Sustainable Finance: Interactions of Corporate Governance and Employee Job Satisfaction

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CHAPTER 1

Theoretical Framework

I. Introduction

In an era of heightened corporate transparency, greater workforce mobility, and severe skills shortages, culture, engagement, and retention have emerged as top issues for business leaders. These issues are not simply a Human Resources problem (Deloitte University Press, 2015). Nowadays, that new technologies have emerged and the job market has become more diverse, it seems more important and at the same time more difficult for companies to attract and retain skilled and valuable workforce. In addition, the transparency that a plethora of social media websites like LinkedIn and Glassdoor provide, have increased the exposure of the companies' profiles and made it easier for employees to decide on whether a company's culture and environment is the best-fit for them. Job opportunities are instantly available to the public making it more difficult for businesses to retain their employees, especially when the working environment, conditions or job function are not the desirable. It seems critical for companies to improve their working environment and increase their employees' satisfaction, as a way to keep employee voluntary turnover in low levels. Questions around employee job satisfaction and how these relate to organizational outcomes seem to be gaining ground; various researches give weight to the relation between employee job satisfaction and job performance, with the latter being reflected in the company's overall performance (Edmans 2012; Edmans et al 2015; Best 2006; Vroom 1964).

Why is it though so important for companies to be able to keep their employees satisfied and reduce employee turnover? Retaining employees and especially the talented and experienced ones who probably are also highly knowledgeable of their field of work, is crucial for a company; it is worth considering that every employee departure, triggers a costly, time-consuming recruiting process. High performers are most likely to possess the knowledge, skills, and experience necessary to contribute to the overall success of the organization (Hausknecht et al 2009). Harter et al (2002) support that employee engagement is a leading indicator of intent to stay within an organization. Employee satisfaction is the foundation upon which employee engagement can grow and thrive. Organizations with genuinely engaged employees have higher retention, productivity, customer satisfaction, innovation, and quality. Rast & Tourani (2012), claim that lack of job satisfaction results in a low level of employee commitment, which in turn, affects performance

and the achievement of organizational goals. Arnold and Feldman (1982) found that employee turnover intentions are significantly correlated with both job satisfaction and organizational commitment, with the latter showing stronger relationship. According to the aforementioned evidence, employee retention and engagement are of great importance for companies to achieve. Creating an attractive working environment and ensuring that employees remain satisfied within an organization is a key element to success. According to Deloitte's global annual research, organizations that create a culture defined by meaningful work, job and organizational fit, deep employee engagement and strong leadership, are outperforming their peers and will likely beat their competition in attracting top talent. (Deloitte University Press, 2015).

A research conducted by Hudson, a global talent solutions company, in 2009, highlighted the shift in companies' priorities when it comes to an economic downturn. Results showed, that during the last economic crisis, organizations' focus across the globe was not only cost-cutting through right-sizing, but also on talent engagement, talent development and the retention of talent key to the organization. In 2008, the public relations consultants Hill & Knowlton published "Reputation and the War for talent," a survey of 527 MBA students in 12 top business schools in the United States, Europe and Asia. The study found that 96% of these students said that reputation was an important factor in their choice of potential employer and the majority of them claimed that among others, financial performance, growth potential and corporate governance were also important.

As far as corporate governance is concerned, the recent economic crisis, the failure of multiple businesses as well as past corporate scandals have also made it necessary for companies to improve their auditing standards, be more transparent and have better monitoring mechanisms in place. It is worth considering, that better monitoring mechanisms and greater transparency, could most likely help in avoiding any fraudulent behavior and thus any reputation damaging. Bednar et al. (2012), after examining governance practices and specifically the adoption of mechanisms such as poison pills, found that governance choices have an impact on corporate reputation as well as managerial reputation. Governance practices within an organization are noticeable and affect not only upper management, but also employees in lower levels. Corporate governance is not only about the relationship between employees, shareholders and management, but also about the development of core skills and activities of the corporation; it allocates power and responsibility, typically between senior management, shareholders and employees (Lower 2009). Like shareholders, workers depend on the care, skill and good faith of the management (Greenfield 1998). Employee involvement may increase productivity and hence create stronger economic growth. Heightened employee satisfaction may lead to improved effort and less need to engage in expensive monitoring; employees are naturally knowledgeable about what is going on within a business and are likely to have good ideas about how to improve productivity (McDonnell, 2011).

Corporate governance, expressed by employee participation in boards could increase their bargaining power, wages rates and working conditions, all of which affect job satisfaction (McGaughey 2013, Wallace 2007). Both the organizations and their employees could benefit from corporate governance's improvements.

Most of the research on corporate governance and employee characteristics, focuses mainly on employee involvement, retention and performance, rather than on the direct relationship between employee job satisfaction and corporate governance. In this study, we try to find a relationship between corporate governance and employee job satisfaction. Specifically, we try to find whether improvements in corporate governance measured by a governance index of 41 governance attributes, affects employee job satisfaction and in which direction. Additionally, we study whether employees of upper level positions are affected more by changes in corporate governance than those of lower level positions. We are interested in the effects that corporate governance may have on employee satisfaction in two different periods in time, 2007 and 2011. We examine regional data for companies and individuals in 14 countries across Europe. We obtain our governance index from previous studies of Aggarwal et al. (2011) and our job satisfaction data using survey samples from the European Quality of Life Survey conducted by the European Foundation. Our purpose is match the governance level of each region with the reported job satisfaction of the same region.

We find that there is a positive relationship between corporate governance and job satisfaction and that this relationship becomes weaker in times of job uncertainty and economic distress. On the contrary, we find no evidence that employees in higher positions are negatively affected by changes in corporate governance.

II. Theories of Corporate Governance

Perhaps the most popular definition of corporate governance is the one from Shleifer and Vishny (1997); corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. According to Stulz (2005), the post-World War II period characterized by a sharp reduction in barriers to cross-border trade in financial assets. This so called financial globalization and liberalization has contributed to a reduction in the firms' cost of capital (Bekaert & Harvey, 2000). The financial globalization made it easier for investors to share risks better, but on the other hand made it more difficult to monitor corporate insiders and controlling shareholders in pursuing their own interests at the expense of the outside investors (Stulz, 2005). There is, where the agency problems

stand; the separation between ownership and control which is one of the main issues that corporate governance addresses. Two agency problems arise under circumstances of incomplete information and uncertainty: adverse selection, where the shareholder (principal) cannot assess if the manager (agent) fulfills his ability for the job for which he is being paid and moral hazard where the principal cannot be sure if the agent has exerted his maximum effort (Eisenhard, 1989). Managers can expropriate shareholders either by entrenching themselves and staying on the job even if they are no longer competent to run the firm, or by misallocating the company's funds (Shleifer & Vishny 1997). Agency costs can be seen as the value loss to shareholders, arising from divergences of interests between shareholders and corporate managers (McColgan 2001). These costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests (Fama & Jensen 1983). As with any other costs, agency problems are captured by financial markets and reflected in a company's share price. Corporate governance is used to change the rules under which an agent operates, align his interests with those of the principal and mitigate agency costs. Poor corporate governance and lack of monitoring mechanisms within a firm, could create the need of providing compensation incentives to the management in order to make sure they will act in maximizing shareholders' welfare. Baker, Jensen and Murphy (1988) argue that the level of pay determines where managers work, but the structure of the compensation contract determines how hard they work.

Apart from the aforementioned agency theory, there is also an alternative theory in corporate governance; the stewardship theory. The basic assumption of this theory, is that managers' behavior is aligned with the shareholders' interests. The stewardship theory addresses that managers have also non-financial motivators to achieve better performance within an organization. Managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (McClelland 1961; Herzberg et al. 1959). The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets (Donaldson & Davis 1991).

Unlike agency theory in which managers are working towards the satisfaction of the stakeholders' interests, stakeholder theory suggests that managers in organizations have a network of relationships to serve; this include the suppliers, employees and business partners (Abdullah & Valentine 2009). The activities of a corporate entity's impact on the external environment requires accountability of the organization to a wider audience than simply its shareholders (Yusoff & Alhaji 2012). As mentioned by Freeman (2001), owners have financial stake in a corporation in the form of stocks, bonds and so on and expect some kind of financial return. On the other hand, employees have their jobs and usually their livelihood at stake; in return for their labor, they expect security, wages, benefits and meaningful work. Suppliers, from their side are expected

to be treated as valued members of the stakeholder network rather than simply as a source of materials. Finally, customers provide the lifeblood of the firm in the form of revenue and hence returns to its shareholders. Indeed, as stakeholder theory supports, economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et. al., 2004).

III. Determinants of Corporate Governance

Corporate governance can be defined in two forms; the firm-level and the country-level. Both are considered important determinants of the overall quality of corporate governance. However, to determine corporate governance and ways of improving it, one must take into consideration both levels. Country-level governance is defined by the level of shareholder rights protection and the enforcement of those rights with a country's laws, culture, norms, and institutions (Chang et al., 2005). The established laws in a country relevant to investor protection and the level of enforcement of these laws are crucial in attracting capital for the domestic firms. Investors domiciled in countries with strong legal environments could systematically avoid weakly governed firms in countries with weak legal environments (Kim, Sung, and Wei, 2008; Leuz, Lins; and Warnock, 2009). La Porta et al. (1998) argue that greater investor protection increases investors' willingness to provide financing and will therefore enhance firms' access to external finance. Evidence also shows that inadequate investor protection, could lead to deterioration on firm value; country-level governance is important as it affects overall corporate governance and thus, firm value (Doidge et al. 2004, Aggarwal et al. 2009). La Porta et al, (2009) find that ownership concentration is a consequence of poor legal protection of minority shareholders. According to Zhang (2005), firms operating in countries with poor investor protection make low dividend payments, have high cash holdings, and have low firm value. Respectively, Ernstburger & Gruning (2013), find that firms with strong corporate governance who demonstrate higher levels of transparency and disclosure on their annual reports are reinforced by a strong legal environment.

Chang et al (2015) claim that firm-level governance is defined as the mechanism within a corporation to ensure minority shareholders receive an appropriate return on their investment. Their findings support that country-level and firm-level corporate governance environment complement each other. However, firms within the same country can vary in their degree of protection to their investors despite the existing by law legal investor protection. Firms could improve investor protection rights by voluntarily choosing to increase disclosure, select independent boards, and impose disciplinary mechanisms to prevent management and controlling shareholders from engaging in expropriation of minority shareholders (Klapper et al., 2006).

Although, choosing to do so, is costly; according to Doidge et al. (2005) in countries with weak development, it is costly to improve investor protection because the institutional infrastructure is lacking and the benefit from improving governance is smaller because capital markets lack depth.

IV. Importance of Corporate Governance

The fraudulent behavior at the beginning of the previous decade and even more the recent bankruptcies of large corporations around the world, made investors and policymakers to focus on ways of improving corporate governance. Financial globalization, led to greater deterritorialization and to the reduction of governmental control, which result in greater need for accountability (Crane and Matten, 2007). Corporate governance creates fairness, transparency and accountability in company's business activities, motivates managers to maximize returns on investment and effectively protect investors' interests (Mousavi & Moridipour, 2013). The implementation of the Sarbanes-Oxley Act (SOX) in the US in 2002, increased the intensity of corporate governance mechanisms; especially certain sections associated with transparency improvements on internal controls, have arguably improved the internal auditing scrutiny and thereby trust in financial reporting (Hitt et al. 2009). Empirical research in corporate finance claims that better corporate governance improves firm's performance and that better governed companies perform better on the stock market (Gompers, Ishi, Metrick, 2003; Cremer & Nair, 2005). Corporate governance affects stock market liquidity because poor governance increase information asymmetry between insiders and outside owners (Mousavi & Moridipour, 2013). McGee (2009), states that good corporate governance helps to increase share price and makes it easier to obtain capital and that international investors tend to be reluctant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles.

V. Corporate governance and employees

As mentioned earlier, a company can employ several mechanisms in order to increase the quality of corporate governance. Increasing reporting transparency, protecting minority shareholders, providing internal anti-takeover mechanisms and ensuring a more intense management monitoring, all affect a company's performance and access to external capital (Doidge et al., 2005; Jusoff, Alhaji, 2012; Chang et al, 2005; La porta et al, 2000). Despite the fact that governance mechanisms have a more conspicuous

effect on the shareholders and upper management, evidence supports that employees in lower levels can contribute to changes in corporate governance and also be affected by them. Corporate governance improvements have an impact on a company's reputation and this in turn can affect the employees. Cekmecelioglu and Dincel (2014) showed that corporate reputation affects the attitudes, like job, wage satisfaction and organizational commitment. Willem et al (2007) and Helm (2010) found that working in a reputed organization has a positive impact on increasing employees' job satisfaction.

As the European Parliament states, the recent financial crisis demonstrated the need for a clearer corporate governance framework which focuses more strongly on stakeholder participation (Conchon 2013). The governance process is seen to promote trust as a means of motivating employees to achieve organizational objectives (Awotundun et al 2011). The way corporate governance is organized can have a significant impact on employees. Employee welfare for example, is relevant to corporate governance in the sense that it is a means to an end; is a legitimate concern of corporate governance to the extent that it enhances profitability (Lower, 2009). Yusoff & Alhaji (2012) support that key issues such as flow of information from senior management to lower ranks, interpersonal relations and working environment are all critical issues that should be considered, when it comes to firm performance. Information provided to employees regarding corporate issues and employee involvement in the company affairs is regarded as an important factor in a company's performance and its corporate governance improvement. The European Commission (2012) states that employee involvement in a company's issues and their interest to the company's sustainability should be part of any well-functioning governance. Employees' involvement in the form of employee board representation is supported by laws in the majority of the European Union countries. In some EU countries employees can make their voice be heard during the Annual General Meeting of companies and even participate in the nomination of management executives. The co-determination system which was established by law in Germany in 1976, is a good example of employee participation in corporate governance. This law requires a minimum level of employee representation in a company's board of directors, either in one-tier or two-tier boards. Co-determination system gives voice to employees making them part of corporate decision making. As Jackson et al. (2005) mention in their paper, such a model utilizes employee voice alongside with the shareholders to promote greater accountability in issues of transparency and management pay. Additionally, evidence from Fauver and Fuerst (2006), shows that on a certain level employee board representation can increase efficiency and market value. Lower (2009) supports that employee representation could be seen as a further tool for monitoring board performance and also as similar to the use of outside directors. He also states that employee participation can provide them additional incentives to work well and increase their loyalty and

commitment to the company; thus reducing the need for supervision costs. Employee involvement in a company's issues and representation in the board could also increase their awareness of the governance practices within the company. Finally, evidence on employee participation in boards shows that employees could be better off in other aspects such as collective bargaining and thus wage rates and working conditions (Visser, 2013; McGaughey, 2013).

From the aforementioned, we see that involving employees in corporate decisions has positive effects in firm value, by strengthening the monitoring of the management and increase transparency and accountability. On the other side, employees reap the benefits from being involved in the corporate governance processes of an organization by increasing their bargaining power, improving their working environment and feel more productive and committed to their work; these are important factors that affect their overall job satisfaction.

VI. Job Satisfaction and determinants

Job Satisfaction

Work constitutes a major part of most adults' lives; not only provides people with an adequate amount of money to make ends meet, it also provides individuals with opportunities for social participation, personal stability, development and a stronger sense of identity (Gallie, 2007). Through their working life and environment, individuals can positively affect their overall life. Drobnic and Beham (2010) and Wallace (2007), support that job satisfaction affects overall life satisfaction and that job satisfaction is the link between working conditions and life satisfaction. Previous research interpreted job satisfaction in various ways; in a simple definition, job satisfaction is regarded as the degree to which individuals are generally satisfied with their work (Wallace 2007, Spector 1997). In a more detailed description, job satisfaction is defined as the result of a number of perceived job characteristics including intrinsic and extrinsic rewards (Sousa-Poza and Sousa-Poza, 2000; Malka and Chatman, 2003;Rose, 2003) Extrinsic factors include pay, job security, the status associated with the job, career development opportunities and the type of contract and hours of work. Conversely, intrinsic factors, or perceptions of work, concern the work itself, the extent of autonomy, stress, and interesting work tasks (Rose 2003, Pichler and Wallace 2009).

A vast amount of literature focuses in explaining job satisfaction and its determinants. A widely addressed topic, the relation between employee satisfaction and job performance, dates as back as the 1930's (Judge

et al., 2001). Since then, numerous researchers tried to explain the relation between employee attitudes and work outcomes.

The increased importance of multinational companies, knowing how employees' job satisfaction can be influenced in different cultures is a central research objective in the international management literature (Souza Poza and Souza Poza, 2000).

Job satisfaction plays an important role for employees in terms of health, life satisfaction and well-being and for organizations in terms of performance, productivity, employee turnover and absenteeism (Vroom, 1964; Edmans, 2012; Medina, 2012; Wallace, 2007; Aziri, 2011). Edmans (2012), finds that firms with higher levers of job satisfaction in the US, generate superior long-term stock returns. A later study Edmans et al. in 2015, shows that employee satisfaction effect on firm performance also depends on the level of each country's labor market flexibility. That means, the amount of regulations regarding labor force and the constraints imposed in a firm's ability to hire or fire employees. They found a positive effect between employee satisfaction and firm performance measured as current accounting profits and future valuation ratios in countries with higher labor market flexibility. Job satisfaction affects firm performance through other characteristics such as employee productivity, performance, turnover and absenteeism. Laffaldano and Muchinsky, (1985) support that job satisfaction affects job performance with a correlation of 0.17; Judge et al. (2001) later found a higher correlation of 0.30 between these two. On the other hand, they also argue that job satisfaction and performance relationship is found to be weak and that job satisfaction affects other employee attitudes that could in turn affect job performance (also Jones, 2006). A more extensive research exists on the relationship between job satisfaction and employee turnover or absenteeism. Aziri (2011), supports that the importance of job satisfaction emerges especially due to the negative effects of job dissatisfaction such as lack of loyalty and increased employee absenteeism. Job satisfaction is regarded one of the most important factors that contributes to the intention of staying within a given organization (Hausknecht et al., 2009; Shore and Martin, 1989). As we mentioned at the beginning of our study, attraction and retention of employees is crucial for a company's success; attracting workforce with essential knowledge is a key factor in remaining competitive in a rapidly changing global environment. Job satisfaction is inversely related to turnover intentions and low employee turnover increases organizational productivity and performance (Medina, 2012). Steijn (2005) found that both job and organizational satisfaction are independently relevant for the turnover intentions and that employees who are more dissatisfied on one of these variables are more inclined to look for another job. According to Randstad's engagement study in 2013, company reputation is an important determinant in attracting new employees. Nearly all of the participants in the study, report it would be important for their new company to have a good reputation among its employees, while nearly an 86% of those say it is important to have a good

reputation in their community. Organizations are increasingly stating that employees are their most important asset, and as a result they are constantly endeavoring to create an employment brand that is attractive to both existing employees and potential talent, while competing in a “war for talent” (Glen 2006).

Determinants of job satisfaction

Job satisfaction is a broad attitudinal variable and most of the times difficult to determine as it is usually measured by the satisfaction with a range of characteristics of the job (Wallace et al., 2007). Job satisfaction is mainly measured through surveys, by simply posing the question “how satisfied are you with your job”. A certain point scale is usually used to count the level of individual job satisfaction. However, measuring satisfaction based on individuals’ subjective responses can be challenging and one should consider several characteristics that might contribute to this satisfaction. When measuring job satisfaction we should take into account the individual characteristics such as age, gender, education, marital and family status, as well as, country characteristics such as labor regulations, unemployment rate or GDP. According to Wallace et al., (2007), both work conditions and work-life balance affect satisfaction with work and eventually overall life satisfaction. They argue that, working conditions and job satisfaction actually measure the same thing and that distinguishing the indicators of these two is almost not possible. The most common and important determinants of job satisfaction in the literature are the following: working hours, nature of contract, supervisory responsibilities, likelihood of losing one’s job, work being too demanding, work being well paid, the degree of autonomy, the job being dull and boring, career prospects, working to tight deadlines and dangerous or unhealthy working conditions (Wallace, 2007; Pischler and Wallace, 2009). In addition, age, gender and education are also relevant for the job and therefore should be taken into consideration when examining job satisfaction.

Job satisfaction differs between males and females; according to Clark (1997) and Galdeano (2002), women report higher job satisfaction which may be due to the fact that they have lower expectations regarding their jobs because of their traditionally poorer position in the labor market. On the other hand, much evidence shows that for the younger and more educated individuals the gender-job satisfaction gap disappears. Others such as Kaiser (2005), found that country labor regimes play significant role in gender equalities regarding job satisfaction. Irrespective of sex, people in richest countries appear to be most satisfied with the quality of work (Wallace, 2007).

Evidence supports that the higher the education, the higher the job satisfaction. Usually, higher educated individuals tend to find more prestigious jobs, which could explain the higher levels of job satisfaction.

Pisani (2009) found that well-educated individuals reported higher job satisfaction and perceived their employers to treat them better than others with lower levels of education.

Age is also a factor that causes differences in job satisfaction between individuals; Clark (1996) found that satisfaction with work increases, the older the individual is. However, he found a U-shaped relationship between these two, meaning that after a certain age job satisfaction starts decreasing. This effect is most likely driven by the fact that after a certain age, individuals tend to have less opportunities for a job change. As mentioned earlier, the examination of several characteristics in determining job satisfaction is essential; for example, one reason for the satisfaction increase in younger age is that taking into consideration youth unemployment rates usually being higher, individuals feel better-off than their unemployed peers and thus more satisfied with their job.

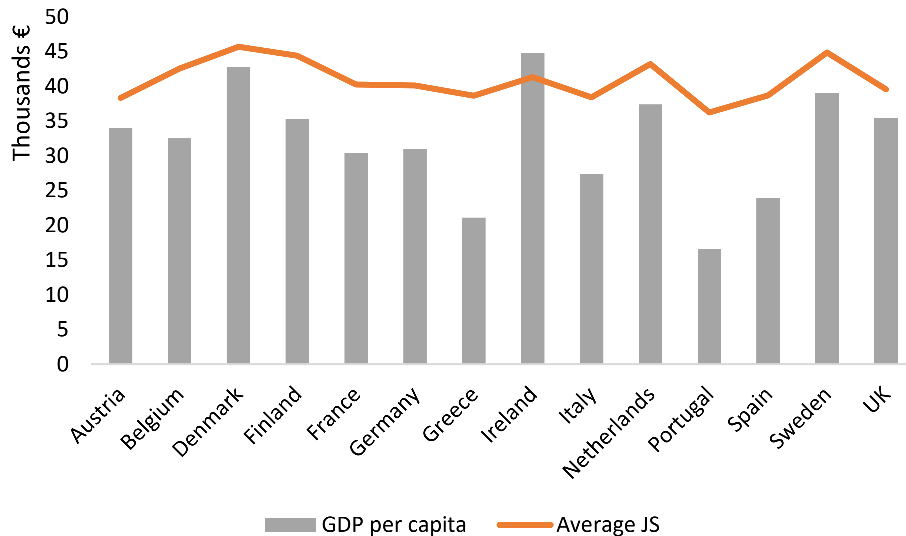
Financial rewards are considered a crucial factor in determining job satisfaction. There is a debate on the effects of financial rewards on job satisfaction and these effects differ between genders and countries (Souza-Poza and Souza-Poza, 2000; Wallace, 2007). In the eastern European countries, higher income is associated to higher levels of job satisfaction and appears to be more important than in western European countries. In general, the higher ones' salary is the higher the job satisfaction. Young et al., (2014), found a negative relationship between salary and job satisfaction, supporting that this effect might be driven by the fact that individuals who earn higher income could be less satisfied due to higher pressure at work. Another explanation is that individuals believe that after reaching a certain point of financial rewards, there is not much room for further financial growth.

Bornschein et al., (2006) after examining a sample of 2450 physicians in Germany found that long working hours is also an important factor that contributes to the willingness to quit ones job. However, another study examining responses from German households found that there is a positive effect of increasing working hours only after accounting for the extra compensation for the additional working hours (Holly and Mohnen 2012). Consistent with Bornschein's et al. (2006), Pischler and Wallace (2009) found that too short or too long working hours decrease job satisfaction.

In their research Pischler and Wallace, (2009) support that GDP, unemployment and unionization do not have large additional explanatory power for the average level of job satisfaction. However, such institutional indicators might explain why some of the individual level effects differ from country to country; for example higher levels of unemployment pressurize the working population to stay to their jobs regardless of their level of satisfaction. Wallace et al., 2007 found that the wealth of a country, as measured by GDP levels affects people work-life balance; individuals in less prosperous countries tend to have a more unbalanced life and be less satisfied with their work and life in general, than those in wealthier

countries. This view is also supported in our study, by looking at the numbers of average job satisfaction and GDP per capita for the 14 countries in study in 2007. Figure 1 presents the average job satisfaction for the individuals in our sample and the GDP per capita for each country in 2007. The trend for job satisfaction with GDP seems to be in line with the previous literature, as countries such as Denmark, Ireland, Sweden and the Netherlands which have higher GDP levels, report higher average job satisfaction.

Figure 1. GDP per capita and average JS per country



Uncertainty concerning the job security has detrimental effect and is highly important in determining job satisfaction (Souza-Poza and Souza-Poza, 2000). Theodosiou et al., 2005 found that the effect of job security on job satisfaction in seven EU countries, is significant for both males and females. Job security, along with other variables such as payment, career prospects and interesting job, are regarded of the most important determinants of job satisfaction across Europe (Wallace et al., 2007).

Moreover, employment status and contracts have a crucial impact in job satisfaction. Virtanen et al., 2002 found that employees with permanent employment contracts show higher job satisfaction than the ones who have temporary contracts. This view is supported by Pischler and Wallace (2009), arguing that uncertain or

non-existing employment contracts can depress job satisfaction. This is in line with the previous results of job security; it is plausible job security to be higher when one has a fixed or permanent contract.

Other employment attributes such as occupational class, supervision responsibilities, good career prospects and demanding or unhealthy jobs should be considered for determining job satisfaction (Pischler and Wallace, 2009). Drobnic and Beham, (2010) found that having a supervisory position and an interesting job that offers high autonomy and good career prospects translate into high job satisfaction. Additionally, employees with demanding, stressful and dangerous or unhealthy jobs tend to be less satisfied.

VII. Previous literature and hypotheses

Corporate governance theories and effects on firm performance and other organizational attributes has been widely addressed in the past. However, little is known on the effects that governance has on employee job satisfaction. In our study, we try to find a relationship between corporate governance and employee job satisfaction in two certain points in time, examining cross-sectional data of several European countries.

Employees constitute the foundation and lifeblood of an organization (Nmai and Delle, 2014). According to human resources management theories, job satisfaction is beneficial for firm value. According to Edmans (2012) employee job satisfaction affects firm performance. The results are more profound especially in the long term, as the market does not value immediately intangible assets such as human capital. Therefore, it is plausible to assume that companies want to keep their employees' satisfied in order to increase firm value and performance. Increased job satisfaction translates to lower employee turnover and absenteeism, higher engagement and increased job performance. However, past research on the topic, found that increased job satisfaction does not always lead to better performance and higher engagement, but rather that lower employee turnover could explain the increase in performance (Medina 2012). On the other hand, the majority of past literature supports that satisfaction with work always leads to lower employee turnover and absenteeism (Muindi, 2014; Aziri 2011). As mentioned earlier, companies give weight in their corporate governance structure in an effort to maximize value. The accountability and transparency of corporate governance help companies gain shareholders' and investors' trust (Yusoff and Alhaji 2012). Better governance and disclosure practices increase investor confidence, which in turn has a positive effect on firm valuation (Durnev and Kim, 2007). Along with other findings on the positive relationship between corporate governance and firm performance, companies could also increase their value by focusing on their employees' job satisfaction. If employees are satisfied with their work they are more productive, the

turnover is lower and therefore firm performance could increase. An important factor that could lead to higher valuation or increased firm performance through job satisfaction, is the company's reputation. An organization, employing governance mechanisms and better reporting standards, is most likely to be seen as more trustworthy and avoid being involved in corporate scandals. In previous sections we showed that corporate reputation could increase as a result of better established governance practices and that this could lead to increased job satisfaction.

Little evidence exists on the direct effects of corporate governance on job satisfaction. Nmai and Delle (2014) found that corporate governance significantly and positively predicted employee job satisfaction, after examining data from the Ghanaian Telecommunication Sector. Consistent to Nmai and Delle (2014) we reach to our first hypothesis.

Hypothesis 1: Good corporate governance will significantly and positively predict employee job satisfaction

According to the agency theory, the main issue is how shareholders can induce managers to act on their best interests and not exploit their power to misallocate the company's funds (Shleifer & Vishny 1997). Thus, agency costs arise, expenditures mainly paid by the shareholders in order to increase monitoring and better controlling of managerial activities (McColgan, 2001). Agency costs as well as any costs incurred in order to increase transparency, reporting standards or managerial supervision translate to better governance practices and will ultimately be borne by managers as their compensation will be adjusted to cover these costs (Fama and Jensen 1983). Others, such as Burkart et al., (1997) support that tight control, increased monitoring and ownership concentration reduce managerial initiative and the effectiveness of performance-based incentive schemes. This is also known as residual loss, which mainly describes the trade-off between overly constraining management and enforcing contractual mechanisms designed to reduce agency problems.

Managers' benefit from retained earnings as size growth grants a larger power base, greater prestige, and an ability to dominate the board and award themselves higher levels of remuneration. This reduces the amount of firm specific risk within the company, and therefore, strengthens executive job security (Jensen, 1986, 1993; McColgan, 2001). Evidence supports that managers favor having freedom of actions and try to protect themselves from strict and increased monitoring; an example supporting this is when entrenched managers pay higher dividends in order to protect themselves from disciplinary actions (Farinha 2004; Hu and Kumar 2004). According to Gompers, Ishii and Metrick (2003), managers in the past had much more

freedom in their actions than they do today. The rise of the junk bond market in the 1980's, led to corporate governance adjustments as expressed by the adoption of several takeover defenses and other restrictions of shareholder rights. Among the most popular were the mechanisms that stagger the terms of directors and provide severance packages for managers.

According to the literature, since firms employing better governance mechanisms are considered to establish a better quality of corporate governance which in turn may restrict managers' actions, we reach to our second hypothesis.

Hypothesis 2: Managers' job satisfaction have a negative relationship with corporate governance and thus we expect that increasing an organization's quality of corporate governance will reduce managers' job satisfaction.

CHAPTER 2

Empirical

VIII. Data and Methodology

In our study we use survey samples obtained from the European Quality of Life Survey in 2007 and 2011 which were conducted by the European Foundation. The survey of 2007 consists of 31 countries (27 EU Member States, Norway and countries of Croatia, FYROM and Turkey. However, in our study we focus only in the 14 EU countries for which we have available corporate governance and job satisfaction data. These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and the United Kingdom. Our purpose is to match the average governance of the regions in each country with the job satisfaction reported by individuals of the same region. Assuming that the average governance of the companies in each region is representative for the overall governance in the region and that the respondents asked in each of the regions represent a sufficient sample connected to the companies' data.

Governance Data

We obtain our governance data from the previous study of Aggarwal et al. (2011). The source of this firm-level governance data is RiskMetrics, covering the five-year period from 2004 to 2008. For this period our initial data with available governance figures comprised of 4682 firm-year observations, ranging from 642 in 2004 to 1045 in 2006 (table 1). We constructed our initial data so as to reflect regional information for the companies included; thus we allocated the companies' headquarters based on the second level of the 2013 Nomenclature of Territorial Units for Statistics (NUTS). The companies' headquarters were partially obtained from Orbis database and the rest due to lack of available NUTS 2 data, were obtained manually. In order to make our results more accurate, we removed the companies for which we were not able to precisely locate their headquarters or those that during the years of study merged or changed their headquarters. We created two groups of governance data, one for the years 2004 to 2006 and one for the years 2006 to 2008, calculating the average governance of the regions in each country. In order to avoid reaching to biased results, we remove the outliers as well as the governance data for the regions that have 3 or less firm-year observations. Figure 2 and table 1 show the average governance as well as the number of firms in each year and country.

Following Aggarwal et al., (2011), we use their governance index as a governance proxy for our study. In previous studies, researchers examined corporate governance either by taking into consideration individual governance characteristics such as board characteristics and anti-takeover provisions (Klapper et al. 2006), or by constructing indices of several governance attributes (Aggarwal et al. 2011, 2009; Gomper, Ishii, Metrick 2003). One can criticize the index creation as a proxy of measuring corporate governance; as Arcot and Bruno (2005) mention, an index which identifies better governed companies by analyzing adherence to governance provisions discards relevant information and imposes a one-size-fits-all framework on what is expected from companies. However, as Aggarwal et al. (2011) argue in their paper, if their index was not a proper measure of governance, then their results would not be significant. For our study, our results indicate that this index is also a proper measure of governance. It is worth mentioning that without this index or a similar one, it would not be easy to examine corporate governance's relationship with job satisfaction; companies do not make public their employees characteristics and there is no available data for these two variables together. We chose to restrict our model only to the governance index and not to include other measures of governance, as it was not possible for our existing sample of companies and employees.

The index constructed by Aggarwal et al (2011) includes 41 attributes and covers four broad categories: *1. Board (24 attributes), 2. Audit (3 attributes), 3. Anti-takeover provisions (6 attributes) and 4. Compensation and Ownership (8 attributes).* The index assigns the value of one to each of the 41 governance attributes if

the company meets minimally acceptable guidelines on that attribute and zero otherwise. The index is expressed as a percentage; if a firm satisfies all 41 governance attributes, its GOV index equals 100%. Appendix A describes these attributes in more detail.

Figure 2 shows average governance levels as measured by the GOV index for our study sample of the 14 European countries. United Kingdom, Finland, Ireland and the Netherlands, are the countries with the highest average governance during the five year period. Greece, Portugal and Belgium report the lowest levels of GOV index across Europe. Table 1 shows the number of firms by country and year during our five year sample.

Figure 2. Average Governance index across Europe

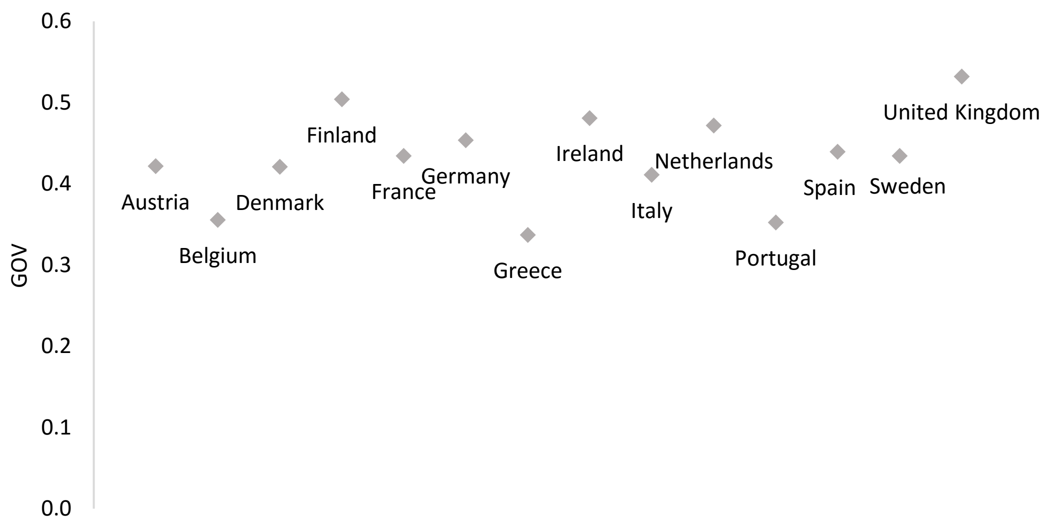


Table 1. Number of firms by country and year

Country	2004	2005	2006	2007	2008	Total
Austria	16	17	18	18	18	87
Belgium	19	24	27	27	26	123
Denmark	21	21	22	22	21	107
Finland	27	28	30	30	27	142
France	72	83	86	86	79	406
Germany	80	83	89	89	85	426
Greece	42	43	43	43	31	202
Ireland	15	15	15	15	14	74
Italy	41	69	73	72	70	325
Netherlands	43	42	43	43	32	203
Portugal	13	14	14	14	14	69
Spain	35	53	56	55	54	253
Sweden	40	40	47	46	46	219
United Kingdom	178	475	482	481	430	2046
Total	642	1007	1045	1041	947	4682

Job Satisfaction Data

Our overall sample of working respondents in each country for the 2 years in study ranges from 322 individuals in Greece to 1421 in the UK. We obtain our job satisfaction data, as well as the data for the majority of our variables from the European Quality of Life Survey (EQLS) in 2007 and 2011, conducted by the European Foundation for the Improvement of Living and Working Conditions. GDP data for each of the regions is obtained from the Eurostat, the statistical office of the European Union. The measurement of job satisfaction is rather difficult to determine and most of the research on the topic is based on the subjective valuations of job satisfaction by using responses of individuals on their perception of their job satisfaction and other working characteristics. Job satisfaction which is our dependent variable is defined by asking individuals the question "How satisfied are you with your work" and is measured by a 1 to 10 scale, with 1 means "very dissatisfied" and 10 means "very satisfied.

The EQLS examined several key areas to assess the quality of life: employment, economic resources, family and households, community life and social participation, healthcare and knowledge. However, as mentioned before, we selected some of these areas for our study such as employment, family and knowledge, as we are only interested in work related attributes. According to Wallace et al. (2009), there are several reasons for differences in job satisfaction across Europe including individual, compositional and institutional factors. After controlling for institutional factors and country-level compositional effects they found significant association between job satisfaction and indicators of working conditions. From the EQLS data we choose individual determinants such as position at work, education, type of contract, working hours, job insecurity, marital status, having children, demanding job or not, well paid or not, autonomy at work, boring job, career prospects, strict deadlines and healthy or not working environment. Respondents were asked using a five-point scale (strongly agree, agree, neither agree nor disagree, disagree, strongly disagree), for most of the questions such as if their work is demanding, if they are well paid, if they have autonomy at work, if they have a boring job, if their job is too demanding, if their job provides good career advancement prospects, if they work in strict deadlines and if they work in dangerous or unhealthy environment. The question on how possible is for the individual in question to lose his/her job, was similarly measured in a five-point scale ranging from “very likely” to “very unlikely”. The rest of the variables were numerically scaled based on the type of question. We assigned the value of 1 for the variables of those who have a secondary job or supervisory responsibilities and zero for the remaining.

Tables 2.1 and 2.2 present the descriptive statistics of the variables in our model, as well as the number of individuals examined in each country.

Table 2.1
Descriptive Statistics

Variable	#of Obs	Mean	Std. Dev	Min	Max
JS	8183	7.50	1.94	1	10
GOV	8183	4.45	0.65	3.13	6.16
GDP	8183	35,224	11,364	12,700	98,400
LogGDP	8183	4.52	0.13	4.10	4.99
Gender	8183	0.50	0.50	0	1
Age	8183	42	11.18	18	70
Education	8183	2.31	0.55	1	3
Contract	8183	0.76	0.42	0	1
Work Hours	8183	39	9.83	16	80

Job Insecurity	8183	0.09	0.29	0	1
Marital status	8183	0.67	0.47	0	1
Children	8183	0.67	0.47	0	1
Demand Job	4024	0.40	0.49	0	1
Well Paid	4024	0.44	0.49	0	1
Autonomy	4024	0.67	0.46	0	1
Boring Job	4024	0.09	0.28	0	1
Career Prosp	4024	0.40	0.49	0	1
Strict Deadlines	4024	0.49	0.49	0	1
Unhealthy Env	4024	0.17	0.37	0	1
Lower Level Empl	4024	0.80	0.39	0	1
Middle Managem	4024	0.16	0.36	0	1
Upper Managem	4024	0.03	0.17	0	1

Table 2.2
Descriptive Statistics

Country	# of Obs	% of sample
Austria	461	5.6%
Belgium	415	5%
Denmark	461	5.6%
Finland	471	5.7%
Germany	896	11%
Greece	310	3.8%
Ireland	530	6.5%
Italy	847	10.3%
Netherlands	670	8.2%
Portugal	532	6.5%
Spain	465	5.6%
Sweden	807	9.8%
UK	1,318	16%
Total	8183	100%

Descriptive Statistics

The total size of our sample of the working population in the 13 countries of our study is 8183 for the years 2007 and 2011; ranging from 310 in Greece to 1318 in the UK. For the overall sample men and women are almost equally divided, men 49.5% and women 50.5%. The average age of the respondents is 42 years ranging from 18 to 70 years. Around two-thirds of the respondents are married or living with a partner and the same amount of population has one or more children. From our sample 352 individuals have the lowest level education; most of the individuals possess secondary education and 2957 of the respondents attended higher education or studied abroad. 76% of the total sample reported that has permanent job contract and 26% has fixed or temporary contract. On average the working hours per week for the total population is 39 hours, ranging from 36.6 hours in the Netherlands to 43.2 in Greece. Job uncertainty is quite low, as 9% reported they believe is likely to get fired in the following 6 months from the time of the questionnaire. Job satisfaction scores for the sample, range between 1 and 10 with an average of 7.50; the highest satisfaction scores on average are reported in Denmark and Finland and the lowest in Greece and Portugal. Our GOV index for the total sample ranges from 3.13 to 6.16 with an average of 4.45; the highest reported values are in the UK and Finland and the lowest are in Greece, Belgium and Portugal (figure 2).

Our sample for the additional variables included in 2007 consists of 4024 respondents for 14 European countries including France. From the respondents, 44% responded that they think they are well-paid. 40% of the individuals reported that their job is quite demanding and that they have career development opportunities. 67% reported having autonomy at work and 50% of the respondents work under strict and tight deadlines. From the sample, 17% reported that they work under unhealthy or dangerous environment and 9% that their job is dull or boring. To test our second hypothesis we also examined individuals regarding their working position; from the sample in 2007, 80% of the respondents are lower level employees, 16% middle level and only 3.2% are those in upper level positions or top management.

Methodology

Following, Drobnic and Beham (2010), we categorized our variables in a similar way as they did in their study. Most of our variables are categorized as dummy variables, assigned the value of one or zero. We dichotomized the responses on the type of contract to distinguish between the indefinite permanent contract and all other types of contract or no contract. For the regression analyses, the subjective evaluations of job characteristics have been dichotomized in such a way that the responses ''agree'' and ''strongly agree'' are

assigned the value one and all other responses the value zero. Variables such as age and weekly working hours are continuous variables in our model. Additionally we include the following socio-demographic variables as control variables: GDP per capita for each of the regions in logarithmic form to normalize between big differences in GDP across Europe, age in linear and quadratic form to capture the U-shaped effect on job satisfaction found in previous literature (Clark 1996), marital status, number of children and educational level. The type of education for each individual takes the value of 1 for primary education, the value of 2 for secondary education and the value of 3 for tertiary education level or education abroad. For the marital status variable we separated between those who are married or live with a partner so as to take the value of 1 and the rest to take the value of 0. Similarly the variables for the respondents who have children take the value of 1 or zero otherwise.

To address causality between our dependent variable (job satisfaction) and our main independent variable (GOV index), we include our governance index as lagged variable (n-1) for 2007, taking the average governance index for the years 2004, 2005, 2006. For 2011, we also calculate the average governance index for 2008, 2009 and 2010. We match the calculated average governance index for years 2004 to 2006 with the job satisfaction reported by individuals in year 2007; similarly we match the average governance index for the years 2006 to 2008 with the job satisfaction reported in 2011.

To test our first hypothesis, examining whether corporate governance contributes to the level of employees' job satisfaction, we first regress job satisfaction on GOV index and other working conditions for the pooled data for all countries under study. From our sample of the 14 countries we drop the data related to France for 2011, due to lack of NUTS 2 available data for this country. In our overall model we examine 8183 individuals from 13 European countries for the years 2007 and 2011. As mentioned above, we include as control variables, individual characteristics that mostly found to affect job satisfaction according to the literature, as well as country level characteristics such as GDP per capita. The individual characteristics are gender, age in linear and quadratic form, marital status, presence of children, educational level; these variables are included in all our models. Additional binary variables in this, as well as in the rest of our models, include working contract, job insecurity and the amount of working hours per week.

Model Specifications

To satisfy our first hypothesis we base our regression models on the following equations:

Model 1:

$$js_{i,t} = \alpha + \beta_1 GOV_{it} + \beta_2 LogGDP_{i,t} + \beta_3 GENDER_{i,t} + \beta_4 AGE_{i,t} + \beta_5 AGE_{i,t}^2 + \beta_6 EDU_{i,t} + \beta_7 CONTR_{i,t} + \beta_8 WHOURS_{i,t} + \beta_9 JOBINSEC_{i,t} + \beta_{10} MSTAT_{i,t}\ \beta_{11} CHILD_{i,t} + \varepsilon_{i,t}$$

Model 2:

$$js_{i,t} = \alpha + \beta_1 GOV_{it} + \beta_2 GDP_{i,t} + \beta_3 GENDER_{i,t} + \beta_4 AGE_{i,t} + \beta_5 AGE_{i,t}^2 + \beta_6 EDU_{i,t} + \beta_7 CONTR_{i,t} + \beta_8 WHOURS_{i,t} + \beta_9 JOBINSEC_{i,t} + \beta_{10} MSTAT_{i,t}\ \beta_{11} CHILD_{i,t} + \gamma CountryDummies + \varepsilon_{i,t}$$

Model 3:

$$js_{i,t} = \alpha + \beta_1 GOV_{it} + \beta_2 GDP_{i,t} + \beta_3 GENDER_{i,t} + \beta_4 AGE_{i,t} + \beta_5 AGE_{i,t}^2 + \beta_6 EDU_{i,t} + \beta_7 CONTR_{i,t} + \beta_8 WHOURS_{i,t} + \beta_9 JOBINSEC_{i,t} + \beta_{10} MSTAT_{i,t}\ \beta_{11} CHILD_{i,t} + \gamma CountryDummies + \delta YearDummies + \varepsilon_{i,t}$$

To test our second hypothesis we examined 4024 individuals according to their position at work in the 14 European countries of our sample. We could only test our hypothesis in the year 2007 due to lack of data for other years regarding the working position of the individuals. We distinguished between three categories of different working positions. We assign the value 1 for the lower level employees, the value 2 for middle management and the value 3 for directors and upper management. We add interaction terms between

individuals' position and the governance index to test whether an increase in the governance index, contributes to an increase or decrease in job satisfaction, depending on the working position of each individual (model 5). Before testing the position related effects on job satisfaction, we also perform multiple regressions on job satisfaction with working conditions to check the effect before and after the interaction terms addition (model 4).

Model 4:

$$\begin{aligned} js_{i,t} = \alpha + {} & \beta_1 GOV_{it} + \beta_2 MiddleManag_{i,t} + \beta_3 UpperManag_{i,t} + \beta_4 LogGDP_{i,t} \\ & + \beta_5 GENDER_{i,t} + \beta_6 AGE_{i,t} + \beta_7 AGE^2_{i,t} + \beta_8 EDU_{i,t} + \beta_9 CONTR_{i,t} \\ & + \beta_{10} WHOURS_{i,t} + \beta_{11} JOBINSEC_{i,t} + \beta_{12} MSTAT_{i,t} \\ & + \beta_{13} CHILD_{i,t} + \beta_{14} DemandJob_{i,t} + \beta_{15} WellPaid_{i,t} \\ & + \beta_{16} Autonom_{i,t} + \beta_{17} Borjob_{i,t} + \beta_{18} Career_{i,t} \\ & + \beta_{19} SDeadlines_{i,t} + \beta_{20} UnhealEnv_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Model 5:

$$\begin{aligned} js_{i,t} = \alpha + {} & \beta_1 GOV_{it} + \beta_2 MiddleManag_{i,t} + \beta_3 UpperManag_{i,t} + \beta_4 LogGDP_{i,t} \\ & + \beta_5 GENDER_{i,t} + \beta_6 AGE_{i,t} + \beta_7 AGE^2_{i,t} + \beta_8 EDU_{i,t} + \beta_9 CONTR_{i,t} \\ & + \beta_{10} WHOURS_{i,t} + \beta_{11} JOBINSEC_{i,t} + \beta_{12} MSTAT_{i,t} \\ & + \beta_{13} CHILD_{i,t} + \beta_{14} DemandJob_{i,t} + \beta_{15} WellPaid_{i,t} \\ & + \beta_{16} Autonom_{i,t} + \beta_{17} Borjob_{i,t} + \beta_{18} Career_{i,t} \\ & + \beta_{19} SDeadlines_{i,t} + \beta_{20} UnhealEnv_{i,t} + \beta_{21} GOV_POS2_{i,t} \\ & + \beta_{22} GOV_POS3_{i,t} + \varepsilon_{i,t} \end{aligned}$$

Models 6 and 7 are identical as our model 1; in these two models, we run multiple regressions of governance index and working conditions on job satisfaction for each year separately. This way, we examine if there are any significant changes of corporate governance on job satisfaction before and after the global economic crisis.

IX. Results

In our first model (table 3) we regress job satisfaction on the governance index and other working related variables for the pooled data of both years 2007 and 2011. We find a positive and significant relationship between our governance index and job satisfaction. We find that on average, for a unit increase in the governance index, job satisfaction increases marginally by 0.099 units. Surprisingly, the effect of having a permanent contract, though positive, is not significant. Consistent with previous literature, working hours positively and significantly predict job satisfaction. As expected job insecurity, is significantly and negatively associated with job satisfaction. In our second model we add country fixed effects to account for unobserved time invariant differences between the countries in study. The UK serves as the reference country for all other countries. In this model we delete the GDP variable as it is perfectly correlated with the country dummies which now capture the economic prosperity for each country. Our model's explained variance increased from 7% to 9.3%. After accounting for country related differences, the coefficient of our main independent variable, the governance index, increased significantly from 0.099 to 0.293, still remaining highly significant. The coefficients of the rest of our variables remain almost the same as in our first model. Most of the employees in other countries than the UK report higher levels of job satisfaction, after controlling for employees' socio-demographic characteristics, some working conditions and the governance index of each country. Danish employees on average report the highest job satisfaction; 1.27 points higher than the British. Finnish, Belgians, Dutch and Swedish employees report on average from 0.6 to 0.8 points higher job satisfaction than the British. German, Irish and Austrian employees report from 0.3 to 0.44 higher satisfaction than the British. The rest do not differ from the British; Greeks, Italians, Portuguese and Spanish do not show significant variation in job satisfaction than the British; though all of them report slightly higher satisfaction.

For our third model (table 3) we add year fixed effects to account for temporal variations in our dependent variable between the years 2007 and 2011; year 2007 serves as our reference year for 2011. Our model's variance does not change materially. We observe that the year dummies draw all the significance of our main explanatory variable away and now our governance index coefficient turns negative. A reason for

this, could be that the explanation in the variation on job satisfaction shifts to other variables such as job insecurity, which becomes even more negative and still remains highly significant. If we consider the global financial instability occurred between these years we could justify that other reasons than the corporate governance matter more in explaining job satisfaction. Furthermore, this model shows that the year dummies mediate most of the effects found in the previous model. Compared to model 2, we can now see that employees in countries such as Greece, Italy, Portugal and Spain report lower job satisfaction levels than the British. Specifically, Greek and Italian employees have significantly lower job satisfaction compared to the British, reporting (-0.49) and (-0.29) points respectively. The coefficients for Austria, Belgium and Germany turn insignificant but remain marginally positive, indicating slightly higher levels of job satisfaction than the British. For the employees in Denmark, Finland, Ireland, the Netherlands and Sweden, the reported job satisfaction remains significant and still higher than the employees in the UK. A possible explanation for the swift on the sign of the coefficients for Greece and Italy, could be the after-crisis economic destress in these countries compared to the match less visible economic impact of the global crisis for the UK.

We next proceed by testing the effects of corporate governance on job satisfaction, without the effects of country and year dummies for the years 2007 and 2011 separately (models 6 and 7). For the year 2007, including the same control and explanatory variables, we find that the coefficient of GOV index is negative and insignificant, indicating that with an increase in the governance index by one unit, job satisfaction decreases on average by -0.099. The effects and significance levels of the rest of the variables remain the same as our previous models. An increase in weekly working hours, increases job satisfaction marginally by 0.011 and job insecurity decreases job satisfaction by 0.92 points. When we perform the same tests for the year 2011, we find that corporate governance significantly and positively affects job satisfaction by 0.10 points. Additionally, the effect of job insecurity on job satisfaction is now more profound and still significant, decreasing satisfaction by 1.17 points. Job uncertainty seems to have a more negative effect on job satisfaction, indicating that employees were possibly aware of the post-crisis situation and its impact on their working environment. Again, this change is attributed to the worsened financial situation existed in that year. The use of corporate governance measures and principles became more apparent and possibly more obvious to the employees.

Table 3. Job Satisfaction regressed on governance index and working conditions for pooled data (OLS, robust standard errors in parenthesis)

JS	(1)	(2)	(3)
GOV	0.099***	0.293***	-0.054
	(0.034)	(0.072)	(0.091)
LogGDP	0.864***		
	(0.166)		
Gender	-0.007	-0.031	-0.030
	(0.044)	(0.044)	(0.044)
Age	-0.084***	-0.074***	-0.076***
	(0.013)	(0.013)	(0.013)
Age^2	0.001***	0.0009***	0.001***
Education	0.406***	0.343***	0.335***
	(0.038)	(0.039)	(0.039)
Contract	0.030	-0.024	-0.016
	(0.051)	(0.051)	(0.051)
Work Hours	0.010***	0.011***	0.011***
	(0.002)	(0.002)	(0.002)
Job Insec	-1.049***	-1.025***	-1.057***
	(0.089)	(0.089)	(0.089)
Mar Status	0.268***	0.256***	0.248***
	(0.049)	(0.049)	(0.049)
Children	0.193***	0.141**	0.146**
	(0.054)	(0.054)	(0.054)
Country FE	NO	YES	YES
Year (2011)			0.326***
			(0.053)
Constant	3.022	5.668	7.389
Adj R-squared	0.071	0.093	0.097
Number of obs	8183	8183	8183

Notes: Gender, age in linear and quadratic form, marital status, presence of children, education and GDP in logarithmic form are controlled. Coefficients for GOV are multiplied by 10. Reference for country dummies is the UK and for year dummies is year 2007.
* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$

To test our second hypothesis we restrict our model on the year of 2007 as we lack available data related to specific work attributes for 2011, such as position at work. In this model, we examine responses from a sample of 4024 individuals. Apart from our previously mentioned variables we add some additional variables relating to employees working conditions. These variables were found in previous literature to have a significant role in explaining job satisfaction across Europe. Our model's explained variance increases remarkably to 26% once we include the additional working conditions related variables. In model 4, after accounting for most of the working conditions related variables, as well as GDP per capita levels, we find that corporate governance has a negative and significant impact on job satisfaction, indicating that an increase in the GOV index decreases job satisfaction by 0.173 points; a result which is in contract with our first hypothesis. Middle management and upper management employees, though not significant, report slightly higher and slightly lower job satisfaction respectively compared to the lower level employees. The rest of the variables in our model are consistent with previous literature. Job insecurity, having a demanding and boring job, working under strict deadlines and in an unhealthy environment, all have a negative and significant impact on job satisfaction. Additionally, being well paid, having autonomy at work and career development opportunities, contribute significantly and positively on job satisfaction.

In model 5, we implement a multiple regression with the same variables as in model 4, adding a two-way interaction term between the position of the employees and the governance index. In this way we want to test the effect that an increase in governance index has on job satisfaction of the employees in each of the 3 different working positions. When we implement a full factorial specification with respect to GOV index and employee working position, we fail to find a significant relationship and consequently to satisfy our second hypothesis. We find that with an increase in GOV index by one unit, middle level employees report 0.146 points lower job satisfaction; respectively upper level employees report a marginally lower job satisfaction of 0.026 than the ones in lower level positions. However, when we add the two-way interactions alone, without the main variables included in the model, we find these interactions to be negative as expected and significant. The rest of our variables remain the same as in model 4.

Table 4 Job Satisfaction regressed on governance index and working conditions (OLS, robust standard errors in parenthesis)

JS	(4)	(5)	(6)	(7)
GOV	-0.173***	-0.148***	-0.099	0.104**
	(0.048)	(0.055)	(0.055)	(0.047)
Pos:				
Middle Man	0.022	0.651		
	(0.075)	(0.512)		
Upper Man	-0.057	0.561		
	(0.147)	(1.003)		
LogGDP	0.421*	0.414*	1.265***	0.704***
	(0.213)	(0.212)	(0.245)	(0.227)
Gender	-0.160**	-0.159***	0.005	-0.022
	(0.058)	(0.058)	(0.065)	(0.599)
Age	-0.066***	-0.065***	-0.079***	-0.937***
	(0.016)	(0.016)	(0.194)	(0.019)
Age^2	0.0009***	0.0009***	0.001***	0.001***
Education	0.177***	0.174***	0.524***	0.281***
	(0.052)	(0.052)	(0.055)	(0.054)
Contract	0.058	0.056	0.088	-0.004
	(0.068)	(0.068)	0.790	(0.067)
Work Hours	0.011***	0.011***	0.011***	0.008***
	(0.009)	(0.003)	(0.003)	(0.003)
Job Insec	-0.562***	-0.557***	-0.928***	-1.173***
	(0.140)	(0.141)	(0.159)	(0.109)
Mar Status	0.211***	0.211***	0.299***	0.229***
	(0.063)	(0.063)	(0.072)	(0.068)
Children	0.162*	0.160*	0.189**	0.218***
	(0.070)	(0.070)	(0.080)	(0.074)
Demand Job	-0.457***	-0.456***		
	(0.059)	(0.059)		
Well Paid	0.683***	0.683***		
	(0.056)	(0.056)		
Autonomy	0.649***	0.649***		
	(0.063)	(0.063)		

Boring Job	-1.331***	-1.333***		
	(0.112)	(0.112)		
Career Prosp	0.617***	0.616***		
	(0.057)	(0.057)		
Strict Deadline	-0.114*	-0.114*		
	(0.056)	(0.056)		
Unhealthy Envir	-0.162*	-0.165*		
	(0.081)	(0.081)		
GOV_POS				
2		-0.146		
3		-0.026		
Constant	5.520	5.444	1.307	4.510
Adj R-squared	0.261	0.261	0.078	0.072
Number of obs	4024	4024	3820	4363

Notes: Gender, age in linear and quadratic form, marital status, presence of children, education and GDP in logarithmic form are controlled. Coefficients for GOV are multiplied by 10. Reference for position variables is the lower level employees.
* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$

X. Discussion

Robustness tests

We implement some additional tests that are not shown here, including our governance index as a lagged independent variable (n-3), but this time without calculating the average governance of the three previous years. In this way we want to see whether the 3 years gap between changes in governance better proves employee job satisfaction. The results differ for the two years 2007 and 2011. Examining the effect that a change in governance has in 2004 to the employees' job satisfaction in 2007, we find a more negative and significant impact of corporate on employee job satisfaction. However, the results are not the same for 2011 when we take into account the governance index from 2008; the effect remains positive but it turns insignificant.

To support our GDP variable selection, we perform additional tests not shown in our main tables, in which we replace GDP per country by the regional unemployment rate. We obtain similar results and significance levels on our variables. Unemployment rate as expected has a negative association with job satisfaction, as

the higher the unemployment rate within a country, the more difficult to change a dissatisfying position and the less the job opportunities are. However, unemployment rate is marginally insignificant at a 7.3% significance level, compared to GDP which is found to be positive and highly significant in explaining job satisfaction.

Limitations

A potential problem with measuring working conditions is the reliance on self-reported attitudinal data that may have several biases. One such bias is habituation, where respondents get used to bad jobs, for example, and stop reporting their working conditions as poor. However, there are no other standardized methods of assessing job quality other than using surveys to ask workers about their jobs. With such caveats in mind, we nevertheless adhere to the view that subjective reports are valid and reasonably credible.

Lack of appropriate data for the years in study both for governance and job satisfaction may lead to biased results. Governance data lagged by 1 year in 2007 and by 3 years in 2011 may not be the appropriate measure to define the effects on job satisfaction. However, future research needed to further examine the effects of corporate governance on job satisfaction, a topic not extensively researched.

XI. Conclusion

Our findings contribute in a better understanding of the effects of corporate governance in job satisfaction across Europe. We find that corporate governance positively and significantly affects employee job satisfaction. We find that for a pooled data of 13 European countries in two different years (2007, 2011), corporate governance improvements affect positively and significantly employee job satisfaction. The results are more profound after controlling for country specific differences, as not only economic prosperity differences exist between European countries, but also other differences in governance standards and regulations. We find that for the two years 2007 and 2011 combined the level of job satisfaction reported for the UK is lower than most of the other European countries. After controlling for time differences, in 2011 compared to 2007, countries such as Greece and Italy, show a significant change in job satisfaction relative to the UK. This is plausible, as southern European and less prosperous countries, such as Greece and Italy, suffered more during the global economic crisis. Noticeably, corporate governance no longer plays a significant role in job satisfaction, as other job characteristics such as job insecurity, matter more in explaining job satisfaction. However, in 2011 and after accounting for individual socio-demographic

characteristics and the general levels of economic prosperity for each country, we find that corporate governance improvements increase employee job satisfaction. This can be explained by the overall understanding within Europe, for a need in changing corporate governance principles and regulations. After the recent economic collapse, companies' focus in corporate governance changed; as one of the main reasons for corporate failures was poor corporate governance (Shungu 2014). Thus, overall employee awareness of the established governances attributes and rules within an organization, might have changed and subsequently an increase in corporate governance, also increases job satisfaction.

Characteristics such as if one is well paid, has autonomy at work and career development prospects, are found to have a positive and significant effect on job satisfaction. When these variables are added to the model, corporate governance negatively and significantly impacts job satisfactions. Perhaps, after accounting for most of an individual's working conditions, there is no much room for improvement in job satisfaction through corporate governance. A higher level position at work increases job satisfaction. However, there is no evidence that a corporate governance change decreases job satisfaction for employees in upper management. Further, research on this topic is required, as our limited sample of upper level employees compared to the rest of the employees, might lead to distorted results.

XII. Appendices

Appendix A: Firm level governance attributes

This table presents the 41 governance attributes included in the governance index (*GOV41*) organized into four subcategories: board, audit, anti-takeover provisions, and compensation and ownership. The data source is Risk Metrics.

Panel A: Board

1 All directors attended 75% of board meetings or had a valid excuse

2 CEO serves on the boards of two or fewer public companies

3 Board is controlled by more than 50% independent outside directors

4 Board size is at greater than five but less than 16

5 CEO is not listed as having a related-party transaction

6 Compensation committee composed solely of independent outsiders

7 Chairman and CEO positions are separated, or there is a lead director

8 Nominating committee composed solely of independent outsiders

9 Governance committee exists and met in the past year

10 Shareholders vote on directors selected to fill vacancies

11 Governance guidelines are publicly disclosed

12 Annually elected board (no staggered board)

13 Policy exists on outside directorships (four or fewer boards is the limit)

14 Shareholders have cumulative voting rights

15 Shareholder approval is required to increase/decrease board size

16 Majority vote requirement to amend charter/bylaws (not supermajority)

17 Board has the express authority to hire its own advisers

18 Performance of the board is reviewed regularly

19 Board-approved succession plan in place for the CEO

20 Outside directors meet without CEO and disclose number of times met

21 Directors are required to submit resignation upon a change in job

22 Board cannot amend bylaws without shareholder approval or can do so only under limited circumstances

23 Does not ignore shareholder proposal

24 Qualifies for proxy contest defenses combination points

Panel B: Audit

25 Consulting fees paid to auditors are less than audit fees paid to auditors

26 Audit committee composed solely of independent outsiders

27 Auditors ratified at most recent annual meeting

Panel C: Anti-takeover provisions

28 Single class, common shares

29 Majority vote requirement to approve mergers (not supermajority)

30 Shareholders may call special meetings

31 Shareholders may act by written consent

32 Company either has no poison pill or a pill that is shareholder approved

33 Company is not authorized to issue blank check preferred

Panel D: Compensation and ownership

34 Directors are subject to stock ownership requirements

35 Executives are subject to stock ownership guidelines

36 No interlocks among compensation committee members

37 Directors receive all or a portion of their fees in stock

38 All stock-incentive plans adopted with shareholder approval

39 Options grants align with company performance and reasonable burn rate

40 Officers' and directors' stock ownership is at least 1% but not over 30% of total shares outstanding

41 Repricing prohibited

XIII. References

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