

In the United States, where it's common for workers to switch jobs and where companies and entire sectors are downsizing, popular perception is that it doesn't make sense for employees to be loyal. But what if firms do reward loyalty? Linz said it would be interesting to conduct the employee survey here to see if the findings are similar.

Linz conducted the study with Linda Good, professor of advertising, public relations and retailing, and Michael Busch, a doctoral student in economics.

More information: The findings were published in *Evidence-based HRM*, a global research journal focusing on human resource management issues.

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