The Power of Happiness

by Roger Martin

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Employees are the backbone of any organization, and as you might expect, studies show that *happy* employees are more motivated, productive and committed. While considerable research has explored the link between an organization's long-term financial success and motivated employees, much less has been said about what actually makes employees happy.

It's a deceptively simple notion: in order to have happy, satisfied and loyal customers, you must have happy, satisfied and loyal employees. We can readily conjure up images of uniformly happy employees, who are totally dedicated to their jobs and so highly productive that the firm's competitors are left trailing in its wake. **Southwest Airlines** and Canadian steelmaker **Dofasco** quickly come to mind. Southwest Chairman **Herb Kelleher** has said that he puts employees first, "because if you have happy employees, that will lead to happy customers," and with his track record, he should know. **Dofasco**'s, recently-retired CEO **John Mayberry** has stated that "satisfied customers are a direct result of happy employees. People can make a phenomenal difference if you can tap into them." The result is a highly-committed workforce: Dofasco's annual turnover is less than one per cent.

What can organizations do to ensure happy employees? While the answer is by no means crystal clear, it is coming into focus thanks to research advances in the fields of subjective well-being and social justice. By combining findings from these two fields, we can see that it is possible for a firm to conduct itself in ways that unleash the power of happiness.

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Why Happiness Matters

Happiness is a tricky concept in and of itself. University of Illinois Professor **Edward Diener**, a pioneering researcher on 'subjective well-being' (his term for happiness) points out that nobody can tell a person that he or she is, or should be, happy. Nor is there a set of circumstances that guarantees that the person experiencing them will be happy. Instead, happiness is an entirely *subjective* feeling of well-being experienced by the person, characterized by the presence of positive emotions and the absence of negative emotions. It is subjective in that the person in question can report whether or not he or she is happy, but an outside observer is not able to make that same judgement, because well-being is entirely *in the mind of the subject*.

The question of whether happy workers matter to firm performance has been asked for nearly a century. Recent work by the University of Nevada's **Tom Wright** and the University of Arizona's **Russell Cropanzano** makes the case that happy employees – defined broadly using the metrics of subjective well-being – demonstrate superior job performance – i.e., that happy employees are better employees. In addition, they suggest that happy employees are more sensitive to opportunities in the work environment, more outgoing and helpful to co-workers, and more optimistic and confident – all of which are positive features for the organization.

A recent study by Northwestern University's **Forum for People Performance Management and Measurement** broke ground by focusing on employees who do not have direct contact with customers. It nevertheless showed a direct relationship between how employees feel and customer attitudes, concluding that any company that wants to directly impact its bottom line can measure employee satisfaction and know that improvements to it will drive profitability.

So it's clear that happy employees *are* key to success, but are the majority of employees generally happy? Unfortunately, the answer is no. In a recent **Conference Board** survey of American workers, only *half* classified themselves as 'satisfied' with their jobs, down a worrisome 10 percentage points from a mere decade earlier. Two-fifths felt 'disconnected' from their employers; two-thirds did not feel motivated to drive their employer's goals; and one-quarter said they show up for work only 'in order to collect a pay cheque'.

Only slightly more optimistic findings came from a recent study by **David Sirota**, co-author of *The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want*. In his study, employee job satisfaction actually starts out pretty high, but it declines significantly the longer a person works for their employer. Based on a survey of 1.2 million employees between 2001 and 2004, the study showed that employee job satisfaction (on a 100-point scale) averages out as follows:

- Employees with an average of six months with employer: 80
- Employees with one to five years working for employer: 69
- Employees with six to 10 years working for employer: 68

So it would seem that a large proportion of workers are fundamentally *unhappy* with their work life, and getting considerably less happy over time. Rather than reaping the rewards of the power of happiness, firms are suffering from employees with low levels of happiness, which is associated with being highly sensitive to perceived threats in their environment, being defensive and cautious with their co-workers, and less optimistic and confident overall. There is clearly some work to be done in generating employee happiness.

What Generates Happiness?

Research into subjective well-being confirms that certain readily-expected features correlate positively with happiness. For instance, physical health generates happiness – although past a basic level of healthiness, *more* health doesn't generate *more* happiness. A sense of 'physical safety of person' generates happiness – although again, more of the same doesn't generate more happiness after a certain point.

Interestingly, wealth does generate happiness, but for many, only to a limited point. In fact, the aforementioned Conference Board study found that those earning more than $50,000 per year – generally considered a comfortable living – were only slightly happier than those making *less* than $15,000 per year – essentially living in poverty by North American standards. Once a person passes the point of being able to afford 'the normal cost of everyday life', more wealth can increasingly be accompanied by less happiness, not more. And with high levels of wealth come increased complications and worries, including concerns about losing the level of wealth one once had.

This is not particularly encouraging news for firms: pay – the simplest tool available and the one most obviously in the firm's control – won't do the trick on its own. But employers need not despair: there is instructive help to be found in the field of social justice, which studies how individuals develop their sense of identity socially, and how that identity affects their engagement in both mandatory and discretionary behaviour in whatever group to which they feel they belong. Research from this field reinforces and clarifies research from the world of subjective well-being by pointing to the crucial role of social group or 'community' in happiness and performance.

Eminent social justice scholar **Tom Tyler** of New York University has shown that individuals develop their sense of identity from feeling *pride* in their place in their relevant community and *respect* for the stature of that community. Positive pride and respect generate positive *identification* by the individual with the community. The benefit to a firm of an employee feeling a positive sense of pride from, respect for, and identification with the firm is a happy employee who will willingly go beyond strictly set-out *mandatory* behaviours to engage in helpful *discretionary* behaviours.

The research in subjective well-being reinforces the powerful role of the individual's relationship with community, as well as the features of that community that contribute to happiness. Social justice and subjective well-being research can be amalgamated to suggest that there are three community-related drivers of happiness linked together in the reinforcing trilogy shown in **Figure One**.

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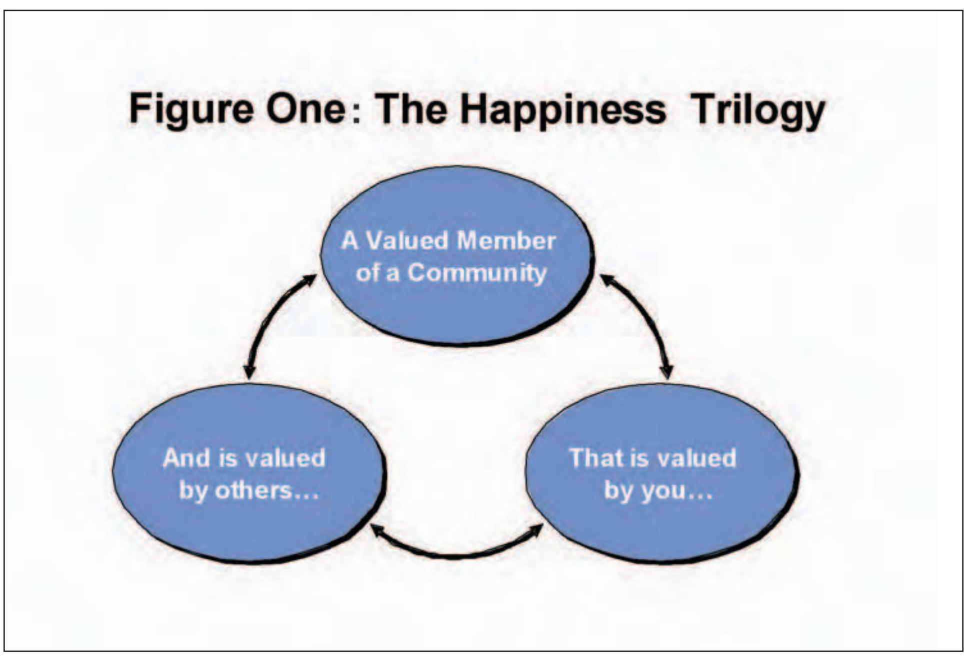
The Three Drivers of Happiness

Mother Teresa once said that one of the greatest diseases was "to be nobody to anybody." All of us strive to make our mark on the world and want to feel that our lives are worthwhile – and the work we do is a critical component of our legacy. If we believe that our work has meaning and that we are valued for what we do, this encourages us to remain involved and to seek the next level of achievement.



The first feature that drives happiness is ***one's perceived value in the eyes of the relevant community***. Perhaps 'Emily' is seen as the best programmer on her software development team, with whom she works on a daily basis on a multi-year software project. Or 'Peter' is always ranked as the top billing salesman in the plastics division of his firm. Each derives happiness from being seen by the rest of their relevant firm community (in these examples, work-group and division, respectively) as a highly valued member. As level of value by the community increases, the feeling of happiness generated within Emily or Peter increases, other things being equal, with no upper limit – higher value means greater happiness.

The second feature of consequence is ***how much one values the community in question***. **Groucho Marx** famously opined that he would 'never want to be a member of a club that would have him as a member', a turn of phrase not without the sly wisdom for which he was famous. If a person puts low value on a particular community, it lowers the happiness he or she feels from the value that community places on him or her. For example, perhaps Emily believes her software group is populated with terrible programmers with whom she wishes she didn't have to work; as a result, the fact that they value her highly won't matter much to her and won't generate much happiness. Conversely, if Peter thinks that his plastics firm is the finest in the industry, and he wouldn't want to work anywhere else, he will be doubly happy to be acknowledged as its number-one salesperson.

These two drivers of happiness are interrelated, and can either reinforce each other or undermine each other. When working in tandem, they can generate the significant happiness a person feels from being a highly-valued member of a community that they value highly. But when one or the other is not operative, it undermines the other: value by an unvalued community, as in Emily's example, undermines happiness, as does lack of value by a valued community: if, for instance, instead of being seen as the best, Peter was known as the worst salesperson in what he views as the industry's premier plastics firm.

The third feature of happiness is equally interrelated: ***the degree to which the community is valued by others outside of it***. Other things being equal, an individual will be happier to the extent that their community is valued more highly by outsiders. If Emily's software group is always held up at firm meetings as 'the firm's finest', her happiness will be positively reinforced. If Peter's plastics firm is written up in the business press as the best performer in the sector, his happiness will be positively reinforced. But if instead, Emily's software group is completely ignored outside of its own boundaries, her happiness will be negatively impacted. She will not be reinforced in her valuing of her software group (driver number two) because of the absence of outside validation (driver number three). The same would hold for Peter if his plastics firm toiled in obscurity.

An example of the 'happiness trilogy' working seamlessly to produce high levels of happiness is evident in Nobel laureates, who are held in high esteem by the field in which they excel; are strongly inclined to respect that field, having dedicated most of their lives to it; and are revered by people around the world, whether or not these people know much about the field in question.

Similarly, leaders of highly successful firms experience high levels of happiness because they are considered important by their firm, they respect their firm as being highly successful, and the business community as a whole tends to laud their firm relentlessly, at least while it is successful.

However, the happiness trilogy can quickly unravel if prominent success turns to prominent failure, as in the case of **Nortel Networks**. Prior to 2001, Nortel's leaders would have been hard-pressed to see themselves as anything but highly-respected members of a firm that they respected and was held highly by those outside of it, and the business sector as a whole, since its leaders were frequently consulted on issues of public policy as well as industry-specific issues. However, since 2001, during which time the firm has cut more than 50,000 jobs and endured long periods of financial uncertainty and scandal, its happiness trilogy has systematically unravelled, affecting everyone from senior leaders to the front lines of the organization.

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Ironically, the major accounting scandal that drove down an already-sliding level of employee happiness at Nortel was the result of a classically-misguided attempt to restore happiness through pay. Managers were offered hefty bonuses for achieving a 'return to profitability' – as if that would have restored the happiness they lost when Nortel ceased to be seen by the outside world as a laudable firm. Instead, according to allegations, the 'return to profitability' bonuses actually encouraged senior management to illegally overstate earnings and profits to earn the bonus, creating a major accounting scandal that further lowered the opinions of outsiders.

The importance of the third element of the trilogy cannot be underestimated. Individuals who are valued members of a community that they value, but that is reviled by those outside of the community, miss out entirely on the third element of the happiness trilogy. For example, extremists of all sorts are automatically challenged with respect to their overall happiness, because even though they may be valued members of the extremist community that they value highly, their communities are viewed dubiously by the mainstream population. In an ironic way, the denial of this third element of happiness by the 'disrespectful' (to them) mainstream may actually drive them to be yet *more* extremist in their ways.

Implications for Business Leaders

Business leaders can use the happiness trilogy to foster a community that generates the power of productive happiness. Each element of the trilogy is critical to the outcome, as evidenced by the ages-old metaphor of the stool: each of the three drivers operates as part of an overall system; if only two are functioning, the stool will tip over. The power of happiness is unleashed by the three elements working together, and there are implications for management with respect to each element.

A leader who aims to nurture employee happiness must develop operating systems and a culture that reinforce the role of the individual within the context of the community.

The first element of the trilogy – feeling like a valued member of the community – does not derive from a relationship between the firm and a class of employees

– whether it happens to be an 'exalted' class such as executive vice-presidents or a lower-level class such as customer service representatives. Value derives from, and therefore necessitates, a relationship between the firm (or a sub-part thereof) and the individual. With respect to some organizational component of the firm, the individual needs to feel valued by that community as an *individual* – valued as 'one', rather than as a generic part of the whole.

A leader who aims to nurture employee happiness must develop operating systems and a culture that reinforce the role of the individual within the context of the community. If each individual employee is unaware of what community they are a part, and how that community measures their value as a member, the firm will be incapable of being a positive force in helping the individual be happy as a member of the firm. He or she may be happy, but their happiness will derive from sources outside of the firm, and he or she will not give the firm any credit for their sense of well-being.

In order for individuals to relate to communities within a firm, there have to be communities to relate to. Leaders should view their firm as a nested set of communities, with individuals as the key components of each. Hence, the nurturing of communities – both sub-segments of the firm such as work-groups or divisions and the overall community of the firm – is a key task for business leaders. The drivers of happiness explain why social events such as staff picnics, employee fundraising initiatives, holiday parties, award banquets, and intra-firm sports tournaments are not trivial, but rather essential. They define and enhance communities, providing a vehicle for generating the value of individuals and representing an important component of their happiness.

The social justice research alluded to earlier helps describe how those communities must work in order to reinforce the second driver – the value the individual places on their community. In order to create a community that members respect and with which members identify, Prof. Tyler argues that community members must feel four things: that they are able to participate in problem resolution in their community; that authority figures in their community

demonstrate neutrality in decision-making; that authority figures in the community are trustworthy; and that as members, they are treated with dignity and respect. Business leaders need to promote these features of social justice – in the firm as a whole and its constituent communities – in order to promote the functioning of the second element of the trilogy.

Business leaders must not overlook the third element – the degree to which the firm is valued by the community outside of it. Ensuring that the firm's true accomplishments are recognized externally in a way that makes employees feel that their community is valued by the outside world, is an important component of the happiness trilogy.

Bearing this out requires careful consideration of *which outside actors* their employees value their firm being valued by. Some leaders assume that employee happiness will be most enhanced by having the capital markets applaud their firm's profit performance, but it is entirely possible that employees care more about outside observers applauding their firm for being socially responsible, or for being particularly innovative with its products and services. Understanding what outside value and praise generates the highest level of employee happiness is an important component of making certain that the third element of the trilogy is making an optimal contribution.

Summary

Business leaders who want to benefit from the productive power of happy employees must think systematically about the three drivers of happiness. Starting from the standpoint of the individual employee, they need to make sure that systems are in place to help every employee know which community they belong to, and how they can become valued by that community. Leaders must also assist their nested communities in operating in ways that cause employees to value, and feel valued by, those communities. And finally, leaders must invest in communicating their firm's contributions to external entities in order that the firm becomes properly valued by the outside world, in ways that are meaningful to employees.

Only once they have ensured that all three elements of the trilogy are functioning smoothly will leaders have harnessed the power of happiness. In the end, if your employees are happy, chances are they will stay – physically and psychologically – with the job and with your company, leading to improved performance and service, and more loyal customers.

And if that isn't powerful, what is?