Does it pay for firms to invest in their staff's wellbeing? In an analysis of data from the Workplace Employment Relations Survey, **Alex Bryson**, **John Forth** and **Lucy Stokes** find that UK employees' job satisfaction is positively associated with workplace financial performance, labour productivity and the quality of output and service.

Happier workers, higher profits

Citizens' wellbeing is rising to the top of the political agenda in many countries. The UK government, for example, recently announced a *What Works Centre for Wellbeing* (part of it based at the CEP) with initial funding of £3.5 million over three years to investigate the determinants of wellbeing and how to improve it.[1] This follows government investments in wellbeing metrics developed and pioneered by the UK's Office for National Statistics.[2] Some argue that these metrics should be the basis for national accounts that provide an indication of how well the nation is doing, comparable to GDP estimates.

The idea that wellbeing should be a target for public policy has been promoted for some time by prominent economists, including CEP's founder director Richard Layard (2011) and the Nobel laureates commissioned by the Sarkozy government in France (Stiglitz et al, 2009). Others are more sceptical and wonder whether it's a good idea to try to measure wellbeing and, even if it is, whether it's really appropriate or sensible for governments to try to intervene to *improve* wellbeing.

Psychologists, economists and others know a great deal about the determinants of individuals' wellbeing, and a key element is what they do in their working lives. While one recent study finds that work is among the worst activities for people's momentary happiness – just above being sick in bed, in fact (Bryson and MacKerron, 2013) – other studies indicate that much depends on what type of job a person does and how that job is designed by the employer.

Our review for the UK's Department for Business, Innovation and Skills (BIS) shows that employers can improve staff wellbeing through improvements in job design. Employees' wellbeing will rise where they have control over the pace and content of work tasks; where the demands placed on them are not excessive; where there is variety in their work; where there are opportunities for development; where supervisors are supportive; where pay and treatment is perceived as fair; and where the work environment is pleasant and safe.

1 http://whatworkswellbeing.org/
2 http://www.ons.gov.uk/ons/guide-method/user-guidance/well-being/index.html

But while one would expect all these to have beneficial effects on wellbeing, the key issue is not whether employers *can* improve employee wellbeing but why a lot of them don't. This is where employers' economic interests come into play. After all, if, as is commonly assumed in economics, firms are profit-maximisers, they will take account of the costs associated with any improvement in employee wellbeing.

Improving employee wellbeing may be a laudable goal for society as an end in itself. It may have welcome side effects too, including reductions in expenditure on health services. But employers are only likely to invest in employee wellbeing when there is a clear business case for doing so. That business case rests on the returns to the firm.

The economic theory linking improvements in employee wellbeing to improvements in firms' bottom line is ambiguous as to the likely effects. Much depends on the firm's production process, the types of workers it recruits, their ability to add value to the production process and the extent to which their productivity is affected by their wellbeing.

For example, a firm's output may be highly dependent on talented senior executives whose performance can affect the strategic direction of the firm and the productivity of staff lower down the chain of command. It may therefore make sense to invest in employees' wellbeing if this can be converted into motivation and effort.

It is less clear whether firms will want to invest in the wellbeing of employees who perform mundane routine tasks, perhaps add little value to the firm and are easily replaced by those recruited from the ranks of the unemployed. And even if a firm is willing to invest in staff wellbeing, there is no certainty that higher subjective wellbeing will translate into greater profitability at the level of the workplace or organisation. Why is this the case?

- -First, it is essential to factor in the costs that an employer may have incurred to bring about the improvement in wellbeing.
- -Second, many institutional and contextual factors may intervene, such that any improvements in performance dissipate, as may be the case where workers have little or no control over output, regardless of their wellbeing.
- -Third, group dynamics come into play when considering relationships at a workplace or organisation level that are not considered when focusing on individual effects. For example, one set of workers' wellbeing may be engineered at the expense of others' thus nullifying any effect deriving from the 'happier' workers.

There is empirical evidence linking employees' wellbeing to their individual performance. For example, greater subjective wellbeing feeds through to individuals' performance in the labour market (Judge et al, 2001; Lyubmirsky et al, 2005). There is also evidence of a causal link between increased wellbeing and improved worker productivity, at least in the setting of a laboratory experiment (Oswald et al, 2014). But the empirical evidence at the level of the workplace or organisation is more limited.

Perhaps the most compelling evidence of a link between performance and wellbeing that might convince employers comes from a survey of manufacturing in Finland, which finds that average workplace job satisfaction is independently associated with subsequent value-added per employee. A one point increase (on a six-point scale) in the average level of job satisfaction among workers at the plant increases the level of value-added per hour worked two years later by 3.6 percentage points. This estimate rises to nine percentage points when taking account of differences between establishments (Böckerman and Ilmakunnas, 2012).

Our BIS report is the first study of the link between employee wellbeing and firm performance in the UK. Analysing the

Employers can improve staff wellbeing through improvements in job quality

Workplaces with rising employee job satisfaction also experience improvements in workplace performance

nationally representative 2004 and 2011 Workplace Employment Relations Surveys (WERS), we find that workplaces with rising employee job satisfaction also experience improvements in workplace performance, while deteriorating employee job satisfaction is detrimental to workplace performance.

Employee job satisfaction is positively associated with workplace financial performance, labour productivity, the quality of output and service and an additive scale combining all three aspects of performance. And workplaces that see an improvement in non-pecuniary job satisfaction – whether measured in terms of the average level of employee satisfaction, an increase in the share who are 'very satisfied' or a reduction in the share who are 'very dissatisfied' – experience an improvement in performance.

Although we cannot state definitively that the link between increasing job satisfaction and improved workplace performance is causal, our findings are robust to tests for reverse causation – that is to say, we can demonstrate that better work performance does not lead to higher levels of wellbeing. They also persist within workplaces over time, so that we can discount the possibility that the results are driven by unobservable differences between workplaces. There is therefore a *prima facie* case for employers to consider investing in the wellbeing of their employees on the basis of the likely performance benefits.

The link that we find is specifically that between job satisfaction and workplace performance. It is not apparent for job-related affect (measured in terms of the amount of time feeling tense, depressed, worried, gloomy, uneasy or miserable), which is something of a puzzle deserving of further research. What we can say is that our analysis suggests no clear case for employers investing in improvements in these other aspects of employee wellbeing – although equally we find no clear disadvantage to doing so.

These are encouraging findings but the scope of the analysis has not allowed us to explore the processes that could be instrumental in forging the link between employee wellbeing and workplace performance. Further work is required to develop insights into how employers can facilitate the positive outcomes revealed in this study.

Employers should consider investing in their staff's wellbeing on the basis of the likely performance benefits

This article summarises *Does Worker Wellbeing Affect Workplace Performance?* by Alex Bryson, John Forth and Lucy Stokes, published by BIS in October 2014 (https://www.gov.uk/government/publications/worker-wellbeing-and-workplace-performance) and as CEP Discussion Paper No. 1363 (http://cep.lse.ac.uk/pubs/download/dp1363.pdf).

Alex Bryson of the National Institute of Economic and Social Research (NIESR) is a visiting research fellow in CEP's labour markets programme. **John Forth** and **Lucy Stokes** are at NIESR.

Further reading

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