Keeping staff satisfied really is good business, says new study

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Imagine sitting down to your business meeting in a ball-pool room with multi-coloured walls and bean bags instead of chairs. If that's not crazy enough, how about a massive hammock to take a breather on during a hectic nine-hour shift?

Many companies are coming up imaginative ways to keep their staff satisfied. The theory goes that with more entertaining and exciting work spaces, employees no longer feel like they are stuck at work. Instead, they adopt a "work hard, play hard" attitude and the company enjoys greater productivity.

But do companies actually benefit from investing in the satisfaction of their employees? Shareholders are sceptical. Their common view is that for every dollar invested in staff satisfaction, a dollar is taken away from them. But my colleagues Efthymia Symitsi, Panagiotis Stamolampros and I have just completed a new study that shows employee satisfaction really does affect the long-term financial success of a business.

To do this, we examined the relationship between reviews by employees of a company and how successful it was using measures of profitability (return on equity) and value (Tobin's Q). We found that companies whose employees said they were highly satisfied performed better financially than those who were unsatisfied. The more reviews per employee that a company had, the more pronounced this effect seemed to be.

What makes this study different?

Previous studies on this topic have mainly used Fortune magazine's "100 Best Places to Work for in America" list to measure staff satisfaction. This rates workplaces using an extensive anonymous employee survey. The survey includes questions relating to the support employees get in their personal and professional lives, the quality of communication by management and relationships with colleagues. The problem is that companies have to pay a fee to participate in the survey and be included in this list. So they are only likely to do this if they believe their employees are satisfied, an issue known in statistics as self-selection bias.

To avoid this, we gathered data from a collection of reviews posted by employees on jobs website Glassdoor. This also meant our analysis wasn't limited to a small number of companies. To prevent disgruntled ex-employees from unfairly skewing the picture of their old companies, we focused on reviews from employees who were still working at each company. In total, we used approximately 326,000 "overall" satisfaction ratings for 313 public US companies posted from 2009 to 2016 on Glassdoor.

Does the stock market agree?

We also looked at whether investors in the stock market recognised the value staff satisfaction brings to a business. The answer was a resounding no. An investment portfolio that included stocks of the top 25% of companies in terms of employee satisfaction produced an "abnormal return" over the period we studied. That is, given the portfolio's risk, the rate of return was significantly higher than expected according to standard asset pricing models. This supported our finding that employee satisfaction is important for companies and investors, but also revealed it is not fully reflected in companies' stock prices.

If it was, the portfolio wouldn't have achieved this abnormal return. The reviews from Glassdoor are public information so if investors recognised the importance of staff satisfaction, they could easily use them when deciding which stocks to buy. The increased demand would translate to an increase in the stock price of companies with high employee satisfaction and so the return of the portfolio wouldn't be abnormal.

What are the implications for managers?

Some economists have been arguing for almost two decades that employees are becoming more important to modern corporations. They aren't just in charge of company assets but are assets themselves. Our findings, which are consistent with previous studies, support this idea that looking after employees' job satisfaction is very important to the company's financial success.

This is especially true in a knowledge and service-based economy where innovation and customer relationships are key for creating value. Managers need to recognise this even when shareholders don't. Investing in staff satisfaction will pay dividends in the long-term.

Finally, it's worth noting that doing this doesn't have to cost a lot of money. Despite the popularity of quirky office design, spending millions of dollars transforming the physical surroundings of a business isn't what keeps employees satisfied. The answer could be that employees simply want to be appreciated.

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