



Bridge Over the Bayou

Connecting Business Theory to Practice

UNIVERSITY OF HOUSTON-DOWNTOWN COLLEGE OF BUSINESS

February 2008

Dear Houston Business Leader:

The mission of the College of Business at UH-Downtown is to provide high-quality business graduates and research that helps businesses and industries solve day-to-day problems in a way that has a positive impact on profitability. The launching of the “The Bridge Over the Bayou” is the College’s medium for showcasing faculty research that can help business become more profitable. Each publication of The Bridge Over the Bayou will feature three pieces of research by College of Business faculty that address current and pressing issues or problems faced by businesses.

The first featured article, “Morale and Productivity Do Affect Your Profits” by Prof. Carolyn Ashe, makes it clear employees’ satisfaction influences their job performance and hence their productivity. Her findings quantify the expected change in productivity as a result of changes in morale.

The next featured article, “Emerging China: Opportunity or Threat to the U.S. Economy?” by Prof. Damir Tokic, and Stijepko Tokic, concludes that a China-maximizing policy would explicitly exclude threats of tariffs on Chinese imports and develop strong economic interdependency between U.S. and China.

The last featured article reflects the strong international flavor of the major port city of Houston. “Socio-economic Factors Affecting Household Expenditures on Fresh and Prepared Sea Food: The Spanish Case,” by Prof. Justo Manrique, indicates the growing future market for seafood in Spain represents opportunities for manufactures of salt-water fishing and processing equipment, as well as a growing market for fish processors.

In addition, each publication will contain a listing of all journal published research by the faculty. To obtain a copy of one of the listed articles, please email the Dean’s Office, and we will ensure that you receive the article of interest.

We hope that you enjoy our inaugural issue. If you have feedback or suggestions about how we might improve future issues, please send me your comments at batesdon@uhd.edu.

Warmest Regards,

Donald L. Bates, Ph.D.
Dean, College of Business

Morale and Productivity Do Affect Your Profits¹



Introduction

Morale is defined as the state of the spirits of a person or group as exhibited by confidence, cheerfulness, discipline, and willingness to perform assigned tasks. Interest in the effect of morale on productivity has increased over the years as companies begin to realize the value of keeping employees happy as a path to greater profitability. Studies have focused on the types of distractions that can lower morale, such as job security and failure of employees to buy into the organization’s mission statement and goals. Further, the studies have focused on the different ways to improve morale; however, there is a paucity of research that investigates the effect of the link between profitability, morale, and productivity. Employee wellness, which is affected by both internal and external environments, is one

of the underlying determinants of morale. For example, outside financial and family concerns, as well as job stress and work relationships, can affect productivity. Worker stress results in absenteeism, tardiness, clock watching, excessive/avoidable mistakes, and the lack of concentration, all of which leads to decreased productivity. Morale, reflecting internal and external factors, is the key to developing and fully capturing human potential, and channeling this energy toward performing the productivity tasks which in turn is directly related to profit.

To determine the relationship between employee satisfaction and productivity, Digital Equipment Corporation created the following equation:

$$\text{Employee Satisfaction} + \text{Customer Satisfaction} = \text{Sustained Profitability.}$$

In other words, profit is a function of employee satisfaction.

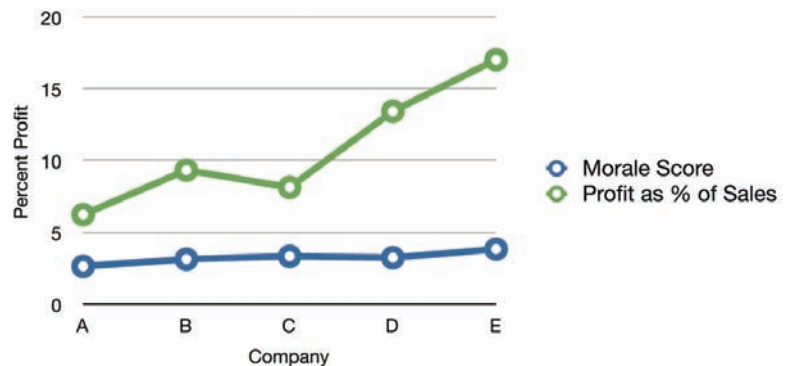
This equation suggests that employee morale could not only increase profits, but may actually be a must in order to sustain profits. The service-profit chain establishes the relationships between profitability, customer loyalty and employee satisfaction, and loyalty and productivity. Profit and growth are stimulated by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is influenced by value of services provided to customers. Value is created by satisfied, loyal and productive employees. The satisfaction comes from high quality support services and policies that enable employees to deliver results to customers. This investigation is based on the employee being part of the profit model.

Investigative Approach

This investigation involved asking 25 employees from each of five engineering companies to rate current morale in their respective companies. An average morale score was determined for each company.

To investigate the first hypothesis, “Employee productivity will decrease if the employee morale level drops,” employees were given four levels of morale: (1) Best, (2) Good, (3) Fair, and (4) Worst, and were asked to rate perceived individual productivity levels at each stage in order to determine what relationship productivity has to morale levels. The findings revealed that 24.8% of respondents indicated that there was no relationship between morale and productivity, and indicated that their job performance

Figure 1: Correlation of Productivity and Profit

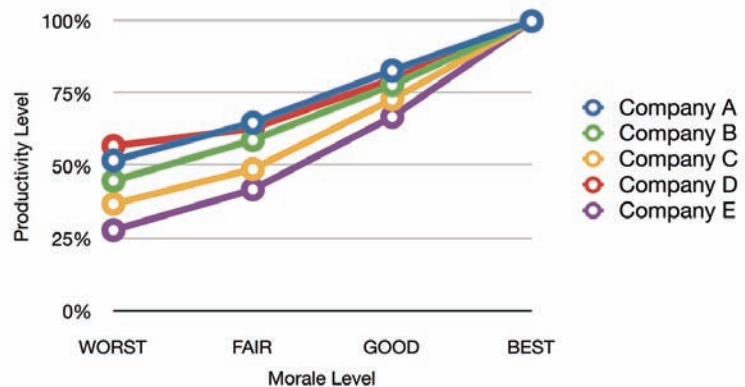


was 100% all the time. In contrast, 75.2% of respondents indicated that morale did affect job performance.

Employees were asked to use the following numerical rate: 1=10% for Worst, through 10=100% for Best, what they felt their productivity level would be at each stage of morale from Best to Worst. The results are graphed in Figure 1.

The second hypothesis, “Employee morale affects profit through increased expenses, lower productivity, or decreased

Figure 2: Average Perceived Drop in Productivity Based on Morale Level



customer satisfaction,” was addressed by using the average morale score provided by each company. The score was compared to the current profit as a percentage of sales based on the last reporting period of financials in each company. In order to quantify the relationship between the two sets of data the results were plotted in Figure 1. The covariance of the sample is 1.59.

Implications

The analysis of the hypothesis “Employee productivity will decrease if the employee morale level drops” indicates productivity is affected by morale. Of the 25 respondents in each company, each person rated his or her own perceived produc-

tivity level based on the different morale levels. As seen in Figure 2, when morale dropped one level, the rate of productivity dropped 24%, dropping 2 levels decreased productivity by a total of 45%, and with a poor level of morale, employees could possibly lose 56% of their productivity. This could be devastating for a company.

The second hypothesis, “Employee morale affects profit through increased expenses, lower productivity, or decreased customer satisfaction,” suggests low morale affects profit by increasing expenses, decreasing productivity or decreasing customer satisfaction. The chart of companies’ profit levels as a percent of sales vs. employee perspective morale levels indicate a relationship between morale and profit. Of course, these findings may be limited by the type of firm and employees investigated. Other investigations should be conducted to determine if the relationship is broad based.

Conclusion

Based on the employee responses, it is clear that there is a definite perceived difference in performance based on the

employees’ satisfaction in the company. Measuring productivity and morale levels can be difficult. But it is likely that determining how morale affects productivity is best answered by the employees themselves, because they are the driving factor in productivity levels, and can best describe these levels during fluctuations in morale levels. Determining fluctuations in individual productivity are difficult—only the employees know their personal effort levels and how they change based on morale. There is difficulty in linking morale directly to profit because there are more factors driving profit levels than just the productivity of employees.

¹This is an abstract of the full article, “Correlation of Morale, Productivity and Profit in Organizations” which originally appeared in *The National Social Science Journal*, 2006, 26(1), 108-115.

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Emerging China: Opportunity or Threat to the U.S. Economy?¹

Introduction

In an effort to forecast the future course of the U.S. economy we constructed a simple SWOT matrix, matching the U.S. economy’s internal strengths and weaknesses with its’ external opportunities and threats.

Perceived Opportunities

We view any intermediate to long term development or trend that potentially increases corporate profitability, and consequently boosts the U.S. stock market as an opportunity. U.S. corporations have been outsourcing production to China, and lowering the costs of direct labor thereby increasing gross profits margins. We expect this trend to continue in the future, and view it as a China-related opportunity. As a result of outsourcing related jobs, Chinese consumers are expected to have an increase in their spending power and hopefully boost the consumption of U.S. exports to China – another opportunity for U.S. exporters. The growing middle class in China is also likely to



invest some of their savings into U.S. equities, providing additional demand for U.S. stocks at the time when retiring baby-boomers in the U.S. begin to liquidate their portfolios, thereby preventing a potential market crash.

Perceived Threats

We view any intermediate to long term development or trend that potentially lowers corporate profitability, and consequently negatively affects the U.S. stock market, as a valid threat. Emerging China can be a threat to the U.S. economy in several ways. First, growth in China, in addition to growth in India and elsewhere in emerging countries, increases the demand for commodities including oil. As a result, oil prices are likely to rise to a level where U.S. consumers would be stranded with high prices of energy and gasoline. In addition, since the global supply of oil is limited, China becomes a competitor for global supplies of oil, adding to the geopolitical concerns. The Chinese government also holds a significant amount of U.S. Treasury bonds. In order to stay competitive in global exports, China has been pegging its' currency to the U.S. dollar. In order to keep the peg, China has been reinvesting its' trade profits into U.S. Treasuries. As a result, the interest rates in the United States have remained low supporting the housing market and debt-financed consumption habits of U.S. consumers. Should China liquidate its' holdings of U.S. Treasury bonds, or at least slow the purchase of new issues, interest rates could rise to a level where U.S. economy would stagnate. Finally, emerging China could pose a political/military threat to U.S. interests.

Policy implications

The United States policy makers could decide to use major strengths of the U.S. economy, political influence and the globally dominant corporate brands to increase exports to China – which is a major opportunity. However, we feel that this is not a viable strategy. First, China has learned a lesson from Japan (Plaza Accord) that major revaluation of domestic currency can lead to serious asset bubbles, and eventually

deflation. China has also learned from Russia post Soviet Union that consumption-based policies and free markets can lead to instability and financial crises. Therefore, it is unlikely that China is going to significantly revalue its' currency or boost the domestic consumption of U.S. goods. Pressures on China can only backfire with protectionism. A China-friendly policy would explicitly exclude threats of tariffs on Chinese imports. China can be a wonderful ally as long as economic interdependency between U.S. and China is strong.

We feel that the U.S. should divert attention from China to improving domestic weaknesses, such as the trade deficit and the budget deficit, high debt levels, low savings rate, and insufficient labor force to guaranty means of future production needs. One of the opportunities unrelated to China is that the U.S. is still a desired immigration destination. We feel that an immigration reform should allow foreign workers qualified to fill all positions needed in the U.S. economy to easily immigrate. That would increase the tax base, expand the labor force, and boost the domestic consumption and production capabilities. As a result, the U.S. economy would depend less on foreign capital inflows for investments, and imported goods for consumption. Note to a reader: This article was written in 2005, prior to the recent immigration debate and China bashing.

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¹This article was originally published in the Credit and Financial Management Review 12(3), 2006

Socio-Economic Factors Affecting Household Expenditures on Fresh and Prepared Seafood: The Spanish Case¹

Introduction

Despite some shifts away from the “Mediterranean Diet,” which consists of seafood, vegetables, fruits, olive oil, wine and salads, Spain is one of the leading per capita consumers of seafood products in the European Union (third in the world after Japan and Portugal), and its consumption of both fresh and prepared seafood has increased in the past years. In 2002, seafood expenditures represented nearly 14% of total food expenditures (the second largest percentage within total

food expenditures), and about 52% of these were on prepared products.

These increases have been attributed not only to health and nutrition concerns, but also to an increasing demand for time saving goods and services. Dramatic increases in women's educational levels, increased participation of women in the labor force, more households living on at least two incomes, increased number of one-person households, have in one way or another affected the value (opportunity cost) of women's time.

According to the predictions of the Theory of the Allocation of Time, the demand for prepared foods (among them seafood products) is positively affected by the value of women's time.

This research examined the socio-economic and demographic factors affecting the consumption of fresh and prepared seafood in Spain, paying special attention to the relationship between the value of women's time and expenditures on prepared seafood goods.

Data Source

The latest Encuesta de Presupuestos Familiares provided the basis for this research. This household survey, conducted by the government of Spain, contains data related to expenditures, income, savings, and socio-economic characteristics of 21,155 Spanish households. Factors considered in this research were: the value of women's time, household income, women's education, number of household members, woman's age, employment status, homeownership, household regional location, and urban-rural household location.

Results

The empirical evidence showed that the value of women's time, income and household demographic variables, are all important determinants of expenditures on seafood products. Table 1 shows the statistical significant factors affecting expenditures on seafood goods.

We found that the value of women's time has a positive and statistically significant effect on the levels of expenditure for fresh and prepared seafood goods. Higher participation of women in the labor force, and changes in the "traditional"



Table 1.

Factors affecting expenditures on fresh and prepared seafood products*

Variable	Does it have a statistically significant impact on the level of expenditures of fresh seafood?	Does it have a statistically significant impact on the level of expenditures of prepared seafood?
Value of women's time	Yes	Yes
Household income	Yes	No
Women's education	Yes	No
Number of household members	Yes	Yes
Woman's age	No	Yes
Employment status	No	Yes
Homeownership	Yes	Yes
Household regional location	Yes	Yes
Urban-rural household location	Yes	Yes

*A consistent two-step estimation procedure was used to consistently estimate a system of expenditure equations and to statistically determine the factors affecting expenditures on fresh and prepared seafood products and quantify their impact on these expenditures.

family (declining birth rates, more one-person and two-person households, more households living on two incomes, etc) have reduced the time to prepare food, increasing the demand for prepared food and those foods requiring relatively little preparation time, among them prepared and fresh seafood. However, this effect is small. A 1% increase in the value of women's time increases yearly expenditures on fresh and prepared seafood by .02 and .02 % respectively. This suggests that seafood consumption is not going to increase too much with the expected higher values of women's time associated with current lifestyle, and the socio-economic and demographic changes being experienced in Spain.

Income has a positive influence on the level of expenditures of fresh seafood. A 1% increase in household income increases yearly expenditures on fresh seafood by 0.2%. Decision-makers can use these findings to anticipate the effects on consumption of expected higher incomes associated with European integration on Spanish families.

Women's age is negatively related to expenditures on processed seafood. A 1% increase in women's age decreases the level of expenditures on prepared seafood by 1.6%. This result may indicate that older families have a more traditional lifestyle than younger families, and prefer fresh seafood goods. Older women may also be less receptive to use modern time saving kitchen equipment than younger women. The number of family members of any age group positively affects the level of expenditure on seafood goods. For instance, a 1% increase in the number of young family members increases expenditures on fresh and prepared seafood by 0.08% and 0.21% respectively.

The level of education also affects the purchasing patterns of seafood products. Households headed by women with at least high school education spend 42 Euros (current exchange rate: 1 Euro for 1.35 US dollars) more per year on fresh seafood than households headed by women with less than a high school education. More educated women could possibly be better informed of nutritional and health advantages of consuming fresh seafood products than less educated women. More educated women could also possibly be more concerned with cleanliness, the kind of ingredients used or the way these foods are prepared.

Urban households spend 102 Euros less per year on fresh seafood, and 216 Euros less on prepared seafood than do rural households. This may reflect the difference between urban and rural areas with respect to prices and availability of seafood in general. Households that reside outside the Iberian Peninsula consumed relatively more seafood than others. For instance, households in the south spend 324 Euros less

per year on fresh seafood and 462 Euros less on prepared seafood products than households located outside the peninsula. The different impacts of regional location reflect differences among regions with respect to prices, tastes, lifestyles and tax structures.

Finally, homeowners spend 72 Euros less per year on fresh seafood and 126 Euros less on prepared seafood than renters. Homeowners may possibly spend less on fresh and prepared seafood because a decision to own a home carries with it a willingness to assume the larger commitment of time necessitated by home production.

Conclusions

The results of this research show the importance of considering the value of women's time (women are still responsible for most of the food selection and preparation activities) on the demand of foods requiring relatively little preparation time, like fresh and prepared seafood products. Specifically, as more women enter the Spanish labor force, and their value of time increases, households reallocate food expenditures in favor of fresh and prepared seafood products. The results also suggest a growing future market for seafood goods based on expected increases in income, and changes in social and demographic characteristics in Spain.

The findings of this research are important for policy-makers and industry planners to identify and promote appropriate long-run changes in the industry: support of farm raised production, fleet reduction and transformation, fisheries agreements, etc. These findings could also help producers and marketers of seafood products to better plan marketing strategies, anticipate future trends in the market, make a better use of resources, and identify new business opportunities. For instance, promotion intended to increase expenditures on prepared seafood should focus on rural, larger households with younger family heads, and working women with high market value of their time. Promotion intended to increase expenditures on fresh seafood should focus on those households with higher incomes, higher education, and on households that are renters and reside in rural areas.

¹This is an abstract of the full article, " Socio-Economic Factors Affecting Household Expenditures on Fresh and Prepared Seafood: The Spanish Case," which originally appeared in *Regional Business Review*, May 2006, 25, 100-119

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Fondren Foundation Creates Endowed Professorship at UHD

The University of Houston-Downtown is pleased to announce the Fondren Professorship in Finance in the College of Business. The endowed professorship, given by the Fondren Foundation, will provide resources to recruit a leadership faculty member in finance, and establish long-term resources for projects at the cutting-edge of educational development and research.

"Because of the continual growing demand for finance majors, the Fondren Foundation recognized the critical need to assist the College in adding to its faculty ranks in finance. We fully endorse the College's future plans in finance education,"

says Ed Allday, a member of the Foundation's board of governors.

Dr. Donald L. Bates, dean, notes that finance is one of the three hottest areas for hiring in Houston. Finance majors in the College have increased by 11 percent over the past three years, making finance the second largest and second fastest growing major.

The Fondren Foundation was established in 1948 by Ella F. Fondren, the widow of Walter W. Fondren, one of the founders of Humble Oil and Refining Company (later Exxon Company, U.S.A.). Located in Houston, the foundation supports agencies for education, health, and human services.