
EMPLOYEE SATISFACTION AND ORGANIZATIONAL PERFORMANCE: A SUMMARY OF KEY FINDINGS FROM APPLIED PSYCHOLOGY

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INTRODUCTION

In his seminal 1976 review of the job satisfaction literature, Locke observed that more than 3,300 scholarly articles had been published on the topic of job satisfaction. Harter, Schmidt, and Hayes' (2002) search yielded another 7,855 articles having been published between 1976 and 2000. As the increase in research studies suggests, the notion that workplace attitudes (e.g., job satisfaction) might be positively connected with performance outcomes continues to intrigue academic scholars as well as practicing managers. The majority of the research examining the employee satisfaction-performance relationship has been conducted on the micro-level of analysis, otherwise known as the individual employee level. For example, research has reported a positive correlation between individuals' job attitudes and their performance ($r = .17$; Iaffaldano & Muchinsky, 1985). Moreover, a recent meta-analysis found a substantive correlation between

individual job satisfaction and individual performance ($r = .30$; Judge, Thoresen, Bono, & Patton, 2001).¹

As Schneider, Hanges, Smith, and Salvaggio (2003) recently observed, researchers' micro-orientation towards the job attitude-performance relationship is somewhat perplexing, given that the interest in employee attitudes had much of its impetus in the 1960s when organizational scientists such as Argyris (1964), Likert (1961), and McGregor (1960) suggested that the way employees experience their work would be reflected in organizational performance. Historically, the job satisfaction-performance linkage has been primarily discussed by theorists from the Socio-technical and Human Relations schools of thought. According to the Socio-technical approach (e.g., Emery & Trist, 1960), organizational performance depends on congruence between the technical and social structures of the organization. Building on this notion, the Human Relations perspective posits that satisfied workers are productive workers (e.g., Likert, 1961; McGregor, 1960). Thus, organizational productivity and efficiency is achieved through employee satisfaction and attention to employees' physical as well as socio-emotional needs. Human relations researchers further argue that employee satisfaction sentiments are best achieved through maintaining a positive social organizational environment, such as by providing autonomy, participation, and mutual trust (Likert, 1961). Based on this logic, employee satisfaction is believed to influence the development of routine patterns of interaction within organizations. Through mutual interactions, employees develop relationships with coworkers that also prescribe behavioral expectations and influence behaviors (e.g., norms or informal standards of acceptable behavior). For example, an unhappy employee could be

¹ A meta-analysis statistically combines the results of several studies that address a set of related research hypotheses. A meta-analytically derived correlation is a more accurate estimate of the true population correlation coefficient.

prevented from lowering their performance by control mechanisms (e.g., standards of measurement, supervisory influence); however, widespread dissatisfaction among employees could lead to a strike or sabotage that might hinder an organization's effectiveness. Alternatively, dissatisfied employees might choose to maintain performance levels (due to control mechanisms) but neglect to inform supervisors of important information that, over time, would result in lower organizational effectiveness or efficiency. Thus, employees' job satisfaction sentiments are important because they can determine collaborative effort. Consistent with this reasoning, Likert (1961) has argued that collaborative effort directed towards the organization's goals is necessary for achievement of organizational objectives, with unhappy employees failing to participate (effectively) in such efforts. In sum, available theory supports the contention that the satisfaction level of employees (as a whole) may relate to performance at the business-unit and/or organizational levels.

From a practical vantage, conducting research at the business-unit and/or organizational level is believed important because this is the level of analysis at which employees' survey data are commonly reported to client organizations (Harter et al., 2002). Empirical research at higher level units of analysis (strategic business units or SBUs, across many organizations, etc.) also afford applied researchers and managers with the opportunity to establish empirical linkages to salient outcomes that are directly relevant – including profitability, productivity, efficiency, employee turnover, safety, and customer loyalty and satisfaction.

REVIEW OF THE LITERATURE

Although it has been more common to investigate employee attitude data at the individual employee level, researchers have begun to explore similar relationships at the business-unit level and the organizational level. Research conducted under the rubric of

organizational climate has had success in aggregating individual employees' perceptions and investigating their relationship to both organizational-level and individual-level outcomes (see, e.g., Schneider, White, & Paul, 1998; Zohar & Luria, 2005). In addition, there are a handful of studies that have explored the relationship between aggregated employee job satisfaction attitudes and organizational (or unit-level) performance.

Ostroff (1992), studying a sample of 364 schools, investigated the relationship between employees' attitudes and organizational performance. Ostroff found that aggregated teacher attitudes such as job satisfaction and organizational commitment were concurrently related to school performance, as measured by several performance outcomes such as student academic achievement and teacher turnover rates. Across 12 organizational performance indexes, the magnitudes of the correlations between teacher satisfaction and performance ranged from .11 to .54, with a mean of .28. When the unique characteristics of the schools were statistically controlled for, teacher satisfaction and other job-related attitudes continued to predict many of the organizational performance outcomes. Results were strongest for teacher satisfaction; thus, organizations with more satisfied employees tended to be more effective than organizations with dissatisfied employees. This study indicates that satisfaction is an important social process factor that fosters organizational effectiveness. The major limitation of this study pertains to the nature of the study sample; all organizations were secondary schools. The extent to which similar relationships would hold for organizations in other types of industries (manufacturing, service, etc) and occupations cannot be determined.

Ryan, Schmitt, and Johnson (1996) investigated similar relationships between aggregated employee attitudes, firm productivity, and customer satisfaction. The authors measured these relationships at two points in time from 142 branches of an auto finance company. Results

indicated employee morale was related to subsequent business performance indicators, customer satisfaction sentiments, and turnover ratios. These researchers attempted to study the causal relations among the variables; however, their attempts lead to mostly inconclusive findings. Interestingly, they did find evidence suggestive of customer satisfaction as a causal influence on morale (a finding that is opposite of the directionality assumed by the literature). Although a tentative finding, Ryan et al. (1996) discussed several possible explanations for it. For instance, the customer satisfaction index was monitored closely by unit managers and success or failure likely translated into management practices that influenced employees' job attitudes. Moreover, the researchers speculated that the particular setting may be unusual in that customer satisfaction might be inversely related to the amount of contact with the organization (e.g., customers without problems with the processing of their payments are likely to have less interaction with company representatives than customers with such problems). Similar to Ostroff's (1992) study, the major concern with Ryan et al.'s (1996) research is that the data were all from one organization which limits the generalizability of the findings.

In a unique study conducted by Harter et al. (2002), the authors conducted a meta-analysis of studies previously conducted by The Gallup Organization. The study examined aggregated employee job satisfaction sentiments and employee engagement, with the latter variable referring to individual's involvement with as well as enthusiasm for work. Based on 7,939 business units in 36 organizations, the researchers found positive and substantive correlations between employee satisfaction-engagement and the business unit outcomes of productivity, profit, employee turnover, employee accidents, and customer satisfaction. More importantly, these researchers explored the practical utility of the observed relationships. For example, business units in the top quartile on the employee engagement measure yielded 1 to 4

percentage points higher profitability. Similar findings were found for productivity. Specifically, business units in the top quartile on employee engagement had, on average, from \$80,000 to \$120,000 higher monthly revenue or sales. Based on these data, it seems clear that aggregated measures of employee satisfaction and employee engagement are meaningfully related to business outcomes at a magnitude that is important to many (if not all) organizations. In comparison to prior studies, the strength of Harter and his colleagues' research is the large number of participants ($n = 198,514$), business units ($n = 7,939$), and firms ($n = 36$) included, thereby providing a level of precision and statistical power rarely found in scholarly (i.e., non-proprietary) research.

Schneider et al. (2003) report analyses of employee attitude survey data aggregated to the organizational level of analysis. These authors explored the relationships between several facets of employee satisfaction and organizational financial (return on assets; ROA) and market performance (earnings per share; EPS) using data from 35 organizations over a period of eight years. Thus, in contrast to previous studies, Schneider and his colleagues' study was able to make some inferences about directional causality (i.e., are employee attitudes a stronger cause of organizational performance than the reverse). Their results showed consistent and statistically significant positive relationships (over varied time lags) between attitudes concerning satisfaction with security, satisfaction with pay, and overall job satisfaction with financial (ROA) and market performance (EPS). Although these findings are consistent with applied researchers' and managers' implicit beliefs, their study was not without some surprises. One of the more surprising findings was related to overall job satisfaction and the performance criteria. Results demonstrated that the causal directionality flows from financial and market performance to overall job satisfaction. This latter result does not deny the fact that there were significant

relations going from overall job satisfaction to ROA and EPS; nevertheless, the reverse direction relationships tended to be stronger in magnitude. Moreover, the relationship between satisfaction with pay and the performance indicators appeared to be reciprocal in nature. The obvious strength of this research study is the longitudinal nature of both the aggregated employee data and the financial and market performance data. By collecting longitudinal data on both sets of variables, these researchers were able to examine and begin to disentangle a set of very important but complex relationships.

Are companies with happy workers more productive companies?

One major issue regarding many of the reviewed studies relates to the causal nature of the relationship between aggregated employee satisfaction and organizational (or unit-level) performance. The implicit belief both in academe and practice is that the relationship runs from employee satisfaction sentiments to organizational effectiveness and efficiency outcomes. Moreover, this implicit assumption is apparent in the research studies reviewed here. That is, the attitude data were typically collected at one time period and performance outcomes were concurrently collected or at multiple time periods *following* the collection of the employee attitude data. The study conducted by Schneider et al. (2003) suggests that collecting data in this fashion may lead researchers to draw erroneous conclusions because their data prevent them from discovering significantly stronger relationships for performance causing satisfaction. It could be argued, for example, that employees who are in higher performing organizations are more likely to be satisfied than those in lower performing organizations simply because their organizations are doing well. Indeed, this causal pattern was found in the study conducted by Schneider and his colleagues (2003). Specifically, their data supported causal relationships between financial and market performance outcomes and employees' overall job satisfaction and

satisfaction for security. Although more research is needed before concrete conclusions are drawn, Schneider et al.'s (2003) research demonstrates that employees can derive satisfaction from the knowledge or feedback that their organization is performing well and is accomplishing its goals – a finding that is in stark contrast to the presumption found in the academic literature (see, e.g., Likert, 1961).

When we consider the studies collectively, directional causality may work in both directions; employee satisfaction causes organizational performance and vice versa. Therefore, it seems most likely that reciprocal relationships exist and that, as noted by Gross and Etzioni (1985), “organizational reality and human happiness go hand and hand” (p. 4). Thus, although directions of causality remain unresolved, initial evidence suggests that aggregate employee attitudes have connections with organizational performance outcomes.

What can we do to create happy employees, then?

Given the fact that significant and practically important relationships exist between aggregated employee attitudes and organizational performance, it is important to question what factors contribute to satisfaction. The predominant view has focused on the situational context (e.g., supervisory support) as a cause of satisfaction and has argued that high-performance work practices and thus a positive working climate foster employee satisfaction (see, e.g., Bowen, & Ostroff, 2004; Wright, Dunford, & Snell, 2001; Wright, Gardner, Moynihan, & Allen, 2005). This rationale is consistent with recent research on the impact of financial and nonfinancial incentives (e.g., training) on business-unit outcomes. For example, Peterson and Luthans (2006) used a quasi-experimental, control group design and found that both types of incentives had a significant impact on store profit, customer service, and employee turnover. Initially, the financial incentive had a greater effect on all three outcomes (as one might expect). But over

time, however, the financial and nonfinancial incentives exhibited equally significant impacts on two of the three outcomes (the exception was employee turnover).

A brief comment on the need for a multidimensional measure of performance.

Researchers have suggested that organizational effectiveness most likely reflects the combination and interaction of employee work behaviors that promote organizational performance (e.g., Ostroff, 1992). In other words, the definition of organizational performance may be too limited and narrow. Outcomes such as attendance, compliance, following of rules, cooperation, sabotage, and so on may also be important; however, such outcomes are usually not included in organizational performance criteria. Accordingly, we suggest that organizations wishing to explore the empirical connections between aggregated employee attitudes and organizational outcomes consider a wider range of performance-related outcomes.

CONCLUSION

The current understanding of how aggregated employee attitudes influence and are influenced by important business outcomes is limited. Based on the evidence to date, we conclude that employee satisfaction is related to meaningful business outcomes and that these relationships generalize across companies (and industries). Research efforts directed at further exploring these issues are sorely needed, and we believe there is potential for longitudinal research in the area of aggregated employee satisfaction. For example, future research should emphasize research designs that study changes in employee satisfaction and the causes of such changes. Through such longitudinal designs, the connections between aggregated job attitudes and performance can be more fully understood. At this point, evidence of directionality would suggest not only some directionality from employee attitudes to business outcomes (as well as the reverse) but also a reciprocal relationship in some cases!

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