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Does Employee Satisfaction Pay off?

A Comparative Study on Private Commercial Banks in Bangladesh

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Abstract—**Satisfied employees are likely to work heart and soul. As a result productivity and quality of work are supposed to be high which in turn should help a company to achieve its financial objectives. Studies such as Hassan, et. al, (2013); Harter, et. al, (2002); and Huselid (1995) suggest that in achieving financial objectives employee satisfaction plays the significant role. But Keiningham et. al. (2006); Pritchard & Silvestro (2005); Silvestro (2002); Bernhardt et. al. (2000) and others found insignificant or no association between employee satisfaction and financial performance. Therefore, the results of empirical studies are inconclusive. This study has investigated whether employee satisfaction pays off in terms of organizational performance in the context of the banking sector of Bangladesh. Private commercial banks operating in Bangladesh have been taken as subjects of the study. Organizational performance has been measured by normalized profitability. To determine normalized profitability return on asset data from published annual reports have been used. To measure employee satisfaction, questionnaire survey has been conducted on mid-level executives and managers of selected banks. Survey has been conducted on top and bottom 20% banks. The research hypothesis is aggregate employee satisfaction score of the top 20% companies are significantly higher than that of the bottom 20% companies. This study shows positive association between EOS (overall employee satisfaction) and financial performance. On average employees of top performing banks have higher levels of satisfaction with their jobs than their counterparts in low performing banks. But low R-square value indicates that the eight dimensions of employee satisfaction can explain variability in financial performance only at a very limited scope. Among the eight dimensions of satisfaction, only three that is, banks with high employee morale (EM), better feedback and review process (FeedRev), and good work-life balance (WLB) have better financial performance. The other five hypotheses, that is, banks scoring better career opportunities (CO), compensation & benefits (CB), knowledge sharing (KS), senior leadership (SL) and fairness & respect (FairRes) are not better in terms of financial performance. As the results are inconclusive of any causal relationship between employee satisfaction and financial performance, future studies can focus on taking other factors influencing financial performance and test if employee satisfaction has a moderating role on financial performance.**

Keywords—**organizational performance, employee satisfaction, commercial banks.**

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I. Introduction

Does Employee Satisfaction Pay off? It is assumed that employee who are happy and satisfied with their work environment are more likely to provide better services and stay with the organization for long period of time, result in lower turnover and better financial performance due to decrease in different cost, related to from hiring to turnover. Though, several studies reported insignificant direct relationship between employee satisfaction and financial performance. Tornow and Wiley (1991) reported a consistent negative relationship between employee satisfaction and financial results. Bernhardt et al. (2000) also reported that the relationship between employee satisfaction and financial performance was ‘‘virtually nonexistent.’’ As the findings of causal direction are unresolved, preliminary evidence in individual studies generally suggests that aggregate employee attitudes have positive relations with financial performance; there is a scope to explore satisfaction level with financial performance in the context of Bangladesh. As customers recognize the organization that provided them excellent service; in return they may become loyal to that organization. These loyalty behaviors generate and increase both market share and profitability for the company (Heskett et al., 1997). It is natural that employee satisfaction is critical in the service industry because of the nature of the industry (Lam et al., 2001).

The purpose of this study is to examine whether employee satisfaction pays off in terms of financial performance of companies in service sector. This study has been conducted on the banking sector of Bangladesh, which is one of the most important sectors under service sector of Bangladesh and which has significant contributions to the national economy of Bangladesh. At present 56 commercial banks are operating in Bangladesh, among them 30 commercial banks are enlisted with Dhaka Stock Exchange. Mid-level employees from these 30 commercial banks have been considered for this study. As the result of these types of research renders the relationship as non-obvious, it becomes the interesting topic for future study.

II. Research Objectives

The main objective of this research is to investigate whether companies with higher overall satisfaction level of employees exhibit better financial performance than companies with low overall satisfaction level of employees. The mostly used financial performance (FP) measure, Return on Assets (ROA) has been considered for this study. To take the dispersion of ROA over time into account Standardized ROA has been used as a measure of financial performance. Besides overall employee satisfaction, eight individual factors also have been considered are namely: Career Opportunities (CO), Compensation and Benefits (CB), Knowledge Sharing (KS), Employee Morale (EM), Feedback and Review (FeedRev), Sr. Leadership (SL), Work Life Balance (WLB), and Fairness & Respect (FairRes).

III. Research Hypotheses

This study investigates if employee's satisfaction has any impact on financial performance of a company. So the broad hypothesis is-

H_0: Companies with better financial performance (FP) have higher level of Employees' overall satisfaction (EOS)

As EOS consist of eight dimensions e.g. Career Opportunity (CO), Compensation & Benefits (CB), Knowledge Sharing (KS), Employee Morale (EM), Feedback & Review (FeedRev), Senior Leadership (SL), Work-life Balance (WLB) and Fairness & Respect (FairRes) the broad hypothesis has been broken down into the following eight hypotheses.

H_1: Banks with better CO have better FP.

H_2: Banks offering better CB have better FP.

H_3: Banks with better KS have better FP.

H_4: Banks with better EM have better FP.

H_5: Banks with better FeedRev have better FP.

H_6: Banks with better SL have better FP.

H_7: Banks with better WLB have better FP.

H_8: Banks with better FairRes have better FP.

IV. Research Methodology

A. *Survey Instrument*

The compiled questionnaire consisted of 17 statements related to job satisfaction with the organization. Among these 17 questions, one is to know overall satisfaction with the company. Rest 16 questions are related with eight dimensions (two for each dimension) of satisfaction level. Responses were sought on a 5 point Likert scale. Reliability analysis results show Cronbach Alpha value of 0.83 which can be considered reliable for statistical analysis (*DeVellis, 2012)*.

B. *The Sample*

The sampling frame of the study is the commercial banks in Bangladesh. Of the 56 commercial banks 30 are listed in Dhaka Stock Exchange (DSE). The researchers collected secondary information regarding financial performance of the banks from their published annual reports. As information on only 25 banks was available from DSE website only these 25 banks were considered for this study. Based on standardized return on assets (ROA) from 5 years performance (from 2011 to 2015), 10 banks (upper 5 consist of 20% and bottom 5 consist of 20%) were selected for this study. Then primary data were collected through the questionnaire, administered on 15 employees (mid-level) each from these 10 different banks. Thus 150 employees have been surveyed by using convenient sampling.

C. *Data Analysis Method*

Survey data were analyzed in SPSS 16.0. One-tail T-test was run to compare average satisfaction scores of the top and bottom performing banks. Regression analysis was done to portray the relationship between satisfaction score and financial performance and between the eight dimensions of satisfaction and overall satisfaction score.

V. Literature Review

Employee's satisfaction plays a primary role to achieve financial goals of a company (Koys, 2003). Human relations theories (Maslow, 1943; and Hertzberg, 1959) view employees as key organizational assets, who can create substantial value by inventing new products or building client relationships. Human relations theories argue that satisfaction may benefit through two main mechanisms: improve retention and motivation, to the benefit of the organizations. Sociological theories argue that satisfied employees internalize its objectives in their own utility functions, thus inducing effort even if not financially rewarded (McGregor, 1960). The resource-based view of the firm (Wernerfelt, 1984) argues that sustainable competitive advantage is attained through nurturing and retaining inimitable assets, such as human capital.

Rajan and Zingales (2001), Carlin and Gervais (2009), Berk, et. al, (2009) and Lustig, et. al, (2009) found robust, positive correlation between satisfaction and shareholder returns. Employees become motivated and work harder if they are cared by their companies. Taking care is defined as providing better pay, job security, and training by creating a positive work environment for the employees (Gursoy and Swanger, 2007).

Recent studies have shown that employee satisfaction is positively related to the financial performance of a company. Faleye and Trahan (2006) found that investors react positively to the announcement of inclusion of companies in the Best Companies list. Edmans (2011), analyzes the relationship between employee satisfaction and long-run stock returns and found that portfolio of Best Companies earns a significant risk-adjusted alpha and had significantly more positive earnings surprises and announcement returns. If employees are motivated, they perform better. It is argued that higher levels of employee satisfaction lead employees to identify with the company and its goals Akerlof and Yellen (1986) and Akerlof, (1982).

Filbeck and Preece (2003) showed that firms in the 1998 Fortune list exhibited higher returns. Simon and DeVaro (2006) also showed that the Best Companies exhibit higher customer satisfaction. Lau and May (1998) also found a similar link, but Fulmer, et. al, (2003) find no relationship between employees satisfaction and financial performance. These results are consistent with reverse causality.

In the context of Bangladesh, Islam and Siengthai (2009) studies the influence of the quality of work life on job satisfaction of non-management workers of Dhaka Export Processing Zone and their impact on organizational performance. Results suggest that although quality of work life influences job satisfaction, none of them have any significant impact on organizational performance.

Motivation and retention concerns only imply a high level of compensation, but do not suggest that the form of compensation should be in satisfaction compared to cash only; thus other factors also be addressed with monetary incentives. Thus, eight individual factors have been considered as influencing for job satisfaction. They have been discussed in the following (from http://www.businessdictionary.com):

(i) Career Opportunities (CO): The progress and actions taken by a person throughout a lifetime, especially those related to that person's occupations. A career is often composed of the jobs held, titles earned and work accomplished over a long period of time, rather than just referring to one position.

(ii) Compensation and Benefits (CB): Financial support system established under law to provide income, medical care, and rehabilitation to employees. Amount paid as compensation is based on the salary of the employee. In general, indirect and non-cash compensation paid to an employee. Some benefits are mandated by law (such as social security, unemployment compensation, and workers compensation), others vary from firm to firm or industry to industry (such as health insurance, life insurance, medical plan, paid vacation, pension, gratuity).

(iii) Knowledge Sharing (KS): Knowledge is the combination of data, information, experience, and individual interpretation. It is the sum of what is known and resides in the intelligence and the competence of people.

(iv) Employee Morale (EM): Employee morale is the description of the emotions, attitude, satisfaction, and overall outlook of employees during their time in a workplace environment. Part of effective productivity is thought to be directly related to the morale of the employees. Employees that are happy and positive at work are said to have positive or high employee morale.

(v) Feedback and Review (FeedRev): Process in which the effect or output of an action is 'returned' (fed-back) to modify the next action. As a two-way flow, feedback is inherent to all interactions, whether human-to-human, human-to-machine, or machine-to-machine. In an organizational context, feedback is the information sent to an entity (individual or a group) about its prior behavior so that the entity may adjust or review its current and future behavior to achieve the desired result.

(vi) Sr. Leadership (SL): The activity of leading a group of people or an organization or the ability to do this. A leader steps up in times of crisis, and is able to think and act creatively in difficult situations.

(vii) Work Life Balance (WLB): A comfortable state of equilibrium achieved between an employee's primary priorities of their employment position and their private lifestyle. Most psychologists would agree that the demands of an employee's career should not overwhelm the individual's ability to enjoy a satisfying personal life outside of the business environment. And

(viii) Fairness & Respect (FairRes): Fairness and impartiality towards all concerned, based on the principles of evenhanded dealing. Equity implies giving as much advantage, consideration, or latitude to one party as it is given to another. Along with economy, effectiveness, and efficiency, Equity is essential for ensuring that extent and costs of funds, goods and services are fairly divided among their recipients. Respect on the other hand, to give value to all employees.

VI. Results and Analysis

T-test was run to compare mean responses of the top and bottom performing banks. In this case grouping variable was performance measured by standardized return on asset (ROA) but grouped as top (highest 20%) and bottom (lowest 20%). Level of significance for one tail t-test is 0.036 (lower than 0.05) for overall satisfaction. That means we reject the null hypothesis, H0 and conclude that on average employees of top performing banks have higher levels of satisfaction with their jobs than their counterparts in low performing banks.

Table 1: t-test to compare means

Measures of Satisfaction	t	df	Sig. (1-tailed)	Mean Difference	Std. Error Difference
Overall Satisfaction	-1.819	148	.036	-.29333	.16127
Career Opportunity	-.961	147	.169	-.11486	.11956
Compensation & Benefits	-1.185	148	.119	-.12667	.10685
Knowledge Sharing	-.330	147	.371	-.03946	.11966
Employee Morale	-1.606	147	.055	-.23360	.14543
Feedback and Review	-1.787	148	.038	-.24000	.13428
Sr. Leadership	1.182	146	.120	.16603	.14042
Work-Life Balance	-1.623	146	.054	-.24301	.14971
Fairness & Respect	-1.318	148	0.095	-0.180	0.137

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Among the eight dimensions of satisfaction, only three namely feedback and review (FeedRev), employee morale (EM), and work-life balance (WLB) portray p-value (significance level) less than or close to 0.05. So, null hypotheses H04, H05 and H07 are rejected which means banks with high employee morale (EM), better feedback and review process (FeedRev), and good work-life balance (WLB) in place have better financial performance. The other five hypotheses, H01, H02, H03, H06 and H08 are accepted. Banks scoring better career opportunities, compensation & benefits, knowledge sharing, senior leadership and fairness & respect are not better in terms of financial performance.

We also run step-wise linear regression using the dimensions of employee satisfaction as independent variable and standardized return on asset as dependent variable. Regression model has very low adjusted R-square (5.2%) and F-statistics (1.97). That means these eight dimensions of employee satisfaction can only explain 5.2% variability in financial performance. The model presented below depict that CB, KS and SL have negative association, CO has no association and EM, FedRev, WLB and FairRes have positive association with standardized financial performance. However, of all eight dimensions of satisfaction only SL shows statistically significant association with financial performance.

StdROA = 0.668 - 0.012 CB - 0.127 KS + 0.047 EM + 0.038 FedRev - 0.349 SL + 0.141 WLB + 0.249 FairRes

Here, StdROA= Standardized return on assets

Regression run with overall satisfaction as independent and standardized financial performance as dependent resulted only 0.4% adjusted R-square and p-value 0.209 meaning that overall employee satisfaction cannot significantly explain the variation in financial performance.

However, when regression is run between responses of overall satisfaction and those of the eight dimensions of satisfaction we get reasonably high adjusted R-square and F-statistic (55.6% and 23.4 respectively). This model is found to be statistically significant with p-value 0.000. The model is presented below-

$$Ovrll\,Stsfctn = -0.136 + 0.159CO + 0.045CB - 0.067KS + 0.392EM + 0.007FedRev + 0.071SL + 0.084WLB + 0.201FairRes$$

VII. Conclusion

Whether employee satisfaction pays off is an important question managers need to answer. Even when the overall satisfaction is found to be translated into profitability, companies should know how each of the factors of satisfaction influence profitability. Such knowledge will help human resources professionals in determining focus areas to endorse satisfaction and thus ultimate bottom line of any business.

This study is different from other studies on the topic in terms of the context and data analysis technique used. To the best of the authors' knowledge this is the only study on companies in Bangladesh that investigated if employee satisfaction is translated into profitability. Other studies revealing influence of employee satisfaction on profitability did correlation and regression analysis on sample data. In most cases the sample had disproportionate representation of high, average and low performing companies. Skewness of the sample data is likely to affect the results of such study. This study tried to tackle that problem by taking two samples (top performer and bottom performer) and testing if the high performing companies have higher employee satisfaction than their low performing counterparts.

Like previous research (Rajan & Zingales, 2001; Carlin & Gervais, 2009; Berk, et. al, 2009; Lustig, et. al, 2009; Edmans , 2011 and others) this study shows positive association between EOS (overall employee satisfaction) and financial performance. But low R-square value indicates that the eight dimensions of employee satisfaction can explain variability in financial performance only at a very limited scope. In fact there are many other factors that directly influence financial performance of companies. Like Brenhardt et. al. (2000) and several others results are found to be statistically insignificant for most of the eight dimensions of employee satisfaction.

Results are inconclusive of any causal relationship between employee satisfaction and financial performance. Future studies can focus on taking other factors influencing financial performance and test if employee satisfaction has a moderating role on financial performance. There might be cyclical relation between satisfaction and performance i.e. good performance may allow companies create/offer environment/factors to enhance employee satisfaction; satisfied employees may be motivated to work harder to achieve the goals of the company and thus result in better performance and even higher employee satisfaction. Researchers in future can investigate as such through cross-sectional and longitudinal studies.

Finding of the study will shed light on the importance of employee satisfaction on the financial bottom-line of companies. If the hypothesis is accepted human resources professionals can argue to top management for focusing on employee perks, benefits, work life quality, organizational culture, job design and others to enhance employee satisfaction. Future research can investigate the factors of enhancing employee satisfaction in specific contexts. Another avenue of future research can be why or why not is employee satisfaction of well performing companies different from that of bad performing companies.

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