

# The Impact of Employer Brand on Corporate Financial Performance

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**Abstract.** The popularity of employer brand in the practice and the lack of empirical research challenge management scholars. From brand and recruitment literature, this study explained the logical relationship between employer branding and organization performance. The results indicated the employer brand facilitates listed company's financial performance, which relation tested by the regression analysis of the employer brand score and return on equity of 98 listed companies from mechanical industry and financial industry. But the industry variable does not have moderate effect.

**Keywords:** employer brand, internal and external marketing, recruitment, financial performance.

## 1. Introduction

Employer branding is popular in human resource management in recent years <sup>[1-4]</sup>. A list of reports such as The Best Employer, The Best Respected Companies, The Best Attractive Companies are headlines of commercial newspapers <sup>[5, 6]</sup>. Since 2002, "The Best Employers for Chinese Graduates" held by ChinaHR.com was the most influential employer brand survey in China. Employer branding becomes the most important competitive strategies of the companies such as Microsoft, P&G, and Google to realize their globalization and localization that they will attract and retain high-quality employees <sup>[6]</sup>.

With the advent of the knowledge economy and the further adjustment of industrial structure, enterprises demand more high value-adding professional and technical employees. How to attract and retain competent people is very significant for them. The employer brand will positively influence job applicants' decisions for their desired jobs when competitive companies want to recruit the same applicants. What's more, an excellent employer brand, particularly in service industries, would increase the attractiveness of the enterprises, promote their reputation, help employees accept the corporate culture, and then successfully retain them <sup>[3, 7]</sup>.

The practice of the employer brand has become more and more popular, and been paid attention by some scholars in China, but the empirical study on the impact of the employer brand on the enterprises' performance is not adequate <sup>[4, 8-10]</sup>. In this paper, we summed up the concept of the employer brand from brand and recruitment literature, then empirically studied the logical relationship between the employer brand and listed companies' financial performance.

## 2. Theory and Hypotheses

### 2.1. The employer brand

Bijapurkar (1990) is the first scholar who put forward the concept of employer brand <sup>[11]</sup>. We reviewed the concept of employer brand from the research of brand and recruitment as follows:

From the view of brand, the employer brand is one of the most important assets in an enterprise and a key to its management. According to Keller (1993), brand image is "an amalgamation of the perceptions

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related to the product-related/non-product-related attributes and the functional/symbolic benefits that are encompassed in the brand associations that reside in consumer memory"<sup>[12]</sup>. Product-related attributes describe the product in objective and tangible terms and related to functional benefits that are derived from using a product or service. Non-product-related attributes represent consumer's mental imagery and inference about a product rather than what they think the product does or does not correspond to the symbolic benefits that consumers seek to fulfill their social approval and personal expression needs. Based on this, Ambler and Barrow(1996) redefined it as "the package of functional, economic and psychological benefits provided by employment, and identified with the employing company"<sup>[13]</sup>. Lievens and Highhouse(2003) considered that the instrumental attributes of employer brand are salary, welfare, career promotion and development and so on which are provided by enterprises; the symbolic attributes of employer brand is the delight derived from employees who subscribe to the organizations' principles or enjoy working there<sup>[14]</sup>.

Sutherland et al. (2002) hold that the employer branding is a process that the employers establish and create the brand of their companies, and achieve employer selecting by marketing . Backhaus & Tikoo (2004)considered that external marketing of the employer brand make the company popular in the job applicants, and thereby enables it to attract the best ones; internal marketing helps employees systematically understanding the value proposition of the employer brand and the corporate goals, which aims to achieve a unique corporate culture<sup>[1]</sup>. Moroko & Uncles(2008)showed that there are two key dimensions of success for an employer brand: attractiveness and accuracy<sup>[3]</sup>. Attractiveness is based on its popularity, differentiation and fidelity. But accuracy highlights the consistency between the employer brand and employment experience, company culture and value.

From the view of recruitment, the employer brand display company's symbol and value to the applicants during the recruitment process. In the early stages of the recruitment, the applicants only have little information of jobs or organizations that they are likely to obtain or work in. Based on the brand information, they will decide to accept the job or not<sup>[15, 16]</sup>. Turban's (1998) study showed that the potential applicants' perceptions of recruiters behavior and organizational characteristics are positively related to a company's perceived attractiveness as an employer<sup>[17]</sup>. Berthon et al. (2005) pointed out that employer attractiveness included five dimensions: (1) Interest Value, which means that employer provides exciting work environment to encourage employees produce high-quality, innovative products and service. (2)Social Valueprovides harmonious colleague relationship and teamwork. (3)Economic Value provides above-average salary, compensation package, job security and promotional opportunities. (4)Development Valueprovidesopportunity for employees to gain recognition, self-confidence and self-worth. (5)Application Value provides opportunity for employees to learning and to teaching others in customer orientation and humanitarianenvironment<sup>[18]</sup>. Knox &Freeman (2006) indicated that the attractiveness of the employer brand image positively correlates with application intention among graduate recruits. And the perception of employer brand image is dramatically different between the internal corporate and the external corporate<sup>[7]</sup>.

Recently, Employer brand research started in China. Fang Weiping & Li Yuanxu(2006) put forward the employer brand conceptual frameworkand illustrated the process of the employer brand management<sup>[10]</sup>. Besides, they have showed how to design the employer brand through "NBA" model and brought forward the frame which called "Strategic Human Resource Via Employer Brand Management " based on "Gear Model". Yin Zhiping(2007)introduced the dimensions of employer attraction, discussed the process of the employer branding, market segmentation and so on<sup>[4]</sup>. Meng Yue(2007) expounded the concept of the employer brand and discussed the management and the construction of the employer brand<sup>[19]</sup>. Zhu Yongguo et al.(2008), evaluated employer brand assets from the angle of absolute value and relative value, summed up the evaluation model of internal and external employer brand<sup>[9]</sup>. In addition, they developed a survey aiming at employers, human resource departments, current employees, and potential employees and so on. What is more, they concluded the status and the fruit of the employer brand management through the analysis on cases of29 Chinese best employers.

In this study, we suggest that the employer brand have two dimensions: External and Internal employer brands. The external employer brand makes the job applicants havea positive image about the employer brand which also improve the employer image to attract more excellent talents. The internal employer brand

helps the current employees recognize the company and strengthens their fidelity to the company, so the employees would be willing to devote themselves to the company, and the company will make a better performance.

## 2.2. Employer brand and financial performance

Amber and Barrow<sup>[13]</sup> pointed out that the most interesting research was: could the employer brand bring the companies better profit performance? This research is established on the logical basis that the human resource can create profit for companies.

From the view of resources, the resources give the company continuous priority if only the resources are rare, precious, irreplaceable and not easy to copy<sup>[20]</sup>. And human resource is taken as the most valuable and developing one, which can bring continuous priority to companies. Human resources includes techniques, knowledge and behaviors of employees, as well as the controlling system, habits and learning systems which are difficult to copy<sup>[21-23]</sup>.

With the growing competitions in labor market, the companies attempt to attract, stimulate, promote and retain excellent employees by means of strategic human-resource practice. The relationship among strategic human-resource practice, flow rate of employees, financial performance and the market value has been verified<sup>[24]</sup>. Besides, Huselid (1995), Delery and Doty (1996) and Huselid et al (1997) have proved that the human-resource practice has positive influence on profit (ROA)<sup>[25-27]</sup>. Huselid (1995) found that the sales has increased 27,044 dollars, the market value has increased 18,641 dollars, the profit has increased 3,814 dollars after high-performance practice has been implemented.

The employer brand will improve the employees' loyalty to their employers which will directly influence the production efficiency with the employees' identification to their employers. Meanwhile, it will decrease the employee turnover rate. Employees with low loyalty to their employers will bring the core technology and important clients to the competitive employers when they leave, which will bring a lot of loss to the original employers. On the contrary, the companies with excellent employer brand will enhance the satisfaction and loyalty of their employees. John Whitt Global Best Employers Investigation showed that the scores of the employees in the best employers is 20% higher than other employers, especially in Asia, it is closed to 40%, and the employee turnover rate is 1/3 lower<sup>[28]</sup>. The researches on the cases of SEARS made by Rucci et al.(1997) clearly showed that how the construction of the employer brand improve its employees' work attitude and clients' satisfaction, thereby increase the profits of the company<sup>[29]</sup>.

It becomes an important part of the employer strategy for many companies to be a best employer. The employees in the best employers are highly involved themselves in their work and are better committed to their employers, which will make them have better performance and publicize their employers positively because they trust their employers. Fulmar et al.(2003) found that a positive relationship between the employers and the employees could improve the organization performance<sup>[5]</sup>. It is a powerful marketing tool to be a best employer which could bring the comfortable working environment and good humanistic atmosphere to the public and consequently attract and retain their employees<sup>[30]</sup>.

Foreign scholars have discussed the relationships between the best employer and the organization performance whose results prove the importance of the practice of the employer brand. However, there aren't the empirical studies on this topic in China. Thereby, we put forward:

***Hypothesis 1: It is a positive correlation between the employer brand and the listed companies' financial performance.***

The industry background plays a quiet important role in the formulation and implementation of an organization's policy. The formulation of the employer brand is influenced by the industry. The industry image is more and more important, especially in the capital market<sup>[31]</sup>.

Most of previous scholars studied on the impact of the employer brand on the organization from the aspects of the employer brand image, the employer attractiveness, the employee satisfaction, labor capacity and so on which don't include the industry<sup>[18, 32-34]</sup>. However, the characteristics of an industry such as capital intensity, market development, industry vigor and so on will adjust the organization performance. Datta et al. pointed that it will bring more profits to invest the employees in some industries<sup>[35]</sup>.

Predictably, the industry might influence the relationship between the employer brand and financial performance. So we choose the representative service labor-intensive industry and the labor-intensive industry to study the moderate effectiveness of the industry to the relationship between employer brand and organization performance. So we put forward:

*Hypothesis 2: It has difference in the impact of the employer brand on the listed companies' financial performance in the service labor-intensive industry and the labor-intensive industry.*

### **3. Methods**

#### **3.1. Sample**

The listed companies pay a lot of attention to the construction of the employer brand whose information disclosure is comparatively standard and financial data is easy to access.

The machinery industry is a capital, technology and labor intensive industry. The Machinery industry is facing severe competitions of talents. The financial industry is a knowledge intensive service industry so it is more obvious that the knowledge and skills of the employees will facilitate its development. The financial industry is lower labor intense, higher salary and better working environment and the probability of its core employees leaving their employers is quiet large. The construction of the employer brand is more important in the financial industry and the machinery industry.

There are 109 listed companies in the machinery and 33 listed companies in the financial industry. To ensure the validity of the data and eliminate the influence of exceptional samples on the study, we eliminate the SST whose finance worsened, some companies whose data are inadequate and the companies are listed after 2006, so there are 98 samples at the last.

#### **3.2. Measurement**

**The employer brand:** The study on the employer brand is an extension of the study on the brand in the field of human resource management, so the survey on the employer brand can use the evaluation way and model from brand study.

According to the five dimensions of the employer attractiveness given by Berthon and others (2005) and the measurement model of the employer brand built by Knox and Freeman (2006), we select the following five points to evaluate the enterprises' employer brand: enterprises' culture, enterprises' brand, leaders and management style in the enterprises, salary and welfare and personal career development (called "the evaluation model of the employer brand" for short). This model includes external employer brand and internal employer brand which is a comprehensive evaluation on the employer brand. According to the survey of the human resource policy by internet and traditional media, we collected some related information about the human resource management policy and practice from the sample enterprises' interview records, internal files, enterprises' websites, recruitment advertisement and news reports, and then evaluated and graded their employer brand based on the information. Employer Brand Score or EBS adopts a 5-point scoring system, which we will give the score from 1 to 5 to the performance of every aspect in the evaluation model of the employer brand, totaling 25 points for five aspects. For instance, if we evaluate the salary and welfare in an enterprise, we will grade it from the following five aspects: A. the salary policy is detailed and transparent and the salary is paid on time; B. it has a good performance evaluation mechanism; C. it has an complete medical service safeguard system; D. it has a reasonable vacations system; E. it provides a good working condition and environment for its employees. If the enterprises does one of the above five aspects, we will score it one, totaling 5 points. According to EBS, we can know whether the construction of the employer brand in enterprises is good or not. Moreover, we adopted the below scoring means: A. three persons scored all the sample enterprises separately; B. every score was supported by the keywords of scoring; C. when the scoring was finished, we recorded everyone's scores and then revised them one by one. At last, we chose the average of three scores on the same enterprises as a final result, which makes sure that the results are objective and valid.

**Return on equity (ROE) and the Industry Factors:** Considering to the availability of the data, we select the ROE as the index to measure the enterprise's financial performance because the stock market mechanism

in China is not perfect which is vulnerable to the policy and environment, and the volatility of the stock market price is high which is also different from its actual value.

We collected the accounting information of the listed companies in the financial industry and the machinery industry from 2006 to 2009 without some listed companies with incomplete data, totaling 98 companies in four years. All data are from the annual financial reports of the listed companies disclosed in cinifo.com and related information on the financial channel of sina.com.cn. The ROE used in the ending of the paper is the average of four-year data.

Control variables: The founding years of an enterprises (Year) and the size of the enterprises (Size) Year is calculated from the difference between the founding year of the enterprise and the time on the accounting data reported to the governmental management department (Aug. 29, 2009). There are differences in the financial performance of the enterprises with different size. Size is taken registered capital as the control variable.

## 4. Results

The results are listed in Form 1. It takes ROE as the dependent variable and put Year and registered capital as the control variables into the first equation, which is Model 1; it takes the total scores of the employer brand as the independent variable and put them into the second equation, which is Model 2. In Model 2, the human resource index explains the 15.8% increase of net income growth rate ( $P < 0.05$ ). That's to say, the construction of the employer brand has obvious influence on ROE, so Hypothesis 1 is true. In Model 3, the efficient of  $M = \text{industry} * \text{EBS}$  is not significant ( $P = 0.131 > 0.05$ ), so Hypothesis 2 can't be tested.

Tab. 1: Hierarchy regression analysis (N=98)

Variable	Model 1			Model 2			Model 3		
	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig.
Year	-.241	-2.394	.019	-.234	-2.435	.017	-.195	-1.975	.051
Size	.123	1.225	.224	.002	.021	.983	-.066	-.589	.558
EBS				.330	3.249	.002	.376	3.571	.001
M							-.160	-1.524	.131
$\Delta R^2$			.063			.095			.021
Sig. F			.045			.002			.131

The testing results that the mean value of respective samples of EBS and ROE in the machinery industry and the financial industry shows that: the average EBS in the machinery industry is 10.99, lower than 14.98 in the financial industry, and the difference is large; ROE in the machinery industry is 10.35%, lower than 17.94% in the financial industry, and the difference is large, too. So the financial industry should pay more attention to build the employer brand for better return.

## 5. Discussion

Theoretically, this research supports the hypothesis that the employer brand could improve the financial performance of the listed companies. With an excellent employer brand, the companies are easier to attract and retain their employees and make a better financial performance, but we don't prove the hypothesis that there are differences in the impact of the employer brand on the listed companies' financial performance in service intensive industry and labor intensive industry.

But this research has some limitations: (1) limited samples (only machinery industry and financial industry); (2) limited related financial performance (only the average of ROE in 2006 to 2009); (3) the means of evaluation on the employer brand need to be improved.

Practically, enterprises pay more attention to the employer brand. It is a long way to build an excellent employer brand. From internal and external marketing this study pointed the keys to employer branding. The external marketing of employer brand should pay attention to the following points: (1) to have overall knowledge of the employer brand and build a unique employer brand image in the workforce; (2) to promote employer brand through large-sized recruitment activities and improve its influence to the public; (3) to communicate the employer brand by various means and improve the attractiveness of the employers. The

internal marketing should pay attention to the following aspects: (1) to cultivate excellent enterprises' culture and formulate the employer brand suitable for the employers; (2) to improve the employees' achievability, sense of growth and belongings continuously to enhance the internal feelings about the employer brand and the loyalty of the employees; (3) to strength the maintenance of the employer brand and buildan efficient information communication system and good working environment in which the employees can work happily. With the effort of internal and external marketing, the enterprises are not only able to attract excellent job applicants and encourage and retain committed employees, but also able to attract high-level clients; thereby produce more performance for the enterprises.

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