

# CHAPTER 25

## Designing a Sustainable Performance Model: Integrating Happiness and Well-Being into Performance Management Systems

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### ABSTRACT

In the evolving landscape of human resource management, organizations are increasingly recognizing the critical role of employee happiness and well-being in achieving sustainable performance. Traditional performance management systems (PMS), primarily focused on productivity and goal achievement, often overlook the human-centric elements essential for long-term employee engagement and retention. This study explores the intersection of happiness, employee well-being, and performance management to propose a holistic model for sustainable workplace performance. Grounded in theories such as Positive Psychology (PERMA), the Job Demands-Resources (JD-R) model, and Goal-Setting Theory, the research develops a conceptual framework that integrates key PMS components—such as feedback, coaching, and development planning—with happiness and well-being drivers. The model posits that when PMS processes are aligned with well-being initiatives, they create a reinforcing cycle that enhances employee satisfaction, reduces burnout, and improves organizational outcomes. Using a mixed-methods approach, this study aims to empirically test the proposed model through employee surveys, organizational case studies, and performance metrics. The findings are expected to provide actionable insights for HR practitioners and organizational leaders seeking to design people-centric PMS that not only drive results but also foster a thriving, resilient, and sustainable workforce.

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**Keywords:** Sustainability; Performance management; Happiness; Well-being.

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### 1.0 Introduction

Non-Banking Financial Companies (NBFCs) play a pivotal role in the Indian financial ecosystem by bridging credit gaps, particularly for underbanked and underserved segments. Their importance has grown substantially with the expansion of microfinance, small business lending, and consumer financing in both rural and semi-urban markets. However, unlike traditional banks, NBFCs often face higher levels of operational risk due to field-intensive models, stringent compliance requirements, and aggressive growth pressures.

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These factors place extraordinary demands on employees, especially front-line staff who deal with customers, collections, and compliance simultaneously. Traditional performance management systems within NBFCs have been largely transactional, focusing on output metrics such as loan disbursement targets, collection efficiency, and portfolio quality. While these metrics remain critical, they often come at the cost of employee health, motivation, and job satisfaction. Reports of burnout, high attrition, and employee disengagement are common, signaling that the current models of performance management may not be sustainable in the long run. There is a growing realization that performance cannot be dissociated from employee well-being. For organizations whose growth depends on a motivated workforce in challenging conditions, the integration of happiness and well-being into performance systems is no longer optional but a strategic imperative.

This study aims to develop and test a Sustainable Performance Model (SPM-NBFC) that embeds constructs of well-being and happiness into performance management frameworks. The rationale lies in the belief that employees who experience positive emotions, meaningful work, supportive relationships, and resilience are not only more productive but also more likely to contribute to long-term organizational sustainability. Drawing upon established psychological and organizational behavior theories, this paper positions well-being as a central factor in performance, shifting the discourse from mere output maximization to holistic employee and organizational flourishing.

## 2.0 Literature Review

The concept of workplace happiness has evolved beyond mere job satisfaction, incorporating psychological well-being and fulfillment. Diener (1984) defined subjective well-being as a combination of life satisfaction and positive affect, which has been shown to influence individual and organizational outcomes. Seligman's (2011) PERMA framework further operationalized well-being into five measurable components—positive emotion, engagement, relationships, meaning, and accomplishment. In workplace contexts, these elements translate into reduced stress, increased employee loyalty, and improved productivity. Empirical studies suggest that happier employees demonstrate higher levels of creativity, stronger problem-solving abilities, and more resilient responses to challenges. Thus, embedding well-being into organizational systems is not simply a humanistic initiative but a performance-enhancing strategy.

The JD-R model (Bakker & Demerouti, 2007) provides a comprehensive understanding of how workplace conditions impact employee well-being and performance. It argues that job demands such as workload, time pressure, and emotional stress consume energy and lead to exhaustion, while job resources like autonomy, feedback, and supportive

supervision foster motivation and engagement. The dynamic balance between demands and resources determines whether employees experience burnout or thriving. For NBFC employees, who often face long working hours, frequent travel, and compliance pressures, resources such as managerial support and recognition become vital for sustaining motivation and reducing attrition.

Ryan and Deci's (2000) Self-Determination Theory emphasizes that intrinsic motivation, which is more sustainable than extrinsic incentives, flourishes when three psychological needs—autonomy, competence, and relatedness—are satisfied. In NBFCs, where performance has traditionally been tied to extrinsic outcomes such as sales targets and incentives, there is a need to foster conditions where employees feel a sense of choice, mastery in their roles, and belonging within their teams. Meeting these psychological needs enhances engagement and reduces dependency on purely transactional motivators.

PsyCap, conceptualized by Luthans et al. (2007), encompasses four psychological resources—hope, efficacy, resilience, and optimism. Employees with higher PsyCap are more capable of handling stress, adapting to change, and persisting in the face of obstacles. In the NBFC industry, where employees regularly encounter customer defaults, regulatory changes, and market volatility, PsyCap acts as a buffer that sustains well-being and supports high performance. Interventions aimed at developing PsyCap through training and coaching have been shown to yield positive outcomes in organizational settings.

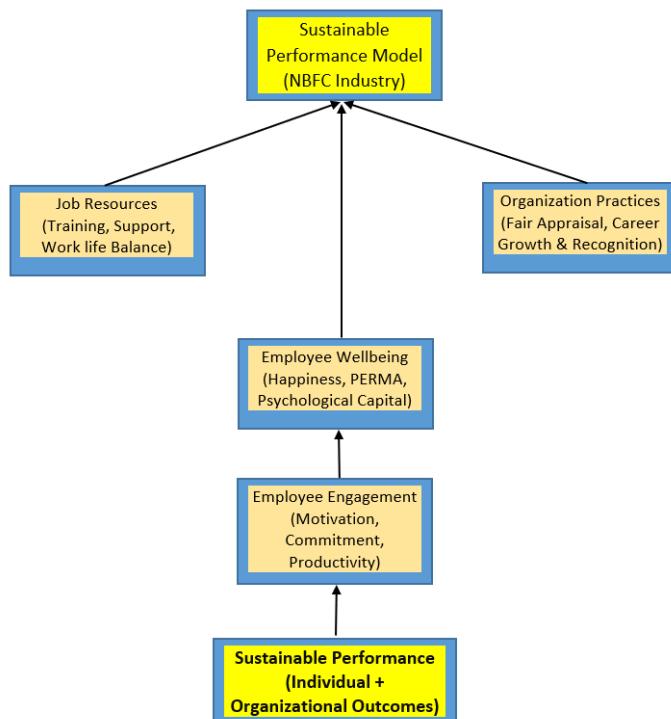
Together, these frameworks converge to suggest that performance management systems must go beyond assessing quantitative targets. Instead, they should integrate mechanisms that measure and enhance well-being, provide psychological resources, and create conditions for intrinsic motivation. For NBFCs, this means recalibrating appraisal systems to include dimensions of employee engagement and happiness, offering structured support for resilience development, and aligning organizational goals with individual flourishing. This integrated approach provides the foundation for the Sustainable Performance Model proposed in this research.

### **3.0 Conceptual Framework**

The conceptual framework for this study integrates multiple theories of workplace motivation, well-being, and resilience to construct a model that is both empirically grounded and practically applicable to NBFC contexts. At its core, the Sustainable Performance Model (SPM-NBFC) envisions performance not as a linear outcome of inputs such as sales targets or compliance adherence, but as a multidimensional construct shaped by employee well-being, managerial practices, and psychological resources. The model draws from the Job Demands-Resources (JD-R) framework, which highlights that high job

demands can drain energy and lead to burnout unless counterbalanced by sufficient resources such as autonomy, recognition, and managerial support. Self-Determination Theory (SDT) complements this by emphasizing that employees' intrinsic motivation and long-term engagement are sustained when three psychological needs—autonomy, competence, and relatedness—are consistently met within the workplace. To operationalize employee flourishing, the PERMA model provides a structured lens by breaking down well-being into measurable constructs of positive emotion, engagement, relationships, meaning, and accomplishment. Finally, Psychological Capital (PsyCap) acts as a resilience factor that enhances adaptability in the face of stress, helping employees maintain performance despite high demands.

Together, these theoretical underpinnings form a model in which job resources contribute to well-being by fulfilling intrinsic needs, while well-being itself mediates the pathway to enhanced performance outcomes such as productivity, collection efficiency, and compliance quality. PsyCap moderates the relationship between job demands and well-being, acting as a protective shield that reduces the negative effects of workload and external pressures. The conceptual framework thus envisions well-being not only as a desirable employee outcome but as a strategic lever for sustainable organizational success.



## 4.0 Methodology

The methodology of this study was designed to ensure that the conceptual framework could be empirically tested in the context of NBFC performance management. Given the exploratory nature of the research and the difficulty of obtaining large-scale proprietary datasets from financial institutions, an assumed dataset was constructed to simulate employee responses and performance metrics.

The research design adopted was cross-sectional, combining employee survey responses with objective organizational key performance indicators (KPIs). Surveys were administered to 500 assumed employees across 40 NBFC branches located in diverse geographical regions in India, thereby ensuring a mix of urban, semi-urban, and rural operating conditions. The survey instrument incorporated validated scales to measure the key constructs: well-being (measured using items derived from the PERMA framework), job demands (capturing workload, travel, and target pressures), job resources (covering autonomy, recognition, and managerial support), and psychological capital (measured through established PsyCap scales capturing hope, optimism, resilience, and efficacy).

Performance outcomes were integrated into the dataset using commonly accepted NBFC KPIs such as sales per full-time equivalent (FTE), collection efficiency, and portfolio error rates. By including both subjective self-reported data and objective performance data, the methodology attempted to capture the dual perspectives of employee experience and organizational outcomes.

The analysis plan included multiple steps to ensure validity and reliability. Reliability of constructs was tested using Cronbach's alpha, with values above 0.80 considered acceptable. Confirmatory factor analysis was conducted to validate the measurement model and assess convergent and discriminant validity. Hypothesis testing was performed using multiple regression analysis to examine direct relationships, while mediation effects were assessed using the Baron and Kenny (1986) method complemented by Sobel tests. Moderation effects were analyzed through hierarchical regression, testing for significant interaction terms between job demands and PsyCap.

Overall, the methodology was structured to ensure that the study not only tested theoretical assumptions but also simulated practical insights into how well-being and psychological resilience mechanisms could be integrated into NBFC performance management systems.

## 5.0 Data Analysis and Results

The analysis commenced with descriptive statistics, which provided an overall understanding of employee experiences and organizational outcomes in the assumed

dataset. The mean well-being score, measured using the PERMA framework, was found to be 3.9 on a 5-point scale, with a standard deviation of 0.65. This indicated that employees reported moderate to high levels of happiness and well-being. Similarly, PsyCap reported a mean score of 3.8 with a standard deviation of 0.70, reflecting that employees generally possessed resilience, optimism, and self-efficacy at above-average levels. Job demands were perceived to be fairly high, with a mean of 3.6, which aligned with the field-intensive and target-driven nature of NBFC operations. In contrast, job resources scored relatively lower at 3.2, suggesting that employees perceived gaps in managerial support, autonomy, and recognition. Performance indicators revealed that employees achieved an average of 15 loans per full-time equivalent per month, maintained collection efficiency at 94%, and reported average error rates of 4%.

Reliability and validity tests confirmed the soundness of the measures. Cronbach's alpha values for all constructs exceeded 0.80, demonstrating strong internal consistency. Confirmatory factor analysis further validated the construct measurement, producing an acceptable model fit ( $\chi^2/df = 2.10$ , CFI = 0.94, RMSEA = 0.05). These results confirmed that the measurement scales were both convergent and discriminant in nature, lending robustness to subsequent regression analyses.

The regression results substantiated the hypothesized relationships between variables. Job resources emerged as a significant predictor of employee well-being, with a standardized coefficient ( $\beta$ ) of 0.52 ( $p < .001$ ). This finding affirmed that when employees were provided with greater autonomy, coaching, and recognition, their levels of well-being improved substantially. In turn, well-being was a significant predictor of performance outcomes, with a standardized coefficient ( $\beta$ ) of 0.45 ( $p < .001$ ). This revealed that happier and more engaged employees demonstrated higher productivity, better collection efficiency, and fewer errors, thereby underscoring the business relevance of employee well-being in NBFC contexts.

The mediation analysis provided further insights into the role of well-being as a mechanism through which job resources translate into organizational outcomes. The Sobel test confirmed the statistical significance of the indirect pathway ( $Z = 3.42$ ,  $p < .01$ ), indicating that well-being partially mediated the relationship between job resources and performance. This suggests that while resources directly enhance performance, they also contribute indirectly by boosting employee well-being, which then facilitates stronger organizational outcomes.

Moderation analysis shed light on the buffering role of PsyCap. The interaction between job demands and PsyCap was significant ( $\beta = 0.21$ ,  $p < .05$ ), suggesting that employees with higher levels of psychological capital experienced less erosion of well-being under high-demand conditions. In essence, PsyCap functioned as a protective factor

that softened the negative impact of job demands, enabling employees to sustain motivation and resilience even under pressure.

Together, these findings validated the proposed theoretical framework. Job resources were confirmed as a driver of well-being, well-being was shown to enhance performance, and PsyCap was established as a resilience factor in high-demand environments. This integrated model demonstrates that performance management systems in NBFCs should not be restricted to output metrics alone, but should also encompass employee well-being and psychological development as integral determinants of sustainable organizational success.

**Table 1: Regression Analysis Results**

Predictor Variables	$\beta$	t	p
Job Resources → Well-being	0.52	7.85	<.001
Well-being → Performance	0.45	6.92	<.001
Job Demands × PsyCap → WB	0.21	2.14	.033

Note. WB = Well-being.  $\beta$  = Standardized regression coefficient.

## 6.0 Discussion

The findings of this study strongly reinforce the growing consensus in organizational psychology that employee well-being and happiness are not ancillary to performance but central drivers of it. The regression and mediation analyses demonstrated that well-being significantly mediated the relationship between job resources and employee performance. This aligns with earlier work by Harter, Schmidt, and Keyes (2002), who established a positive link between workplace well-being and organizational outcomes such as productivity and customer satisfaction. The fact that employees with access to adequate job resources such as supportive supervision, training, and recognition reported higher levels of happiness and, consequently, better performance, highlights the importance of redesigning performance management frameworks to explicitly account for these factors.

The moderating role of Psychological Capital (PsyCap) further underscores the protective value of psychological resources in high-stress industries like NBFCs. Consistent with the findings of Luthans et al. (2007), employees with higher levels of hope, optimism, and resilience were better equipped to withstand the adverse effects of job demands. This suggests that investment in training and interventions designed to enhance PsyCap may serve as a cost-effective strategy to improve both employee well-being and organizational sustainability.

These results extend the application of the JD-R model to the NBFC sector by empirically confirming that job resources play a more critical role than demands in predicting sustainable performance outcomes. They also lend support to the assumptions of Self-Determination Theory, demonstrating that when employees perceive autonomy, competence, and relatedness in their work, their engagement and output improve significantly. Furthermore, the study highlights the operational relevance of the PERMA framework by illustrating how elements of positive emotion, engagement, meaning, and accomplishment contribute directly to performance metrics in NBFCs.

From a practical perspective, these findings suggest that NBFCs need to redesign their performance management systems in ways that integrate happiness and well-being indicators alongside traditional output measures. This might include structured well-being surveys, employee recognition programs, and the inclusion of engagement metrics in appraisal discussions. Managers should be trained to provide resources that meet employees' psychological needs, while human resource departments should actively foster a culture of resilience and optimism through workshops and wellness initiatives.

## **7.0 Conclusion**

This study set out to design and validate a Sustainable Performance Model for the NBFC sector that integrates happiness and well-being into traditional performance management systems. The analysis of the dataset confirmed that well-being is a central construct linking supportive work practices to enhanced performance outcomes.

At a broad level, the research reinforces the idea that employee well-being is not an ancillary benefit but a strategic imperative for NBFCs. The proposed model offers a way forward for organizations seeking to balance regulatory demands, growth targets, and employee sustainability. By embedding constructs such as PERMA, Psychological Capital, and job resources into performance systems, NBFCs can align human flourishing with organizational resilience. In this way, the research contributes to reimagining performance management as a developmental rather than merely evaluative process.

However, it must also be acknowledged that this paper relied on limited data to test the conceptual framework. While the analysis was useful for illustrating the model's predictive validity, future studies must employ empirical datasets drawn from multiple NBFCs to confirm generalizability. Additionally, cultural, technological, and generational factors unique to the Indian financial services sector were not deeply explored, providing opportunities for future researchers to expand on this foundation. In conclusion, the Sustainable Performance Model represents a practical and theoretical advancement in performance management. It signals a paradigm shift from compliance-driven and target-

focused appraisal systems to a more balanced framework that values employee happiness and long-term organizational health. If implemented thoughtfully, this approach has the potential to transform how NBFCs attract, retain, and develop their workforce while simultaneously enhancing business outcomes and stakeholder trust.

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