

# Quality of “Work Life”

## HAVE YOU INVESTED IN YOUR ORGANIZATION’S FUTURE?

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There are two trends in the global business community that show no signs of changing in the near future: Change is constant, and complexity is increasing. We have to look no further than almost any organization’s information technology processes to see firsthand the significant changes in the way corporations conduct business.

For example, global competition is transforming business, and companies that adapt slowly can face severe consequences. Such a dynamic and complex environment places tremendous pressure on employers to be flexible, visionary, and innovative—all while maintaining profitability.

One important corporate focus is increased attention to what we call “the quality of work life.” While

“quality of life” may describe a person or group’s standard of living, environment, public health and safety, and/or general surroundings, the quality of a person’s “work life” encompasses things that affect their well-being during the working day, such as salary and benefits, facilities, the potential for advancement, and work/life balance.

In the traditional workplace model, employers have attempted to extract as much output as possible without much regard for employee satisfaction. But that model is quickly becoming obsolete, especially with the rise in stress caused by increased complexity in the business world. Many organizations are now spending significant time and resources on initiatives to elevate employee satisfaction.

The effort has gained enough prominence and momentum in corporate America that *Fortune* magazine now ranks companies annually on employee workplace quality. Each January for the past 10 years, *Fortune* has published its list of the “100 Best Companies to Work for in America.” According to representatives of firms on the 2007 list, inclusion is a proverbial feather in the cap. Bruce Chizen, CEO of 31st-ranked Adobe Systems, states that his company is “honored to be named...to this prestigious list.” Other CEOs agree, noting that they are “very pleased,” “delighted,” and “proud” to be nationally recognized as a top place to work.

### ENHANCING VALUE?

Widespread corporate activity on employee initiatives begs the question of whether organizations are acting rationally or irrationally from a business perspective. Investments in workplace quality consume resources that could be used in other ways, and most companies are under tremendous pressure to perform well in the short run. Are companies trading value for worker satisfaction? Anecdotal and empirical evidence suggests that the answer to this question is “no.” Many organizations no longer consider corporate value and employee satisfaction to be at odds with each other. Rather, they believe that expenditures to increase employee satisfaction are value enhancing, for several reasons.

First, as the economy continues to evolve toward a service and information technology focus, an organization’s most valuable “assets” are often its employees, meaning that attracting and retaining them is very important. In particular, employees with expertise are critical for long-term success in managing a company’s complex, dynamic environment. Employee satisfaction is an important tool in attracting and retaining quality workers and developing them into an intellectual capital base that can provide a company with a competitive advantage.

Second, organizations are learning that satisfied employees who believe that their employers care about them personally are more loyal and dedicated to working effectively and efficiently. This leads to a win-win situation: Organizations are more successful, and employees are more satisfied.

Third, evidence suggests that creating a high quality of work life increases an organization’s value. For public companies, market values associated with intellectual

capital and/or the perceived attractiveness of the company to employees can lead to higher stock prices beyond increases attributed to profitability from increased productivity. Thus, by increasing the quality of work life for its employees, the organization is increasing the quality of investment for its stakeholders.

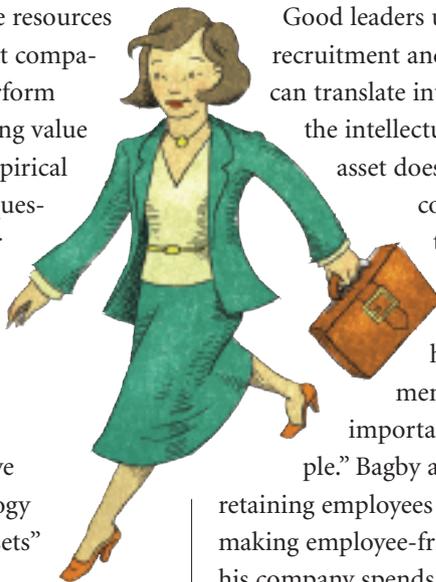
### ATTRACTION AND RETENTION

The CEO of one highly ranked corporation believes that “the foundation of a great business is the people who work there every day.”

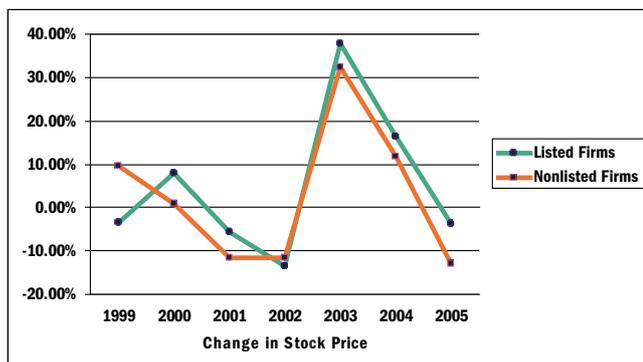
Peter Roberts, CEO of 66th-ranked Jones Lang LaSalle Americas, agrees. “Both our culture and our company’s success demand that we attract talented people, provide them with the resources they need to be the best and serve our clients well, and keep them engaged, motivated, and satisfied throughout their careers.”

Good leaders understand that the successful recruitment and retention of high-quality employees can translate into perhaps a company’s greatest asset: the intellectual capital of its workforce. While this asset doesn’t appear on the balance sheet, companies are quick to acknowledge the value of their workforces. Robert L. Bagby, chairman and CEO of 99th-ranked A.G. Edwards (which has appeared on all 10 lists), comments that he truly believes “the most important asset our company has is our people.” Bagby also recognizes that attracting and retaining employees takes significantly more effort than making employee-friendly statements. He continues that his company spends “a good deal of our time and resources on providing...training opportunities and exceptional benefits that make working here a rewarding experience.”

Anecdotal evidence suggests that an increasingly important step toward attracting and retaining quality employees is to improve the quality of the organization’s work life. Jeffrey Swartz, president and CEO of consistently ranked Timberland, admits that his company has an “obligation to continue to earn” its status as a great place to work. There are many ways to do this. For example, a company might introduce flexible scheduling to attract and retain employees who might otherwise leave. A recent employer survey conducted by Watson Wyatt Worldwide indicated that flexible work schedules were a more effective retention tool than training, above-market pay, and stock options.



**Figure 1: Growth in Year-End Closing Stock Price of Firms with High and Low Quality of Work Life**



While having a high quality of work life is the first step, a second and perhaps equally important step in attracting and retaining quality employees is developing and maintaining a *reputation* for workplace quality. One means to develop this reputation is being included on a list of great places to work and then making such inclusion known. That is, companies can use a list as a benchmark for convincing current and prospective employees that a firm is committed to their needs.

Mark Parker, president and CEO of 69th-ranked Nike, takes this position with regard to *Fortune's* list. "Making the *Fortune* list of best places to work is a big competitive advantage for Nike. It validates the efforts we're making to support our employees. It helps us recruit top talent. And it proves that we can continue to grow and still feel small and personal."

Isadore Sharp, chairman and CEO of Four Seasons Hotels and Resorts, agrees, stating that being on the list year after year "has gone a long way to build our reputation as a top employer."

Consider how public accounting firms are using inclusion on workplace quality lists as a recruiting tool. Deloitte & Touche has been known to announce its ranking in full-page advertisements in several financial publications, including *The Wall Street Journal* and *Newsweek*. Ernst & Young once distributed a letter to accounting academics, stating that "[t]he firm's Office of Retention has been extremely proactive in finding creative and productive ways to motivate our people to stay with [the firm]" and that investments in "recruiting and other people initiatives are shaping Ernst & Young into a remarkable forward-looking company."

PricewaterhouseCoopers has included reprints of *Working Mother's* and *Computerworld's* lists of best places

for working mothers and information technology, respectively, in recruiting brochures for its consulting division. With the first-time listing of KPMG on the most recent list, a strong case can be made for public accounting's concern for its employees, which should help in attracting talent.

Karl Erik Sveiby argues in his 1997 book, *The New Organizational Wealth*, that, unlike depreciable capital assets, knowledge appreciates over time and that as the industrial age shifts into a new age driven by knowledge-based firms, such knowledge will become more critical to organizational success. Organizations such as Nike, Four Seasons, and the Big Four accounting firms appear to have recognized this and are making efforts to attract and retain quality employees to create a dynamic intellectual capital base that will provide competitive advantage for years to come.

## LOYALTY AND PRODUCTIVITY

While there has long been debate about the link between employee satisfaction and workplace productivity, leaders of highly ranked firms seem to believe strongly that there's a positive association between the two. After being ranked first, second, and third in the last three lists, Danny Wegman, CEO of Wegmans Food Markets, states, "People tell us they like shopping at Wegmans because our employees are happy, and that makes them happy. We have always believed that in order to be a great place to shop, we must first be a great place to work."

Matt Schuyler, chief human resources officer of Capital One, puts it this way: "Competitors can offer products we offer in this day and age, but we believe our people and our values make the difference....We provide a great work environment that enables our people to deliver excellence every day."

These beliefs aren't unfounded. For example, take a 1998 *Harvard Business Review* article, "Work and Life: The End of the Zero-Sum Game," in which Stewart Friedman, Perry Christensen, and Jessica DeGroot describe how structuring work environments to benefit employees' needs increases an employer's return. The authors examine several case studies and conclude that successful work and life balances increase employee loyalty *and* productivity. They recommend that organizations follow three important principles in developing such a balance:

- ◆ Clearly emphasize the overall business priorities and objectives of the organization.
- ◆ Recognize and support employees as "whole people" by openly "acknowledging and even celebrating the

fact that they have roles outside the office.”

◆ Continually experiment with the way work is done.

These principles encourage employees to be clear about personal interests, enable skills to be transferred from personal life to professional life, and assist in the development of approaches that enhance an organization’s performance without preventing employees from spending time and energy on outside pursuits.

According to *Fortune.com*, Capital One now provides tremendous flexibility in its work environment through its “Future of Work” project. Armed with a laptop, a Blackberry, and an iPod, employees can visit offices from Boston to Kansas City and find open spaces with desks, booths, couches, and “quiet zones” for undistracted work. Or they can work wherever they are. Since the company began this project on a subset of employees, surveys indicate a rise in employee satisfaction of more than 40%. One featured employee celebrates the fact that she can now work at home before taking care of her children and exercising. That is, she celebrates a work/life balance enabled by her employer.

### SATISFYING THE STAKEHOLDERS

The bottom line of creating a higher quality of work life should ultimately be, of course, the bottom line. While creating happy employees is a worthwhile pursuit, investors probably won’t tolerate excessive perks in lieu of wealth-enhancing investments. Thus, companies should ask themselves whether quality of work life investments will increase financial performance. Dan Amos, chairman and CEO of 73rd-ranked Aflac, says the company’s commitment to being a great place to work “not only makes Aflac an employer of choice, but ultimately translates into maximizing shareholder value.”

Recent research has produced encouraging results for shareholders of companies investing in their

employees. A June/July 2003 article in *Journal of Business Finance & Accounting* examines the stock market’s reaction to announcements that companies made the *Fortune* “Best Companies to Work For” list. Greg Filbeck and Dianna Pierce find a positive abnormal market response to the announcements. In other words, the stock price of companies on the list increased more than expected once the announcement was made. This indicates that investors value positively what the ranking represents.

We found the same positive effect in our 2003 study published in *Accounting Horizons*. We compared market prices of ranked firms to a matched sample of firms not on the list. After controlling for other factors, we found that firms making the list have higher market values than the others. We also found that higher-ranked firms have higher market values than lower-ranked firms. We concluded that investors recognize the value of being a great place to work and reward those companies with higher market values.

To see the potential effects long-term quality of work life investments have on shareholder wealth, we recently examined the growth in stock price of the 12 publicly traded companies that have appeared on all 10 of *Fortune’s* lists. *Fortune* refers to these and the additional six nonpublic companies as All-Stars.

We calculated the growth in the year-end stock price for these companies and compared it to that of companies with lower work life quality. To identify lower-quality firms, we took each of the All-Stars and identified the company in the same industry that was closest in size to the All-Star but wasn’t on the list (see Figure 1).

In five of the seven years studied, the annual change in stock price was more positive for the All-Stars than for the other companies. While these results are by no means conclusive, they demonstrate again what prior

**Table 1: Common Benefits of Companies on *Fortune’s* “100 Best Companies to Work For” Lists**

[Most to Least Frequent]

Child-care resource and referral
Relocation services
Career counseling
Casual dress every day
Elder-care resource and referral
Stock options for every category of employee
On-site ATM/Banking
Adoption aid
Mentoring programs
Flextime
Subsidized cafeterias
Dry-cleaning services
Flextime case by case
College-planning assistance
Reduced-hour employment
100% tuition reimbursement
Home-purchasing assistance
Unpaid educational sabbaticals
On-site child care
Compressed workweek
Individual financial counseling
Group auto insurance
Group homeowner’s insurance
Group prepaid legal services
Job sharing
Take-home meals
Telecommuting
No-layoff policy
Paid educational sabbaticals
Personal concierge services
Overnight dependent child care

**Table 2: Unusual Benefits of Companies on *Fortune's* “100 Best Companies to Work For” Lists**

BENEFITS	FIRM
20 days of free backup care for 3- to 6-month-olds	Goldman Sachs
On-site dentistry	Station Casinos
Paid week off for new grandparents	MBNA
Free restringing for tennis racquets	SAS Institute
Professionally made take-home dinners; cruises on the company yacht	JM Family Enterprises
Pregnant employees can take a paid month off before their due date	Eli Lilly
Every employee got a \$250 gas card in 2006	Methodist Hospital
Use of the company plane for family emergencies	BE&K
Dinner with the president and CEO after 10 years	Cerner
A free stay at any company-run hotel	Four Seasons
Free ride in jump seat of company planes	Federal Express
Unlimited accumulation of unused vacation time	Qualcomm
Pet insurance	Timberland
24-hour fitness center for workers and families	3COM
Annual three-day kickoff event at a resort for all employees	Scitor
\$4 on-site haircuts	Worthington Industries
Health club reimbursement if you go three times a week	Synovus
\$10,000 total benefit for infertility treatments and adoption aid	CMP Media
\$1,500 to \$10,000 to employees who recommend a new hire	Deloitte & Touche
10 paid hours a month for volunteer work	Fannie Mae
Free ice cream when team is in first place and increases lead	Los Angeles Dodgers
35 extra vacation days on 10th year and every fifth year after	Moog
Free lunch every day for all employees at 60 Wall Street	J.P. Morgan
Child care for \$200 per month and pianist in cafeteria	SAS Institute
Automatic contribution of up to 10% of pay every year	Shell Oil
1,200-acre camping and recreational area for employee use	Steelcase
\$50 to take annual physical, \$200 reward if vital signs are okay	Synovus
Life Cycle account of \$10,000 to help employees cross major thresholds such as buying first house or paying tuition	Xerox

research shows and what many CEOs believe—that investment in employees creates shareholder value.

### IMPROVING WORK LIFE QUALITY

Providing a work environment that creates a real and/or perceived high quality of work life isn't an easy task. Higher salaries don't necessarily appear to be the answer. While workers certainly want to earn as much as possible, the stress of balancing work and home life, among other issues, generally causes much greater concerns.

So, if providing higher salaries isn't the answer, how is a company to address this issue? Some of the most com-

mon benefits companies on *Fortune's* lists offer include child- and elder-care resources, flextime, and career counseling (see Table 1). More unusual benefits include on-site dental care, cruises aboard the company yacht, and free restringing of tennis racquets (see Table 2).

An interesting point is that some benefits, such as mentoring programs and casual dress, aren't costly. The common element of the most popular benefits appears to be the reduction of the stress associated with balancing personal and company responsibilities.

### INVESTING IN THE FUTURE

Based on the anecdotal and empirical evidence, attention to quality of work life issues is increasing in corporate America. Organizations of all types find it worthwhile to invest in employee satisfaction, especially in an economy that is perpetually increasing in complexity.

Such investments allow organizations to attract and retain quality employees, develop an intellectual capital base, motivate employees to be more productive, and garner higher value. As the financial press, researchers, analysts, and investors continue to follow these developments, more concrete evidence should be generated that identifies the extent to which these investments add value. We would be surprised to find that quality of work life doesn't play an important role in helping organizations

of all types to prepare themselves to succeed in the near and distant future. ■

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