An Exploration of the Impact of Employee Job Satisfaction, Affect, Job Performance, and Organizational Financial Performance: A Review of the Literature

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Extensive research has explored job satisfaction, job performance, and the financial performance of organizations. Job satisfaction and job performance have been explored separately and collectively. However, scholars only have begun to explore the relationship between employee job satisfaction and financial performance of organization. This paper reviews the literature on these topics and discusses the gaps associated with the study of these variables collectively.

Keywords: Job Satisfaction, Job Performance, Financial Performance

Problem Statement

The research on employee job satisfaction and job performance is extensive, as is the research on organizational financial performance. Several concerns, however, can be found in the proliferation of research conducted on these topics. These include, but are not limited to: 1) the fact that two frequently-cited meta-analyses showed low correlation between job satisfaction and job performance (Iaffaldano & Muchinsky, 1985; Judge, Thoreson, Bono & Patton, 2001); 2) variables measuring organizational or financial performance are as widely varied as the types of studies (Abbott, 2003; Huselid, 1995); 3) the link between employee job satisfaction and financial performance of an organization as an area of research is limited (Saari & Judge, 2004); and, 4) studies examining job satisfaction and organizational performance in nonprofit organizations are limited. There is limited empirical research available on emotional variables and their relationship to a firm's financial performance.

Judge et al. (2001) identified seven models in the literature and proposed an integrated model incorporating the other models and the moderating and mediating variables. This proposed model, while incorporating a number of mediating variables such as employee affect or mood not included in previous models, did not incorporate the evaluation of possible links to the firm's performance. A review of the organizational performance literature revealed inconsistencies in the variables utilized to measure firm performance. Further the literature failed to evaluate firm performance links to job satisfaction and did not include mediating factors on job satisfaction.

Studies that incorporated financial performance incorporated different variables. Banton (2002) examined the relationship between organizational culture and the company's financial performance to determine to what extent these were related. The financial performance variable was defined as return on sales. In a study of shared governance in a hospital setting that incorporated job satisfaction and financial performance, Minors (1993) used a variety of financial measurements specific to hospitals. These included patient days, admissions, and expenses per patient day. Other measures have included ratio analysis, net income, and growth in sales over a period of time (Lau & May, 1998; Silvestro, 2002).

Saari and Judge (2004) conceptualized the gaps between human resource practices and the empirical research on employee affects, and more specifically, job satisfaction. Two of the three gaps identified included an understanding of the causes of employee affects and job satisfaction, and understanding the consequences of job satisfaction. Saari and Judge described this disparity as the impact job satisfaction or dissatisfaction may have on organization outcomes. Their discussion observed that linking employee affects to business performance measures is a recent phenomenon in empirical reviews.

Absent from the empirical literature on employee satisfaction is research on nonprofit organizations. A search utilizing the terms "job satisfaction in nonprofit organizations" yielded approximately ten results. The examination of financial performance in nonprofit organizations is only somewhat more prolific than job satisfaction.

Theoretical Framework

Resource-Based Theory of the Firm
Economic theories state that in the normal course of business, resources will be stripped away by competing firms

and new entrants to an industry. Consequently it would behoove organizations to focus efforts toward maintaining those resources that provide competitive advantage (Barney, 1986). Wernerfelt (1984) suggested that an organization should be cognizant of the benefits of the resources it controls. By benefits he suggested that these are resources that could be utilized to generate profits for the organization. He further defined a resource as those things that contribute to the strength or weakness of an organization. Included in resources are the skills for which personnel are employed. When comparing this theory to other organizational economic theories, Porter (1985) noted "uniqueness lets a company differentiate itself from its rivals and charge a premium price for its product, or reduce its unit costs far below those of competitors (p. 130). The resource-based theory "suggests that there can be heterogeneity or firm-level differences among firms that allow some of them to sustain competitive advantage."

Exploring the relationship between job satisfaction, job performance, and firm performance again implies the importance of employees to the organization. A growing area of research related to the important role of employees in a company is the topic of intellectual capital. Intellectual capital refers to the knowledge and skills employees possess and the value those traits bring to an organization (Bontis & Fitz-enz, 2002). Human capital encompasses a number of characteristics including education, work experience, and employee competence (Carmeli & Tishler, 2004). Leiponen (1997) noted the importance of knowledge on the long-range economic performance of a company and supported the concept of resource-based strategic management. Superior human capital represents those characteristics of the employee group that would be difficult for a competitor to replicate. Hatch and Dyer (2004) explored the value of human capital and its contribution to the competitive advantage of a firm as well as the firm's performance. The authors noted that human capital has consequences for performance, and suggested that the selection of human capital is critically important, as well as investments in training and development. Selecting human capital for employment with prior industry experience can reduce the learning curve and serve to quickly add value to the organization.

Affective Events Theory

Affect has been described as how one feels on the job or one's emotional reactions to job events. Affective events theory, as postulated by Weiss and Cropanzano (1996), suggests a link between job affect and on-the-job behaviors such as withdrawal or organizational citizenship (prosocial) behaviors. Bratton (2004) noted that affective events theory provides a framework for understanding events that produce emotional responses in employees by suggesting that these responses lead to long-term implications for an organization, including employees' attitudes, behaviors, and job performance.

Research Question

As a result of the identified gaps in the literature, this paper addresses the following research question. What is the relationship between job satisfaction, employee affect, job performance, and the financial performance of an organization?

Research Methods

A review of the literature was conducted utilizing keywords such as "job satisfaction", "job performance", "firm performance", "financial performance of organizations", "employee affect", and "employee moods". Databases utilized included ABI/Inform, Digital Dissertations, and ProQuest Direct. The search resulted in numerous refereed articles, books, and on-line resources. As sources were reviewed, additional citations were found and explored. The following table summarizes the salient themes relevant to this research.

Review of Literature

Researchers, organizational executives, and operating managers alike are concerned about organizational financial performance. Several reasons can be found in the literature suggesting why financial performance of organizations is important. In 1985, Porter noted that "the emphasis has shifted from growth to improving competitive advantage" due to increasing global competition (p. 320). Competitive advantage simply refers to performing better than others in the industry. A sustained competitive advantage, as defined by Porter refers to maintaining higher profits over a long period of time. Moyer, McGuigan, and Rao (2005) noted the importance of profitability and performance by suggesting that a business' primary purpose is to generate an acceptable rate of return to investors, as well as an acceptable stock value. Additionally, Moyer et al. highlighted the far-reaching impact of poor performance. Peltier-Rivest and Swirsky (2000) also highlight the risk of debt covenant violations if performance is below acceptable levels. While shareholder value and stock prices are relevant only to the for-profit environment, debt covenants and competition impact the not-for-profit firms as well.

Table 1. *Summary of Key Concepts from Literature Review*

Subsection	Key Concepts
Firm Performance and the Employee's Impact on Firm Performance	• Definition of firm performance • Significance of firm performance • Measuring firm performance • Balanced scorecard and linking employee behaviors to performance
Job Satisfaction	• Definition of job satisfaction • Job satisfaction and employee attitudes • Reasons to continue researching job satisfaction
Job Performance	• Factors influencing job performance • Task performance vs. contextual performance
Relationship between Job Satisfaction and Job Performance	• Assessment of the existing research on job satisfaction and job performance • Categorization of existing research
Job Satisfaction and Firm Performance	• Link between job satisfaction and firm performance • Predictors of firm performance
Affect, Job Satisfaction and Job Performance	• Definition of affect • Relationship between affect, job satisfaction, and job performance
Affect and Job Satisfaction	• Measurement of positive and negative affect • Correlations between positive or negative affect and job satisfaction
Affect and Job Performance	• Prosocial behaviors • Link between prosocial behaviors and job performance

Firm Performance and the Employee's Impact on Firm Performance

Firm performance, as defined in this review, represents the financial outcomes from a specified period of time as reported in the organization's Statement of Revenues and Expenses. Porter (1985) suggested that a competitive advantage over other organizations in the industry provides for higher profits. According to Porter, this can be achieved through distinguishing the company through superior efficiency, quality, innovation, and customer responsiveness. In turn, these factors lead to differentiation, lower costs, and increased value to the customer and investors. The culminating result is a greater profit margin.

There are numerous studies and recommendations in the literature on what the most important variables are when studying firm outcomes. However, many approaches fail to take into account the impact employees have on an organization's performance. For instance, Kaplan and Norton (1992) introduced a common method of reporting organizational outcomes. This approach, known as the balanced scorecard, is an approach that includes variables measuring organizational performance from various perspectives, including financial, customer, internal business, innovation, and learning.

Job Satisfaction

There are a number of definitions of job satisfaction found in the literature. Locke (1976) has described job satisfaction as an emotional response. Traditionally, job satisfaction has been defined "as the feelings a worker has about his or her job or job experiences in relation to previous experiences, current expectations, or available alternatives" (Balzer, Kihm, Smith, Irwin, Bachiochi, Robie, Sinar & Parra, 1997, p. 7). Hulin and Judge (2003) have defined job satisfaction as "multidimensional psychological responses to one's job" (p. 255). As such, job satisfaction can be considered as both an affective and cognitive state. Fisher (2000) and Hulin and Judge suggested that job satisfaction is an attitude and that attitudes are either emotions or judgments. In other words, affect is considered to be an emotion or feeling, whereas judgment comes from the cognitive realm. Saari and Judge (2004) have noted at least three gaps in the knowledge base related to employees and job satisfaction. These include the factors that affect employee attitudes, the outcomes of either positive or negative job satisfaction, and how to evaluate and/or influence employee attitudes. The authors utilized attitudes and satisfaction synonymously, reflecting one belief that job satisfaction could be an affective response.

When discussing reasons to continue to explore what appears to be an already exhaustive review of the topic [job satisfaction], Balzer et al. (1997) noted at least three important reasons. The first two echo Seashore and Taber's

(1975) macro view of the impact of job satisfaction. These include economic and humanitarian concerns, as well as contributing to the theoretical literature. Economic concerns should require little explanation. However, Balzer et al. illustrated its importance by suggesting that job dissatisfaction may lead to unnecessarily high costs for which management may need to take action. From the macroeconomic perspective, high costs to employers can significantly impact their ability to successfully compete in a global market (McConnell & Brue, 2005; Porter, 1985). Humanitarian concerns refer to the desires managers have for employees to be satisfied on the job. Balzer et al. have suggested that humanitarian concerns may be as important an outcome as economic considerations.

Job Performance

While job satisfaction is a common area of interest for researchers and employers, another area of consideration is job performance and the factors that influence job performance. Job performance is a variable commonly researched in conjunction with job satisfaction, but has also been a variable that has received its own amount of attention in the literature. Job performance has been defined as the value an organization can expect from discrete behaviors performed by an employee over time. (Motowidlo, 2003; Motowidlo, Borman & Schmit, 1997). Motowidlo et al. and Motowidlo suggested several assumptions about job performance that lead to this definition, including the idea that job performance is behavioral, episodic, evaluative, and multidimensional. There must be, however, a clarification of the difference between behavior and performance – behavior is what people do and performance is the anticipated organizational value of what people do (Motowidlo).

Borman and Motowidlo (1993) distinguished between two types of job performance; i.e., task performance and contextual performance. Task performance represents those things that are typically on a job description and involve the transformation of materials into goods and services such as sales or operating manufacturing equipment. Contextual performance refers to the "behavior that contributes to organizational effectiveness through its effects on the psychological, social, and organizational context of work" (Motowidlo, 2003, p. 44). Furthermore, contextual performance can occur through its effect on other people, an individual's development of knowledge and skills, or affecting the organization's resources. Contextual performance also includes such things as volunteering for additional assignments, persistence in completing difficult activities, working with others to assist in completion of their tasks, and supporting organizational policies and objectives, even when it might be inconvenient. Both contextual and task performance can have a positive or negative effect on the organization. In a study of U. S. Air Force mechanics, Motowidlo & Van Scotter (1994) found that both contribute independently to overall job performance and different criteria are associated with the two types of performance. For example, they found a stronger correlation between experience and task performance. The association between personality variables and contextual performance was greater than with task performance.

In relationship to firm performance, Huselid (1995) demonstrated that employee behaviors on the job could have a significant fiscal impact. He noted that one standard deviation increase in employee performance equated to approximately forty percent of an employee's salary. Brooks (2000) noted that companies with low turnover improved job performance and had higher profits than companies with high turnover rates. One might conclude that when employees work hard for an organization and perform their jobs well, the organizational results are more likely to be superior (Gould-Williams, 2003).

Relationship between Job Satisfaction and Job Performance

In addition to the exploration of job satisfaction and job performance as independent research topics, the empirical research exploring the relationship between job satisfaction and job performance is extensive. Vroom (1964) noted that those associated with the human relations movement believed job satisfaction and job performance were positively correlated. He cited twenty studies that explored the relationship between job satisfaction and job performance and the results were somewhat contradictory. The results of the twenty studies ranged from r = .86 to r = -.31.

In a more current review of the literature Judge et al. (2001) provided the most comprehensive assessment of the literature to date. They reviewed the literature on job satisfaction and job performance in an effort to evaluate the state of the literature and to identify possible gaps or weaknesses in previous studies. The results of their meta-analysis enabled a categorization of the studies into seven models illustrating the proposed relationships between job satisfaction and job performance. Judge et al. noted that the findings from the first six models exposed results that were contradictory and conflicting. In an earlier, frequently cited meta-analysis performed by Iaffaldano and Muchinsky (1985), for instance, the results indicated that the correlation between job satisfaction and job performance was low (r = .17). The findings by Judge et al. supported Iaffaldano and Muchinsky's contention that the empirical substantiation for the satisfaction-performance relationship does not support the general perceptions "that we logically or intuitively think should interrelate" (p. 270). In the meta-analysis performed by Judge et al. the relationship of interest was between job satisfaction and job performance. As noted, the link between the two variables was weak. Job satisfaction has, however, been shown to have a stronger relationship with other variables such as firm performance.

Job Satisfaction and Firm Performance

Research has shown the link between job satisfaction and job performance to be weak. However, researchers have demonstrated a much stronger relationship between job satisfaction and firm performance. In a conceptual discussion of why loyal employees and customers improve the bottom line (financial performance), Brooks (2000) noted that conditions that support high internal customer service predict high customer satisfaction. Internal customer service refers to how employees are treated in the organization and how they treat each other in work-related situations. Those employees who feel they are treated well and receive high levels of customer service from other personnel and departments are less likely to leave the organization. Consequently, companies with low employee turnover and high customer loyalty have larger profits. The conclusion suggests, then, that there are direct, quantifiable links between employee (and customer) variables and financial results.

Utilizing financial data from COMPUSTAT, Lau and May (1998) found that the perception of quality of work life and strong market performance were strong predictors of sales and asset growth as defined by the five-year trend. Similarly, Evans and Jack (2003) hypothesized that employee satisfaction would have a positive impact on market performance and market performance would have a significant impact on financial performance. Market performance represented earnings per share. The results of their study supported their hypothesis.

Harter, Schmidt and Hayes (2002) conducted a meta-analysis that looked at the relationship between employee satisfaction and outcomes of customer satisfaction, productivity, profit, employee turnover, and accidents within business units of the companies. The hypothesized relationships of positive correlations with overall business-unit performance were supported (r = .77). Mirvis and Lawler (1977) found that for every .5 standard deviation increase in job satisfaction, the costs of turnover, absenteeism, and performance improvement decreased by $17,000. Bridges, Marcum and Harrison (2003) investigated whether employee perceptions of the status as a stakeholder (compared to customers and shareholders) would affect a firm's performance. In a study of seventy-five publicly held companies, perceived equity among the stakeholder groups was associated with increased sales, higher net income, and greater perceived market value.

In contrast to other studies that indicate a correlation between employee attitudes (used interchangeably with job satisfaction) and organizational performance, Schneider, Hanges, Smith and Salvaggio (2003) found an inverse relationship. In a study of the relationship between employee job satisfaction and performance, they found that overall job satisfaction and satisfaction with job security were predicted by Return on Assets and Earnings per Share. In other words, higher return on assets and higher earnings per share were positively correlated with higher job satisfaction. This included three specific attitude characteristics, Satisfaction with Pay, Satisfaction with Security, and Overall Job Satisfaction. Porter (1985) identified employee productivity as the most important component in measuring a company's efficiency. He suggested that if employee productivity is high, the company would have low production costs. However, in Silvestro's (2002) evaluation of this relationship between productivity and job satisfaction, results supported Schneider et al's. findings. There was an inverse correlation between employee satisfaction and productivity, but as Porter (1985) noted, a direct negative relationship between productivity and profits. Higher productivity levels resulted in higher profits but lower job satisfaction.

Affect, Job Satisfaction, and Job Performance

Affect has been defined as the emotional reactions employees have to events on the job (Fisher, 2000; Hulin & Judge, 2003). Côté (1999) defined affect as ". . . the degree to which feelings such as happiness, anger, and sadness are experienced . . ." (p. 66). He concluded that evidence suggests affect is a stronger predictor of job performance than is job satisfaction (e.g., pleasant affect leads to strong performance and strong performance leads to pleasant affect). Brief and Weiss (2002) noted that job satisfaction can be viewed in two ways, as an evaluative judgment and containing an affective component. Either way, they concluded that emotions at work might be "both a cause of job attitudes and an indicator of them . . ." (p. 284).

Researchers have, over several decades, explored the variables of mood, affect, and emotions as predictors of job satisfaction and job performance. For example, Fisher and Ashkanasy (2000), building on the work of Organ and Near (1985) conceptualized that affective experiences contribute to attitudinal decisions about job satisfaction and cognitive decisions are made about such things as whether or not to leave a job. Reio and Callahan (2004) recently noted that there has been an increase in the amount of research on emotions in organizations, but have found that the investigation of this topic to be incomplete.

Judge, Erez and Bono (1998) theorized that positive self-concept will contribute to better job performance. This is primarily due to the motivation to perform and the ability of these employees to manage change better than their peers. As noted earlier in the discussion of job satisfaction, Judge, Heller, and Mount (2002) noted that dispositional factors influenced job satisfaction. However, Neuroticism was one of only two personality traits that correlated with job satisfaction across all studies in the meta-analysis (Judge et al.). Jarayantne (1993) cited that locus of control was a potential variable that could influence job satisfaction. Judge, Erez and Bono noted that both neuroticism and locus of control are factors that influence self-concept.

Affect and Job Satisfaction

When exploring the relationship between affect and job satisfaction and/or job performance the literature has consistently cited the measurement of positive and negative affect. Positive Affect has been defined as . . . "the extent to which a person feels enthusiastic, active, and alert" whereas negative affect includes such things as guilt, sadness, and anger (Watson, Clark & Tellegen, 1988, p. 1063). This research has demonstrated moderately negative correlations between job satisfaction and negative affect (e.g., $r = -.24$) and positive correlations between job satisfaction and positive affect ($r = .35$) (Brief, Butcher & Roberson, 1995; Fisher, 2000; Fisher, 2002; Inkson, 1978; Wright & Staw, 1999). Levin and Stokes (1989) found that negative affectivity was a predictor of two of the facets of the Job Descriptive Index, satisfaction with pay and satisfaction with supervision. Cropanzano, James and Konovsky (1993) found that positive affect was positively correlated with job satisfaction ($r = .47$) and negative affect was negatively correlated ($r = -.24$). In two longitudinal studies affect was found to be predictive of job satisfaction as well (Staw & Ross, 1985). Both studies found significant stability of attitudes from adolescence to adulthood and middle-aged men over a period of time, respectively.

Affect and Job Performance

When looking at the relationship to job performance, a common research approach has been to explore prosocial behaviors. Brief and Motowidlo (1986) noted that prosocial behaviors should be important considerations for organizations as these behaviors contribute to organizational effectiveness. Prosocial behaviors have been defined as those behaviors that will provide benefit to the individual, a group, or the organization to which they are directed (Brief & Motowidlo; George & Bettenhausen, 1990). Wright and Staw (1999) argued that affect and performance could be linked because positive affect has been associated with helpful behaviors and linked to prosocial behaviors.

Brief and Motowidlo (1986) suggested that prosocial behaviors include both individual and contextual antecedents. Individual factors that may impact prosocial behaviors include mood, neuroticism, and a sense of responsibility. Further, Brief and Motowidlo argued that an organization is more likely to be effective when members of the work team perform in a manner that contributes to the benefit of the team and the organization. It appears, then, that job performance (defined as the benefit an organization can expect to receive from the tasks executed by its members) and then prosocial behaviors will have a positive influence on job performance.

Recommendations for HRD Research and Practice

This paper has presented the salient literature relevant to firm performance, job satisfaction, job performance, and employee affect in relation to other variables and have demonstrated various relationships among these variables. There is, however, a demonstrated gap in the literature illustrating a relationship among all the variables. Empirical research is clearly needed that examines these heretofore-unexamined relationships, as the implications for HRD research and practice is extensive. Several key implications include: (1) new knowledge about the interrelationships among these variables might lead both management and HRD theory building, particularly as each theory relates to understanding employee affect and its ultimate impact on firm-level performance; (2) proactive HRD activities might be informed about the relevance of considering each of the research variables concurrently when designing efforts to improve employee satisfaction and performance, thereby potentially contributing to improved financial performance; (3) new knowledge about these variables might support the need for HRD practitioners to work more closely with financial and operating managers for strategic planning purposes as it relates to sustaining competitive advantage; and (4) the research might provide the opportunity to further demonstrate the economic value of HRD activities within an organization.

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