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# Relationship between job satisfaction and organisational performance

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## ABSTRACT

The purpose of this study is to explore the link between job satisfaction and organisational performance and to determine if there is an empirically provable relationship between these two variables, and the direction and the intensity of this relationship. Empirical research was conducted on a research sample of 40 large- and medium-sized Croatian companies, with 5806 employees surveyed. The results of this study show the existence of a clear link between employees' job satisfaction and organisational performance in both directions, but with pretty weak intensity. Detailed analysis showed that the connection between job satisfaction and organisational performance is stronger than the connection between organisational performance and job satisfaction. It could be stated that job satisfaction determines organisational performance, rather than organisational performance determining job satisfaction.

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## 1. Introduction

The purpose of this study is to explore the link between job satisfaction and organisational performance and to determine whether there is there an empirically provable relationship between these two variables and the direction and the intensity of this relationship. Here it is imperative to point out that the relationship between job satisfaction and organisational performance is complex; the research on it is rare; and theoretical and practical studies have not yielded an unambiguous answer to the real nature and strength of the connection between job satisfaction and organisational performance. In fact, some authors have found a positive correlation between job satisfaction and organisational performance (Chan, Gee, & Steiner, 2000; Ellinger, Ellinger, Yang, & Howton, 2002; Huselid, 1995; Koys, 2001; Latif et al., 2015; Mafini & Poee, 2013), whilst, on the other hand, some have not discovered any statistically significant correlation between these two variables (Daily & Near, 2000; Mohr & Puck, 2007).

Regarding these researchers' results, this article tries to provide an additional contribution to the studying of this relationship with a special accent on the direction of this relationship

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which means that the focus is on exploring between which two elements the connection is stronger. Is it between job satisfaction and organisational performance, or between organisational performance and job satisfaction?

## 2. Literature review

In the discussions on organisational success, managers often say that employees' morale is one of the crucial factors for success. Even Napoleon said: 'The effectiveness of the army depends on its size, training, experience and morale, and morale is worth more than all the other factors together.' Focusing on recent times, it could be stated generally that managers want to have satisfied employees who feel good in their workplace; they prefer to work with people who have a positive view of the job. Workers who have a high level of job satisfaction generally love their job; they feel justice in an environment in which they work, and feel that their job gives them some positive features such as variety, challenge, good pay and security, autonomy, pleasant co-workers, etc. Workers who are happy at work will even devote private time to their work activities, they will be creative and committed, they will seek a way to cross any obstacle which might exist in the realisation of their jobs, and they will assist their colleagues and superiors. These workers will have extraordinary performance, and the companies with these kinds of workers will be successful. But, is this always the case? Is job satisfaction such a crucial factor in organisational behaviour? The general answer to this question is 'yes'. However, it is important to emphasise that the relationship between job satisfaction and organisational performance or organisational success is far from simple and direct.

Organisational performance cannot be viewed as a simple sum of individual performances. Although the research results of many studies suggest the existence of positive correlation between job satisfaction and individual performances (Brayfield & Crockett, 1955; Goslin, 2005; Harter, Schmidt, & Keyes, 2003; Iaffaldano & Muchinsky, 1985; Judge, Thoresen, Bono, & Patton, 2001; Locke, 1979; Near, Rice, & Hunt, 1980; Rain, Lane, & Steiner, 1991; Schwab & Cummings, 1970; Tait, Padgett, & Baldwin, 1989; Vroom, 1964; Wright & Cropanzano, 2000), the case with the relationship between job satisfaction and organisational performance is more complex. Organisational performance is influenced by various factors, both internal which the company can influence, and external, which are beyond the company's influence. Attitudes in general and especially job satisfaction really affect organisational behaviour in a number of cases, but not always. This impact is sometimes blocked by the influence of external factors, conditions and circumstances. It would be naive to claim and expect that the impact of job satisfaction on organisational behaviour, and thus on organisational performance, is visible at all times and in all circumstances.

Regarding the studies that address the relationship between job satisfaction and organisational performance, it should be pointed out that the number of studies focused on this connection is much smaller in relation to the number of studies dealing with the relationship between job satisfaction and individual performance. These studies are recent, and give inconsistent results. Some authors have found a positive correlation between job satisfaction and organisational performance (Chan et al., 2000; Chandrasekar, 2011; Ellinger et al., 2002; Harter, Schmidt, & Hayes, 2002; Huselid, 1995; Koys, 2001; Schneider, Hanges, Smith, & Salvaggio, 2003; Zohir, 2007), while some, on the other hand, do not discover any statistically significant correlation between these two variables (Daily & Near, 2000; Mohr & Puck, 2007).

More concretely, Ostroff (1992) found that organisations with more satisfied employees tended to be more effective than organisations with dissatisfied employees. Ryan, Schmitt, and Johnson (1996) found out that employee morale was related to subsequent business performance indicators, customer satisfaction sentiments, and turnover ratios. Harter et al. (2002) found positive correlations between employee satisfaction-engagement and the organisational performance measured by productivity, profit, employee turnover, employee accidents, and customer satisfaction. Gould-Williams (2003) suggests that when employees act diligently and have outstanding performance, the organisational performance will be superior. Evans and Jack (2003) showed that employee satisfaction has a positive impact on market performance, which was analysed through earnings per share, and market performance has a significant impact on financial performance. Schneider et al. (2003) found out that higher return on assets (ROA) and higher earnings per share were positively correlated with higher job satisfaction.

Aside from the impact of job satisfaction on organisational performance, the inverse effect also should be examined, i.e. the existence of the impact of organisational success on workers' job satisfaction. However, it should be noted that the degree of identification with organisational success is significantly smaller and much less motivating in comparison with individual success, which is often, even inevitably, followed by different rewards. Organisational success generally does not bring some direct rewards or benefits to a particular worker. Therefore, the question is: Does organisational success have the power to influence or enhance job satisfaction? Studies have not made a clear contribution to the clarification of this relationship. However, the following researchers have made initial effort to this clarification. Namely, Ryan et al. (1996) regarding the opposite relationship between job satisfaction and organisational performance found out that consumer satisfaction influence on morale. Cole and Cole (2005) discovered that organisational performance causes employee satisfaction. In this context, Gross and Etzioni (1985, p. 4) pointed out that 'organisational reality and human happiness go hand and hand'.

Thus, although clear directions of causality in the relationship between job satisfaction and organisational performance remain unresolved, initial evidence has suggested that aggregate employee attitudes have connections with organisational performance outcomes and vice versa; the organisational performance are correlated to job satisfaction. All the evidence suggests that the relationship between job satisfaction and organisational performance is complex and insufficiently researched.

### 3. Methodological consideration

The main objective of this study was to investigate the relationship between job satisfaction and organisational performance in both directions, and to determine which relationship is stronger, the one between job satisfaction and organisational performance, or between organisational performance and job satisfaction. Related to this, the conceptual model has been developed which was the basis for empirical research (see Figure 1).

As is evident from Figure 1, the one part of the conceptual model refers to job satisfaction, which is observed under the influence of factors that affect this work attitude and which are shown on the left side of the model. These factors are: nature of work, opportunities for advancement, possibility of further education, leadership, co-workers, direct supervisors, salary, position in the company, working conditions, permanent employment and

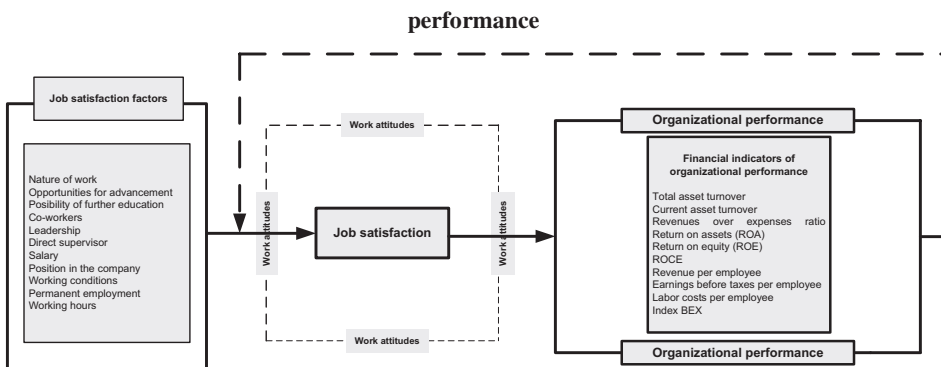
working hours. However, the most important link presented in the conceptual model is the link between job satisfaction and organisational performance which is analysed through financial indicators, which are shown in Figure 1 (right-hand side). Financial indicators that were selected for this analysis are: total asset turnover, current asset turnover, revenues over expenses ratio, ROA, return on equity (ROE), ROCE (Return on Capital Employed), revenue per employee, earnings before taxes per employee, labour costs per employee, index BEX. Besides the relationship between job satisfaction and organisational performance, this conceptual model predicts the existence of a reverse connection or the connection between organisational performance and job satisfaction.

Based on the above presented model the main research hypothesis of this article was identified.

**Research hypothesis.** *There is a positive statistically significant relationship between job satisfaction and organisational performance.*

Trying to perform the analysis of job satisfaction as a variable that was explored on an individual level, and organisational performance which was investigated at the firm level, the empirical research of this article focused on two levels of observation. One was an individual or a worker, because the analysis of job satisfaction assumed questioning each individual worker about his/her job satisfaction, and the other level was the company-level which implied the analysis of its organisational performance. The logic of this individual variable -organisational variable relationship was in the premise that job satisfaction of each employee could influence the enhancement of organisational performance. The thought that followed was that the sum of job satisfaction of all employees in one observed company could define organisational performance of that same company.

The research sample included 40 large- and medium-sized Croatian companies with 5806 employees surveyed. At first sight, the research sample of 40 companies seemed a small one, but regarding the research topic which connected two very sensitive dimensions, job satisfaction and organisational performance, it could be stated that the sample size was adequate. Much other relevant research into job satisfaction or some other aspect of



**Figure 1.** Conceptual model of relationship between job satisfaction and organisational performance. Source: created by the author.

organisational behavioural was conducted on a much smaller sample (Bender, Donohue, & Heywood, 2005; Bendre & Heywood, 2006; Herzberg, Mausner, & Snyderman, 1959; O'Connor, 2007; Santhapparaj & Alam, 2005; Sharma & Jyoti, 2010; Sy, Tram, & O'Hara, 2006). Additionally, it was important to state that this research sample was representative regarding organisational performance, because it included the companies at different levels of organisational performance. Namely, regarding the composite BEX (Business Excellence Index) index as an indicator of the total business performance, 51.3% of companies from the sample were 'good companies' ( $BEX > 1$ ), 38.5% of companies needed some improvements ( $0 < BEX < 1$ ), while 10.2% of them had a threatened existence ( $BEX < 0$ ). In the context of the representativeness of the research sample regarding the number of employees who participated in this research, it is important to point out that all employees in each company were surveyed (except those who were on long sick leave).

The data about job satisfaction was collected via questionnaire<sup>1</sup> in which 11 factors of job satisfaction were tested based on a Likert 5-item scale where 1 = very dissatisfied and 5 = very satisfied. These factors are: nature of work, top management, co-workers, supervision, promotion, pay, status, working conditions, training and development, job security, and working hours. The overall job satisfaction was determinate as an average value of the satisfaction of these factors.

The data about organisational performance was collected through another questionnaire which contained questions about the financial information of each company over a two-year period; for the year in which the analysis of job satisfaction was conducted, and for the previous year. The questionnaire was completed by the chief accountant of each company. On the base of collected financial information, 10 financial indicators of organisational performance were calculated. These indicators were: total asset turnover<sup>2</sup>, current asset turnover<sup>3</sup>, revenues over expenses ratio<sup>4</sup>, return on assets<sup>5</sup>, return on equity<sup>6</sup>, ROCE<sup>7</sup>, revenue per employee, earnings before taxes per employee, labour costs per employee, and index BEX<sup>8</sup>. The choice of these indicators depends on the research topic (Dotson & Allenby, 2010; Gursoy & Swanger, 2007; Jing & Li, 2008; Škerlavaj, Štemberger, Škrinjar, & Dimovski, 2007). However, today, many authors question the exclusive reliance on financial indicators as the only criterion of organisational performance determination, highlighting that these indicators are predominantly used for reporting, rather than to analyse the successful implementation of the strategy and determining the future direction of company development (Ghalayini & Noble, 1996; Neely, 1999; Niven, 2007; Wade & Recardo, 2001). The organisational performance could also be determined by modern performance measurement approaches or models which are developed in order to include and balance the multidimensional aspects of a company's performance, no matter whether they are quantitative or qualitative ones (Brown, 1996; Cross & Lynch, 1989; Fitzgerald, Johnston, Brignall, Silvestro, & Voss, 1991; Kaplan & Norton, 1992; Keegan, Eiler, & Jones, 1989). However, there are no clear guidelines or directions which modern performance measurement approach or model should be used in order to compare different companies which are often of different size and belong to different industries. Because of this fact, many researchers in their empirical research give priority to financial indicators of organisational performance (Choi, Kwak, & Choe, 2010; Flamholtz & Hua, 2002; Gerhart & Milkovich, 1990; Huselid, 1995; Munoz-Bullon & Sanchez-Bueno, 2010; O'Boyle, Rutherford, & Pollack, 2010; Rechner & Dalton, 1991; Snow & Hrebiniak, 1980; Schulte, Ostroff, Shmulyian, & Kinicki, 2009; Xing, 2009). Financial indicators have the same way of calculation regardless of the company size or

industry in which they belong, so they facilitate the research realisation, analysis of the results and generation of the conclusions. Because of these reasons, financial indicators were selected as predictors of organisational performance in this research.

The collected data was analysed using the software package SPSS.

#### 4. Research results

The empirical results of this research provided new insight into the analysis of the relationship between job satisfaction and organisational performance. This relationship was analysed in both directions, which means that the correlation between job satisfaction and organisational performance was tested in the way that these two variables were examined in the same year. By this it was attempted to find out if job satisfaction had some impact on organisational performance. Furthermore, the correlation between job satisfaction and organisational performance was tested in the way that the organisational performance was explored in the previous year and job satisfaction in the next year. By this it was attempted to find out does organisational success cause enhancement in job satisfaction.

Concerning the data about job satisfaction and organisational performance for the same year, statistical analysis showed the existence of statistically significant positive correlations between job satisfaction and some financial indicators of organisational performance. These correlations are presented in Table 1.

Statistically significant positive correlation between job satisfaction and financial indicators of organisational performance was apparent in the case of four financial indicators among the 10 used in the analysis. These financial indicators were ROE, revenue per employee, labour costs per employee and index BEX. All defined correlations were of low intensity, but despite this, it could be concluded that there was a positive relationship between job satisfaction and organisational performance. The low intensity of correlations was expected because it was obvious that there were many different factors inside or outside of companies which had much direct and stronger impact on organisational performance than job satisfaction. It is important to point out that the existence of statistically significant positive correlation between job satisfaction and index BEX (which is a composite indicator

**Table 1.** Statistically significant correlations between job satisfaction and financial indicators of organisational performance.

		(1)	(2)	(3)	(4)
(1) Job satisfaction	Pearson Correlation				
	Sig. (1-tailed)				
	N				
(2) ROE	Pearson Correlation	.395*			
	Sig. (1-tailed)	.006			
	N	40			
(3) Revenue per employee	Pearson Correlation	.443**	.430**		
	Sig. (1-tailed)	.002	.003		
	N	40	40		
(4) Labour costs per employee	Pearson Correlation	.407**	.481**	.383**	
	Sig. (1-tailed)	.005	.001	.007	
	N	40	40	40	
(5) BEX	Pearson Correlation	.326*	.931**	.387**	.459**
	Sig. (1-tailed)	.022	.000	.007	.002
	N	39	39	39	39

Source: Research results.



**Table 2.** Statistically significant correlations between different job satisfaction factors and financial indicators of organisational performance.

Job satisfaction factor		Revenues				Earnings before taxes per employee				BEX
		Total asset turnover	Current asset turnover	Revenues over expenses ratio	ROA	ROE	ROCE	Revenue per employee	Labour costs per employee	
Nature of work	Pearson Correlation Sig. (1-tailed) N					.389** .007		.391** .006	.265* .049	.311* .027
Opportunities for advancement	Pearson Correlation Sig. (1-tailed) N					40 .510**		40 .445**	40 .407**	39 .445**
Possibility of further education	Pearson Correlation Sig. (1-tailed) N					.000 40		.002 40	.005 40	.002 39
Leadership	Pearson Correlation Sig. (1-tailed) N					.500** .001		.454** .002	.0408** .005	.351* .014
Co-workers	Pearson Correlation Sig. (1-tailed) N					.0542** .000		.430** .003	.309* .028	.465** .002
Direct supervisors	Pearson Correlation Sig. (1-tailed) N					39 .492**		39 .399**	39 .388**	38 .007
Salary	Pearson Correlation Sig. (1-tailed) N					.001 40		.005 40		
Position in the company	Pearson Correlation Sig. (1-tailed) N					.361* .011		.301* .030	.511** .000	.371* .010
Working conditions	Pearson Correlation Sig. (1-tailed) N					40 .312*		40 .333*	40 .018	39
Permanent employment	Pearson Correlation Sig. (1-tailed) N					.025 40		.018 40		
Working hours	Pearson Correlation Sig. (1-tailed) N					.305* .028		.451* .002	.306* .028	.461** .001
						40		40	40	
						-.476** .001		.341 .016	.333* .018	.333* .018
						40		39	39	39
						-.443** .002		.341 .016	.333* .018	.333* .018
						30		40	39	39

Source: Research results.



whose calculation is based on several relevant aspects of the business performance that are crucial for its success) additionally supported the above stated conclusion about the positive relationship between job satisfaction and (financial indicators of) organisational performance. On the basis of this analysis, it could be affirmed that companies with more satisfied workers were more successful.

In order to enhance this analysis, the correlations between different job satisfaction factors and financial indicators of organisational performance were also calculated and presented in Table 2.

From Table 2, the statistically significant correlations between different job satisfaction factors and financial indicators of organisational performance can be seen. Most of the job satisfaction factors were connected to four indicators of organisational performance. These indicators were ROE, revenue per employee, labour cost per employee and index BEX. The discovered correlations were mainly of low intensity, in few cases, medium. From these results it could be concluded that the impact of majority of job satisfaction factors on organisational performance existed. These results were in accordance to the results presented in Table 1 which additionally supported the assertion about the impact of job satisfaction on organisational performance. This also could suggest that the management needed to carefully observe and influence each job satisfaction factor in order to enhance organisational performance.

Analysing the inverse relationship, which implies the influence of organisational performance on job satisfaction, statistically significant correlations between financial indicators of organisational performance and job satisfaction were also discovered. These correlations are presented in Table 3.

Statistically significant positive correlations between financial indicators of organisational performance and job satisfaction were discovered in the cases of four out of 10 financial indicators. These indicators were: total assets turnover, revenue per employee, labour costs per employee and earnings before taxes per employee. Although all discovered correlations were of low intensity, the existence of the link between organisational performance and job satisfaction was confirmed. The low intensity of these correlations could be also explained by other stronger influences on job satisfaction which might be connected to workers' personal

**Table 3.** Statistically significant correlations between financial indicators of organisational performance and job satisfaction.

		(1)	(2)	(3)	(4)
(1) Job satisfaction	Pearson Correlation				
	Sig. (1-tailed)				
	N				
(2) Total asset turnover	Pearson Correlation	.301*			
	Sig. (1-tailed)	.030			
	N	40			
(3) Revenue per employee	Pearson Correlation	.444**	.385*		
	Sig. (1-tailed)	.002	.007		
	N	40	40		
(4) Labour costs per employee	Pearson Correlation	.400**	.046	.411**	
	Sig. (1-tailed)	.005	.389	.004	
	N	40	40	40	
(5) Earnings before taxes per employee	Pearson Correlation	.288*	.119	.252	.641**
	Sig. (1-tailed)	.036	.232	.058	.000
	N	40	40	40	40

Source: Research results.

characteristics and other factors in an individual working and living environment which had stronger and more direct impact on his/her job satisfaction than organisational success.

Comparing these correlations with correlations presented in Table 1 it could be noted that these were even of lower intensity, and the correlation with index BEX did not exist. This could imply that the relationship between organisational performance and job satisfaction was weaker than the relationship between job satisfaction and organisational performance and that primary way of influence is going from the job satisfaction to organisational performance.

## 5. Concluding remarks

Job satisfaction is an extremely complex concept that is influenced by different factors, or more accurately by a group of factors that often have interwoven impact. As a result, studies that have dealt with the relationship between job satisfaction and other concepts have often given inconsistent results, especially in the case of the analysis of the relations between job satisfaction and organisational performance (Chan et al., 2000; Chandrasekar, 2011; Daily & Near, 2000; Ellinger et al., 2002; Evans & Jack, 2003; Gould-Williams, 2003; Harter et al., 2002; Huselid, 1995; Koys, 2001; Mohr & Puck, 2007; Ostroff, 1992; Ryan et al., 1996; Schneider et al., 2003; Zohir, 2007). The results of this study confirmed the conclusions of other papers dealing with this topic about the existence of clear link between employees' job satisfaction and organisational performance in both direction, but with pretty weak intensity.

Detailed analysis showed that the connection between job satisfaction and organisational performance was stronger than the connection between organisational performance and job satisfaction. It could be stated that job satisfaction more strongly determines organisational performance than organisational performance determines job satisfaction. To support this claim, the research results of this article showed that there was an impact of the majority of job satisfaction factors on organisational performance.

This is logical, considering that organisational success is something that workers generally have no opportunity to concretely realise, or directly feel the positive effects of. Successful companies are not obliged to give employees any additional benefits or benefits arising from organisational success. In fact, workers often receive the same salary and other forms of compensation, regardless of how much a company is successful. This argument may explain the weak relationship between organisational performance and job satisfaction.

Finally, it is important to note that this study makes a significant contribution to the observing link between job satisfaction and organisational performance in both directions, whereby it is particularly important to emphasise the contribution of observing the link between organisational performance and job satisfaction, which is world-wide still unexplored. In addition, the conclusions of this study could be used as a basis for new research.

### 5.1 Research limitations

Understanding research limitations and their possible impact on the results and conclusions is necessary for better understanding the problems investigated.

The first limitation is related to the research sample. This research was carried out in 40 companies that decided to participate in the empirical research. Considering that the research problem of this study is very specific because it examines two very sensitive

dimensions of company's operations – job satisfaction and the company's efficiency, it was difficult to attract a larger number of companies to this research. As a result, the companies belonging to a particular industry could not be used as a control variable. Therefore, it is necessary to hold some reservations about the representativeness of the research sample, especially when it comes to some general conclusions. However, in comparison to other studies in this field, it should be noted that this study is very valuable since it included the examination of 5806 employees, which is very respectable.

The next limitation refers to the analysis of organisational performance, in which only traditional (financial) indicators of organisational performance were used. Consequently, the weak correlation between job satisfaction and organisational performance in both directions could be explained by narrowed performance measurement. If the organisational performance was observed through optional ways of behaviour, such as mutual assistance, motivation and cooperation; what the literature means by the concept of organisational citizenship behaviour which increases both individual and organisational performance or by some other 'soft' measures of organisational performance; then the correlation between job satisfaction and organisational performance might have been shown to be stronger. But, on the other hand, the application of 'soft' of qualitative measures complicates comparison between companies.

And finally, the question is how much time needs to pass for the effects of job satisfaction on organisational performance to become notable, or conversely, in what time do workers identify with the company's success so that they increase their job satisfaction. This issue is related to the existence of time lag. In this article, job satisfaction is analysed within a single year, while the organisational performance is analysed over a two-year period. However, for a more complete analysis, job satisfaction and organisational performance should be monitored and analysed over a longer period of time in order to discover a possible time lag in their interference and to get a clearer picture of the connection between these two variables.

## Notes

1. This questionnaire is taken from consulting group AT Adria d.o.o. Besides the questions about the satisfaction of each job satisfaction factor the questionnaire includes questions about employees' gender, age, education, position in the company and tenure, but those questions were not subject of this analysis.
2. Total asset turnover = Total revenues/Total assets.
3. Current asset turnover = Total revenues/Current asset.
4. Revenues over expenses ratio = Total revenues/Total expenses.
5. Return on assets (ROA) = (Earnings before taxes + Interest expenses)/Total assets.
6. Return on equity (ROE)= Net income/Equity.
7. ROCE = (Net income/Total assets) – Short term liabilities.
8. BEX =  $0,388ex1 + 0,579ex2 + 0,153ex3 + 0,316ex4$ ; where:  $ex1 = (\text{Earnings before taxes} + \text{Interest expenses})/\text{Total assets}$ ;  $ex2 = \text{Earnings before taxes}/\text{Equity} * \text{Cost of capital (interest rate)}$ ;  $ex3 = (\text{Current assets} - \text{Short term liabilities})/\text{Total assets}$ ;  $ex4 = 5 * (\text{Earnings before taxes} + \text{Amortisation})/\text{Total liabilities}$ .

## Disclosure statement

No potential conflict of interest was reported by the author.

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