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DO SATISFIED EMPLOYEES LEAD TO BETTER FINANCIAL PERFORMANCE?

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ABSTRACT

This paper analyzes whether companies with satisfied employees yield better long term financial performance than comparable companies and whether the market values employee satisfaction. We compare the Industry Adjusted Return on Assets (ROA) and Return on Equity (ROE) of the Fortune 100 Best Companies to Work for from 1998-2003 with the ROA and ROE of comparable companies. We do not find that the Fortune 100 Best Companies to Work for yield a higher return than comparable companies. Also, using the list of the Fortune 100 Best Companies to Work for From 2002-2007, we test the market reaction by using the market event methodology of estimating Cumulative Abnormal Return (CAR) around the date of public announcement of the list. We find that the market reacts positively during periods of economic growth, which is consistent with the prior literature. However, we do not find any significant positive or negative market reaction during economic downturn. This study adds to the literature concerning issues surrounding employee satisfaction, Human Resources practices as one dimension of Corporate Social Responsibility (CSR) and organizations' financial performance.

UDC CLASSIFICATION & KEYWORDS

■ J24 ■ L1 ■ L25 ■ Employee Satisfaction ■ Social Responsibility ■ Market Performance ■ Financial Performance ■

INTRODUCTION

The global economy has transformed from the industrial economy to the digital and now to the knowledge-based economy. The U.S. economy is more dependent upon human capital than ever before. With the advent of technological development and consulting services, over the past thirty years, increasing number of businesses has become dependent upon human resources. Organizations are now paying more attention to their corporate social responsibility (CSR) including employee satisfaction. Graafland and Rutten (2004) argue that human resource management leads to perceived organizational support, which leads to profitability because of an increase in productivity of individual employees, lower costs of controlling working behavior, and turnover of employees. This study examines whether the capital markets value company reputation in achieving employee satisfaction as one dimension of CSR.

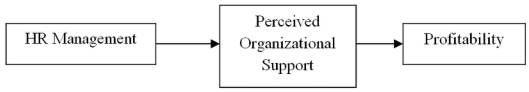
Prior research shows mixed results in testing the relation between employee satisfaction and firm performance. While some studies (Filbeck and Preece 2003, Fulmer et al. 2003, and Edmans 2011) have found positive relations between employee satisfaction or perceived organization support and financial performance, others have not found any significant relationships. In this study, we attempt to provide more insight into some of the confusions surrounding this issue. The rest of the study is organized as follows: Literature Review, Hypotheses Development, Sample Selection and Data, Research Design, Empirical Results and Conclusion.

Literature Review

Faleye and Trahan (2011) argue that a basic tenet of American capitalism is that corporations are expected to be run in their shareholders' best interest, with management choosing policy variables to maximize shareholder value. They also argue that management's ability to achieve this goal depends on several stakeholders, including customers, employees, regulators, and the community at large. Shareholders' best interest lies ultimately in the financial performance of corporations. Hundreds of studies have been done to determine the factors that affect financial performance. A Meta analysis of 320 studies on determinants of financial performance (Capon et al. 1990) finds only three studies that link employee-related factors, namely employee cooperation, employee recognition, and employee promotion directly with the corporation's financial performance.

The major argument in favor of employee-friendly programs is their potential to stimulate workforce loyalty and foster lower absenteeism, reduced turnover, higher productivity, and ultimately, improved profitability (Faleye and Trahan 2011) (Figure 1). In our literature review of studies that link employee satisfaction with financial performance, we find mixed evidences. Also, among the studies reviewed below, only a small number uses a robust measurement of employee satisfaction.

Figure 1: Relationship between HR Management and Profitability



Source: Authors

Studies that argue that Employee Satisfaction Precedes Financial Performance

Using the Fortune 100 Best Companies to Work for list, Filbeck and Preece (2003) find positive market reaction and better long-term market performance for companies with satisfied employees. Fulmer et al. (2003) show that companies with satisfied employees enjoy performance advantages over the broad market, and in some cases, over the matched group. Using a regional restaurant chain via employee surveys, manager surveys, customer surveys, and organizational records, Koys (2001) found evidence that HR outcomes influence business outcomes, rather than the inverse. Jegadeesan (2007) outline a conceptual framework that negative attitudes of employees can affect the effectiveness of an organization to a considerable extent. Edmans (2011) showed that employee satisfaction improves corporate performance. Based on a Meta Analysis of 7,939 business units in 36 companies, Harter et al. (2002) find that changes in management practices that increase employee

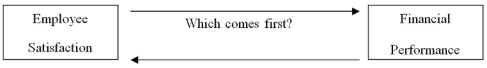
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satisfaction may increase business-unit outcomes, including profit. Faleye and Trahan (2011) find that investors have mixed reaction to employee satisfaction and the companies with satisfied employees outperform a size- and industry-matched control group in productivity, profitability and value creation.

Figure 2: Does come first employee satisfaction or financial performance?



Source: Authors

Studies that find inverse or no relationship between Employee Satisfaction and Financial Performance

Using 342,308 customer responses, 3,009 employee responses, and 12 months of restaurant performance of a national fast-food chain, Bernhardt et al. (2000) find no significant relationship between employee satisfaction and performance. Using employee attitude data from 35 companies over eight years, Schneider et al. (2003) find support that organizational financial and market performance appear to cause employee attitudes.

Using data from a large multinational grocery superstore in Western Europe, Cooil et al. (2009) find that positive employee perception is significantly and positively correlated with both employee retention and customer satisfaction, but not significantly related to revenue per employee. Edmans (2011) found that the stock market does not fully value intangibles, such as employee satisfaction, even when they are made visible by a publicly available survey results.

Hypothesis Development

Prior studies find inconclusive results (Table 1) regarding the link between employee satisfaction and firm financial and market performance using the annual list of 100 Best Companies to Work for. The four studies that used this list to test financial performance found the following.

Table 1: Summary of prior findings based on the Fortune 100 List

Studies	Findings
Filbeck and Preece 2003	Positive market reaction and better long term performance
Fulmer et al. 2003	Performance advantages over the broad market
Edmans 2011	Improved Corporate Performance
Edmans 2011	Not a significant positive market reaction
Faleye and Trahan 2011	Mixed investor reaction but better profitability

Source: Authors

Filbeck and Preece (2003), and Fulmer et al. (2003) used only the 1998 Fortune 100 Best Companies to Work for list and find contradictory results. Faleye and Trahan (2011) used the list from 1998-2004 and find average CAR is positive and statistically significant over all windows for 1998-2002 but negative and significant in all but one window over 2003-2004. The verdict is still out on the long-term market return, as well as the market's reaction to the list. As a result of contradictory information, we do not have a clear understanding of whether the market still reacts the same way or has changed as a result of overall economic downturn. In our analysis, we use the lists from 1998-2008 to include periods of economic growth (1998-2002) and downturn (2003-2008). To our knowledge, this is the only study that uses lists from twelve consecutive years to test financial performance of companies that frequent the list.

Social exchange theory posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives (Homans 1958). Based on this theory, it is reasonable to argue that satisfied employees would perform better than unsatisfied employees and their performance would lead to better organizational financial performance. Based on this premise we hypothesize (in alternative form) the following:

H1: Companies on the Fortune 100 Best companies to work for yield a higher Industry Adjusted ROA (ROE) than comparable companies

As satisfied employees lead to better performance, it is only logical for the market to react when a public announcement, such as the release of the list of the Fortune 100 Best Companies to Work for, is made. There is not enough empirical evidence to prove that the market reacts positively to companies that appear on the list. Based on this argument, we hypothesize (in alternative form) the following:

H2: Companies entering the Fortune 100 Best Companies to work for list show significant positive CAR in a short window around the list announcement date

H3: Repeat companies in the Fortune 100 Best Companies to work for list show significant positive CAR in a short window around the list announcement date

Since it is logical for the market to react positively to companies that get added to or remain on the list,

it is also logical to presume that the market would penalize companies that get dropped from the list.

Based on this argument, we hypothesize (in alternative form) the following:

H4: Companies that are dropped from the Fortune 100 Best Companies to work for list show significant negative CAR in a short window around the list announcement date

Sample Selection and Data

We obtained the lists of 100 Best Companies to Work for from the website of Great Place to Work Institute® (Fortune 100 Best Companies to Work For, 2009). To pick the 100 Best Companies to Work for, Fortune partners with Great Place to Work Institute® to conduct the most extensive employee survey in corporate America. For instance, of some 1,500 firms that were contacted for the 2008 list, 407 companies participated in the survey. Nearly 100,000 employees at those companies responded to a 57-question survey created by the Great Place to Work Institute®, a global research and consulting firm with offices in 30 countries. Most of the companies' score (two-thirds) was based on the results of the survey, which was sent to a minimum of 400 randomly selected employees from each company. The survey asked questions related to their attitudes about management's credibility, job satisfaction and camaraderie. The other third of the score was based on the company's responses to the Institute's Culture Audit, which includes detailed questions about demographic makeup, and pay and benefit programs, as well as a series of open-ended questions about the company's management philosophy, methods of internal communications, opportunities, compensation practices, and diversity efforts.

After the evaluations were completed, if news about a company came to light that could have significantly damaged employees' faith in management, then that company had the possibility of being excluded from the list.

Any company that was at least seven years old with more than 1,000 U.S. employees was eligible to compete to be on the list.

It is clear from the methodology used in determining the list of the 100 best companies that employee satisfaction is the key variable which includes or excludes a company from the list.

Hypothesis 1 (Financial Performance)

To test hypothesis 1, we looked at the companies that appeared on the 'Fortune 100 Best Companies to Work For' list between 1998 and 2003. The initial list had 304 unique companies that appeared on the 1998-2003 lists. We used all the public companies that appeared at least four times during that six year period as our proxy firms with employee satisfaction. The number of publicly traded firms that fulfilled our requirement was 37. We selected a matched group of firms based on industry (using four digit SIC code) and total assets. This gave us a sample of 74 firms. However, due to unavailability of data in COMPUSTAT our sample was reduced to 40 firms and 229 firm years.

Hypotheses 2, 3, and 4 (Market Reaction)

To test hypotheses 2-4, we looked at the companies that appeared on the 'Fortune 100 Best Companies to Work For' list between 1998 and 2008. The initial list had 282 unique companies that appeared on the lists between 1998 and 2008. As we were not able to determine the announcement dates for 1998-2001, and as the data for abnormal return calculation were not available for 2008, we dropped those years from our sample. Among the remaining companies, 92 were publicly traded. Therefore, the final list presented in Table 2 consists of 92 publicly traded companies that entered, continued and exited the lists of 2002-2007.

Table 3 shows the number of companies that entered, continued, and exited the lists of 2002-2007. For instance, 12 companies entered the 2002 list that were not on the 2001 list, 40 companies remained on the 2002 list from the 2001 list and seven companies were on the 2001 list and were not on the 2002 list.

Research Methodology

Hypothesis 1 (Financial Performance)

Following Brown and Caylor (2008), we used the following firm performance model and introduced our variable of interest List to test hypothesis 1:

$$IndAdj\ ROA(ROE) = \alpha + \beta_1 LaggedROA(LaggedROE) + \beta_2 LogB/M + \beta_3 LogMVE + \beta_4 List + \varepsilon$$

Where

IndAdj ROA(ROE) = Industry Adjusted Return on Assets (Return on Equity)

Lagged ROA (Lagged ROE) = The ROA (ROE) from the previous year

Log B/M = Log of Book to Market

Log MVE = Log of Market Value of Equity

List = 1 if on the list and 0 if not on the list

Hypotheses 2, 3, and 4 (Market Reaction)

We use the market event methodology to test the three stated hypotheses of the potential link between corporate employee satisfaction and market performance. Since the news of the upcoming Fortune 100 Best Companies to work for list is leaked two to three weeks prior to the official announcement, we estimate the abnormal return for windows that go all the way back to 21 days from the announcement day. We estimate the market model for each group (Entry, Continuation and Exit) for each year over a period of 255 days preceding the event date and then use estimated parameters to calculate abnormal returns for each of the event windows. We control for dividend announcement dates and also look at the value weighted returns and not equally weighted returns. These controls provide for a less noise measure for our test.

Table 2: Public companies on 2002-2007 Fortune 100 Lists

A.G. Edwards	EOG Resources	Kimberly-Clark	Simmons
Acuity	Fact Set Research	Medtronic	Southwest Airlines
Axiom	Fannie Mae	Merck	SRA International
Adobe Systems	FedEx	Microsoft	Standard Pacific
Aflac	First Horizon National	MicroStrategy	Stanley
Agilent Technologies	Four Seasons Hotels	Monsanto	Starbucks
Alcon Laboratories	Genentech	National Instruments	Station Casinos
American Express	General Mills	Network Appliance	Sterling Bank
AmeriCredit	Genzyme	New York Times	Sun Microsystems
Arbitron	Goldman Sachs	Nike	Symantec
AstraZeneca	Google	Nokia	Synovus
Autodesk	Granite Construction	Nordstrom	Tellabs
Baxter International	Harley-Davidson	Nvidia	Texas Instruments
Bright Horizons	Home Depot	Paychex	Timberland
Camden Property Trust	Hewlett-Packard	Pfizer	Valassis
Capital One Financial	Hot Topic	Popular	Valero Energy
CarMax	Hyperion Solutions	Procter and Gamble	Vanguard
CDW	IBM	Publix Super Markets	Wal-Mart Stores
Cerner	Intel	Qualcomm	Washington Mutual
Cisco Systems	Intuit	Republic Bancorp	Whole Foods Market
Colgate-Palmolive	J. M. Smucker	SEI Investments	Worthington Industries
Continental Airlines	Johnson and Johnson	Sherwin-Williams	Xilinx
Electronic Arts	Jones Lang LaSalle	Silicon Graphics	Yahoo!

Source: Authors

Table 3: Public companies that entered, continued, and exited the Fortune 100 List

Action	2002	2003	2004	2005	2006	2007
Entry	12	10	10	7	13	10
Continuation	40	44	43	43	36	34
Exit	7	8	11	10	8	10

Source: Authors

Empirical Results

Hypothesis 1 (Long Term Market Return)

Tables 4 and 5 show the results of the two regressions. The p-values show no significance for the variable of interest *LIST*. The first regression (Table 4) does not show any significance for any independent variable that prior literature found significance for. The second regression (Table 5) shows significance for *Lagged ROE* and *Log of Book to Market*.

Hypotheses 2, 3, and 4 (Market Reaction)

Table 6 shows the Cumulative Abnormal Return (CAR) for 2002-2007 companies that entered the list. The only

windows that show any positive significance are (-7, +1) and (-15, +1) for year 2002, and (-7, +1) and (-21, +1) for year 2006, which are not sufficient to argue that the market reacts to companies that enter the list. Thus we reject H2.

Table 7 shows the Cumulative Abnormal Return (CAR) for 2002-2007 companies that remain on the list. The only windows that show any positive significance are (-15, +1) and (-21, +1) for year 2004 which are not sufficient to argue that the market reacts to companies that continue to remain on the list. Thus we reject H3.

Table 8 shows the Cumulative Abnormal Return (CAR) for 2002-2007 companies that exited the list. The only window that shows any positive significance are (-1, +1) for year 2004 which is not sufficient to argue that the market reacts to companies that continue to remain on the list. Thus we reject H4.

Table 4: Regression testing the relationships between performance (ROA) and satisfaction (List)

$$IndAdj\,ROA = \alpha + \beta_1 LaggedROA + \beta_2 LogB/M + \beta_3 LogMVE + \beta_4 List + \varepsilon$$

Random-effects GLS regression			Number of obs.	229
Group Variable (i): num			Number of groups	40
R-sq	within =	0.0107	Obs. per group: min	3
	between =	0.0088	avg	5.7
	overall =	0.002	max	6
Random effects u_i ~ Gaussian			Wald chi2 (4)	0.87
corr(u_i. X) = 0 (assumed)			Prob > chi2	0.9289

indroa	Coef.	Std. Err.	z	P > |z|	[95% Conf.	Interval]
roalag	0.9191995	1.948059	0.47	0.637	-2.898926	4.737325
logbm	35.82766	76.46739	0.47	0.639	-114.0457	185.701
logmve	19.51707	31.96702	0.61	0.542	-43.13714	82.17127
lst	14.34307	50.2494	0.29	0.775	-84.14395	112.8301
_cons	27.67169	104.675	0.26	0.792	-177.4876	232.8309
sigma_u	93.87318					
sigma_e	259.4757					
rho	0.1157367	(fraction of variance due to u_i)				

Source: Authors

Table 5: Regression testing the relationships between performance (ROE) and satisfaction (List)

$$IndAdj\,ROE = \alpha + \beta_1 LaggedROE + \beta_2 LogB/M + \beta_3 LogMVE + \beta_4 List + \varepsilon$$

Random-effects GLS regression			Number of obs	229
Group Variable (i): num			Number of groups	40
R-sq	within =	0.166	Obs per group:min	3
	between =	0.7159	avg	5.7
	overall =	0.4774	max	6
Random effects u_i ~ Gaussian			Wald chi2 (4) =	151.44
corr(u_i. X) = 0 (assumed)			Prob > chi2 =	0

Indroe	Coef.	Std. Err.	Z	P > |z|	[95% Conf.	Interval]
roelag	0.287047	0.0388308	7.39	0	0.21094	0.3631539
Logbm	-17.22356	3.164105	-5.44	0	-23.42509	-11.02203
logmve	1.907883	1.341903	1.42	0.155	-0.722197	4.537964
lst	-0.365559	2.049705	-0.18	0.858	-4.382907	3.651788
_cons	-9.159313	4.353086	-2.1	0.035	-17.69121	-0.62742
sigma_u	3.7443804					
sigma_e	10.511656					
rho	0.1125997	(fraction of variance due to u_i)				

Source: Authors

Table 6: Cumulative Abnormal Returns for Companies Entering the List between 2002 and 2007

2002

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	11	1.72%	1.46%	7	4	0.0857	0.3917	
(-7. +1)	11	5.02%	5.39%	11	0	3.269	0.0011	***
(-15. +1)	11	4.87%	4.42%	9	2	2.063	0.0391	**
(-21. +1)	11	4.28%	3.43%	6	5	0.254	0.7999	

2003

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	9	0.37%	-0.24%	5	4	0.293	0.7697	
(-7. +1)	9	0.29%	0.07%	6	3	0.96	0.3373	
(-15. +1)	9	-1.64%	-1.88%	5	4	0.293	0.7697	
(-21. +1)	9	-2.84%	-2.68%	6	3	0.96	0.3373	

2004

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	10	0.27%	0.02%	7	3	1.304	0.1924	
(-7. +1)	10	2.00%	0.88%	6	4	0.671	0.5022	
(-15. +1)	10	1.91%	0.52%	5	5	0.039	0.9693	
(-21. +1)	10	1.38%	0.56%	6	4	0.671	0.5022	

2005

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	7	0.10%	0.02%	3	4	-0.408	0.6836	
(-7. +1)	7	0.43%	0.59%	4	3	0.348	0.7275	
(-15. +1)	7	0.98%	1.01%	4	3	0.348	0.7275	
(-21. +1)	7	-2.72%	-1.25%	3	4	-0.408	0.6836	

2006

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	7	-0.35%	-0.88%	3	4	-0.23	0.8178	
(-7. +1)	7	-7.96%	-8.41%	1	6	-1.745	0.081	*
(-15. +1)	7	-6.04%	-7.40%	2	5	-0.988	0.3234	
(-21. +1)	7	-7.23%	-8.13%	1	6	-1.745	0.081	*

2007

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	10	-0.27%	-0.29%	3	7	-1.072	0.2836	
(-7. +1)	10	0.13%	0.31%	5	5	0.195	0.8453	
(-15. +1)	10	-0.01%	0.52%	6	4	0.829	0.4072	
(-21. +1)	10	-1.88%	-1.14%	4	6	-0.439	0.661	

Source: Authors

Table 7: Cumulative Abnormal Returns for Companies Continuing on the List between 2002 and 2007

2002								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	35	-0.41%	0.30%	16	19	-0.579	0.5625	
(-7. +1)	35	-1.27%	0.37%	15	20	-0.917	0.359	
(-15. +1)	35	0.96%	1.68%	20	15	0.773	0.4394	
(-21. +1)	35	0.91%	1.85%	19	16	0.435	0.6635	
2003								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	40	0.10%	0.00%	20	20	-0.048	0.9616	
(-7. +1)	40	0.40%	-0.13%	20	20	-0.048	0.9616	
(-15. +1)	40	0.27%	0.23%	20	20	-0.048	0.9616	
(-21. +1)	40	-0.93%	-1.11%	18	22	-0.681	0.4961	
2004								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	41	-0.36%	-0.32%	20	21	-0.169	0.8658	
(-7. +1)	41	-0.20%	-0.52%	18	23	-0.794	0.4274	
(-15. +1)	41	-1.50%	-1.67%	13	28	-2.355	0.0185	**
(-21. +1)	41	-2.12%	-2.09%	13	28	-2.355	0.0185	**
2005								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	42	-0.15%	-0.18%	16	26	-1.559	0.119	
(-7. +1)	42	-0.47%	-0.31%	19	23	-0.633	0.5265	
(-15. +1)	42	0.40%	0.39%	23	19	0.601	0.5478	
(-21. +1)	42	-0.12%	-0.21%	19	23	-0.633	0.5265	
2006								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	35	-0.01%	-0.09%	16	19	-0.299	0.7653	
(-7. +1)	35	-0.24%	-0.46%	15	20	-0.637	0.5242	
(-15. +1)	35	0.23%	-0.24%	15	20	-0.637	0.5242	
(-21. +1)	35	1.53%	0.97%	19	16	0.716	0.4738	
2007								
Window	**N**	**Mean CAR**	**Precision Weighted CAAR**	**+**	**-**	**Sign Z**	**p-value**	**Significance**
(-1. +1)	32	-0.46%	-0.49%	13	19	-0.624	0.5327	
(-7. +1)	32	-1.16%	-1.03%	14	18	-0.269	0.7878	
(-15. +1)	32	0.10%	0.13%	17	15	0.795	0.4268	
(-21. +1)	32	0.27%	0.59%	17	15	0.795	0.4268	

Source: Authors

Table 8: Cumulative Abnormal Returns for Companies Exiting the List between 2002 and 2007

2002

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	7	-1.79%	0.14%	4	3	0.52	0.603	
(-7. +1)	7	-5.99%	-2.54%	3	4	-0.237	0.8127	
(-15. +1)	7	-4.36%	1.01%	4	3	0.52	0.603	
(-21. +1)	7	-2.05%	2.92%	4	3	0.52	0.603	

2003

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	8	1.33%	0.37%	3	5	-0.716	0.4738	
(-7. +1)	8	0.98%	-0.05%	2	6	-1.423	0.1546	
(-15. +1)	8	-1.43%	-2.45%	4	4	-0.009	0.9926	
(-21. +1)	8	0.49%	-1.08%	4	4	-0.009	0.9926	

2004

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	9	0.42%	0.44%	7	2	1.772	0.0764	*
(-7. +1)	9	-0.22%	-0.89%	5	4	0.438	0.6614	
(-15. +1)	9	0.64%	0.31%	4	5	-0.229	0.8188	
(-21. +1)	9	0.91%	1.00%	6	3	1.105	0.2692	

2005

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	10	-0.54%	-0.02%	5	5	0.099	0.9211	
(-7. +1)	10	-1.95%	-0.16%	5	5	0.099	0.9211	
(-15. +1)	10	-2.17%	-0.46%	4	6	-0.534	0.5935	
(-21. +1)	10	-1.97%	-0.49%	4	6	-0.534	0.5935	

2006

Window	N	Mean CAR	Precision Weighted CAAR	0	0	Sign Z	p-value	Significance
(-1. +1)	12	-0.69%	-0.25%	7	5	0.746	0.4554	
(-7. +1)	12	0.16%	0.51%	8	4	1.324	0.1854	
(-15. +1)	12	0.69%	0.36%	8	4	1.324	0.1854	
(-21. +1)	12	0.37%	-0.09%	7	5	0.746	0.4554	

2007

Window	N	Mean CAR	Precision Weighted CAAR	+	-	Sign Z	p-value	Significance
(-1. +1)	10	-0.16%	-0.10%	4	6	-479	0.6319	
(-7. +1)	10	0.23%	-0.10%	3	7	-1.112	0.266	
(-15. +1)	10	-1.75%	-1.36%	5	5	0.154	0.8775	
(-21. +1)	10	-4.81%	-3.14%	3	7	-1.112	0.266	

Source: Authors

Conclusion

Prior literature shows mixed results while testing for the link between companies' long term financial performance and employee satisfaction. In this study we do not find evidence to conclude that there is a link between employee satisfaction and long term firm financial performance.

Although prior literature shows mixed results regarding market reaction to the news of employee satisfaction, most of the studies lean towards a positive market reaction. Most of these past studies were done the period of 1998-2002 while the condition of the overall economy was better compared to the past few years (2003-2008). In a booming economy, when the demand for labor is higher than the supply of labor and companies are having difficulties with finding, hiring, and keeping talents, the market values information related to employee satisfaction. However, in the present study we find positive reaction only in 2002, which is consistent with Faleye and Trahan (2011). We find no significant positive market reaction during 2003-2007. When the economy is declining and the supply of labor is higher than the demand, the market tends not to value information related to employee satisfaction. The results of this study provide support for this phenomenon of the market extending the prior literature that tested market reaction for employee satisfaction and other non-financial information. This paper contributes to the literature by providing one of the factors that the market does not take into consideration during economic recession. Whether the market will react differently due to changed circumstances in the future remains a question for the future.

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