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# Employee well-being at work and early retirement intentions in medium and high-performance companies

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## **Abstract**

*This study focuses on differences in employee work ability, organizational commitment and justice, and early retirement intentions according to company performance in the metal industry and retail trade. Employees in medium-performance metal industry companies perceived their work ability poorer and experienced less organizational commitment and justice compared to employees in high-performance companies. Early retirement intentions among retail trade employees were more frequent in medium compared to high-performance companies. The findings are in line with those of earlier studies on employee attitudes and company performance, but may also indicate the existence of dual causality between employee well-being and company performance.*

**Key terms:** Early retirement intentions, work ability, organizational commitment, organizational justice, company performance

## Introduction

In years to come, human resources will be in danger of becoming scarce due to the ageing of the Western workforce. The national implications of the changing age demographics concern the possible loss of knowledge, labor shortages, and problems in short-term funding of pensions (1). Managing retirement-related decisions will become more important for the organizations in the future. Some companies and public organizations are struggling to find competent employees to replace those who are retiring (2), whereas others introduce early retirement incentives, phased retirement, and job sharing in order to downsize and restructure their human resources in times of economic recession or when faced with outsourcing needs (3).

Human resources have become an increasingly important asset for companies in the twenty-first century. According to the resource-based theory of the firm, they can provide a source of sustained competitive advantage for an organization (4–5). Studies have revealed that employee attitudes, such as affective commitment, job satisfaction, and employee engagement are at least to some extent related to company performance (6–9). These findings may also indicate that there is a dual causality between employee well-being and company performance. More specifically, the causal arrow can go from management practices and employee attitudes to organizational performance and back (10). Financially and market successful companies are likely to have resources to invest in their employees' satisfaction and well-being (8, 10).

Compared to employee attitudes, early retirement is typically seen as a form of job withdrawal (employee behavior) concerning older employees (11). It has been established that poor employee health, work ability and well-being at work contribute to early retirement intentions (12–15). Even if some older employees are more prone to retire early than their younger counterparts, it does not mean that older employees are in general less productive in organizations. Ng and Feldman (16) in their study found that by and large older employees were as motivated to contribute to their organizations as younger ones.

## Objectives

The aim of this study is to explore differences in employee work ability, organizational commitment and justice, and early retirement intentions according to company performance in the metal industry and retail trade.

## Methods

Data for this study were collected in 2007 from companies and their employees in the metal industry and retail trade by the Finnish Institute of Occupational Health. In the present study, a total of 506 questionnaires were sent out to the managers (typically a managing director or entrepreneur) of the randomly selected companies in various regions of Finland. Altogether 129 [n (metal industry) = 82, n (retail trade) = 47] acceptable questionnaires were returned, which yielded a response rate of 25.5 percent. This rather low response rate compares favorably to those of similar studies (17–18). A total of 54 percent of companies participating in the managerial level survey decided to participate in the employee survey. In all, we obtained 1,281 acceptable employee responses. For the purposes of this study we included 1,091 employees [n (metal industry) = 634, n (retail trade) = 457] (lower and upper management excluded).

Managers' perception of company performance was measured using a 10-item scale based on Delaney and Huselied's (19) scale of perceived organizational and market performance. Managers were asked to evaluate their current performance compared with their competitors in terms of the quality of products /services, market share, growth of sales, profitability, liquidity etc. The five-point Likert-type answers varied from 5 ("much stronger") to 1 ("much weaker"). The reliability of the scale proved to be good (Cronbach's Alpha = 0.887). For the purposes of this study companies were classified according to performance into two groups in both industries: 1= medium performance

(metal industry 45.6 % and retail trade 63.0 %), 2= high performance (metal industry 54.4 % and retail trade 37 %). None of the companies were classified as low performance.

Perceived work ability, organizational commitment and justice, and early retirement intentions were controlled for at the employee level. The Work Ability Index was used to assess perceived work ability (20). The scale indicates balance between work and personal resources from the point of view of occupational health, well-being, and coping (21). It comprises seven items, which measure employees' subjective estimation of their current work ability compared with lifetime best, work ability in relation to the physical and mental demands at work, the number of diseases diagnosed by a physician, a subjective estimation of work impairment due to disease, absence due to sickness during the past year, and own estimation of work ability and psychological resources after two years. Scores range from 7 to 49 points.

Organizational commitment was measured using a 6-item Likert-type scale (Cronbach's Alpha = 0.830) ranging from 5 = "agree totally" to 1 = "disagree totally" based on Porter et al. (22) and Steers (23). The 12-item Likert-type scale (5 = "agree totally" to 1 = "disagree totally") on organizational justice comprised distributive, procedural, and interactional justice dimensions (24). Reliability of the scale proved to be good (Cronbach's Alpha = 0.927).

Self-reported information on employee early retirement intentions was collected with the question: "Have you ever considered retiring before your full retirement age?" The respondents were classified into two categories: 1 = "no early retirement intentions" ("no, I have not considered retiring before full retirement age") and 2 = "weak or strong early retirement intentions" ("I have sometimes considered retirement before full retirement age", "I think about retirement constantly", and "I have already applied for retirement"). Information regarding employees' age was collected in 2007 from the respondents.

T-test and  $\chi^2$ -test were used to explore differences in employee work ability, age, and early retirement intentions according to company performance. All statistical analyses were performed with SPSS (15.0).

## Results

Means, standard deviations, and percentages of the study variables are shown in Table 1 for the metal industry and retail trade. The mean company performance perceived by managers for the total sample was 3.7 (SD = 0.53, n = 1033, range 3.5-4.9). Mean age of employees was 42.0 (SD = 11.8, n = 1079, range 16-66 years). Metal industry employees were older than retail trade employees ( $t = 4.728$ ,  $df = 1077$ ,  $p < .001$ ). The mean Work Ability Index score for the total sample was 41.5 (SD = 5.7). The work ability of retail trade employees was statistically significantly higher than in the metal industry ( $t = 3.272$ ,  $df = 1020$ ,  $p < .001$ ). Overall, employees evaluated their perceptions of organizational commitment and justice to be quite high (mean = 3.5, SD = 0.9 and mean = 3.3, SD = 0.9 respectively). Both of these indicators received statistically significantly higher values among retail trade compared to metal industry employees. Finally, more than 60 % of the employees reported experiencing early retirement intentions. Early retirement intentions were especially frequent in the metal industry (68 %,  $\chi^2 = 20.232$ ,  $df = 1$ ,  $p < .001$ ).

**Table 1.** Descriptive statistics of study sample in the metal industry and retail trade.

Variables	Metal industry	Retail trade	$\chi^2$ -value, t-test†
Company performance, mean $\pm$ SD	3.7 $\pm$ 0.5	3.9 $\pm$ 0.5	6.759***
Age, mean $\pm$ SD	43.5 $\pm$ 11.2	40.1 $\pm$ 12.3	4.728***
Work ability, mean $\pm$ SD	41.1 $\pm$ 6.1	42.2 $\pm$ 5.1	3.272***
Organizational commitment, mean $\pm$ SD	3.3 $\pm$ 0.9	3.6 $\pm$ 0.9	4.577***
Organizational justice, mean $\pm$ SD	3.2 $\pm$ 0.9	3.4 $\pm$ 0.9	3.439***
Early retirement intentions, % (n)			20.232***
No	32 % (187)	46 % (189)	
Yes	68 % (403)	54 % (225)	
Total	100 % (590)	100 % (414)	

† Categorical variables analyzed using the chi-square-test, continuous variables with t-test, \*\*\* $p < .001$

Work ability, range 7-49, organizational commitment and justice, range 1-5

Independent-samples t-test and  $\chi^2$ -test analyses were used to explore differences in employee work ability, age, and early retirement intentions according to company performance. The results are shown in Table 2. In the metal industry, statistically significant differences were found between medium and high performance companies. Employees in medium performance companies reported poorer work ability ( $t = 3.121$ ,  $df = 588$ ,  $p = .002$ ), organizational commitment ( $t = 6.089$ ,  $df = 608$ ,  $p < .001$ ) and organizational justice ( $t = 4.566$ ,  $df = 590$ ,  $p < .001$ ) compared to employees in high-performance companies. Corresponding differences were not detected among employees in the retail trade companies. Instead, employees in medium-performance retail trade companies reported significantly more early retirement intentions than did employees in high performance companies ( $\chi^2 = 9.869$ ,  $df = 1$ ,  $p = .002$ ). No differences in early retirement intentions were detected between medium and high performance metal industry companies.

**Table 2.** Employee work attitudes and early retirement intentions according to company performance in the metal industry and retail trade.

Variables	Metal industry		Retail trade			t-test, X <sup>2</sup> -value
	Medium performance	High performance	t-test, X <sup>2</sup> -value	Medium performance	High performance	
Work ability, mean ± SD	40.4 6.3	41.9 5.8	3.121***	42.1 5.2	42.2 5.1	0.190
Organizational commitment, mean ± SD	3.2 0.9	3.6 0.8	6.089***	3.6 0.8	3.6 0.9	0.766
Organizational justice, mean ± SD	3.0 0.9	3.4 0.9	4.566***	3.4 1.0	3.3 0.9	1.204
Early retirement intentions, % (n) <sup>†</sup>			1.947			9.869***
No	29 % (90)	34 % (94)		38 % (88)	55 % (77)	
Yes	71 % (221)	66 % (180)		62 % (142)	45 % (63)	
Total	100 % (184)	100 % (401)		100 % (230)	100 % (140)	

\*\*\*p<.001



## Discussion and Conclusions

This study showed that employees in medium-performance metal industry companies perceived their work ability poorer, experienced less organizational commitment and justice than employees in high-performance companies. In addition, early retirement intentions among retail trade employees were more frequent in medium than in high-performance companies. These findings offer support for earlier studies on employee attitudes and company performance (6-9), but may also indicate the existence of dual causality between employee well-being and company performance (8,10).

The differences in the well-being between metal industry and retail trade employees in terms of company performance merits further attention. This finding might indicate on a more general level that the connections between employee well-being and performance differ according to industry. In a study by Datta et al. (17), the impact of high-performance work systems on labor productivity in US-based, publicly traded manufacturing firms was influenced by industry capital density, growth, and differentiation. Becker and Huselid (25) encourage researchers to take into account the significance of a differentiated HR architecture not only across, but also within companies. A previous, tentative finding in the current study indicated similar results regarding differences according to industry (26). Possible explanations for this finding were related to the nature of the industry in the larger retail trade companies. In these companies, the volume of regular customers and store size can be crucial in terms of profitability and higher company performance.

Despite the strengths related to the fairly broad employee and organizational level self-reported data and thoroughly validated scales, this study is not without limitations.

This study is based on cross-sectional, self-reported data, which raises the question of causality. Although several cross-sectional studies on (high-performance) human resource management practices and company outcomes (27–28) have been reported, these studies have not

been able to address the issue of causal order. Studies have suggested that successful companies measured by financial and market performance would have resources to invest in their employees' satisfaction and well-being (8,10). Establishing whether a dual causality between HR practices and company performance exists would be possible by obtaining predictive data on company performance (10). Further, because this study was conducted within two industries, the question of generalizing the results to other industries arises. Collecting data from various industries, including the public sector, would increase the potential for generalization of results.

In sum, there appears to be a relationship between employee well-being in terms of work ability, organizational commitment and justice, early retirement intentions, and company performance. It indicates that investing in the development of employee health and management practices is financially beneficial for companies.

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