Corporate Performance: Identifying a Control Variable for HR – Attitude Studies

Hussein Ismail
Lebanese American University

Recent evidence consistently shows that corporate performance has an important effect on job satisfaction. This study aims to contribute further to this novel field of research by examining the relationship between corporate performance and job satisfaction in a longitudinal study. Results show that corporate performance is associated with job satisfaction. The study discusses the importance of corporate performance as control variable in current HR – Attitude studies. The connection of job satisfaction with HR practices is also discussed. Future research questions are proposed.

The area of research in HR practices and employee attitudes has not received its fair share of research over the years. However, recent studies have attempted to fill this gap by investigating the impact of HR practices on employee attitudes (e.g. Guest and Conway 1998, Macky and Boxall, 2007; Edgar and Geare, 2005; Petrescu and Simmons, 2008; Steijn, 2004; Kalmi and Kauhanen, 2008; Ting, 1997). The underlying argument is that HR practices are associated with job satisfaction, and hence better organizational performance as a result. Indeed, this view may not be surprising given that modern HR practices (Applebaum, et al., 2000) are grounded in principles and theories relating to employee motivation and satisfaction (Schein, 1980). A recent meta-analysis has shown that job satisfaction is related to performance (Judge et al., 2001). HR policies, which unquestionably affect the lives of employees at the workplace, are indeed expected to be a key drive of job satisfaction.

A number of recent studies have established statistically that HR policies are in fact associated with better attitudes (Macky and Boxall, 2007; Ting, 1997). For example, Guest (2002) found that one HR practice, the deliberate attempt to make jobs as interesting and varied is strongly and consistently associated with higher work satisfaction across the four business sectors that were investigated. In addition, across the sample as whole other types of HR practices were also associated with higher job satisfaction. These are keeping people well informed about developments, equal opportunities, practices to limit harassment at work and family friendly policies. On the other hand other HR practices such as performance-related pay and training and development, employee involvement activities, filling vacancies from inside, and a stated policy of avoiding compulsory redundancies were not associated with employee satisfaction. However, it should be worth to note that results have been highly inconsistent across the studies; the same HR practices that correlate with job satisfaction in some studies would fail in other studies (see Harley, 2002). Future research is clearly needed in this area.
CORPORATE PERFORMANCE AS CONTROL VARIABLE

Current HR studies which investigate the impact of HR practices on job satisfaction rightly control for a number of important personal and organizational background variables such as age, education level, marital status, number of children, ethnic minority, tenure, union membership, hours worked, work status, in addition to organization size and sector. It is widely accepted that including control variables is highly important for reliable statistical results. Said differently, neglecting significant control variables in a model may lead to spurious statistical correlation (Yaffee, 2003). Indeed, in current HR-attitude studies (Guest, 2002; Guest and Conway, 1998; Macky and Boxall, 2007), the authors do include several control variables in their models. However, according to my review of the literature, none of the HR-attitude studies include corporate performance as a control variable.

Recent studies have shown that corporate performance has a significant impact on job satisfaction (Schneider, et al., 2003; Harter et al., 2002). The work by Marchington, Wilkinson, Ackers, and Goodman (1994) is worth citing in this regard. In their post analysis of data previously collected as part of a case-study project on worker participation at the workplace in 25 organizations in UK in the period from 1989 to 1991, Marchington and his colleagues (1994) inferred from the worker interviews that that employees’ general attitudes towards their organization seemed to reflect the current financial standing of their organization. In specific, comparing employee interview responses from a sample of six organizations, it was concluded from their work that employee attitudes seemed to be mostly positive in those organizations that were experiencing profits, while employee attitudes in organizations that were experiencing financial difficulties were mostly negative. This was true regardless of the fact that all six organizations examined had a similar management style. Based on what has been said, this suggests that employee attitudes seem to be influenced by the state of corporate performance (i.e. positive financial performance tends to affect employee satisfaction positively, while organizations with negative corporate performance may have the opposite effect on attitudes) as the work of Marchington and his colleagues demonstrate in their review in the area of worker participation. In fact, a recent study by Tsai et al. (2010) who gathered data from employee surveys and management interviews in 32 companies revealed that companies with better business performance had more positive attitudes (overall perceptions of work, job autonomy and the perceived link between reward and performance). Yet another important study by Schneider et al (2003) who analyzed archival data from 35 US corporations over multiple time periods showed that overall job satisfaction was actually caused by financial performance (ROA and EPS), rather than the opposite.

Extending the findings above to the human resource management surveys which statistically explore the effects of HR practices on employee attitudes (job satisfaction), corporate performance may well stand to be a potentially important control variable. In light of the recent studies that demonstrate the impact of corporate performance on job satisfaction (Schneider, et al., 2003), it follows that by failing to include corporate performance as a control variable in HR-attitude studies (e.g. Guest, 2002), erroneous statistical results may occur (Yaffee, 2003). However, given the very small amount of research in this area, more research is needed to boost confidence of our claims that corporate performance has an impact on job satisfaction.

In sum, there is a very small but growing body of evidence which shows directly, or indirectly, the impact of corporate performance on employee attitudes (Ryan et al. 1996; Harter et al., 2002). Further, to my knowledge, only two publications have explicitly examined the relationship (Schneider et al., 2003; Tsai et al., 2010). In fact, Tsai et al (2010) is probably the only publication that looks at this from an HR perspective (however, see Ismail, 2006 for the first, unpublished, study). Consistent with the arguments of those authors, there is clearly a need for further research in this area. This study aims to contribute further to this body of knowledge by explicitly researching the effects of corporate performance on job satisfaction. In addition, this paper adds to the previous studies in a number of ways. Firstly, to my knowledge, this work is the first true longitudinal research which explores the relationship between performance and job satisfaction from an HR perspective. In line with Tsai et al. (2010), there is a real need for a longitudinal study in this field. This study studies job satisfaction explicitly, while the previous
study measured general attitudes towards various aspects of work. Further, whereas Schneider et al., (2003) study follows a longitudinal logic, however, the fact that they analyzed data from a pre-existing dataset with no information on the procedures used during the surveys may limit their generalizations as the authors claim. In addition, their study was not focused on HR, but concerns itself with the general OB discipline. An additional strength of this study is that it relies on employees views (Mabey, et al., 1998). One major gap in the HR literature is that studies which examine employee responses are ironically based on management accounts (Legge, 1995). Finally, the study focuses on the services sector, namely the hospitality sector, which has received less attention in the HR literature.

HYPOTHESIS AND METHODOLOGY

According to the argument above, the main hypothesis for this study is as follows:

\[ H1: \text{Positive financial performance is associated with higher job satisfaction} \]
\[ H2: \text{Negative financial performance is associated with lower job satisfaction} \]

Although HRM is assumed to be highly related to job satisfaction theoretically (Tomer, 2001; Guest 1987), results of studies show that the relationship is weak and highly inconsistent (Harley, 2002). The latter is unsurprising given the fact the HRM remain largely rhetoric (Harley and Hardy, 2004; Truss, 1999; Hallier and Leopold 1996; see also Legge, 1995; Marchington and Grugulis, 2000). In other words, although it is largely held that HR practices related to rewards, training, and job design are supposed to have a high impact on job satisfaction, however many organization do not seem to implement them seriously as research shows. Therefore, it is proposed that the presence of HR practices in the organizations studied here will not maintain positive job satisfaction in a context characterized by low financial performance given that they may not be fully applied after all.

Data was collected as part of a PhD thesis (Ismail, 2006) in the year of 2004. The study was based on the hospitality sector, and in particular the international luxury hotel chains based in the country of Lebanon. A total of 5 international hotel chains had participated in this study, representing nearly 60% of all international hotel chains present in Lebanon (as of 2004). A total of 436 employees had participated in this study, representing an 18% overall response rate. The hotel sector offered two methodological advantages to this study. First, the fact that hotels tend to experience the seasonality phenomenon offered a valid ground to test the main hypothesis whether corporate performance is associated with employee attitudes or not. In other words, occupancy rate falls sharply in certain months is some hotels which results in a low financial performance, and the opposite is true in the other months. Secondly, international hotel chains, and luxury chains in particular are presumed to follow best practice HR (Hoque, 1999) and hence allows us to explore our hypothesis in an HRM oriented organization. The study follows a repeated measure design which represents the main methodological strength of this study (Field, 2004), in contrast to cross-sectional studies which may limit causality links. In three out of the five hotels (Hotels A, B, and C), employees were surveyed twice, with a snapshot study of the two other international hotels (Hotels D and E) which serve as control groups to control for order-effects (Howell, 1999) which may be typical to repeated measure designs (Field, 2004).

Corporate Performance

Following interviews with hotel managers, it was agreed that the months of July and August reflected the hotels’ highest corporate financial performance periods at 85%+ occupancy rate, or high season, while the months of September, October, and November represented their low season where occupancy rate fell short of 50% (low financial performance). Hard financial information was not accessible. An occupancy rate known to the hospitality industry was used as a measure of corporate performance. For example, what is the current occupancy rate in the hotel.
HR Practices

The presence of HR practices was measured via an HR checklist that has been widely used in the British IPD studies (Patterson, et al., 1997; Guest and Conway, 1998). It measured responses to 10 HR practices with a “yes”, or “no” responses. Item examples include, “keeps employees well informed”, and “tries to make jobs as interesting as possible.” The questionnaires were distributed on the spot to hotel managers to verify the presence of HR practices in their hotels.

Job Satisfaction

Employee attitudes, or job satisfaction in particular, was measured with two general satisfaction measures: the Faces scale (Kunin, 1955), a single-item global scale; and the Overall Job Satisfaction scale (Cammann, et al., 1982), a multiple-item global scale. Both are facet-free satisfaction scales measuring overall job satisfaction to one’s job and have been used in a number of studies with success (Fisher, 2000; Weiss et al., 1999; Tekleab and Taylor, 2003; Kickul et al., 2002). The Faces scale (Kunin, 1955) is a single-item measure made of 11 faces where subjects would choose the face that best describes how they feel about their job in general. The satisfaction score for each individual is the value corresponding to the face chosen, starting with the saddest face equals 11, while the happiest face equals 1. The average score of the whole sample would be the sum of the values divided by the number of respondents, with a lower score representing higher job satisfaction. The Overall Job Satisfaction scale (Cammann, et al., 1982) is a three-item scale global satisfaction scale. Responses are on a seven-point dimension (1= Strongly disagree to 7=Strongly agree), and the mean value across items (with one reverse-scored) constitutes the scale score (see Cook et al., 1981). A higher mean indicates higher job satisfaction.

A test-retest correlation of .78 was obtained for the Faces measure (Kunin, 1955) over a two-week interval showing good reliability. Moreover, according to Cammann, Fichman, Jenkins and Klesh (1979) (cited in Cook et al., 1981) the Overall Job Satisfaction scale has good internal consistency, with a Cronbach alpha of .77. With respect to this study the Cronbach alpha obtained was .89.

Procedures

In the three hotels (A, B, and C), more than 500 questionnaires were distributed to employees in each of these hotels in mid July with the intention of surveying the same employee groups again with the same questionnaires in the low season period. In addition, more than 500 questionnaires were distributed to control group (Hotel D) at time 1 in the same period. The questionnaire to be completed by employees contained background info (such as age and gender) and the two job satisfaction instruments. The total number of respondents Responses hotels A, B, C, and D were 335 employees, with 262 respondents being from hotels A, B, and C.

In preparation for time 2 analysis, the respondents from hotels A, B, and C were contacted again for filling the job satisfaction instruments in time 2 - characterized by low corporate performance (September – October). A total of 253 respondents had taken part in both waves of the study out of an original figure of 262 respondant from the three hotels (A, B, and C). In parallel, around 500 questionnaires, also containing background variables and two job satisfaction instruments had already been distributed to control group Hotel E in the same period with a figure of 83 respondents.

Data Analysis

The main hypothesis, that there will be a statistically significant difference in job satisfaction scores from time 1 of high corporate performance to time 2 of low corporate performance will be tested using paired sample t-tests for hotels A, B, and C respondents. Moreover, a one-way analysis of variance test with planned comparisons will be conducted on the data for the three hotels (A, B, and C) to be compared with control group Hotel D at time 1; with the same tests for the for the hotels (A, B, and C) compared with control group E at time 2. This is mainly done to explore if the means of the control groups are different from the rest at times 1 and 2 to test for any order effects present.
RESULTS

HRM

With respect to HRM, all managers in all five hotels had indeed indicated via the HR checklist tool that all 10 HR practices are followed in their organization. This is not surprising given that these hotels are considered to be a group of the finest hotels in the world.

Corporate Performance

At time 1 of the survey, the hotel management claimed that on average they had above 85% as their current guest occupancy rate. This confirmed the expectation that mid of July was in fact the high season context where the hotels have a high number of guests in their hotels and hence result in higher revenues. After three months, in time 2 of the survey, the hotel management claimed that their current guest occupancy rate had dropped below 50% on average. In other words, this finding confirmed our expectation that during these months the revenues of hotels under study had greatly decreased.

Job Satisfaction

The next step in the research was to measure job satisfaction of the same employees in the hotels at two different times. The first time was during the hotels’ high corporate performance period (high season) and the second time was during the hotels’ low corporate performance period (low season). The rationale here was to assess if a change in corporate performance (high vs. low) would produce a change in job satisfaction regardless of HR practices. If the results of this study show that there is a significant change in job satisfaction scores from time 1 to time 2, then this study would have identified an important organizational control variable, that is corporate performance.

Paired sample t-tests were conducted on the three main hotel groups whereby data on participants’ satisfaction (Kunin, 1955; Cammann et al., 1982) in their jobs was collected in the two different times.

Hotel A

With respect to Hotel A, on the Faces satisfaction scale (Kunin, 1955), there was statistically a significant decrease in satisfaction from time 1 (M=4.4127, SD=2.128) to time 2 (M=6.3333, SD=1.967), t(125)=-15.58, p<.0005. The eta squared statistic (.66) indicated a large effect (see Cohen, 1988).

In the second job satisfaction instrument used in this study (Cammann, et al., 1982) for the same hotel, there was statistically a significant decrease in satisfaction scores from time 1 (M=4.8439, SD=1.186) to time 2 (M=3.7566, SD=1.161), t(125)=16.30, p<.0005. The eta squared statistic (.65) also indicated a large effect.

Hotel B

The output of paired sample t-tests for the Face job satisfaction scale showed that there was statistically a significant decrease in satisfaction from time 1 (M=4.5443, SD=2.368) to time 2 (M=6.9873, SD=2.366), t(78)=-4.699, p<.0005. The eta squared statistic (.22) indicated a large effect.

With respect to job satisfaction scores for the second job satisfaction instrument (Cammann et al.,1982), there was statistically a significant decrease in satisfaction scores from time 1 (M=4.7932, SD=1.293) to time 2 (M=3.2996, SD=1.486), t(78)=4.905, p<.0005. The eta squared statistic (.23) indicated a large effect.

Hotel C

Similarly, employee satisfaction in hotel C also differed between the two periods. In terms of the Faces satisfaction scale (Kunin, 1955), there was statistically a significant decrease in satisfaction from time 1 (M=4.5417, SD=1.623) to time 2 (M=6.4375, SD=1.146), t(47)=-8.567, p<.0005. The eta squared statistic (.60) indicated a large effect.

Finally, with respect to responses on the overall satisfaction scale (Cammann, et al., 1982) in hotel C, there was statistically a significant decrease in satisfaction scores from time 1 (M=4.9236, SD=.889) to
time 2 (M=3.506, SD=.663), t(47)=10.081, p<.0005. The eta squared statistic (.68) indicated a large effect.

In concluding this section, one-way analysis of variance conducted on the job satisfaction data for the study group hotels and control group hotels revealed that there were no order effects present as far as this study is considered, therefore boosting the validity of the current results (e.g. Tabachnik and Fidell, 1999; Howell, 2002).

**DISCUSSION AND CONCLUSION**

It has been argued in this paper that surveys which examine the relationship between HR practices and employee attitudes tend to control for a wide number of employee control variables to the neglect of some important organizational control factors which can potentially have an influence on job attitudes. According to the results of this work, corporate performance is highly related job satisfaction. These results are consistent with the results of previous studies (Schneider, et al., 2003), and strengthens further the body of research in this area.

Results from paired sample t-tests indicated a significant difference in job satisfaction scores within the hotels from time 1, where the hotels were experiencing a high occupancy rate to time 2, where the hotels were experiencing a hard financial slow down - confirming the general hypothesis of this study that corporate performance is highly related to job satisfaction attitudes. It follows that a positive corporate performance context was associated with positive job satisfaction attitudes in the workplace, while a low corporate performance was related to low job satisfaction. The results attained here show support to Marchington et al. (1994) arguments related to the influence of corporate performance on the general attitudes of employees. In addition, interestingly, the findings here show that the effect of corporate performance on job satisfaction is considered to be important, as reflected by the large effect size established in the study (Cohen, 1988). Further, given the strength of the study design, as being a repeated measure, involving the same employees being surveyed twice in the same organizations (once during high corporate performance and another time during the low performance) eventually kept the effects of confounding variables at a minimum and further boosted the conclusions of this study (e.g. Field, 2004). Putting this into an HRM perspective, comparing job satisfaction scores longitudinally over two different periods in the same organizations which are following the same HR practices allowed us therefore to assess more accurately the potential impact of our independent variable (corporate performance) on job satisfaction.

Harley’s (2002) study which showed that employee satisfaction was affected by a whole range of unknown variables over and above HR as shown by a very small (r2) in his model fits well within the results of this study. This study, it seems, has identified a powerful control variable in this direction. Given the significance of corporate performance on attitudes as shown in this study, current surveys which explore the relationship between the number of HR practices and employee satisfaction would therefore be limited in the continued absence of corporate performance as a control variable; leading eventually to a spurious correlation (Yaffee, 2003) and misleading management implications. For example, by failing to incorporate the effects of corporate performance on employee attitudes in these HR surveys, the HR-attitude relationships being explored in the current studies may risk being either overestimated during a positive financial performance context, and underestimated during low financial performance context.

Explaining the psychological reasons for this effect is beyond the scope of this paper, however during a low financial context represented by a hotel’s low-season, employees tend to exhibit negative feelings as reflected by their low job satisfaction scores in part two of the study which may be due to low morale in this context (e.g. Hyman et al., 2002).

Regarding our third proposition that HR policies will not maintain positive job satisfaction during the low financial performance context, the results show that HR policies in fact failed to maintain job satisfaction during that period – a disappointing finding for HRM advocates. However, upon closer investigation of this issue at a later date, it was determined from employee interviews that most of the HR
practices aren’t fully implemented, confirming that HRM remains largely rhetoric (Legge, 1995). In other words, although the managers of the hotels confirmed their existence, in reality they were not fully applied to enhance job satisfaction (e.g. Schein, 1980).

LIMITATIONS AND FUTURE RESEARCH

It should be noted that one main advantage of this study is built in the fact that it had employed a longitudinal study design, thereby minimizing potential causality problems common to cross-sectional studies. Nevertheless, as with all studies, study limitations exist. Firstly, the fact that this study has focused on a single sector may limit the generalization of this study to other sectors. It follows that corporate performance, in other sectors or industries may or may not have significant effects on job satisfaction. Secondly, this study has relied upon subjective measures of corporate performance as indicated by managers, and hence may not transform into reliable objective measures of corporate performance. This calls for future studies which tackle those limitations and build further support to the results attained here.

Given the novelty of the relationship between corporate performance and job satisfaction and the importance it has for improving HR attitude surveys and hence management implications, further research in this field is called for. To improve our understanding of this area, more empirical studies are needed across different sectors and industries. Moreover, comprehensive theoretical models are critically needed in this area to understand the underlying variables behind the impact of corporate performance on job satisfaction.

REFERENCES


