A STUDY EXPLORING THE RELATIONSHIP BETWEEN EMPLOYEE HAPPINESS AND FINANCIAL PERFORMANCE WITHIN A SOUTH AFRICAN FINANCIAL INSTITUTION

A dissertation submitted in partial fulfilment of the requirements

for the degree of

MASTERS OF BUSINESS ADMINISTRATION (MBA)

of

Rhodes Business School

Rhodes University

by

Geoffrey William Waugh

June 2013

DECLARATION

I, Geoffrey William Waugh, declare this research to be my own original work and assert that all reference sources are accurately acknowledged. This document has not been submitted to any University in entirety or in part in order to obtain an academic qualification.

Geoffrey William Waugh 27 June 2013

ABSTRACT

This research is an investigation of the relationship between employees 'happiness' and the financial performance of a financial services organisation in South Africa.

As a component of the financial services industry the banking sector contributes greatly to the economic growth of the country. The South African Banking sector is concentrated and highly competitive. It is vital for banks to maintain competitiveness and ever increasing global competition adds further pressure on organisations to financially perform so as to meet the demands of their shareholders.

The literature that has been reviewed and previous research suggest that employee 'happiness' is a vital variable influencing the performance and success of individuals. Organisational performance will be measured in terms of financial performance for the purposes of this research.

The concept of financial performance and 'happiness' are discussed and a questionnaire based on the Satisfaction With Life Scale (Diener *et al,*1985*)* is used to determine the levels of 'happiness' at selected branches within the institution. The individual branches financial performance is determined via calculating selected ratios, namely cumulative leverage, cost to income ratio and net yield. An analysis of correlation was conducted to establish whether or not a relationship of statistical significance exists between employee 'happiness' and financial performance.

It was concluded that there is no relationship of statistical significance between employee 'happiness' and the financial performance of branches within the organisation, it was suggested that other factors exert a much greater influence over financial performance. Some of these factors influencing financial performance are discussed and recommendations for further research are made.

ACKNOWLEDGEMENTS

Firstly I'd like to acknowledge my supervisor Mike Routledge for his wisdom, kindness and patience; this research would not otherwise have been possible.

I'd also like to thank the following individuals for their support:

- Owen Skae and the staff at Rhodes Business School for looking after me through difficult times
- Mark, Karen and Elioise at the financial institution for trusting me and granting me permission to undertake the research
- Sarah Radloff for her very patient assistance with statistical analysis
- My classmates, who gave the challenge colour, provided camaraderie and generated a collective momentum that allowed us each to overcome our limitations
- To my friends who've seen me through happiness and hardship, who've appreciated my presence and understood my absences
- My mum and dad, for cheering me on at every corner and providing overwhelming love and support during the toughest times of this course, I'm not sure I would have made it alone
- My sister, for being my friend, confidant and coach, I owe more than I'll ever be able to repay

TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION

This research is an exploratory study investigating the possible relationship between employee 'happiness' and financial performance at a select South African financial services institution. As an integral part of society organisations are formed by individuals to serve the needs of society or specific members therein.

There are numerous factors that are able to influence an organization's financial performance including, but not limited to the macro economy, regulatory environment and competitor behaviour. The question addressed in this research is whether employee 'happiness' exerts any influence over the organization's financial performance, and whether that influence is statistically significant.

Employee 'happiness' will be determined by using the Diener's Satisfaction with Life Scale (1985) which is commonly used in the field of Positive Psychology and financial performance will be measured using cumulative leverage, net yield and cost to income ratios which are key performance indicators monitored by the institution under study.

Literature around 'happiness' and Positive Psychology will be reviewed and various author' definitions and dimensions of 'happiness' will be compared and explored.

The goals and objectives of the research will be stated as well as the primary and sub-hypotheses that are to be tested. Satisfaction With Life will be used to determine the level of employee happiness as the select institution and this instrument will be discussed.

The selected organisation will be discussed and population and sampling information will be provided. The Analytical process and data gathering will be explained and the results of the research discussed thereafter. A conclusion is drawn that there is in fact no statistically significant relationship between employee 'happiness' and financial performance and explanations are suggested as to why this is the case and recommendations for further research are made.

CHAPTER 2

LITERATURE REVIEW

1. CONCEPTUALISATION

1.1 ANCIENT GREECE

The majority of the philosophical schools of the ancient world are based on the work of Socrates' students, many of whom were immensely influential, most notably Plato who later took Aristotle as a student; both of whom contemplated 'Happiness'. While Socrates himself was known to have expressed that his thoughts were derived from the fact that he acknowledged that he knew nothing, he did have beliefs, one of which was that Happiness is attainable by human effort (Bartlett, 2008).

While reluctant to provide answers with regard to happiness but rather questions for his students, to ponder through the works of Plato he was perhaps the catalyst of discussions on Happiness. The term most commonly used for Happiness by Socrates, Plato, Aristotle and others during the time was 'Eudaimonia' which loosely translates as 'human flourishing' (Bartlett, 2008).

'Happiness' for both Plato and Aristotle was not seen as an emotion or state of mind but rather an activity, the notion of Eudaimonia was interpreted for both individuals and the state.

Plato's theory of happiness has been summarised as:

> Happiness in its pure or ideal form is a state of absolute peace, joy and contentment that results from having a perfectly harmonious and balanced soul. This complete absence of inner conflict and turmoil effectively renders the individual immune to all forms of suffering, regardless of their physical circumstances (Sayers, 1999).

Aristotle, as a student of Plato, similarly viewed happiness as an activity of virtue, by the soul, that conforms to reason, or put more simply the active practice of virtue. He claimed that happiness is dependent on oneself, echoing Plato's argument that physical circumstances were not predictive factors for happiness (Bartlett, 2008).

The idea of Happiness being an active process and being separate to physical circumstance maintained by Plato and Aristotle is reiterated in the contemporary field of Positive Psychology (discussed under the Theories section)

Epicurus was another notable ancient Greek influenced heavily by a lesser known disciple of Socrates Aristippus. Epicurus defined Happiness in terms of pleasure that things are to be done for the pleasant feelings that accompany actions (Epicurus.net, 2012).

This is not unlike more modern definitions of happiness from Utilitarianism, which also make little concerted distinction between happiness and pleasure.

1.2 CONTEMPORARY DEFINITIONS

Utilitarianism was devised by Englishman Jeremy Bantham and revised and expanded by his great student John Stuart Mills. The 'Greatest happiness Principle' or the principle of utility is the central theme to Utilitarianism.

As an underlying assumption in the "greatest happiness principle" happiness is crudely defined as the prevalence of pleasure over pain. Initially Jeremy Bantham considered every type of happiness as equal but later Mill distinguishes between moral and intellectual pleasures which were thought to supersede physiological types of pleasure. Also Mill makes a clear distinction of happiness being superior to contentment. It is key that happiness is used interchangeably with pleasure and that Utilitarianism still defines happiness as a state of mind or emotion which is in contrast to the active notion of Eudaimonia used by Plato and Aristotle (Mill, 2003).

Dr Martin Seligman, the pioneer of Positive Psychology enterprise uses the terms happiness and well-being interchangeably in his work. He breaks the definition down into three measurable parts. Firstly past, present and future oriented emotions or pleasures, secondly activities or gratifications, and thirdly in terms of meaning or purpose. Gratification is the engagement in things we like doing, This component cannot be increased without personal development. Meaning includes the idea that one's life is 'authentic', which describes the actions of deriving gratification and the positive emotions that flow from exercising one's signature strengths or virtues in the service of a higher purpose (Seligman, 2002).

According to Seligman (2002), three different concepts or levels of happiness can be distinguished: Firstly momentary feelings of pleasure, secondly overall contentment with life, and thirdly developing and fulfilling one's potential. This modern day concept echoes much of the ancient Greek notion of Eudaimonia.

2. THEORIES ON HAPPINESS

2.1 General Theory

Although Utilitarianism is an ethical theory rather than a theory of happiness, it is worth mentioning as it does make use of happiness as a justification in weighing up of the 'moral worth' of actions. Known as the “greatest happiness principle” to John Stuart Mill and the “pleasure principle” to Jeremy Bentham, the pioneer of Utilitarianism, they state that the right and proper action in any circumstance is to choose the course of action that maximizes the greatest happiness for the most sentient beings (Mill, 2003).

One of the modern pioneers in studying happy individuals and their mental function was Abraham Maslow, who is famous for developing his “Hierarchy of needs'” Instead of studying illness, Maslow instead studied health, realising then what positive psychology propagates today, that mental health is not simply the absence of mental illness, and that there is a specific sequence of needs to be met if an individual is to reach their maximum psychological health and potential. (Maslow, 1970) This sequence or hierarchy of needs is represented as a pyramid starting with the most basic and urgent necessities and ending with the more complex mental needs:

- 'Physiological needs' are biological requirements such as food, sleep, excretion etc.
- 'Safety needs' include more than simply personal safety, but extend to include things such as economic and social security.
- 'Belongingness and love needs' include friendships, relationships and social connections, as social beings the absence of these results in unhappiness.
- 'Esteem needs' which arise from feeling unique or exceptional in some way, and being

recognized for it produces self esteem or confidence which gives an individual the psychological freedom or courage to be creative and to grow.

- 'Self actualisation' or self actualized was what Maslow called happy people. It refers to the desire for self fulfilment, or reaching one's potential. To become what one is capable of being. An individual pursuing and fulfilling their personal dreams. (Maslow, 1970)

Each level of needs is a loose overlapping requirement for the next; a person would not think of or care for self actualisation if they are deprived of a physiological need such as sleep, or any subsidiary and more urgent need.

The “Hedonic Treadmill theory” proposes that people have the tendency to return swiftly to a relatively stable state, 'set point' or hedonic neutrality after experiencing serious negative or positive events or changes in life. Simply put, it is comparing pursuing happiness to an individual on a treadmill, having to work harder while the treadmill speeds and slows down up yet remaining roughly in the same place. The idea was put forward by Philip Brickman and Donald Campbell in the 1971 essay “Hedonic Relativism and Planning the Good Society” and further refined by Michael Eysenck into the current theory (Apley, 1971).

As modern day Positive Psychology has gained momentum over the past decade the idea of the hedonic set point has needed to be revised. In their paper Diener, Lucas and Scollon come to very different conclusions that cannot be ignored, namely that people are not hedonically neutral, and people have individual set points which rely on temperament. An individual can possess a number of set points, and ultimately that happiness can vary in a range and that a specific set point is too narrow (Diener, Lucas & Napa, 2006).

2.2 POSITIVE PSYCHOLOGY

Positive psychology or “The Science of Happiness”, as it is often called,, is relatively new field that claims to revolutionise and institutionalise with scientific rigour the way in which psychologists understand how the mind works. The term was coined by Abraham Maslow as psychologists became more interested in mental health throughout the 1950's. It is not an individual theory, but a field of research under which different psychological theories are grouped. The pioneer and widely regarded 'father' of Positive psychology is Martin Seligman ,who in 1998, who along with Mihaly Csikszentmihaly described its purpose as a field in psychology focused on positive human functioning which would with an understanding based on scientific rigour would develop interventions that could greatly contribute towards thriving individuals, families and communities. (Seligman and Csikszentmihalyi, 2000) Positive Psychology was to become the theme of Seligman's tenure as the president of the American Psychological Association which captured the attention of academics and business worldwide. What is markedly different about Positive psychology is while it still regards mental illness as important, it's focus on using the scientific method to study and obtain an understanding of mental wellness (or happiness). Importantly mental wellness is not defined as the absence of mental illness, and thus it is not at its root. The field aims to identify and develop individual personal genius in order to make life more fulfilling (Achor, 2012).

The field is concerned with four primary areas, namely 'positive experiences', 'persistent psychological traits', 'positive relationships'; & 'positive institutions' (Seligman, 2002)

Seligman initially separated the field of Positive psychology into three primary areas of research:

- 'The pleasant life', which is mostly concerned with how people can maximize positive emotions. This is the fleeting sense of happiness or joy that individuals experience. The most temporary, and the least important element.
- 'The good life', which is concerned with engagement, the positive effects of exercising one's strengths, 'flow' may be experienced and a self confidence felt and developed when facing challenges.
- 'The meaningful life', which investigates how people are able to cultivate a sense of purpose, well-being, having a sense of connection with something bigger than themselves, be it their organisations, religious beliefs or culture etc. (Seligman, 2002).

Seligman has revised the last field 'meaningful life' to be separated up into the three distinct areas of research: 'Relationships', 'Meaning and purpose', and 'Accomplishments'. Giving us the generally accepted acronym for the Positive psychology field PERMA, or 'Positive emotions', 'Engagement', 'Relationships', 'Meaning and purpose', and 'Accomplishments' (Seligman, 2002).

Barbara Fredrickson developed the “Broaden and Build “theory of happiness which focuses on positive emotion, this falls under Seligman's 'The pleasant life' category of Positive psychology.

Her theory maintains that feeling positive emotions allow people to think more creatively and broaden their awareness. Her studies have revealed that people who experience positive emotions show heightened levels of creativity, are ingenious and have 'bigger picture' perception. Over time positive emotions create valuable skills, mental and physical resources. This is in contrast to negative emotion, when anxiety, for example, encourages a narrower mental range and the focussed evolutionary survival response 'Fight or Flight', which often undermines people's mental ability to solve the very problem that is making them feel negative emotions, such as anxiety, in the first place (Fredrickson, 2001).

Fredrickson (and others) in the paper “The undoing effect of positive emotion” made the hypothesis that experiencing positive emotions can go further than improve mental performance, but that they can 'undo' the known cardiovascular effects of stress and negative emotions, which include high blood pressure, ‘immunosuppression’ and coronary disease amongst others.

Though both surveys work with self reported data and laboratory studies, Fredrickson's findings show that positive emotions assist stressed individuals in returning to their physiological set point (Fredrickson *et al,* 2000).

One of the most provocative theories to have come out of the field of Positive Psychology was developed by Sonja Lyubomirsky , Ed Diener and Laura King in their 2005 influential study “The Benefits of Frequent Positive Affect: Does Happiness lead to Success?”. ‘Positive affect’ simply means the experience of frequent positive emotion, thus this study again would fall under 'The pleasant life' category of Seligman's Positive psychology umbrella. This landmark meta analysis was a study of almost every scientific happiness study ever done, it comprises over 200 studies and includes approximately 275,000 individuals from around the world. This theory proposes that the conventional wisdom of hard work leading to success and success leading to happiness is not exclusively correct. They argue that the happiness-success link exists not only because success makes people happy, but interestingly because positive effect engenders success. Their findings show that happiness is associated with a precursor to numerous successful outcomes and behaviours that are parallel to success. In addition the study illustrates that positive affect could very well be the root cause of much of the characteristics, resources and successes correlated with happiness (Lyubomirsky, King & Diener*,* 2005).

While they concede that success does make people happy, they focus on the fact that there is unassailable evidence to support their hypothesis that now demonstrates happy people become successful, and that there is indeed a reverse causal direction relationship. (Lyubomirsky *et al,* 2005) Lyubomirsky, Diener and King conclude that happier people are statistically significantly more likely than less happy people to experience superior work performance, higher incomes, robust health, a longer life, community involvement and more fulfilling marriages and relationships (Lyubomirsky *et al,* 2005).

2.3 MEASUREMENT OF HAPPINESS THEORY

There are three main measures of happiness in contemporary psychology, these are: The 'Subjective Happiness Scale' (SHS), the 'Positive and Negative Affect Schedule' (PANAS) and The 'Satisfaction with Life Scale' (SWLS).

The Subjective Happiness Scale (SHS) was developed in 1997 by Sonja Lyubomirsky and Heidi Lepper in their “A measure of subjective Happiness: Preliminary Reliability and Construct Validation” paper. It is a four point scale that measures global or total subjective happiness.

Participants in the rating choose absolute answers to define themselves as unhappy or happy individuals. They are also asked to identify the degree to which they relate personally to descriptions of happy and unhappy individuals (Lyubomirsky and Lepper, 1999).

The four points are:

- “In general I consider myself:” on a rating from 1 – “Not a very happy person” through to 7 – “A very happy person”.
- “Compared to most of my peers I consider myself:”, on a rating from 1- “Less happy” through to 7 – “More happy”.
- “Some people are generally very happy. They enjoy life regardless of what is going on, getting the most out of everything. To what extent does this characterization

describe you? ” on a rating from 1 – “Not at all” through to 7 – “A great deal”.

- “Some people are generally not very happy. Although they are not depressed, they never seem as happy as they might be. To what extend does this

  characterization describe you? ” on a rating from 1 - “Not al all” through to 7 - “A great deal”.

Lyobomirsky and Lepper conclude that the SHS demonstrates excellent psychometric properties, despite its simplicity and broadly stated items. They also add that it correlates highly with other happiness measures (Lyubomirsky and Lepper, 1999).

The Positive and Negative Affect Schedule (PANAS) is a measurement tool published in 1988 by David Watson and Lee Anna Clark.

Its goal is to identify the degree of the relationship between an individual’s character traits and positive affect and negative affect in the present, the immediate past few days, recent past week, past few weeks, the past year and on average the relationship in general. It comprises a twenty item questionnaire making use of the five point Likert scale. The scale is comprised of the following 20 points or words to describe feelings or emotions: 'interested' , 'irritable ', 'distressed' , 'excited', 'upset' , 'ashamed' 'inspired' 'strong' 'nervous ' 'guilty', 'determined' , 'scared' , 'attentive' , 'hostile' , 'jittery ' , 'enthusiastic 'proud' , 'afraid' , 'active ' , 'alert '.

The Likert scale then asked the individual to rate these from 1- 'very slightly or not at all ', 2- 'a little', 3- 'moderately', 4- 'quite a bit' and 5- 'extremely'. Individuals can be asked to refer to different time instructions as previously mentioned (Watson, Clark & Tellegen, 1988).

The authors demonstrate that the scales are internally consistent and have very good convergent and discriminatory correlation than previous more long winded ways to measure mood factors. PANAS is also able to account for fluctuations of mood over several time periods which is valuable.

The authors conclude that the schedule is a valid, reliable and particularly efficient way to quantify these two critical dimensions of mood (Watson *et al,* 1988).

The “Satisfaction with Life Scale” (SWLS)

Many of the scales created up to the development of the SWLS consisted of single items such as health or energy, so Ed Diener and others saw the need for and set about creating a single measure of total satisfaction named the “Satisfaction with Life Scale” which was published in 1985. The SWLS asks the subject to fill out a questionnaire consisting of five life statements and then asks them to rate that statement using a seven item scale in terms of agreement or disagreement.

These life statements are:

- “In most ways my life is close to my ideal.”
- “The conditions of my life are excellent.”
- “I'm satisfied with my life”
- “So far I have gotten the important things I want in my life.”
- “If I could live my life over I would change almost nothing”

These are then rated: 1- 'strongly disagree, 2- 'disagree', 3 - 'slightly disagree' , 4- 'neither agree nor disagree' , 5 - 'slightly agree' , 6 - 'agree' , 7 - 'strongly agree' (Diener *et al,* 1985).

It is important to note that the SWLS is different to the two other scales as it focuses exclusively on the positive side of a person’s perception of their lives rather than focusing on negative or unpleasant emotions. The reviews of the SWLS done in 1993 by Pavot and Diener maintains that life satisfaction is a valuable psychological construct, that is holds together in a unified factor, which strongly suggests there is a sound coherence to life satisfaction and its measurement.

Importantly they note that it has moderate temporal stability although it still does change from life events (Pavot and Diener, 1993).

In conclusion Pavot and Diener state that while there are limitations such as specificity in aspects of subjective well-being being measured, it is still relevant and effective. Subjects of the SWLS exert a good convergence in self reporting of life satisfaction scores to those gathered by interviewers who were asked to evaluate them (Pavot and Diener, 1993).

A common limitation to The “Subjective Happiness Scale” (SHS), The “Positive and Negative Affect Schedule”(PANAS) and The “Satisfaction with Life Scale” (SWLS) , which applies to all instruments measuring self reported data is that individuals can consciously distort their responses if they wish to do so (Pavot and Diener, 1993).

2.4 ORGANISATIONAL PERFORMANCE

The terms ‘performance’ and ‘effectiveness’ are used interchangeably when talking about organisations as, according to March and Sutton (1997),the challenges with defining, measuring, and explaining the two separate terms is almost identical.

Richard, Devinney, Yip and Johnson (2009) maintain that for almost any area of management it is ‘organizational performance’ is ultimately the dependant variable that will be of interest.

According to Kirby (2005) the definition of the organisational performance is still very much open for question, with very few studies using either consistent definitions or measures of it. (Kirby, 2005). She makes the analogy that unlike in sports, the spectator in business does not even have a scoreboard that has been agreed upon and comparing true performance is made difficult by which tool of measurement is used (Kirby, 2005).

Within research in management performance is so commonplace that it is not often justified or even explained, but rather its relevance despite the presentation of the concept is assumed unquestionably (March and Sutton, 1997).

Firms operate at multiple levels. By benchmarking performance in comparison to their competitors, firm's are able to evaluate key areas to focus their efforts to increase performance relative to the competition. In common tradition performance is mainly referring to financial performance and indicators (Yeo, 2003).

In 1989, Keegan et al put forward the idea of measuring the firm's performance via a matrix of both financial and non-financial indicators, and internal and external measures to demonstrate that a better measure of performance was needed to balance all dimensions of the business. Similarly Lynch and Cross created the “Strategic Measurement and Reporting Technique Pyramid” which takes into account both internal and external measures of performance (Lynch and Cross, 1991).

In contemporary business in South Africa for firm's listed on JSE it is no longer sufficient for firms to measure their performance solely on financial indicators, it is now a listing requirement that firms compile 'integrated reports' to illustrate not only their financial performance but social and environmental performance too. This is commonly known as “The Triple Bottom Line” (Norman and MacDonald, 2003). The idea behind this is that firm's should no longer be just held accountable to shareholders, but rather to all stakeholders of the business, including staff, local communities, clients, suppliers etc. Thus the “Triple Bottom Line”(TBL) approach measures an organisation's performance in light of economic, social and ecological performance criteria (Norman and MacDonald, 2003).

Although the fact that vastly diverse and numerous ways exist to measure organisational performance is acknowledged, Financial performance, or the traditional 'bottom line' (net income, profit or loss), as a measure of organisational performance is to be the focus of this study.

Financial performance as a measure of organisational performance

Aside from the argument to maximize social and environmental stakeholder value made by the TBL the firm's primary objective is clearly to create value for the shareholders of the business by generating a net economic profit. Financial performance is a wide measure of performance for the organisation which is concerned with the benefits of the firm along with the associated costs with those benefits (Devaro, 2006).

The positive benefits of financial performance, and therefore traditional organisational performance, are generally associated with a business or organisation being successful.

It should be noted that successful organisational performance (including financial performance) has the implication of enduring organisational success, with the focus being not only on short term results but long term growth and prosperity for the firm.

There was a new approach to financial performance measurement specifically in banks done by Ho and Wu in 2006. The aim of this was to minimize the number of ratios being used for financial analysis. This is based on the “Grey Relation Analysis”, which was derived from the analysis of industries with the goal of minimizing the complexity and number of financial indicators in evaluating organisational performance (Ho and Wu, 2006).

Marx, De Swart and Cronje state that 'financial performance' is based on net profitability, or the ability to generate revenue with the firm's assets so that it will exceed all other associated costs of business (Marx, De Swart & Nortje*,* 1999).

With respect to the new Companies Act of 2008 in South Africa all companies are legally required to create annual financial statements which are to be discussed during an annual general meeting. They must justly present the company's situation and the results of operation during the financial year (Correia, Flynn & Uliana*,* 2003).

The act requires that annual financial statements be prepared within six months of financial year end. Depending on the type and category of the business, financial statements must either be audited or independently reviewed. The act makes provision for very small owner-managed companies to be exempt from both audit and financial review.

In South Africa a company's annual financial statements consist of a Statement of financial position (quantitative) , Statement of comprehensive income (quantitative), Statement of changes in equity (quantitative), Cash flow statement (quantitative), Director’s report (qualitative) and an Auditor’s report (qualitative, if the annual statements are audited) (Correia *et al,* 2003).

These statements can then be evaluated, and by using ratio analysis one is able to establish how companies of different types, sizes and profitability levels are performing in relation to one another over set periods of time (Correia *et al,* 2003).

2.5 RATIO ANALYSIS

The are many ways in which to characterize financial performance, the most predominant of which are:

- Comparative financial statements and trend analysis
- Index analysis
- Common size analysis
- Ratio analysis

Ration analysis is by far the most prevalent way to evaluate financial performance and will be the focus (Correia *et al,* 2003).

Ratio analysis is the selection and comparison of two financial line items that are meaningfully related and are expressed as a ratio (Correia *et al,* 2003).

There is an incredible number of ratios available for analysis so it is vital that the objective of the analysis determine which ratios are calculated to glean any meaningful understanding. These ratios should be compared with the firm's competitor's ratios to understand one's own firm's relative performance. For meaningful interpretation ratios must be compared historically, with industry ratios and or with the firm's managerial objectives (Correia *et al,* 2003).

Ratios are divided into 'Profitability' ratios, 'Liquidity' ratios , 'Efficiency' ratios, 'Financial leverage' ratios and 'Market' ratios (Correia *et al,* 2003).

Profitability ratios:

These ratios are used to create an indication of to what extent the organisation is utilising the firm's assets to produce profit. Data is drawn from the 'Statement of Financial Position' and 'Statement of comprehensive income'.

These ratios show the cumulative effects of liquidity, asset management and debt management on profitability of the firm. Common profitability ratios are:

- Return on Equity
  The ratio describes the profit attributable to shareholders in relation to shareholders equity.

- Return on Total Assets
  Commonly known as 'return on investment', this ratio illustrates the extent of the relationship between profit or earnings and the assets of the firm (which are used to generate that return). The ratio can be calculated differently depending on the definition of 'earnings' that is used (Correia *et al,* 2003).

Liquidity ratios:

Liquidity ratios are used to indicate a firm's capacity to meet it short term obligations with regard to current liabilities. In financial services institutions a more relevant measure is to use capital adequacy, which measures how likely a firm is to be able to meet it's current liabilities with its available capital resources (Correia *et al,* 2003).

Asset management ratios:

These are used to indicate the degree to which a company's assets are well managed. They are specifically relevant to industries that carry large numbers of current assets such as inventory holdings (Correia *et al,* 2003).

Market value ratios:

This group of ratios determine the extent of the relationship between a firm's listed share price to earnings and dividends declared. These are excellent indications of the perception of investors about the way a firm has been run in the past and it's opportunities in the future. (Correia *et al,* 2003).

Headline earnings per share

Indicates how much each share has earned in the financial period, computed by dividing the net profit (after tax) by the number of shares currently in issue.

- Dividends per share
  Indicates dividends received per share over the financial period, computed by dividing total dividends declared by the number of shares currently in issue

- Dividend yield ratio
  This expresses the return that shareholders are receiving in the form of dividends. It is computed by dividing the dividend per share ratio by the listed share price.

- Earnings yield
  Computed by dividing the earnings per share by the current market price of the share, this ratio illustrates the return that investors demand of the share.

- Price-earnings ratio
  Used to show how much investors are currently willing to pay 'per rand' now, for the profits of the firm reported. It is computed by dividing the listed share price by the headline earnings per share in issue.

- Dividend cover
  Illustrates how much of the earnings of the firm are being paid out in dividends to

shareholders, and conversely how much of the earnings are being retained by the firm and being reinvested. (Correia *et al,* 2003)

Other useful ratios that can be computed from the 'Statement Of Comprehensive Income' that qualify as strong indicators of profitability and are of particular relevance to the financial services industry are:

- Cost to income ratio

  It is computed by dividing total operating expenses by total operating income prior to taking into account impairments. This ratio is similar to a firm's operating margin with the exception that it has an inverse or negative relationship to profitability; the lower the cost to income ratio, the more profitable the firm is. This ratio has always been used by South African banks as an efficiency measure.

- Cumulative leverage

  This illustrates how many times over a firm's revenue is able to cover its expenses. It is computed via dividing total income by total expenses.

- Net yield

  This demonstrates the profitability of branches relative to each other. It is computed by dividing net income by outstanding loan balance. Loan balance is the asset value of outstanding loans (loan amount + interest – repayments received= loan balance). This profitability measure indicates the quality of loans being written and takes into account bad debt.

3. EMPIRICAL STUDIES

The relationship between Job satisfaction and organisational performance is well established. What must be reiterated is that 'Job satisfaction' is not 'Happiness' and cannot be used interchangeably.

Job satisfaction is a measure of how content an employee feels about their job, and does not take into account the degree to which an individual may or may not be satisfied with other aspects of life (Seligman, 2002).

As discussed previously the concept of Happiness is rooted in concepts such as positive emotion, life satisfaction, and subjective well-being. Happiness is a judgment of individual's overall state of well being or life satisfaction. An employee may be satisfied with their job while being completely miserable because of personal matters. Equally, an employee may be very happy despite not enjoying their job for various personal reasons (Achor, 2012).

In their 2000 study "Employee Happiness and Corporate Financial Performance" Chan, Gee and Steiner studied Fortune magazine's 1998 "100 best companies to work for". The study makes the assumption that the employees of the firm's listed by Forbes are the happiest, this assumption is based on a positive relationship between employee benefits and enjoyable work environments, It makes no attempt to ascertain individual employee happiness levels directly. They then compare this data to the company's corporate financial performance by tracking each firm's share performance using several market based performance measures. The study concluded that as a group the companies with the happier employees did in fact outperform comparable companies within their industries, suggesting that there is indeed a positive correlation between the two variables (Chan, Gee & Steiner, 2000).

Cheri Ostroff published a study entitled "The Relationship Between Satisfaction, Attitudes, and Performance: An Organizational Level Analysis" in 1992. Ostroff cites that little work up until this point had been done to investigate the relationship between Job satisfaction, and importantly for the study job attitudes, at an organisational, not personal level. Apart from job satisfaction this study looked at other job related attitudes such as commitment, psychological stress and adjustment.

Their study supported the links between satisfaction and organisational performance; it also supported the linkages between job attitudes and organisational level performance.

The author concedes that as in many other studies causality is not definite, although attitudes and satisfaction were treated as predictors, performance could have just as easily been used as a predictor for satisfaction and attitudes. She concludes that a reciprocal relationship is more likely to exist, organizational rationality and human happiness go hand and hand and that there is certainly a relationship, yet causality may work in either direction simultaneously (Ostroff, 1992).

Cameron, Bright and Caza's 2004 empirical study entitled “Exploring the Relationships between Organizational Virtuousness and Performance” investigates the causal relationship between organisational performance and the concept of virtuosity. Virtuousness is uniquely human, and implies the state where people and organisations aspire to achieve their best representative conditions of flourishing.

Virtuousness has been defined in connection with meaningful life purpose and closely associated with happiness that which leads to health, happiness, transcendent meaning, and resilience in suffering (Cameron, Bright & Caza*,* 2004). There is a strong overtone of moral or ethical mastery as a 'virtue' is a positive quality that is ethically or morally good and does not harm others (Bartlett, 2008).

Because of the apparent similarities between the concept of ‘virtuosity’ and the ancient Greek ‘Eudaimonia’ Cameron et al's work is of particular interest.

The outcomes of this study firstly reveal that virtuosity can create a multiplier function which produces ‘positive spirals’ that are self reinforcing. In addition even in organisations that are victim to negative trauma, such as layoffs, a significant positive relationship still exists between virtuosity and organisational performance (Cameron *et al,* 2004).

The authors conclude that an organization achieves higher levels of the outcomes and performance it desires when virtuous behaviour is exhibited by individuals and facilitated by the structures, systems and processes within the organization (Cameron *et al,* 2004).

“Which Comes First: Employee Attitudes or Organizational Financial and Market Performance?” (Schneider, Hanges, Smith & Salvaggio*,* 2003) is an empirical study that investigated the causal relationship of 35 companies over an 8 year period between employee attitudes and organisational performance which is measured using financial analysis, most specifically return on assets ratio (ROA) and stock market specific performance measures such as earnings per share ratios (EPS). It is of interest that the study focuses on positive employee attitudes; however it is crucial to note that it assumed that job satisfaction and satisfaction with security and satisfaction with pay are sufficient enough measures to encompass employee attitudes. The authors make no attempt to take into account subjective well-being or satisfaction with life outside of the job (Schneider *et al,* 2003).

The study addresses the debate concerning the happy worker- productive worker debate (which by 'happy worker' it must be noted that job satisfaction is the determinant, not happiness as it has been defined in this study). While the work is important as it addresses organisational level analysis not personal analysis, it does not come to any firm conclusion on the relationship between employee attitudes (in the form of job satisfaction) and organisational performance, with the authors expressing that due to the complexity of employee attitudes they believe it is too simplistic to assume satisfaction leads to organizational performance. Implying amongst other things that the causal direction was ambivalent and a case for a certain positive relationship could not be made (Schneider *et al,* 2003).

4. CONCLUSION

The Positive Psychology theory put forward by Sonja Lyubomirsky, Ed Diener and Laura King (2005) that happy people become successful by being more motivated, creative and productive than unhappy people, will be the foundation of the hypothesis of this study, that employee happiness is positively related to financial performance of a firm, without ignoring the likelihood of a reciprocal causal relationship.

Diener's Satisfaction With Life Scale (SWLS) will be used as the measurement instrument for happiness. Selected firstly because of its ease of administration through the 5 point 7 scale questionnaire and secondly because of its widespread use in the field of positive psychology, which will make the results of this study useful for comparison in the field and for future research.

Financial analysis theory used will be in the form of selected ratios, namely ‘cost to income ratio’, ‘cumulative leverage’, and ‘net yield’ as they are widely used in banking as performance measures.

While there is a body of literature concerning individual happiness and individual performance, there is a noticeable lack of research available relating to individual happiness and organisational level performance. That is to be the focus of this study.

CHAPTER 3

RESEARCH DESIGN

1. INTRODUCTION

This section explains how the research was conducted. The research problem, goals and objectives will be clearly stated. The primary hypotheses are broad and sub hypotheses that are to be tested will be indicated. The population and sample will be identified and discussed. The instrument of research, namely the Satisfaction With Life Scale (Diener *et al,* 1985) will also be discussed. After which the process of gathering data and the statistical data analysis methods, correlation and variance analysis, are to be explained.

2. RESEARCH PROBLEM

There are a multitude of variables that drive an organisation's performance which include current economic climate, competitive environment, regulatory environment to name but a few. In the South African banking industry it can be assumed that all banks have different levels of performance and profitability; even branches within a bank differ in performance and profitability. Organizations must determine the sources of differing performance at every level to investigate whether employee happiness has a statistically significant impact on financial performance. This research is relevant as demonstrating a statistically significant relationship between employee happiness and financial performance could represent an opportunity for firms to create value that might not have otherwise been realized.

3. GOAL OF THE RESEARCH

The aim of this study is to ascertain the existence of a positive and statistically significant relationship at between employee happiness and financial performance within the organization at branch level.

<u>Objectives:</u>

- Establish a quantifiable indication of employee happiness levels within the organization at branch level.

- Establish the financial performance of the organization at branch level.
- Determine whether there is a relationship between employee happiness and financial performance at branch level with statistical analysis.

<u>Primary hypotheses tested will be:</u>

Ho: No positive statically significant relationship exists between employee happiness and financial performance.

H1: A positive statically significant relationship exists between employee happiness and financial performance.

As the primary hypotheses are much generalized it is necessary to create several sub-hypotheses to obtain more conclusions that carry greater weight.

<u>Sub-Hypothesis:</u>

Ho: No positive statistically significant relationship exists between employee happiness and cost to income ratio.

HA: A positive statistically significant relationship exists between employee happiness and cost to income ratio.

Ho: No positive statically significant relationship exists between employee happiness and cumulative leverage.

HA: A positive statistically significant relationship exists between employee happiness and cumulative leverage.

Ho: No positive statically significant relationship exists between employee happiness and contribution per employee ratio.

HA: A positive statistically significant relationship exists between employee happiness and contribution per employee ratio.

4. POPULATION

The institution within which the research was undertaken is a South African retail bank that is dominant within the unsecured lending market. The group was founded in 1993 and was one of the pioneers of unsecured lending in South Africa. It has expanded significantly through strategic acquisitions and organic growth.

The banks stated aim is to be the dominant provider of risk based financial services to the mass market. The mass market being LSM 2-8, formally, informally or self employed individuals.

It is driven by commitment to its core values which are:

- Courage
  Have a willingness to make difficult decisions and be a pioneering organisation.
- Stewardship
  Acknowledge that we have been entrusted with shareholders assets and commit to pass those assets on to the next generation in a better state that we received them.
- Humility
  Be humble about achievement, respectful to competitors and worthy of followership
- Empathy
  Respond to good faith customers with compassion. Deal with staff with openness, empathy and understanding in order to support them in the fulfilling their needs.
- Passion
  Being committed and expanding ourselves fully in the pursuit of our vision.
- Team orientation
  Putting the good of the team before self-interest, no people are bigger than the team, the team is the unit of measure for analysis.

The group asserts its dominance and competes through the following key differentiators:

- *Quality of people*
- *Dominant market position*
- *Focus on core competence of unsecured lending*

- *Strong risk management and collections capability*
- *Retail model with direct customer interaction and fast turnaround*
- *Low cost operating model*
- *High cash generation, high returns, high dividend yield*
- *A conservative capital, funding and liquidity management strategy*

(Company Annual report, 2012)

Numerous external factors could influence the organization's performance. In order to minimise the influence of these 15 branches of the institution were evaluated for this research. All branches where located in the same province whereby most operate in a similar economic environment, with the same target markets and have identical risk and credit policies. This greatly restricted the effects of external influences on financial performance between branches.

This research was conducted at branch level within the retail banking division, as of 2012 there were 637 branches and the division consisted of 5182 employees servicing a total of 2.6 million customers (Company Annual report, 2012).

5. THE SAMPLE

The research involved determining ‘happiness’ levels or scores by administering a questionnaire. Data was gathered from fifteen branches of the financial institution which enabled the researcher to determine if there was a difference in ‘happiness’ between the fifteen branches. A ‘Convenience sampling’ method was used by the researcher. The sample is selected with regard to the ease of access and willingness of branches to comply (Keller and Warrack, 1997).

The researcher issued a questionnaire to every member of staff at each branch to ensure that employees at all levels within the branch participated.

Table 2: Response rate

BRANCH	NUMBER OF STAFF	QUESTIONNAIRES ISSUED	RESPONSES	RESPONSE RATE
Branch 1	4	4	4	100%
Branch 2	4	4	4	100%
Branch 3	2	2	2	100%
Branch 4	5	5	5	100%
Branch 5	5	5	5	100%
Branch 6	5	5	5	100%
Branch 7	4	4	4	100%
Branch 8	11	11	11	100%
Branch 9	6	6	6	100%
Branch 10	5	5	4	80%
Branch 11	6	6	6	100%
Branch 12	4	4	4	100%
Branch 13	7	7	7	100%
Branch 14	4	4	4	100%
Branch 15	5	5	5	100%

6. THE RESEARCH INSTRUMENT

The instrument used will be the 'Satisfaction with Life Scale' (SWLS).
The SWLS asks the subject to fill out the questionnaire consisting of five life statements and then asks them to rate that statement using a seven item scale in terms of agreement or disagreement resulting in a SWLS score (Diener *et al*, 1985)

These life statements are:

- *"In most ways my life is close to my ideal."*

- *“The conditions of my life are excellent.”*
- *“I'm satisfied with my life”*
- *“So far I have gotten the important things I want in my life.”*
- *“If I could live my life over I would change almost nothing”*

These are then rated from one being ‘strongly disagree’ to seven being ‘strongly agree’.

According to Pavot and Diener (1993) people tested with the SWLS show a good convergence in self reporting of their own life satisfaction to those gathered through interview.

This instrument and scoring has been chosen because of their extensive use within in the field of Positive Psychology, making results useful for future comparison in the field (Lyubomirsky and Lepper, 1999).

The answers from the SWLS questionnaires were entered into a score sheet whereby raw scores are converted into percentiles. This facilitated the direct comparison of each of the branches raw scores.

These scores were transferred into Excel spreadsheet format to facilitate statistical analysis further.

7. DATA GATHERING AND ANALYSIS

The researcher visited each branch in person and issued questionnaires to every member of staff available. Despite the presence of the researcher to answer questions and address concerns staff may have had the researcher made an effort not have any direct influence over the respondents whilst they completed questionnaires in order to help ensure unbiased reporting.

The researcher visited each member of staff at their respective desks, explained how the questions should be answered and issued each with a questionnaire. They respondents completed questions in their own time and the majority returned the filled out questionnaire within the hour while the researcher was present. A minority of respondents were unable to return questionnaires while the researcher was present and either faxed or emailed responses to the researcher later during the same day.

Contribution to profit statements of the fifteen branches for the previous 15 months of trade was obtained from the organization's Director of Retail Finance. The researcher analysed these statements and ratios that measure profitability and overall financial performance, namely ‘cumulative leverage’, ‘cost to income ratio’ and ‘net yield’ were calculated, the formulas of which are explained in chapter two. These ratios were used as they are measurements of profitability and key performance indicators that are monitored by the organisation on a month by month basis.

Ratios for each of the branches over fifteen months were calculated followed by their averages. Averages were useful in giving an indication of financial performance over a period of time.
All converted SWLS scores and financial data was then recorded in Excel spreadsheet format in order to facilitate statistical analysis.
The statistical methods used to analyse the data were analysis of variance and correlation analysis. There were fifteen branches in this study. The analysis involved a single independent variable, SWLS score, and multiple dependant variables, namely the financial ratios cumulative leverage, cost to income ratio and net yield.

Correlation analysis was performed to establish whether or not there was a relationship between SWLS scores and the three financial performance indicators. This analysis measures the degree of relationship between the independent and dependant variable and it is expressed as a correlation coefficient.
The correlation coefficient never falls below -1 or above +1. The direction of the relationship is indicated by the sign, positive or negative. Correlation coefficients close to -1 indicate that both variables have a very strong negative relationship, whereas correlation coefficients close to +1 demonstrate a very strong positive relationship. Correlations closer to 0 indicate that little or no relationship exists between the independent and dependant variables. For example a correlation coefficients of +0.3 shows a weak positive relationship and a correlation of -0.88 indicates a strong negative relationship (Keller and Warrack, 1997).

The statistical significance is however determined by the level of significance at which the relationship has been tested, for example a strongly positive correlation could have little significance statistically if a very high level of significance is chosen. This research used a level of significance of 95%. In testing the hypotheses against each other, if the p-value is less than 0.05 then there will be insufficient evidence to support the null hypothesis and the alternative hypothesis will be accepted to be true. The opposite is true if the p-values is greater than 0.05, then there will be insufficient evidence to reject the null hypothesis and it will be adopted.

8. ETHICAL CONSIDERATIONS

The selected financial institution in which the study was conducted made the request for anonymity with regard to its identity and also requested that no branches be explicitly named. Therefore the fifteen branches were referred to as branches 1-15.

Respondent's involvement in the process was voluntary and all were informed and assured that any information gathered was anonymous, exclusively for academic purposes and would not be used by the institution under in any way.

CHAPTER 4

RESEARCH RESULTS FOLLOWED BY DISCUSSION

1. INTRODUCTION

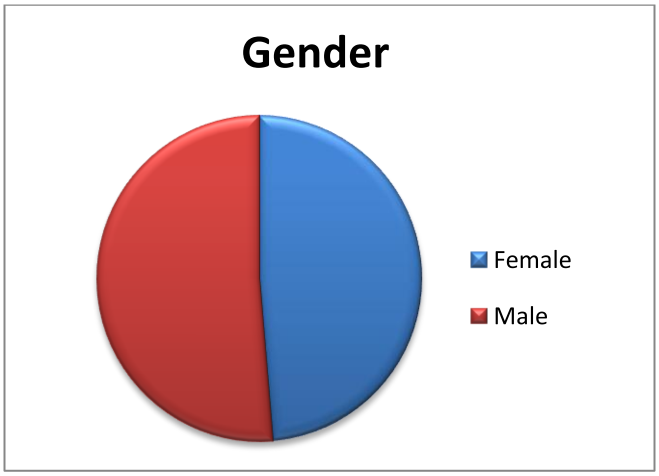
Results obtained from fieldwork research were presented. The age, position within the organisation, years of employment and gender of respondents were used to describe the sample taken. The 'Happiness' or Satisfaction With Life Scores were presented in terms of results for each branch. The financial performance indicators that have been calculated were presented. Finally the 'correlation coefficients' derived through correlation analysis were presented and the results were discussed in detail.

2. DESCRIPTIVE STATISTICS

2.1 GENDER

The sample contained 76 responses, all of which were usable. Of the 76 respondents 39 (51.31%) of them were Male and 37 (48.68%) of them were Female

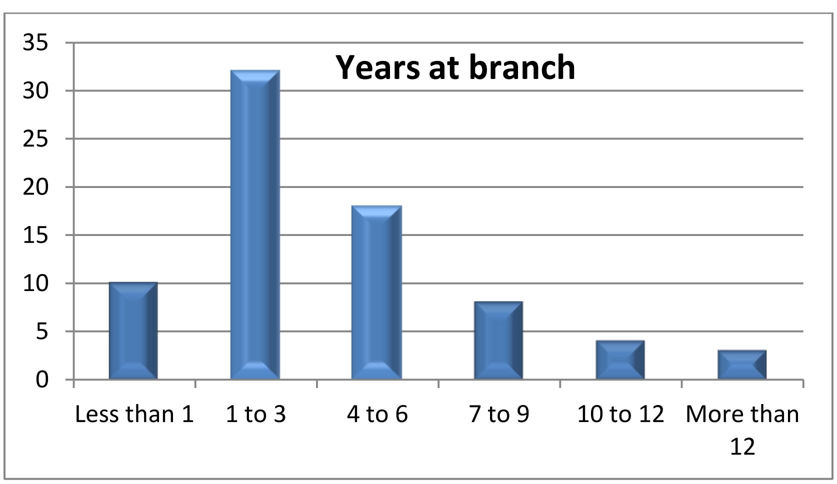
Graph 1: Gender



2.2 YEARS WITH BRANCH

The number of years each employee worked at the branch under study ranged from a minimum of 2 months to a maximum of 17 years of service, the average was 4 years and 4 months. The majority of people had 3 years of service at their current branch.

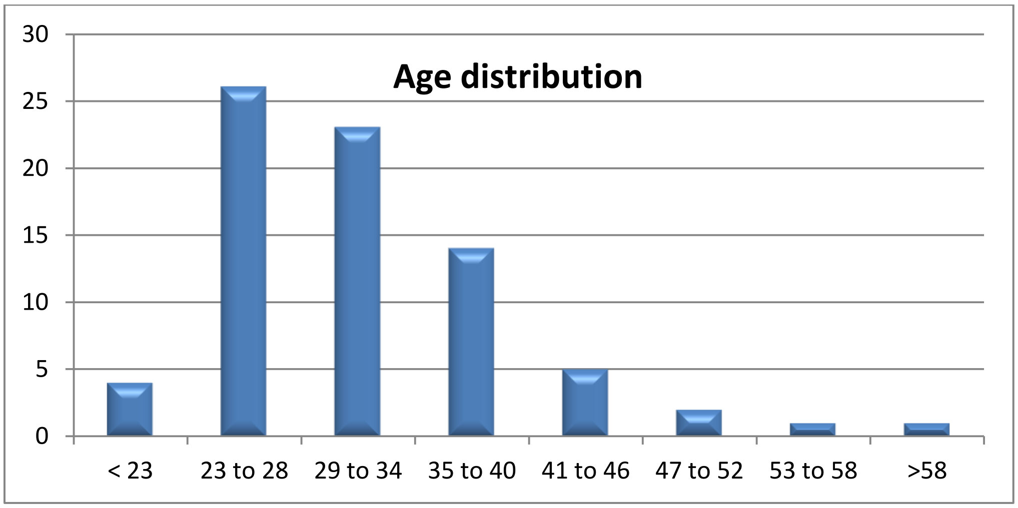
Graph 2: Years employed at branch



2.3 AGE

The age of respondents ranged from a minimum of 20 years old to a maximum of 63 years old. The average age was 31.9, however most employees were aged 29.5, with the vast majority of employees (88%) being 40 or younger.

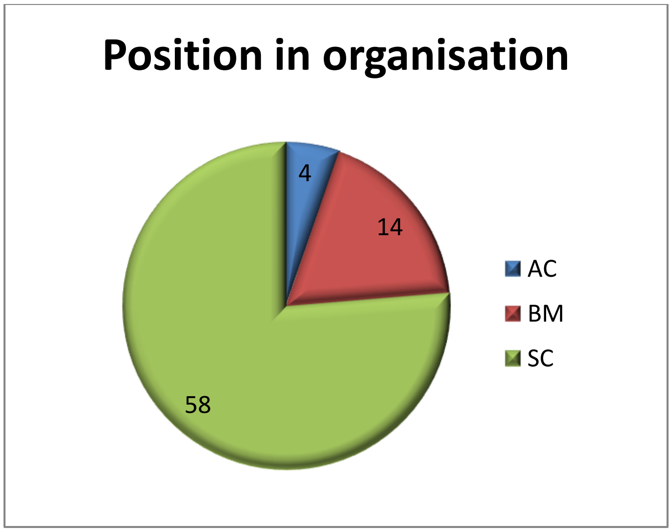
Graph 3: Age distribution



2.4 POSITION AT ORGANISATION

At branch level within the organisation there are three positions that respondents occupied, namely Administrative Controller (AC), Branch Manager (BM) and Sales Consultant (SC). The sample taken contained 4 Administrative Controllers, 14 Branch Managers and 58 Sales Consultants, representing all positions held within a branch.

Graph 4: Positions within organisation



3. INDICATORS OF FINANCIAL PERFORMANCE

The reasoning behind using these specific ratios and their method of calculation were explained in the last chapter.

Table 2: Financial Ratios

Branches	Cost to income ratio	Cumulative leverage ratio	Net yield
Branch 1	0.264452	3.781402	34.35%
Branch 2	0.097674	10.238114	18.23%
Branch 3	0.111872	8.938811	17.40%
Branch 4	0.110994	9.009501	14.96%
Branch 5	0.155507	6.430588	10.95%
Branch 6	0.1022	9.784748	13.56%
Branch 7	0.207922	4.809495	15.43%
Branch 8	0.093065	10.745231	13.10%
Branch 9	0.142718	7.00681	10.39%
Branch 10	0.154096	6.489466	11.16%
Branch 11	0.168718	5.927054	11.61%

Branch 12	0.15494	6.454129	9.87%
Branch 13	0.149051	6.709105	11.42%
Branch 14	0.100031	9.996936	13.74%
Branch 15	0.092672	10.790772	14.95%

4. SATISFACTION WITH LIFE SCORES

The next task was to evaluate the ‘Happiness’ profile of the individual branches according to their average Satisfaction With Life Scores. The mean percentile results are tabled below.

Table 3: Branch percentile results

Branches	SWLS %
Branch 1	0.485714286
Branch 2	0.578571429
Branch 3	0.385714286
Branch 4	0.794285714
Branch 5	0.56
Branch 6	0.44
Branch 7	0.47857143
Branch 8	0.584415584
Branch 9	0.595238095
Branch 10	0.614285714
Branch 11	0.271428571
Branch 12	0.457142857
Branch 13	0.493877551
Branch 14	0.692857143
Branch 15	0.571428571

Graph 5: Branch percentile results

Indicated by graph 5, it is clearly evident that there is variance between branches regarding their SWLS scores. All SWLS scores fell into the 'fair' to 'good' region, with only one reaching the 'excellent' region.

Branches 4 and 14 scored the highest SWLS score while Branches 3 and 11 scored the lowest. One can therefore draw the conclusion that SWLS score in Branches 4 & 14 are more relevant than SWLS scores in branches 3 and 11.

A one way analysis of variance (ANOVA) was performed to determine whether the average difference in SWLS score between branches was statistically significant. It is essential that a significant variance in scores between branches exists to be able to test the hypotheses and establish whether or not the difference in 'happiness' has any bearing on the financial performance indicators.

If it were found that there was no statistically significant variance in happiness from branch to branch then it would not be possible to establish whether there was a relationship between the variance in Happiness and the variance in financial performance. The analysis of variance results are displayed in table 6 below.

Table 4: Analysis of variance in SWLS scores between branches

Effect	SS	df	MS	F	p
Intercept	23304.69	1	23304.69	457.4784	0.0000
Branch	1336.67	14	95.48	1.8742	0.047578
Error	3107.44	61	50.94		

Significant differences between average SWLS scores of branches were found as $p < 0.05$ at a 5% level of significance. This allowed the researcher to continue to investigate and test if there was a relationship between 'happiness' and financial performance that was of statistical significance.

SWLS, F= 1.8742, df= 14, p-value= 0.047578

5. CORRELATION ANALYSIS

The analysis of correlation is used to measure the direction and strength of an association between two variables of interest. The result of the analysis is a 'correlation coefficient' and this coefficient determines the degree or strength of the relationship between the two variables. A correlation coefficient of 0 corresponds to there being no linear relationship whatsoever. A correlation coefficient of -1 demonstrates a perfect negative linear relationship and a coefficient of +1 in turn reflects a perfect positive linear relationship. (Keller and Warrack, 1997).

To be able to establish if there was in fact a relationship between the independent variable (Satisfaction With Life Score) and the dependant variables (cumulative leverage, derived net yield and cost to income) the Pearson's correlation coefficient (r) was calculated. The financial performance indicators measured for all 15 branches was used as a dependant variable in the analysis. The results of which are displayed in Table 7 below.

Table 5: Correlation coefficients

	Cumulative leverage		Cost to income ratio		Derived net yield	
	Correlation Co-efficient (r)	P-value	Correlation Co-efficient (r)	P-value	Correlation Co-efficient (r)	P-value
SWLS	0.3743	0.169	-0.3444	0.209	-0.0580	0.837

From the above results it is clear that there was no clear positive or negative correlation (correlation coefficient >0.05 or <-0.05) between SWLS scores measured and the key financial performance indicators observed.

Following this the correlations (or lack thereof) must also be tested to see if they were of any statistical significance.

The main hypotheses in order to test whether correlations between SWLS scores and the financial performance indicators were:

H0: No statistically significant correlation between SWLS score and financial performance exists
HA: A statistically significant correlation between SWLS score and financial performance exists.

At a significance level of 95% (as mentioned earlier) if the observed p-value is less than 0.05 then there will be insufficient evidence to support the null hypothesis (H0) and the alternate hypothesis (HA) will be adopted, concluding that there is a statistically significant relationship or correlation between SWLS scores and the financial performance indicator.

However if the observed p-value is greater than 0.05 then at a significance level of 95% there is insufficient evidence to reject the null hypothesis (H0) concluding that there is no statistically significant relationship or correlation between SWLS and the financial performance indicator.

There was insufficient evidence to reject the null hypothesis for all three financial indicators as the p-values were all less than 0.05, meaning that all three financial indicators did not have a statistically significant relationship with SWLS scores. It can therefore be stated that no statistically significant relationship exists between employee happiness and financial performance at organisation.

6. DISCUSSION OF RESULTS

The results are now to be discussed in detail in terms of the Satisfaction With Life Scores and their influence on each of the financial performance indicators used.

6.1 THE RELATIONSHIP BETWEEN SWLS SCORES AND CUMULATIVE LEVERAGE

Cumulative leverage indicates how many times the organisation's net income can cover the expenses used to derive that income. This step answers whether or not there was a relationship of statistical significance exists between SWLS scores and the cumulative leverage ratio.

The hypotheses for this test were:

Ho: No positive statistically significant relationship existed between SWLS (employee happiness) and cumulative leverage.
HA: A positive statistically significant relationship existed between SWLS and cumulative leverage.

The results were:
Correlation coefficient= 0.3743, p-value= 0.169

As the p-value is greater than 0.05 the null hypothesis (H0) fails to be rejected and it must be accepted that the alternate hypothesis (HA) is correct. At at a 95% level of significance there appears to be no statistically significant relationship between the SWLS score and the financial performance indicator cumulative leverage.

The correlation coefficient as low as 0.3743 supported this in indicating that there was very little relationship between SWLS and cumulative leverage.

6.2 THE RELATIONSHIP BETWEEN SWLS SCORES AND COST TO INCOME RATIO

Cost to income is net income divided by total expenditure and is a measure of profitability and efficiency. There is an inverse relationship between the cost to income ratio and the organisation's profitability, the lower the ratio the more profitable the organisation.

Ho: No positive statically significant relationship exists between SWLS and cost to income ratio.

HA: A positive statically significant relationship exists between SWLS and cost to income ratio.

The results were:

Correlation coefficient= -0.3444, p-value= 0.209

As the p-value was greater than 0.05 the null hypothesis (H0) cannot be rejected and it must be accepted that the alternate hypothesis (HA) is correct and that at a 95% level of significance there appeared to be no statistically significant relationship between SWLS score and the financial performance indicator cost to income. For the two variables to be significantly correlated the coefficient would need to be below -0.5 or above 0.5, at -0.0344. The correlation coefficient did not meet that criteria and therefore the variables did not show a significant positive or negative relationship with each other.

6.3 THE RELATIONSHIP BETWEEN SWLS SCORES AND DERIVED NET YIELD

Derived net yield is calculated by dividing net income per branch by the allocated loan balance. It is similar to a return on assets ratio per branch as the loan balance represents capital invested in each branch. The yield represents the profit that was derived from that capital. It is a measure of how profitable each branch is for the group.

Ho: No positive statically significant relationship exists between SWLS and derived net yield.

HA: A positive statically significant relationship exists between SWLS and cost to income ratio.

The results were:

Correlation coefficient= -0.0580, p-value= 0.837

As the p-value was greater than 0.05 the null hypothesis (H0) could not be rejected and it must be accepted that the alternate hypothesis (HA) was correct and that at a 95% level of significance there appeared to be no statistically significant relationship between the SWLS score and derived net yield. For the two variables to be significantly correlated the coefficient would need to be below -0.5 or above 0.5. At -0.0344 the correlation coefficient did not meet that criteria, therefore they did not show a significant positive or negative relationship with each other.

7. CONCLUSION

The above results can be summarised as follows. There appeared to be no relationship of statistical significance between 'happiness' measured by Satisfaction With Life Scale scores and financial performance which was measured by the indicators calculated, namely cumulative leverage, cost to income ratio and derived net yield . The null hypothesis for all three tests failed to be rejected as the p-values were greater than 0.05 or the significance level of 95%.

CHAPTER 5

CONCLUSION

1. ALTERNATIVE FACTORS INFLUENCING FINANCIAL PERFORMANCE

It is evident from the results of this research that Happiness measured by the SWLS score does not have a significant relationship with the financial performance of the organisation, it must be so that other factors exert a much greater influence over financial performance than employee happiness levels. This section addresses what some of those factors are likely to be.

1.1 CONSUMER DISPOSABLE INCOME

One of the primary influences on the financial performance of the organisation is that of its existing and potential customers disposable income, which is a person's total personal income with personal current taxes deducted. The amount of disposable income available to the customer determines his or her ability to obtain loans from the bank and also determines their ability to service that debt. This has a direct effect on the financial performance of the organisation in the form of loans issued and accumulation of bad debt from consumers unable to meet repayments.

Levels of consumers disposable income is vulnerable to rising living costs or inflation, as the higher the price level the lower in effect is the value of the consumer's available disposable income. As of April 2013 the South African inflation rate was 5.6%. (SARB, 2013).

Major influences on disposable income available are the price of electricity and the price of fuel as they affect the consumer directly as an end user but also indirectly as they affect the cost base of the economy. (Parkin, Powell & Matthews*,* 2005)

Both the increases in electricity and fuel prices underpin inflation and directly indirectly impact the disposable income of the end consumer's disposable income. These changes in disposable income impact the financial performance of the organisation by influencing the number of loans the bank is able to issue and affects the ability of customers to service their debt.

1.1.1 ELECTRICITY COSTS

As of 2013 the price of electricity in South Africa is set to rise by 8% year on year for the next 5 years. The government owned entity Eskom has said it is using the tariff increases to fund further capital investments in infrastructure in order to ensure future power supply South Africa. (Times Live, 2013) Electricity is sold wholesale by Eskom to local municipalities who mark it up and resell it to the end consumers.

1.1.2 FUEL COSTS

The price of unleaded 95 octane petrol (inland) has increased substantially by 21.7% from 1025 cents a litre in May 2011 to 1247 cents in litre in 2013, alongside an 18.3% rise from 964.5 to 1141.05 cents a litre over the same period. (Department of Energy, 2013). The price of fuel in South Africa is directly regulated and determined by the Department of Energy and not by petroleum refining or marketing companies operating in the market.

The fuel price is affected by an international and local component. The international component is the 'Basic fuel price and state levy', which is the total landed cost involved in importing the fuel from international refineries. This accounts for approximately 53% of the price of fuel in South Africa. The local components of the price are the remainder which consist of government taxes on fuel (27.9%), wholesale margins, retail margins and local transport costs. (Department of Energy, 2013).

The comparative strength of the South African rand, determined in part by the macro economy, is a major determining factor of the price of fuel in South Africa because of the dominating influence of the internationally dictated Basic Fuel Price.

Consumer's disposable income via the price of fuel is affected by the exchange rate and government fuel levies.

1.1.3 EMPLOYMENT

The levels of employment have a direct effect on the organisation's financial performance as the more individuals that are economically active the larger the potential customer base of the organisation. Unemployment is defined by Statistics South Africa as "someone aged between 15 years and 64 years who is without work in the week preceding the interview, but who looks for work and is available to take up employment or open a business" (StatsSA, 2013), it does not include discouraged individuals that have given up looking for work. As of the first quarter of 2013 unemployment in South Africa rose 0.03% to 25.2% from 24.9% in the fourth quarter of 2012 (StatsSA, 2013). If unemployment rises then household disposable income is reduced, affecting the organisation's financial performance by limiting the loans it can issue and increasing chances of bad debts. If employment rises more individuals qualify for loans and paradoxically as household income increases the more likely people are to incur debt. As households perception of wealth increases so too does its spending, known as 'The Wealth Effect', this is often financed by credit. (Parkin *et al, 2005)*

Increases in employment result in increased financial performance for the firm as household disposable income increases the more individuals qualify to obtain credit, the opposite is true for decreases in employment, with the additional risk of increased levels of bad debt.

1.2 INTEREST RATES

The level of interest rates directly influences the demand for the organisation's services by effectively increasing or decreasing the price of borrowing. The Interest rates offered to consumers are dependent on the rate of interest that the bank receives from the South African Reserve Bank. This rate is known as the 'repo rate'. The repo rate as of June 2013 is 5%, it was reduced by 0.5% in July 2012. The lower the repo rate the lower the effective rate charged to consumers, which results in an increase in demand which directly affects the financial performance of the organisation. (SARB, 2013)

1.3 COMPETITION

The level of competitiveness in the unsecured lending market significantly affects the profitability and therefore performance of the organisation. There are many benefits of competition to the end consumer, one of which is the possibility of lower prices. This competitive pricing is often a result of a reduction in operating margins made by organisations in the market in order to obtain new customers and also retain existing customers (Parkin *et al*, 2005). In 2008 many of South Africa's largest retail banks entered the unsecured lending market signalled by growth rates and high levels of profitability experienced by smaller banks operating in the market. These developments lead to an increase in competition which influenced operating margins and financial performance of banks providing unsecured lending.

1.4 REGULATORY ENVIRONMENT AND INCENTIVES

Banks are subject to extensive regulations, changes in which can influence the profitability and performance of banks in the market. The National Credit Act of 2005 caps interest rates that lenders can offer end consumers at 24% per annum or 2% of the loan value per month, in effect limiting the profit the organisation can make on loans. These changes in legislation inform company policy and incentive schemes within the organisation.

Changes of employee incentive schemes can affect the organization's financial performance. The organisation has made extensive reforms in its incentive scheme since warnings of a ‘bubble’ in the unsecured lending market raised in 2012. The framework incentivises ‘loan quality’ more than sales targets. ‘Loan quality’ incorporates the assessed ability of the end consumer to repay the loan within the stipulated period. This change reduces incentives on sales with the intention of mitigating the risk of bad debts, both of which can improve the organization's financial performance. (Company Annual Report, 2012)

1.5 CONCLUSION

It is not clear that employee happiness affects the financial performance of the firm as there are several significant other factors. The macroeconomic influences organisational performance in countless ways, some being that inflation driven by fuel and electricity prices can erode consumer disposable income and interest rates can dictate demand for the organisations services. Incentive schemes within the organisation drive financial performance in terms of sales and levels of bad debt. Competition impacts the profit margins of the organisation as does the regulatory framework of the market in which it operates.

2. LIMITATIONS OF RESEARCH

This research only assessed the link between Happiness of employees as determined by the Satisfaction with Life Score questionnaire (which might be different from 'satisfaction with work life') and specific selected financial performance indicators.

It must be acknowledged that there are numerous alternate methods to measure 'happiness' and various other factors that could have great influence over the financial performance of the organisation for example economic conditions, consumer disposable income, competition and regulatory framework to name but a few.

Only the three indicators of the organisation's financial performance were used and it is acknowledged that there are numerous other indicators that could have been used as alternatives.

A significant limitation of this research is with regard to the measurement of 'happiness', is that It is acknowledged that a significant component of the accepted definition of 'happiness' is based on happiness as an emotion. Emotions are fleeting and are highly susceptible to fluctuation over time, people have individual happiness 'set points' to which there is a general central tendency and an individual's happiness varies within a specific range over time (Lyubomirsky *et al,* 2005). As the SWLS questionnaire was completed only once on a set date by each individual in the sample population, it does not reflect the full range of an individual's happiness over time. Due to time constraints in the research process, 15 months of averaged financial performance could only be compared against SWLS scores taken on a specific date and time and the researcher was unable to average these scores over the same period as the financial results for comparison.

As the study was undertaken in one specific organisation, the results and conclusion drawn are only therefore applicable and relevant to this organisation and cannot be extrapolated to a broader population.

3. SUGGESTED FURTHER RESEARCH

As there is little research that has been conducted in this field it is recommended that further studies be undertaken within the South African financial services industry to support or refute the findings of this research. It is suggested that the same instrument to measure happiness, namely the Satisfaction With Life Scale be used in three or more other organisations and that the same ratios indicating financial performance be used to assess the relationship between employee happiness and financial performance.

As significant limitation in this research is in that happiness to subject to fluctuation in a specific range within individuals measured over time. It is therefore suggested that any further research be undertaken that is mindful of this and should measure SWLS scores at multiple intervals over the same time span as that of the financial performance being measured. These could then be averaged for comparison taking into account the wider range of happiness levels within employees over time therefore providing more accurate measurements of happiness within the organisation under evaluation.

4. CONCLUSION

The research was conducted within 15 branches of a South African financial institution. Happiness was measured by administering a total of 76 SWLS questionnaires and evaluating these SWLS scores against 15 months of financial statements of the 15 branches evaluated.

The research was driven by questions raised by research conducted in the field of Positive Psychology which asserts that experiencing positive emotion such as happiness can improve cognitive performance through creativity, resilience and increased motivation in individuals (Lyubomirsky *et al,* 2005). The premise of the hypothesis was that increased levels of employee happiness would lead to increased financial performance of the organisation. The findings of this research do not support this claim and it was discovered there is no statistically significant relationship between employee happiness and financial performance of the organisation at branch level.

It was suggested this is due to many other significant factors exerting a much greater influence on organisational performance than employee ‘happiness’. These include the competitive environment, regulatory environment and the current economic climate of interest rates and inflation that influence consumer disposable income and behaviour.

There are inherent limitations in measuring ‘happiness’ and further research is suggested over an extended time frame within a similar organisation in order to support or refute the findings of this research.

REFERENCE LIST

Achor, S. (2012) Positive Intelligence. *Harvard business review,* vol. 90, no. 1, p. 100-102.

Apley, M.H. (1971) Adaptation Level Theory: A Symposium. 1st edition. New York: Academic Press.

Bartlett, R.C. (2008) Aristotle's Introduction to the Problem of Happiness: On Book I of the Nicomachean Ethics, *American Journal of Political Science,* vol. 52, no. 3, p. 677-687.

Cameron, K.S., Bright, D. & Caza, A. (2004). Exploring the Relationships Between Organizational Virtuousness and Performance. *American Behavioural Scientist,* vol. 47, no. 6, p. 766-790.

Chan, Kam C.Gee, Michele V.Steiner,Thomas L. (2000), Employee Happiness and Corporate Financial Performance, *Financial Practice & Education,* vol. 10, no. 2, p. 47.

Company Annual Report, 2012

Correia, C., Flynn, D., Uliana, E. & Wormald, M. (2003) Financial Management. 5th edition. Cape town: Juta and Co.

Devaro, J. (2006) Teams, Autonomy, and the Financial Performance of Firms*, Industrial Relations: A Journal of Economy and Society,* Vol. 45, No. 2, p. 217-269*.*

Department of Energy. (2013) Petroleum sources. [Online] Available from: http://www.energy.gov.za/files/esources/petroleum/petroleum_arch.html. [Accessed: 10th June 2013]

Diener, E., Lucas, R.E. & Napa, C. (2006) Beyond the Hedonic Treadmill: Revising the Adaptation Theory of Well-Being, *American Psychologist,* vol. 61, no. 4, pp. 305-314.

Epicurus.net *,* Copy of Epicurus ‘Letter to to Menoeceus’. [Online] Available from: http://www.epicurus.net/en/menoeceus.html [Accessed: 14th July 2013].

Fredrickson, B.L. (2001) The role of positive emotions in positive psychology: The broaden-and-build theory of positive emotions, *American Psychologist,* vol. 56, no. 3, p. 218-226.

Fredrickson, B.L., Mancuso, R.A., Branigan, C. & Tugade, M.M. (2000)"The Undoing Effect of Positive Emotions, *Motivation & Emotion,* vol. 24, no. 4, p. 237-258.

Ho, C. and Wu, Y. (2006) Benchmarking performance indicators for banks, *Benchmarking: An International Journal.* vol. 13, No. 1/2. p. 147 – 159.

Keller, G. and Warrack, B. (1997) Statistics for Management and Economics. Pacific Grove: Duxbury Press.

Kirby, J. (2005) Toward a Theory of High Performance, *Harvard business review,* vol. 83, no. 7, p. 30-39.

Lynch, R.L. and Cross, K.F. (1991) Measure Up – The Essential Guide to Measuring Business Performance. London: Mandarin.

Lyubomirsky, S., King, L. & Diener, E. (2005) The Benefits of Frequent Positive Affect: Does Happiness Lead to Success?, *Psychological bulletin,* vol. 131, no. 6, p. 803-855.

Lyubomirsky, S. & Lepper, H.S. (1999) A Measure of Subjective Happiness: Preliminary Reliability and Construct Validation, *Social Indicators Research,* vol. 46, no. 2, p. 137-155.

March, J.G. & Sutton, R.I. (1997) Organizational Performance as a Dependent Variable, *Organization Science,* vol. 8, no. 6, p. 698-706.

Marx, J., De Swart, C. and Nortje, A. (1999) Financial Management in Southern

Africa. Cape Town: Pearson Education South Africa.

Maslow, A.H. & Smith, C.P. (1970), Motivation and Personality: Handbook of Thematic Content Analysis, Cambridge: Cambridge University Press.

Mill, J.S. (2003) Utilitarianism and on Liberty. Oxford: Blackwell Publishing Ltd .

Norman, W. and MacDonald, C. (2003) Getting to the Bottom of Triple Bottom Line,

Business Ethics Quarterly. March. p. 1 – 19.

Ostroff, C. (1992) The relationship between satisfaction, attitudes, and performance: An organizational level analysis, *Journal of Applied Psychology,* vol. 77, no. 6, p. 963-974.

Parkin, M., Powell, M. & Matthews, K. (2005). *Economics.* 6th edition. Essex: Pearson Education Limited.

Pavot, W. & Diener, E. (1993) Review of the Satisfaction With Life Scale, *Psychological assessment,* vol. 5, no. 2, p. 164-172.

Richard, P.J., Devinney, T.M., Yip, G.S. & Johnson, G. (2009) Measuring organizational performance: Towards methodological best practice, *Journal of Management,* vol. 35, no. 3, p. 718-804.

South African Reserve Bank. 2013. Annual Report 2012: Bank Supervision Department. Pretoria.

Sayers, S. (1999) Plato's Republic: an introduction. Edinburgh: Edinburgh University Press.

Schneider, B., Hanges, P.J., Smith, D.B. & Salvaggio, A.N. (2003) Which comes first: Employee attitudes or organizational financial and market performance?, *Journal of Applied Psychology,* vol. 88, no. 5, p. 836-851.

Seligman, M.E.P. (2002) Authentic happiness: Using the new positive psychology to realize your potential for lasting fulfillment. New York: Free Press

Seligman, M.E.P. & Csikszentmihalyi, M. (2000) Positive psychology: An introduction, *American Psychologist,* vol. 55, no. 1, p. 5-14.

Watson, D., Clark, L.A. & Tellegen, A. (1988) Development and validation of brief measures of positive and negative affect: The PANAS scales, *Journal of personality and social psychology,* vol. 54, no. 6, p. 1063-1070.

Yeo, R. (2003) The tangibles and intangibles of organisational performance, *Team Performance Management: An International Journal.* Vol. 9, No. 7/8. p. 199 – 204.

ANNEXURE A:

Date: ___/05/2013

Branch:	
Sex:	
Age:	
Years with branch:	
Position in branch:	

Rhodes Business School
Leadership for Sustainability

Employee 'Happiness' Questionnaire

(The Satisfaction with Life Scale, by Ed Diener, Ph.D)

DIRECTIONS:

Using the 1-7 scale below, indicate your agreement with each item by placing the appropriate number in the line preceding that item. Please be open and honest in your responding.

1 = Strongly Disagree

2 = Disagree

3 = Slightly Disagree

4 = Neither Agree nor Disagree

5 = Slightly Agree

6 = Agree

7 = Strongly Agree

Score 1/7	Questions
_____	1. In most ways my life is close to my ideal.
_____	2. The conditions of my life are excellent.
_____	3. I am satisfied with my life.
_____	4. So far I have gotten the important things I want in life.
_____	5. If I could live my life over, I would change almost nothing.