WHITE PAPER

Happiness at work

hppy

In this white paper…

We examine a very popular yet sometimes controversial subject: happiness at work. We'll talk about some of the latest HR trends, about employee engagement and how you can increase workplace happiness.

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1 Executive Summary

All managers keep track of profitability, revenue and customer complaints. But when building up their strategy how many of them make employee happiness a significant priority?

According to The Conference Board, Human Capital and Operational Excellence rank first in the Top Global Challenges in 2013. Retaining and rewarding the best employees is a major concern for more than half of HR professionals, along with the development of the next generation of corporate leaders. Employee turnover and employee motivation have an immense impact on revenues, on company culture and on its talent competitiveness in the marketplace.

Throughout the world, **engagement levels are estimated at 13%**. Gallup estimates that active disengagement in the United States costs US$450 billion to $550 billion per year.

According to TalentKeepers, employee engagement and talent retention are becoming more embedded as a core talent management practice and, more importantly, an integral business strategy. Companies have started making significant investments in different employee engagement tactics, varying from unbelievable perks, to flexibility of working time and working space and creating new HR positions.

Happiness at work drives business objectives. Research shows that happy employees are more profitable, more customer-oriented and more productive. They also stand less chances of leaving. That’s why some companies have made happiness at work a way of doing business.

But how can you track employee engagement levels and employee happiness? We put together a series of most common happiness drivers to help you build a strategy. We also made a Case Study that brought to light some interesting results, such as the fact that having an office pet can increase workplace happiness.

It doesn’t matter if you’re a small company who just started to build a reputation or if you’re a top 40 company, your Human Capital is your biggest challenge in the upcoming years. It can make you or break you.

2 What are the latest HR issues?

In today's global business environment, human capital is becoming the biggest investment challenge.

According to The Conference Board, **Human Capital** and Operational Excellence rank first in the Top Global Challenges in 2013.

In the last years, technology and information systems have become vital. HR professionals have started looking again at software solutions to manage their human capital. Technological innovation in the Learning and Development Management of HR, in Recruiting and Talent Acquisition and in Performance Management is generating **big data.** But this data needs to be analyzed and acted upon, in order to maximize the usefulness of these tools.

When referring to Talent Recruitment and Acquisition, there is a global gap of **skilled workers.** With the Baby Boomers retiring, part of Gen X has been on hold and there is an eager Gen Y catching up fast. But they don't have the skills or the abilities required by the 21st century global management. In 2014, we are expected to face an estimated shortage of key skills of 30 to 40 million college-educated workers by 2020, according to McKinsey's research projects.

Retaining and rewarding the best employees is a major concern for more than half of HR professionals, along with the development of the next generation of corporate leaders. **Employee turnover** and **employee motivation** have an immense impact on revenues, on company culture and on its talent competitiveness in the marketplace. Leaders are more and more willing to offer flexible work arrangements and a culture of trust and open communication. And, of course, more money. But is that enough?

A skills shortage, unlike a labor shortage requires strategies to assist recent graduates and immigrant professionals to close the gap between their technical skills and the package of skills and experience that employers need.

Information and Communications Technology Council Canada (ICTC)

Employee turnover

Employee turnover refers to the percentage of employees who leave a company over a set period, no matter the reason. SHRM estimates the **costs of losing an employee** to a 6 to 9 months' salary on average.

For a manager in the US, making $60,000 to $120,000 a year, there's a $20,000 to $30,000 cost in recruiting and training expenses.

The Center for American Progress estimates the costs of turnover to 6% of annual salary for high-turnover, low-paying jobs (earning under $30,000 a year), 20% of annual salary for mid-range positions (earning $30,000 to $50,000 a year) and up to 213% of annual salary for highly educated executive positions. For example, the cost to replace a $150,000 CEO is $213,000.

These are estimates of a direct cost of turnover. However, there are also **indirect costs** to be considered, such as: the hiring process, training costs, lost productivity, exit costs, administrative costs, lower engagement of the remaining employees and the impact on company culture. Furthermore, the position in question is unproductive for 3 months in full (1 month prior to leave, month of leave and 1 month after leave).

The percentage of American workers who leave jobs voluntarily has risen to the highest level in four years. Frequent voluntary turnover can have a negative impact on the morale of the remaining employees, as we recently discovered in a Hppy Case Study. But having dissatisfied employees who are afraid to leave or haven't made this decision yet is not good for employee morale either. They will have a lower involvement and decreased productivity.

The majority of turnover, 52%, occurs, on average, in the first year of employment, peaking around the 12^{th} month. That is because employers don't invest enough in a proper selection and onboarding process, leaving the new employee feeling lost and unfit. Improving retention in the first year can make a big difference.

If threshold productivity rises on average at the 6-month mark, anyone who leaves with less time on the job is, to some degree, a financial loss. That's why it is essential that employers build a retention strategy, focusing on the early months, to get people engaged with the company.

After the first year of employment, the next crucial point for 54% of companies is the 3-year mark. According to research done by TalentKeepers, 50 % of employees claim a lack of upward career advancement opportunities. That's 7% more than 2012.

A constant communication policy, that allows managers to know what employees' expectations and aspirations are, can increase retention and minimize turnover costs.

Employee motivation

The Aon Hewitt Engagement model defines **engagement** as the psychological and behavioral outcomes that lead to better employee performance.

What makes an employee engaged and motivated to do a good job are a series of drivers, such as the actual work they perform, their colleagues, opportunities and rewards, company practices and quality of the workplace.

Employees are motivated by the meaning of their work and the compatibility with their role, by the qualitative work relationships that they establish, by achievements and by rightful compensation.

Pay moved up as an engagement and motivation driver, from #6 in 2011 to #3 in 2012 and is continuing to rise. But that doesn't mean that employee happiness can be bought. To the contrary, employees have higher expectations and demands regarding work-life balance.

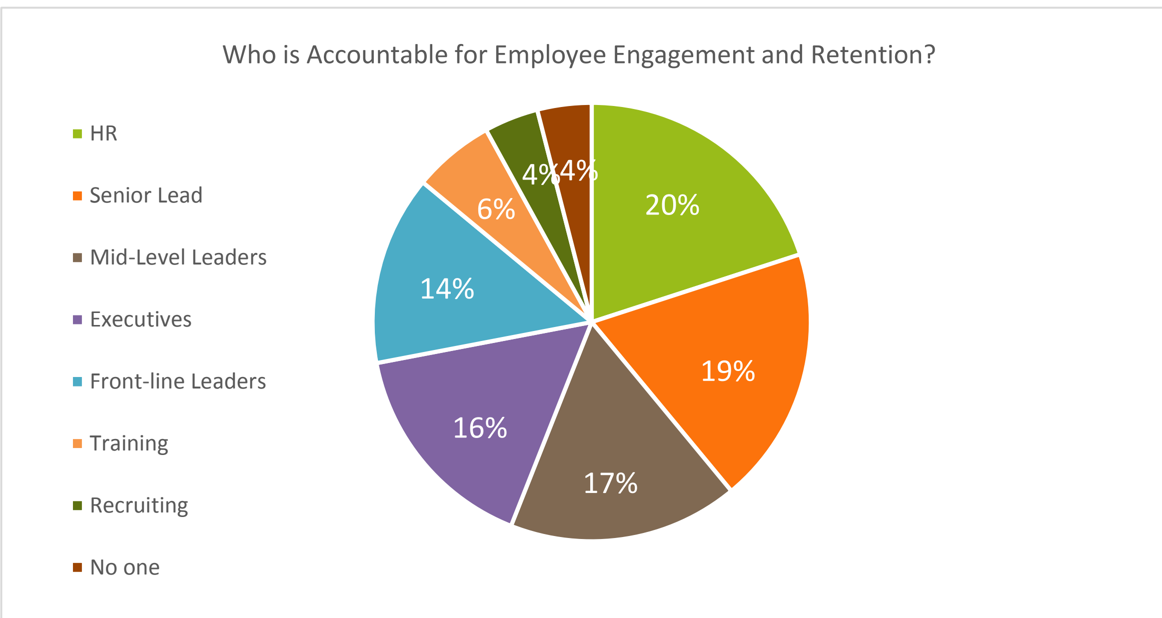
Family-friendly policies such as paid family leave and workplace flexibility help keep valuable employees, with strong family values.

Who's responsible for it?

Is it the employee? The manager? Shared accountability is the most efficient way to ensure employee engagement and retention.

HR and Senior Leaders have the biggest share of responsibility, followed by Mid-Level Leaders, Executives, Front-line Leaders, Training and Recruiting Departments. 80% of employees are disengaged as a direct cause of management.

More and more companies are also setting an engagement initiatives budget, designed to improve business metrics.



©TalentKeepers Engagement and Retention in 2013

3 The challenges of employee engagement

Employee engagement means having the best people giving their best effort and achieving higher results.

Throughout the world, **engagement levels are estimated at 13%**. Gallup estimates that active disengagement in the United States costs US$450 billion to $550 billion per year.

According to TalentKeepers, employee engagement and talent retention are becoming more embedded as a core talent management practice and, more importantly, an integral business strategy.

Quantum Workplace designed a model for employee engagement, defining both engagement anchors and engagement drivers.

Anchors help measure the engagement level within a company. Unlike drivers, they don't offer any answers as to how that level can be improved. These are Advocacy, Discretionary Effort and Intent to Stay.

Engagement drivers provide an actionable overview and can be listed as Teamwork, Manager Effectiveness, Trust in Senior Leaders, Trust in Coworkers, Retention, Alignment with Goals, Feeling Valued, Individual Contribution, Job Satisfaction and Benefits.

However, as an AON recent study shows, engagement drivers are not universal. They are significantly influenced by cultural, generational and cross-geographical factors.

Engagement is declining globally

Globally, employee engagement is declining, after hitting an all time low in 2014, with only 65,9% of employees engaged, according to Quantum Workplace.

Gallup U.S Daily estimates U.S. employee engagement at 32.1% for November 2015, with a current year-to-date average of 31.9%, despite the improving economy.

The UK is also experiencing a worrying decline in employee engagement. According to Office for National Statistics figures, in 2015 UK workforces are 31% less productive than those of the US and 17% less productive than the rest of the G7 countries.

More research from Aon Hewitt shows that less than half of global employees (46%) think they are paid fairly for what they contribute (a perception unchanged in the last year) and even though there has been a slight improvement in other key engagement drivers like the employee value proposition, recognition, and innovation, the overall net change in the average employee's work experience is negative.

Why is employee engagement so important?

The answer is simple: it impacts business outcomes. It makes your company competitive in the market.

In its 2012 Engagement Trends Report, AON research revealed a lagged relationship between the gross domestic product (GDP) and employee engagement. GDP growth turned negative in 2009, while engagement decreased a year later in 2010. The effect also occurred in the reverse—as GDP growth came back in 2010, engagement turned positive in 2011.

Here's what their 2015 research uncovered:

> Global GDP grew in 2014 and is forecasted to grow 4% in 2015. Historically, GDP growth is generally followed by investments in people and a subsequent increase in employee engagement (the reverse appears to be true as well, as we saw engagement dip in 2010 following the Great Recession).
>
> Employee engagement levels have increased 1 point to 62% in 2014, and the graph on the following page suggests that the relative economic tailwinds in 2014 and those forecasted for 2015 should drive human capital investments and incremental improvement in global employee engagement in 2015 and 2016.
>
> ©Aon- 2015 Trends in Global Employee Engagement

4 How is the new HR world resolving these problems?

“Many employers across the globe raised the bar and made investments in the top engagement drivers.”

©Aon- 2013 Trends in Global Employee Engagement

The perks arms race

Some companies believe that offering their employees the option of living at work is a good answer. Campuses, or better said, corporate cities provide employees with everything they could possibly need, from drycleaners to restaurants, gyms and daycares.

It all seems great at first but after a while, some of them realize that there’s nothing else in their life. Living at work suddenly doesn’t seem all that perfect.

“**Google** will feed you all meals, do your laundry, and even run your errands via Google Shopping Express.

Beyond food, **Twitter** will also valet park your car when you arrive at the office, provide a Caltrain pass, or give you the option to meet at a designated company shuttle stop.

Facebook is building a 394-unit apartment complex located two miles from its headquarters, which will feature a gym, pool, pet spa, coffee shop, sports bar, and more.”

©Michelle Checketts at DecisionWise

Workplace mobility

In REMOTE: Office Not Required, David Heinemeier and Jason Fried state that “liberating yourself from the geography of work opens a whole new world of opportunities.” A workplace is no longer a space, it’s a way of working.

Office hours are no longer timesheet hours but productive hours. Most new-thinking managers give their team a free space in which they are invited to work and enjoy what they do, without an alarm clock going off at 9am or 5pm. An employee’s time is his own as long as he gets the job done.

According to a report by CISCO, in 2013 approximately 75.5% of workers in the United States were mobile, the US having the highest penetration of workplace mobility.

With an annual growth rate of 6%, Western Europe's mobile workforce was expected to reach 129.5 million mobile workers (50.3% of the workforce) in 2013.

Having someone in charge

New positions have been created in the past few years, from Talent Manager to Chief Talent Manager or Chief Happiness Officer. This is a great step in trying to track and monitor employee engagement.

Creating a distinct position for employee engagement processes is the best way to ensure that things get done. Training and preparation processes take time and effort and they are essential for employee retention, along with career planning and succession planning.

Someone in that position can easily identify high-performers and define a retention strategy, to maximize that employee's potential, in a given timeframe.

This is also known as a Retention Roadmap and has been frequently used as a specific engagement strategy in 2013 to encourage consistency and relationship building. Similar to any onboarding experience for new hires, the strategy usually outlines the first 90 days of employment with "touch points", or planned events, with the new hire, for each stakeholder group (recruiting, training, operations and executives).

"Employee engagement is a business imperative -it is the critical lynchpin between talent strategy and business results."

©Aon- 2013 Trends in Global Employee Engagement

Try some of these ideas to increase employee engagement and happiness at work:

- Individual personal meetings
- Paid volunteering time
- Goal Setting and Career Planning
- A Team Social Calendar
- Gratitude games and activities
- Social responsibility activities
- Appreciations and celebrations
- Sporting events
- A special weekday (e.g. Casual Friday)
- An office pet

5 Is employee happiness interesting?

"Happiness is an aspiration of every human being, and can also be a measure of social progress."

©World Happiness Report 2013

Employee happiness is a vast and complex topic that incorporates employee engagement. Happiness at work can be derived from a series of factors that are interconnected and dependent on each other.

A happy employee finds meaning in his work, is satisfied by his achievements and has qualitative work relationships that allow him to be grateful and motivated.

Happiness at work drives business objectives. Research shows that happy employees are more profitable, more customer-oriented and more productive. They also stand less chances of leaving that company. That's why some companies have made happiness at work a way of doing business.

According to Gallup, the average working population ratio of engaged to actively disengaged employees is near 2:1.

Employee Happiness Worldwide

13% Happy

63% Unhappy

24% Actively Disengaged

Based on the ©Gallup-Employee Engagement Overview

An engagement ratio is a macro-level pointer of a company's, allowing leadership to track the proportion of engaged to actively disengaged employees.

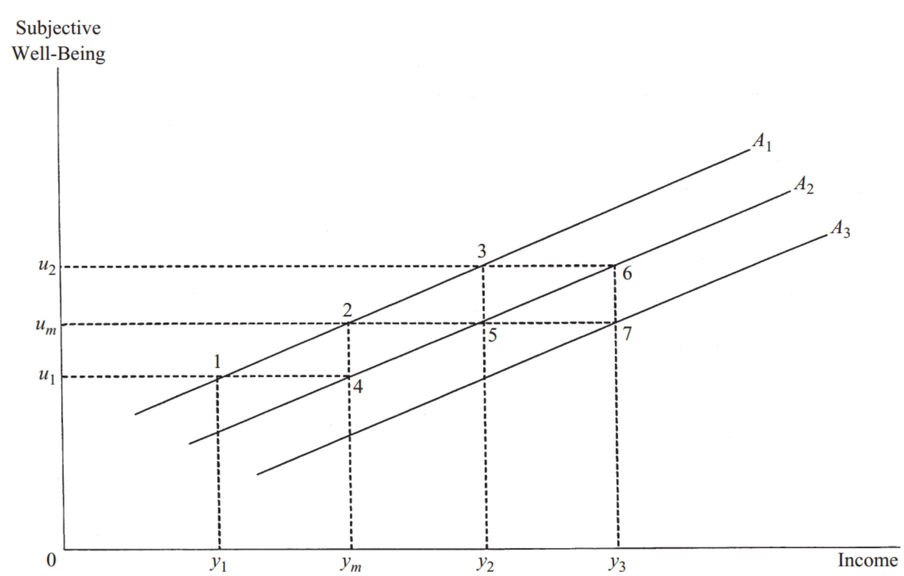
The World Happiness Report 2013 identifies a series of objective benefits of subjective well-being, regarding Income, Productivity & Organizational Behavior:

- Increased productivity
- Peer-rated & financial performance
- Reduced absenteeism
- Creativity & cognitive flexibility
- Cooperation & collaboration
- Higher income
- Organizational performance

According to this research, individuals with induced positive emotions were more productive in an experimental setting. Also, happy workers were more likely to be rated highly by managers, in terms of financial performance. Happiness helps increase creativity and foster innovation, making employees more likely to engage collaboratively and cooperatively during negotiations. Happy employees also make great recruiters.

Another interesting result is that well-being is positively associated with individual earnings. Bigger satisfaction among employees is an indicator of a company's productivity and performance, e.g. revenue, sales and profits.

Subjective Well-Being (u) *as a Function of Income* (y) *and Aspiration Level* (A)



"If people are on edge because they are challenged by a difficult, important problem, that's fine – as long as they have what they need to solve that problem. But it's a dangerous fallacy to say that people perform better when they're stressed, over-extended, or unhappy.

We found just the opposite. People are more likely to come up with a creative idea or solve a tricky problem on a day when they are in a better mood than usual. In fact, they are more likely to be creative the next day, too, regardless of that next day's mood. There's a kind of "creativity carry-over" effect from feeling good at work."

Teresa Amabile, Harvard Business School

Research shows that when people work with a positive mind-set, performance on nearly every level—productivity, creativity, engagement—improves.

Yet happiness is perhaps the most misunderstood driver of performance. People who cultivate a positive mind-set perform better in the face of challenge. I call this the "happiness advantage"—every business outcome shows improvement when the brain is positive.

Shawn Achor, *Positive Intelligence*

What happens when employees are not happy?

Unhappy employees take an average of 15 extra sick days a year.

Employees who are not happy will cause higher absenteeism rates, motivating different reasons from family to sickness or personal, sometimes without having a good reason. Research shows that unhappy employees take more sick days, staying home an average of 1.25 more days per month, or 15 extra sick days a year. They will lack the energy and drive to complete their tasks and to give their best. In the long run, they will damage the company overall productivity and reputation in the market. Turnover rates will spike. Unhappy employees will create conflicts that can lead to their leave, or show a visible dissatisfaction with their work. Depending on their experience and productivity, this can also mean some serious costs, not to mention the adherent costs of new hires.

Addictions and stress diseases are not uncommon within unhappy employees, adding considerable health costs and lost productivity costs. A series of behaviors should trigger an alarm regarding workplace happiness, such as repeated work accidents, office gossip or workplace bullying.

According to Nic Marks's Happiness Manifesto, happier people suffer from fewer strokes and recover better from medical procedures. They are also less prone to unhealthy behaviors such as smoking, excessive drinking, and drug taking. Unsurprisingly, happy people have fewer mental health problems, and this also translates into them being less likely to experience depression.

"Happiness predicts an employee's job productivity up to eight years later. They are less likely to be made unemployed and more likely to earn more money 16 years after their Happiness was first assessed."

Fast facts

1. 40% of employees with low Employee engagement scores said they were likely to leave their employers over the next two years, compared to 24 percent of traditionally engaged employees, and just 18 percent of employees with the highest "sustainable Employee engagement" scores, says Tony Schwartz, CEO of The Energy Project.

2. According to Dr. Thomas Wright, at Kansas State University, 100 unhappy employees cost $ 390,000/year in lost productivity.

3. Happy workers are 22% more productive than unhappy worker, says Andrew Oswald, professor at Warwick Business School.

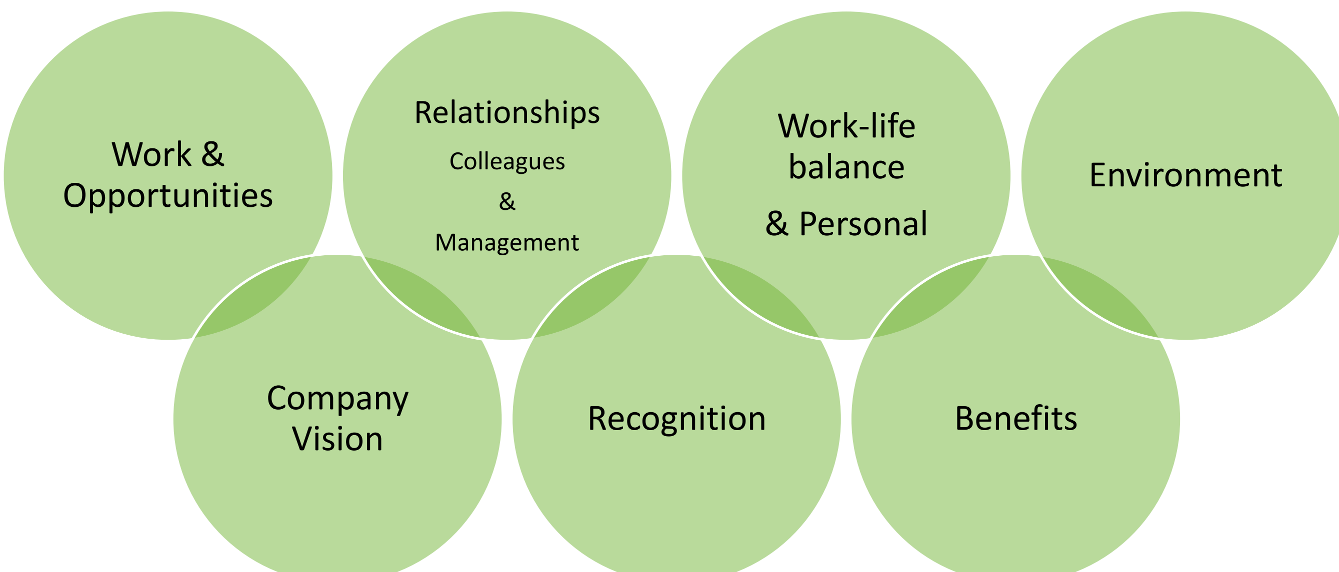
4. Happy employees are also 28,4% less absent. This means 12.3 days and $619/year per happy employee, according to Kathryn Rost, PhD at the University of Colorado Health Sciences Center.

6 The case for employee happiness tracking

The first step is understanding why employee happiness is essential for your business. Next, let's see how you can track and manage it.

It's great to have an open atmosphere at work and some good times with your colleagues. But how can you track the engagement levels and their happiness?

We put together a series of most common happiness drivers that can help you get started:



We recently conducted a Case Study on a Software Development Company who is focusing on Employee Engagement. Over the course of 6 months, the employees registered their moods and feedback with **EngagementMeter.** In November 2013 the team in EngagementMeter analyzed the results and delivered an organizational report.

Employees ranked the top work-related happiness factors. Their **work qualified as no.1,** followed by the environment and atmosphere in the company. Personal factors are also a major influencer on how employees feel during a work day.

We looked at the given feedback through the perspective of the Employee Engagement and Happiness Factors listed above. Here's what we found:

- 32% of recorded feedback was work related and 31% was marked as personal.

- Working environment had 14% of the feedback registered.

- Management registered 7%, colleagues 4%, while other categories had an average of 2-3%.

Work, Personal and Working Environment factors ranked top in workplace happiness while the same factors contributed most to unhappiness at work. Work ranked 1st in happiness and 2nd in unhappiness drivers.

Employees were happy when a new product was released, when they loved their project, when they implemented a Test Driven Development approach to work and when they fixed issues or added new features. Also they felt better about their job when they liked the technology they worked with and when they were assigned to new projects or finalized their task list. On the other hand, they became unhappy if they were not doing something they liked, when they had too much work assigned to them or certain processes were not used (TDD, Scrum), or the project was not seen as a challenge.

7 Conclusions

Happy employees are an invaluable asset to your company.

It doesn't matter if you're a small company who just started to build a reputation or if you're a top 40 company, your Human Capital is your biggest challenge in the upcoming years. It can make you or break you.

Having a well-thought, employee-oriented HR strategy can increase your revenues, your profitability and it can fortify your brand. That's why you need to focus on recruiting the right talent by leveraging your existing Human Capital. Reward your performers and encourage a company culture of gratitude and appreciation. You can start by performing a Happiness Analysis within your organization and identifying happiness drivers. Based on that, find the right tool for you, to manage and track happiness, as well as engagement.

Equip your management body with the right information, tools and attitudes to foster a collaborative workspace, encourage communication and keep track of employee's happiness.

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About Hppy

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