

Chapter 11

Happiness and Management



Abstract Happy people have higher intrinsic motivation to work, which raises their productivity. Some firms exploit happiness to attract more customers. Such business policy exploits happiness in an instrumental way; this flies in the face of true happiness. In what kind of happiness can business organizations engage? A firm should offer all its stakeholders the possibility to achieve happiness. Firms should create a work atmosphere that supports employees' autonomy and creativity and foster valuable social relationships. Individuals can then pursue their quest for happiness in the way best for themselves.

Effects of Happiness on Business Activities

Life satisfaction has strong effects on activities and conditions relevant for business. These are the most important impacts in this context:

- Happy people are more interested in the work they perform and are more engaged, thus raising their productivity. In contrast, unhappy people do not like their work and tend to be careless, which affects their work output negatively. These results have been found in laboratory experiments that carefully control for other influences. In one experiment, some randomly chosen subjects' happiness levels were manipulated by showing them a cheerful picture, while those in the control group were not. Treated subjects had twelve per cent greater productivity in a subsequent piece-rate task compensated by money. They increased their output but not per-piece quality of work. To check this effect, major unhappiness shocks experienced in real life—bereavement and family illness—were analysed. The results confirm those of the laboratory experiment.
- Happy people have higher intrinsic motivation to engage in work, appreciate more autonomy, and are more creative, which again contributes to better work.
- People professing to have high life satisfaction are less affected by contagious diseases and are healthier. Good health contributes substantially to more effective work. Unhealthy workers impose substantial costs on firms even in a well-developed social security system.

- People satisfied with the life they lead are less inclined to engage in strikes, rebellions, and outright civil war than are people who feel unhappy. Happiness tends to deter crime. The absence of these disturbing political and social conditions helps business to fulfil its role.

Instrumental Use of Happiness

Mostly in American firms, but also elsewhere, there is a trend to exploit happiness so as to attract and retain more customers. In the United States, there is a consultancy called Delivering Happiness; it has a Chief Happiness Officer (CHO), a global happiness navigator, and a happiness alchemist. The idea is to induce employees to create “happiness hygiene”. Employees are expected and strongly induced to smile as they work and show other expressions of positive emotions. This tendency is especially prominent in the service sector, whose importance in the economy has been rising in recent decades. Accordingly, some firms make an effort to create happiness with their staff by offering them courses on mindfulness and yoga lessons.

Such a business policy in which happiness is exploited in an instrumental way flies in the face of happiness as used in the economic research discussed here. Subjective well-being must reflect the unbiased and unconstrained feelings of a representative selection of individuals. This is obviously not the case if employees are forced to look and behave in a happy way. If the employee behind the counter in a McDonalds shop appears to be happy when serving hamburgers, few customers believe that such demeanour reflects a true feeling. Rather, most of them know that it is a marketing technique and nothing more.

Various Forms of Happiness

But what about “true” happiness produced by business organizations? Here the question arises what a “firm” means in this context. There are at least four possible ways to answer this question:

- The happiness of *managers*. While this may in many cases be actual policy, it is normatively unacceptable that only the well-being of the executives is considered.
- The happiness of the *employees*. This would again be a complete misunderstanding of the function of a firm. A firm should certainly not exclusively care for employees’ well-being—though this may be true in reality in some cases—but it should provide goods and services that the market demands.
- The happiness of the *owners* of firms. Again, this is a wrong target because dividends and other streams of money compensate the owners of firms.
- The happiness of the *stakeholders* consisting of all the people that have relations with the firm, including suppliers, customers, and other people affected in various

ways by a firm, such as having to bear the burden of noise or environmental exhausts.

Many people, including some scholars, would argue that maximizing the happiness of stakeholders is desirable. However, more careful considerations suggest that this is unwarranted. There are four major reasons why stakeholder happiness maximization should not be attempted:

- The weighting given to the various groups is an arbitrary decision. Should the happiness of barely affected suppliers have the same weight as that of full-time employees who spend a considerable part of their lives within the firm? Depending on what weights are chosen, any overall happiness measure can be constructed for the firm as a whole.
- The executives of a firm can at best guess what makes their stakeholders happy, but they do not really know. In any case, the respective persons know better, and in a free society should have the right to decide for themselves rather than have the decision made for them.
- When people are asked about their life satisfaction but know, or suspect, that it is used to measure the happiness of a firm, they are likely to answer in a different way than is the case under conditions where the respondents answer in a more truthful way because their answers are not given instrumentally.
- Managers of firms whose happiness is to be evaluated can easily manipulate the corresponding happiness index. They can simply delete answers reporting low happiness, for instance by deleting those individuals from the vaguely defined group of stakeholders. At the same time, they can increase the number of high happiness answers, for instance by inducing and cajoling their employees to supply such answers, or by hiring “very happy” people for low part-time jobs and only for the period in which the surveys are undertaken.

Offering Possibilities for Happiness

These considerations suggest that it is a mistaken idea to try to maximize the happiness of a firm. What a firm can and should do is to offer its stakeholders opportunities to achieve happiness. Most importantly, firms should create a work atmosphere conducive to employee satisfaction, which should support their own thinking and creativity and foster valuable social relationships. Bequeathing awards are a useful procedure to support desirable behaviour. In addition, work should not be so demanding and burdensome that employees are unable to enjoy their leisure time. The income provided should be sufficient to lead a good life with respect to material standards. The length of commuting time should be reduced as far as possible, for example by offering more flexible work hours.

In addition, happiness research considers the general role of firms in society. They should offer good value for money and should abstain from deceiving consumers by providing false or misleading information. A notable recent case of this occurred in

the German car industry with respect to the environmental damage produced by diesel engines. Such deception has direct consequences for people's well-being: Empirical research shows that inhabitants of Germany who suffered a reduction in air quality through noxious emissions report a reduction in subjective life satisfaction.

Achieving these and other goals in the best possible way requires high managerial capabilities, but it means that the individuals that have contact with the firm can pursue their quest for happiness in the way best for themselves.

Managers can benefit from the knowledge gained of the determinants and perhaps even more of the consequences of subjective well-being. However, they should not engage directly in trying to raise the happiness of their employees, suppliers, customers, and other stakeholders. Rather, they should lay the ground for these people to be able to reach happiness in the way they choose themselves.

Literature

Parts of this chapter follow:

Frey, Bruno S. 2017. Research on Well-Being: Determinants, Effects, and its Relevance for Management. *Die Unternehmung* 71 (4): 358–367.

Effects of happiness important for management are analysed in:

Fisher, Cynthia D. 2010. Happiness at Work. *International Journal of Management Reviews* 12 (4): 384–412.

Oswald, Andrew J., Eugenio Proto, and Daniel Sgroi. 2015. Happiness and Productivity. *Journal of Labor Economics* 33 (4): 789–822.

Yuan, Leo. 2015. The Happier One Is, the More Creative One Becomes: An Investigation on Inspirational Positive Emotions from Both Subjective Well-Being and Satisfaction at Work. *Psychology* 6 (3): 201–209.

Despite its title, the following collection of articles almost exclusively deals with various aspects of job satisfaction:

Cooper, Cary L., and Ivan T. Robertson. 2013. *Management and Happiness*. Cheltenham, UK, Northampton, MA, USA: Edward Elgar.

Possibilities to induce desired behaviour in firms and beyond are presented in:

Frey, Bruno S., and Jana Gallus. 2017. *Honours versus Money. The Economics of Awards*. Oxford: Oxford University Press.