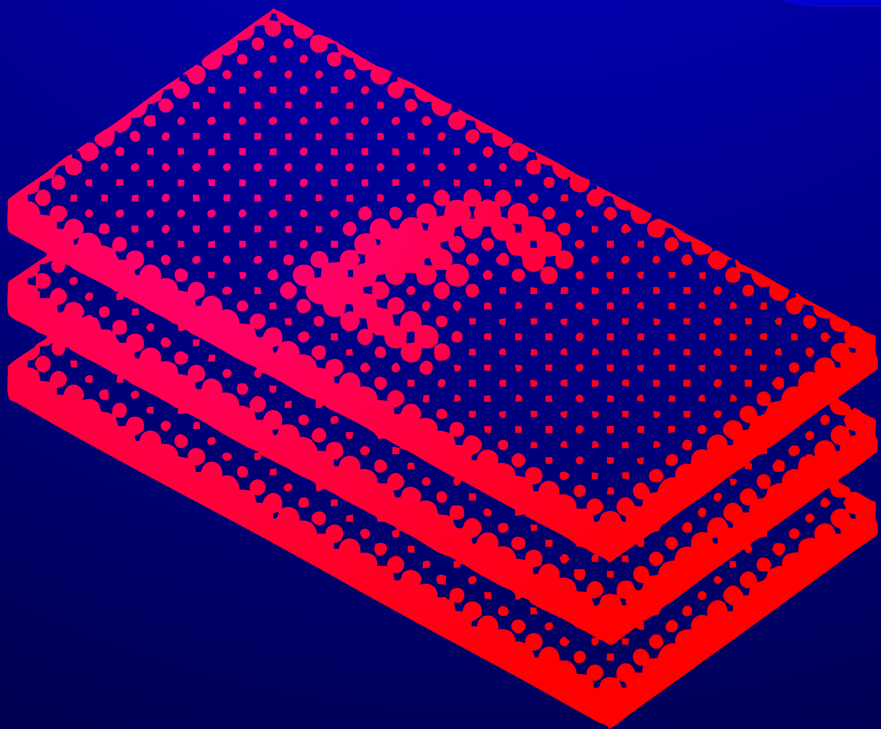
In partnership with

The London School of Economics

The Happiness Dividend

Exploring employee happiness as a driver of performance, growth and market value



Executive Summary

Employee happiness is not a soft concern – it is a measurable driver of employee productivity and business performance. A substantial and growing body of evidence, spanning laboratory experiments, large-scale field studies and data from millions of workers worldwide consistently links happier employees to higher productivity, lower turnover, improved customer satisfaction, increased revenue and business growth.

Yet despite the data clearly pointing towards the value of happiness within workforces, only half of UK employees currently report being happy at work – while only 30% of HR teams are currently measuring the sentiment. As such, many organisations are leaving this value on the table and missing a critical lever for performance and growth.

Created in partnership between Reward Gateway | Edenred and the London School of Economics, this report provides a comprehensive, evidence-based review of employee happiness. This report defines what happiness at work means and how to measure it, bringing together some of the best possible evidence to date on what drives it and what it can deliver – for employees and for the bottom line of business.

Through this report, we will explore:

What happiness is

Happiness at work has two distinct dimensions: how employees feel from moment to moment (so-called *affective experiences*) and how satisfied they think they are with their job when they take a step back and reflect (*cognitive evaluations*).

Both dimensions matter, though job satisfaction is more frequently used in practice as it can be easily captured via surveys and influenced by means of interventions, and has strong predictive power.

What it delivers

The evidence pointing to the ROI of happiness is consistent across different levels of analysis.

Starting from the individual level, happier employees are **10% to 12% more productive**, and **30% less likely to leave their role** within the next year.

At the business-unit level, improvements in employee happiness associated with an **18% increase in productivity** and a **21% rise in profitability.**

Finally, at the overall market level, organisations that score higher in terms of employee happiness typically see a **20% increase in firm value**, with happiness clearly identified as a **value-creating asset.**

How to measure it

Simple, validated survey questions are practical, reliable and have been shown to predict a wide range of important outcomes. A four-measure framework - including job satisfaction, sense of purpose and feelings of happiness and stress at work – provides a compact and well-evidenced starting point.

What drives it

Pay matters, but it ranks only third as a driver of happiness and is matched itself by an employee's view of their value and the recognition they receive in their role. What matters most, by a considerable margin, is the quality of interpersonal relationships and connection at work (especially with managers).

Conversely, work-life imbalance and stress (particularly when centred around finances) are also amongst the strongest negative contributors to job satisfaction, and happiness as a result.

The business case for happiness

The business case for investing in employee happiness is clear. The evidence is in, and it is consistent across individuals, business units and financial markets. The question is no longer whether happiness matters for performance, but what organisations choose to do with it. Those that invest in measuring, understanding, and improving employee happiness today are likely to be building a source of future competitive advantage that is not yet fully priced in, by the market or by their peers.

Introduction

What makes a job worth showing up to? And does it actually matter, commercially, whether employees are happy? These questions have moved from the margins of management thinking to its centre. Over the past two decades, a new generation of rigorous research has begun to answer them with precision. The result is a shift in how the most forward-thinking organisations understand the relationship between people and performance: not as a trade-off to be managed, but as a virtuous cycle to be cultivated.

The current climate has made this particularly urgent. Organisations across the UK are operating under sustained economic pressure, and two thirds of HR departments have seen their budgets cut in the past year, even as they are required to take on more strategic priorities. In this environment, the case for investing in people needs to be made not in the language of aspiration but in the language of evidence. What actually drives retention, productivity and business performance, and how can organisations measure it?

These questions have prompted growing interest in new metrics, including the concept of emotional capital and employee happiness as the pool of emotional skills, resilience and relational resources that employees bring to work and organisations can actively cultivate.

Forward-thinking organisations understand the relationship between people happiness and performance

This report provides a comprehensive, evidence-based review of happiness at work, including its definition, measurement, consequences and drivers. It is written for business leaders and HR professionals who want to understand not just that employee happiness matters, but why, how much, and what to do about it. Where the evidence supports causal claims, we say so explicitly. Where it is only correlational, we are equally clear and explicitly outline avenues for future research.

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Throughout, we draw on some of the most recent academic research published in leading peer-reviewed journals, as well as recent large-scale survey evidence from the UK. The picture that emerges is both clear and actionable: Employee happiness is one of the most overlooked - and most powerful - competitive advantages available to companies today.

This report sets out to answer four questions:

1. What is employee happiness?
2. How can it be reliably measured, and what do the most innovative measurement approaches reveal about daily life at work?
3. What does the evidence say about the consequences of a happier workforce, for individuals, business units and overall market performance?
4. What actually drives happiness at work? That is, which aspects of the work environment matter most, and what can employers do to improve them?

2. What is happiness?

Affective experiences

Affective experiences capture how people feel from moment to moment. These typically include the presence of positive emotions such as joy or happiness, and the absence of negative ones such as worry or stress. These feelings can differ not only in how pleasant or unpleasant they are, but also in how strongly they're felt. For example, joy is often more intense than a calmer emotion like serenity, even though both are positive. In a workplace context, an affective experience might simply be whether employees feel happy or joyful at a particular point in time.

Cognitive evaluations

Cognitive evaluations, by contrast, capture how people think about their lives when they take a step back and reflect. This is the dimension of happiness most people associate with "life satisfaction", a considered judgement about how one's life compares to one's view of how it should be. Evaluations can be global (satisfaction with life overall) or domain-specific (satisfaction with one's job, finances, relationships and so on). In the workplace, a cognitive evaluation might look like employees pausing to consider their job as a whole and assessing how satisfied they feel with it.

Key takeaways

Happiness at work has two distinct dimensions: how employees feel from moment to moment (so-called affective experiences) and how satisfied they think they are with their job when they take a step back and reflect (cognitive evaluations). Both dimensions matter, though job satisfaction is more frequently used in practice as it can be easily captured via surveys and influenced by means of interventions, and has strong predictive power.

Simply put, happiness is more than a feeling. In the academic literature, it is defined as the combination of a person's affective experiences and their cognitive evaluations of life or particular domains of life [1]. It's important to establish the distinction between affective and cognitive as the two dimensions can point in different directions and respond to different interventions.

In the workplace context, both affective experiences and cognitive evaluations matter. How employees feel on a given day shapes their immediate behaviour and interactions, and how satisfied they are with their job shapes longer-term decisions about effort, commitment and whether to stay.

While a complete picture of employee happiness requires attending to both, cognitive evaluations, and in particular job satisfaction, are more frequently used in practice as they can be more easily captured via surveys and have been shown to have strong predictive power for subsequent behaviour. HR teams in general will have more meaningful influence on shaping employees' cognitive evaluations such as their job satisfaction as opposed to employees' affective experiences such as whether they feel joyful in a particular moment at work, which are more difficult to influence and harder to track.

3. How to measure employee happiness

Key takeaways

A four-question framework can provide an effective way to measuring employee happiness levels within your organisation – and can be integrated seamlessly into an existing process for capturing employee feedback.

Measuring happiness reliably might seem daunting, but decades of research have established that simple, well-designed survey questions can do the job – and do it well.

The standard approach uses single-item Likert-scale questions. The UK's Office for National Statistics (ONS), for example, now routinely asks four questions across all its major surveys: overall life satisfaction, sense of worthwhileness, feelings of happiness yesterday and feelings of anxiety yesterday, each answered on a zero-to-ten scale [2]. These questions are practical, comparable over time, and have been shown to satisfy the psychometric measurement properties needed to deliver trustworthy insights.

Are these measures reliable?

Take life satisfaction, for example, which has been most thoroughly researched. It shows strong stability over short periods, reflecting the fact that underlying life circumstances do not change overnight, while remaining sensitive to meaningful changes over longer horizons [3, 4]. Different life satisfaction questions also converge closely with one another, with correlations typically in the 0.90s range [5], and so closely to 1, suggesting that they measure the same underlying concept and suggesting that people answer them in a consistent and considered way.

Are they valid?

The answer is 'yes'. Happiness scores correlate with objective physiological measures including brain activity [6, 7], with the number of positive and negative life events people experience [8], and with predictable differences between more and less fortunate groups in society [9]. They also predict a wide range of important outcomes, including productivity and earnings [10, 11] and health and longevity [12]. At the same time, different measurements of happiness do not perfectly overlap with one another.

Life satisfaction and moment-to-moment feelings both rise with income, but they do so differently and at different income levels [14, 15], showing that each taps into its own underlying psychological process. For example, past financial setbacks can leave a long-lasting dent in life satisfaction, even after circumstances improve [13a], and job insecurity can even cast a similar shadow - lowering life satisfaction well into retirement and even reducing major life investments such as homeownership [13b, 13c].

Are these measures sensitive to change?

The answer is again 'yes'. Roughly one third of variation in happiness scores reflects stable personality traits, another third reflects slowly evolving life circumstances, and the remaining third reflects occasion-specific factors like time of day or mood due to experiences just before the interview, so leaving substantial room for intervention [16, 17].

Innovative ways affective experiences have been measured

While surveys remain the standard, recent innovations have made it possible to capture how people feel in real time, with greater precision than retrospective recall allows.

Day Reconstruction Method.

The Day Reconstruction Method [18] asks respondents to divide their day into episodes at its end, reporting what they were doing, who they were with and how they felt during each episode, using different descriptions of affective experiences (for example, feeling positive, negative, or tired).

The findings for work and the workplace are striking: working and commuting consistently rank lowest for positive affect and highest for negative affect, and time spent with one's boss is associated with particularly low wellbeing. These are not just curiosities; they point directly to where the greatest opportunities for improvement lie.

People were willing to pay £12 an hour to avoid a single hour of working, studying or commuting.

Experience Sampling Method

The Experience Sampling Method goes further, using smartphone apps to survey people randomly throughout the day as they go about their lives. George MacKerron and Dr Christian Krekel [19] used the Mappiness app to analyse over 2.2 million observations from around 31,000 UK respondents, sampling 42 different activities and asking them about their affective experiences during these ("How do you feel right now?").

The results place a concrete number on the cost of unhappiness at work: on average, people were willing to pay £12 to avoid a single hour of working, studying or commuting. That figure underscores the potential value of making work a genuinely more positive experience.

Time spent with one's boss is associated with particularly low wellbeing.

For employee happiness specifically, the World Wellbeing Movement recommends four survey questions covering both cognitive evaluations and affective experiences [20]:

1 "I feel completely satisfied with my work."

2 "My work has a clear sense of purpose."

3 "I feel happy at work, most of the time."

4 "I feel stressed at work, most of the time."

Each question is answered on a one-to-five scale from "Strongly disagree" to "Strongly agree." Together, these questions provide a compact but comprehensive snapshot of employee happiness, covering both how employees think about their work and how they feel about it on a day-to-day basis.

These four questions capture the key dimensions of what the academic literature identifies as employee happiness: cognitive evaluations of one's job (satisfaction and sense of purpose at work) alongside affective experiences of it (feelings of happiness and stress). It also aligns with how leading organisations are beginning to think about employee metrics more broadly.

For instance, happiness sits at the core of what has been termed 'emotional capital': the constellation of trust, connection, engagement, recognition and naturally happiness, that collectively drives measurable business outcomes such as productivity, retention, financial performance and business value [41].

The four questions recommended here provide a compact way to capture this new form of capital directly – and can feed seamlessly into an organisation's process for capturing employee feedback and sentiment.

Key considerations for surveying employee happiness

Place happiness questions at the very start (ideal) or end of a survey, after neutral buffer questions. Keep their position and format consistent across waves to avoid priming effects and item-ordering biases.

Avoid framing the survey around a specific issue. This can lead respondents to express their attitudes towards that issue through their happiness scores rather than reporting their genuine evaluations or experience at work.

Where possible, use a third-party data collector to elicit more candid responses.

As a rule of thumb, at least 100 observations are needed at any one time to obtain reliable estimates.

Use established question wordings rather than creating new ones. Consistency with the wider evidence base is what makes benchmarking and longitudinal tracking meaningful.

How often should employee happiness be measured?

Surveys on employee happiness should be collected regularly, at least once per year (and at most once per quarter to avoid oversurveying), while additional feedback can also be collected via pulse surveys or at key career points such as performance reviews, feedback loops or exit interviews, all of which may contribute to a solid evidence base with which to shape and evolve your strategy.

4. The tangible impact of happiness across individuals, businesses and the stock market

The link between employee happiness and positive business outcomes is not just intuitive – it is increasingly well-evidenced. But before turning to the evidence, it is worth asking why we should expect such a link in the first place.

We need to begin with the theoretical foundations. Here we draw on several complementary strands of psychology and organisational behaviour that offer clear predictions about why happier employees should be more productive.

We then test these predictions against the empirical evidence across three levels of analysis: the individual employee, the business unit and overall market performance. Throughout, we place a particular focus on the most rigorous, causally identified studies available.

Key takeaways

Happy employees are 12% more productive and 30% less likely to leave their organisation than their unhappy counterparts

Improvements in employee happiness can drive a 21% increase in business profitability and a 20% rise in firm value

Companies with higher levels of employee happiness consistently outperform the stock market, providing strong evidence that happier workers genuinely drive long-term financial gains

Theoretical foundations

The most direct route runs through the motivational power of positive affective experiences. The **Theory of Emotions** suggests that positive emotions such as joy or happiness increase productivity by enhancing motivation [21], creating a sense of positive arousal [22] and inclining people to put in more effort. Positive emotions also foster creativity through cognitive variation [23]: they help people think more broadly and make fresh connections between previously unrelated ideas.

This is formalised in **Broaden-and-Build Theory** [24]: while negative emotions narrow attention towards an immediate threat, positive emotions open people up to novel ideas, activities and social relationships, building enduring resources such as resilience and deeper skills over time. A related prediction comes from the **Mood Maintenance Model** [25, 26]: people in a positive mood are motivated to preserve that feeling, making them less inclined to take unnecessary risks, and even more likely to comply with and follow organisational guidelines, which is supported by experimental evidence on honest behaviour [63]. A second school of thought focuses on how employees cognitively evaluate their work.

Human Relations Theory

Human Relations Theory [27] established that employees are motivated not only by pay but by social relationships, managerial support and feeling valued – with managerial attention in itself capable of boosting performance significantly, the so-called Hawthorne effect [28].

The Theory of Planned Behaviour

The **Theory of Planned Behaviour** [29] adds that positive attitudes towards work translate into stronger intentions to exert effort, and ultimately into higher productivity.

In short, the theory points in a clear direction. Whether happiness works through the motivational and creative lift of positive emotions, through the widening of people's cognitive and social resources, or through the attitudes that shape how they choose to behave, the expectation is the same: happier employees should be more productive. And if that's true, it should ultimately show up where it matters - in stronger customer satisfaction, better business performance and lower turnover.

But does this hold up to empirical scrutiny? To find out, we turn to the evidence across three levels of analysis: the individual employee, the business unit and overall market performance.

The individual level: productivity, creativity, retention and job search.

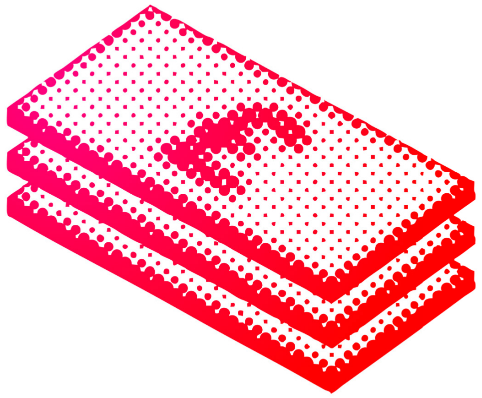
The most direct test of the happiness-productivity link comes from a landmark series of lab experiments by Andrew Oswald, Eugenio Proto and Daniel Sgroi [30]. Across several studies, around 700 participants were randomly assigned to happiness-inducing treatments that included viewing funny video clips and receiving small gifts of food, whilst others were assigned to a control condition with none of these. Both groups were then given a paid piece-rate task. Those in the treated groups reported higher happiness (measured on a one-to-seven scale) and completed between 10% and 12% more work on an incentivised real-effort task.

This is not an isolated result, either. Erez and Isen [31] found that positive affect, when induced experimentally, improved both task performance and employees' sense that their work was worthwhile. The mechanism, broadly, is motivational: positive emotions appear to increase effort, broaden thinking and encourage persistence, consistent with theory on emotions.

Importantly, these effects hold outside the laboratory too. Bellet et al. [11] provide the first large-scale field study of the happiness-productivity link in a real workplace setting, covering nearly 1,800 employees across eleven British Telecom call centres over six months. A one-point increase in self-reported happiness (whereby happiness was measured on a zero-to-ten scale) led to a 12% improvement in productivity, very close to the lab estimates. The authors used variations in local weather and whether employees had a window – incidental factors that influence mood but are plausibly unrelated to underlying performance – to give this a causal interpretation.

The productivity gain came primarily through better customer interactions: happier employees converted more calls into sales and adhered more closely to their schedules. This points to improved human connection as a key pathway, consistent with organisational psychology and behaviour theories.

Higher happiness is also associated with lower employee turnover, which is a significant cost driver for any organisation.

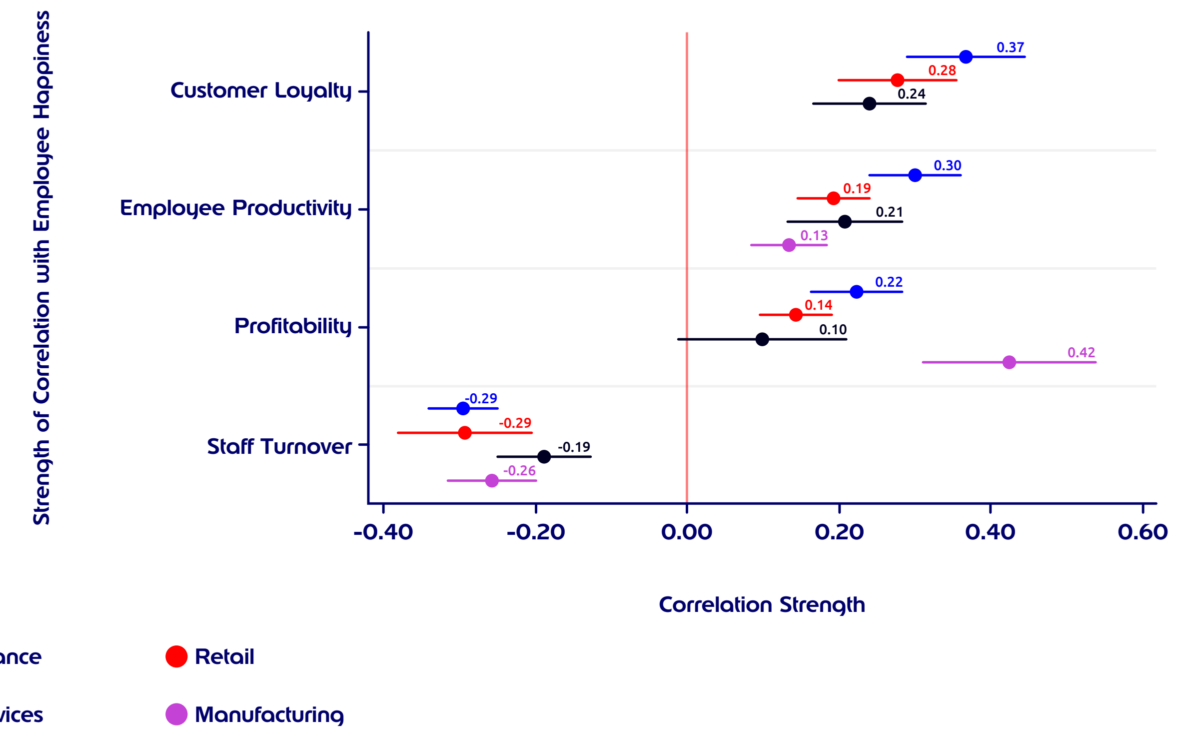


Caspar Kaiser and Andrew Oswald [32] tracked individuals over time in nationally representative panel data from the UK. **An employee at the highest level self-reported of job satisfaction (that is, seven on a one-to-seven scale) was almost 30% less likely to quit within the next year than one at the lowest level.** More recent evidence from George Ward, drawing on millions of workers via the Indeed platform, sharpens this picture considerably. **A one-point increase in self-reported job satisfaction (measured on a one-to-five scale) was associated with a 11% to 12% reduction in subsequent job applications,** with unhappy employees not only searching more but doing so more intensively, viewing more postings, applying to a higher share of roles they viewed, and signalling willingness to accept lower wages to escape their current situation [33]. **Once hired, happier employees showed a significantly lower risk of subsequent turnover** [34], a relationship that was found to be strongest in higher-wage, cognitively demanding, and managerial roles. Taken together, this evidence suggests that employee happiness, via job satisfaction, is a meaningful predictor of retention, with implications for recruitment costs, institutional knowledge and team stability.

Business units and firm performance

Do these individual-level patterns add up to real, measurable business results? The evidence suggests they do. A meta-analysis by Krekel et al. [35], drawing on 339 independent studies, over 1.8 million employees, and 82,000 business units across 49 industries and 73 countries, found consistent positive associations between employee happiness and customer loyalty, productivity and profitability at the business-unit level, alongside a negative association with staff turnover. Figure 1 shows the key results, broken down by sector:

Figure 1: Employee Happiness and Firm Performance



While the strength of these associations varies somewhat by sector (being stronger in financial services), the direction is consistent across geographies and industries.

Translating these correlations into practical terms: moving a business unit from the bottom to the top 25% of employee satisfaction, a key component of happiness, is associated with roughly an 18% increase in productivity and a 21% increase in profitability [36].

At the firm level, in a large-scale study, Jan-Emmanuel De Neve, Micah Kaats, and George Ward [37] linked employee happiness data from Indeed to the financial filings of over 1,600 publicly listed US companies. The results are impressive: a one-point increase in self-reported job satisfaction has been found to be associated with a 19.7% increase in business value (measured in Tobin's Q) and an additional $2.4 billion in annual gross profits. These are meaningful and substantial associations, and they held across multiple measures of employee happiness, including sense of purpose and feelings of stress at work.

Notes: Correlation Between Employee Satisfaction With Firm Performance, by Industry (Gallup Client Database, Years 1994 to 2015; Confidence Intervals 95%). The figure plots adjusted average correlation coefficients by industry, originating from a meta-analysis of 339 independent research studies that include observations on the happiness of 1,882,131 employees and the performance of 82,248 business units. Source: Krekel et al. [35].

Stock market performance

Some of the most compelling evidence comes from Alex Edmans, who used firms' inclusion in the "100 Best Companies to Work For in America" list as a proxy for employee happiness. **Listed "Best Companies" generated annual abnormal stock returns of 3.5% above standard risk benchmarks between 1984 and 2009,** and they continued to outperform even after their inclusion became public knowledge [38, 39].

A notable methodological strength of his research is the focus on future stock returns: if financially successful firms were simply producing happier employees, rather than employee happiness contributing to performance, those strong financials would already be reflected in current stock prices, leaving no scope for continued excess returns. The fact that these firms did continue to outperform aligns with the view that employee happiness is genuinely value-creating and that the stock market has historically been slow to fully recognise this previously intangible asset.

The finding is not unique to the US, either. Edmans et al. [40] replicated the analysis across 30 countries, finding positive associations between employee happiness and stock returns in liberal market economies (such as the US and UK), where employees have more outside options and the motivational and retention benefits of happiness are likely to be larger.

Through the link between employee happiness and stock market performance, this evidence underpins the long-standing importance of emotional capital as a driver of firm value and appears to justify its recent emergence as a crucial metric of interest for both HR and senior executives.

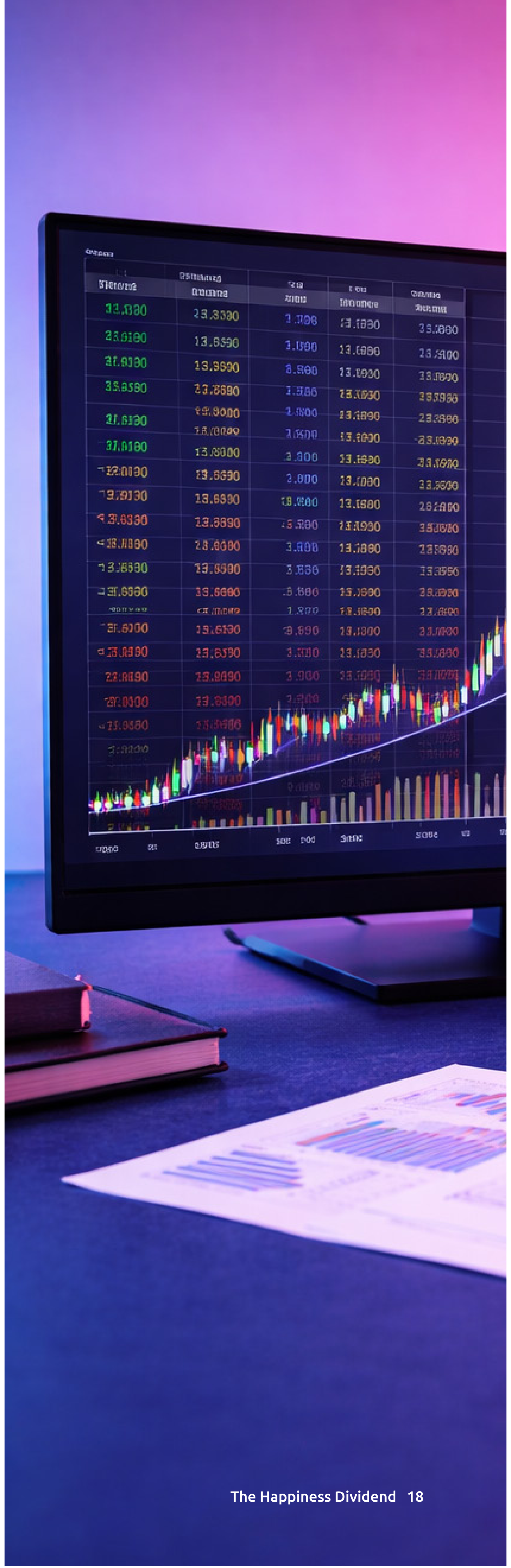
In summary, whether measured at the level of the individual, the business unit, or the overall stock market, the evidence points consistently to the same conclusion. Happier employees are more productive, less likely to leave and associated with stronger financial performance. Investing in employee happiness is not a trade-off against business results – rather, it is one of the more reliable routes to achieving them.

Employee happiness is genuinely value-creating and the stock market has historically been slow to fully recognise this previously intangible asset.

Building the business case

The evidence reviewed points to a compelling return on investment from prioritising employee happiness, but realising that return requires more than good intentions.

Organisations should treat happiness initiatives as they would any other strategic investment: with clear metrics, rigorous evaluation and a commitment to learning. This means consistently measuring employee happiness outcomes – whether employees feel satisfied with their work, whether it gives them a sense of purpose, whether they feel happy at work and whether they feel free from excessive stress. It also means, wherever possible, establishing causal impact rather than merely documenting correlations. Importantly, organisations should adopt an 'experimentalist mindset': designing interventions as testable propositions, learning from what works and what falls short and refining future programmes accordingly.



The emergence of emotional capital

The notion of "emotional capital" – the pool of emotional skills, resilience and relational resources that employees and organisations draw upon to foster engagement, collaboration, and performance – has recently gained traction amongst HR professionals. A large-scale survey conducted by Reward Gateway | Edenred in November 2025 amongst over 2,000 employees and 1,000 HR managers in the UK provides a snapshot of how businesses are beginning to engage with this concept [41].

On the one hand, nearly all businesses (98%) now track at least some form of emotional capital metric, with the most common being whether employees feel valued or respected (50%), satisfaction (48%) and engagement (48%). On the other hand, only 30% of HR teams are currently measuring employee happiness directly (using, for example, the metrics outlined in Chapter 2).

The current gap in tracking and assessing employee happiness is alarming considering the fact that roughly half of UK employees (51%) report not being frequently happy at work.

As a key component of emotional capital, happiness appears to be a missed opportunity for organisations with happy employees not only 42% more likely to feel productive or motivated (aligning with this chapter's empirical evidence), but also scoring higher on every other dimension of emotional capital, including feeling supported, valued, engaged and satisfied.

The report identifies the following drivers of employee happiness:

- **Work-life balance and flexible working (38%)**
- **Feeling connected to colleagues (30%)**
- **Feeling recognised and rewarded (29%)**
- **Having a positive and supportive manager (28%)**
- **Feeling that one's work is meaningful (25%)**

These findings closely mirror the academic evidence on the contributors to job satisfaction, as shown in Chapter 5.

However, a key challenge highlighted in the report is the difficulty of translating emotional capital metrics, such as employee happiness, into demonstrable return-on-investment (ROI). This is underpinned by the fact that 90% of HR teams are currently unable to measure the impact of all of their initiatives.

The value of ROI can't be understated, as while budget cuts have been commonplace in recent times with two thirds (67%) of HR departments experiencing them in the past twelve months, those **teams that struggle to prove ROI have seen cuts of roughly twice as large**.

The report argues that stronger tracking, measurement and reporting of emotional capital will be essential not only for meeting the increased demand for ROI, but for showing how emotional capital such as happiness underpins core business metrics - such as retention, productivity and absenteeism - that ultimately drive performance and company valuation, as explored in Chapter 4.

5. Identifying the drivers of happiness at work

Classical economic theory would give a straightforward answer - pay. But in that traditional view, work is a burden, and wages are simply compensation for putting up with it. In practice, most people want far more from their jobs than just a paycheque. This is not only evidenced by the fact that unemployment causes wellbeing losses far exceeding what income loss alone can explain [42], but also by the finding that job seekers actively seek out information on employee happiness at potential employers, and favour those that score higher [43]. So, what exactly are they looking for?

Theoretical foundations

Psychological needs theories help shed light on this question. One of the most prominent is Self-Determination Theory, developed by Edward Deci and Richard Ryan [44, 45]. The theory posits that human beings have three basic psychological needs:

1. Relatedness:

The need for close social relationships and a sense of belonging, which is met, for example when employees feel part of a cohesive team, are kept informed by their manager or have genuine opportunities to connect with colleagues, whether in the office or remotely.

2. Competence:

The need to feel effective and to experience mastery over one's environment, which is met when employees receive meaningful feedback, have access to training and development and are given work that challenges but does not overwhelm them.

3. Autonomy:

The need to feel volitional and self-directed in one's actions, which is met, for example, when employees have some genuine say over how, when and where they accomplish their work, rather than operating within entirely fixed structures and schedules.

These needs are of equal importance, and they operate both at a global level, influencing a person's overall happiness (for example, their life satisfaction), and at a domain-specific level, shaping happiness within particular life domains such as work. Importantly, when all three needs are satisfied, the result is intrinsic motivation: the drive to engage in activities for their inherent interest and enjoyment rather than for external incentives or pressures. Intrinsic motivation, in turn, manifests itself in interest, excitement and confidence, leading to enhanced performance, persistence and creativity – outcomes that are considered essential for healthy human development and flourishing.

Whether these needs are satisfied depends critically on context. When workplaces support employees in meeting their needs for relatedness through connection, competence through recognition and development, and autonomy through flexibility and understanding, they facilitate natural processes of self-regulation, self-motivation and happiness. When they do not, the opposite follows. The theory this far captures a relationship between the contributors and consequences of happiness at work that goes both ways, and so connects directly to the evidence reviewed in Chapter 4.

Key takeaways

- **The most significant driver of employee happiness is connection at work – to colleagues, to managers and to the organisation**
- **Pay is naturally important, but fairness, value and recognition add new another dimension to remuneration**
- **Flexibility, development and visible progression have a strong impact, while a work-life imbalance can be detrimental**

While Self-Determination Theory looks at what drives people to flourish, a complementary perspective from occupational health focuses on the balance between what employees put in and what they get back. Effort-Reward Imbalance Theory, developed by Johannes Siegrist [46], puts forward that a sustained mismatch between effort at work and the rewards received in return – whether in terms of pay, recognition, monetary rewards, career opportunities or job security – yields chronic stress and reduced happiness, and in extreme cases, even serious health consequences including burnout. The theory highlights the critical role of reward and recognition, while also connecting directly to psychological needs.

Low recognition may undermine relatedness (not feeling valued by others) and competence needs (not receiving feedback that affirms ability or performance). A lack of career opportunities and job insecurity may erode autonomy (the sense that one has control over one's trajectory). And low pay, while a material concern in its own right, can also signal a lack of recognition and respect, touching on both relatedness and competence needs.
In short, while pay is certainly important and effort should stand in balance with reward, theory predicts that many more aspects of the work environment matter for employees' flourishing.
In particular, workplaces that cater to employees' psychological needs of relatedness, competence and autonomy should have a positive impact on cultivating employee happiness.

But does this hold up to empirical scrutiny? To find out, we turn to one of the largest studies on the relationship between workplace quality and employee happiness.

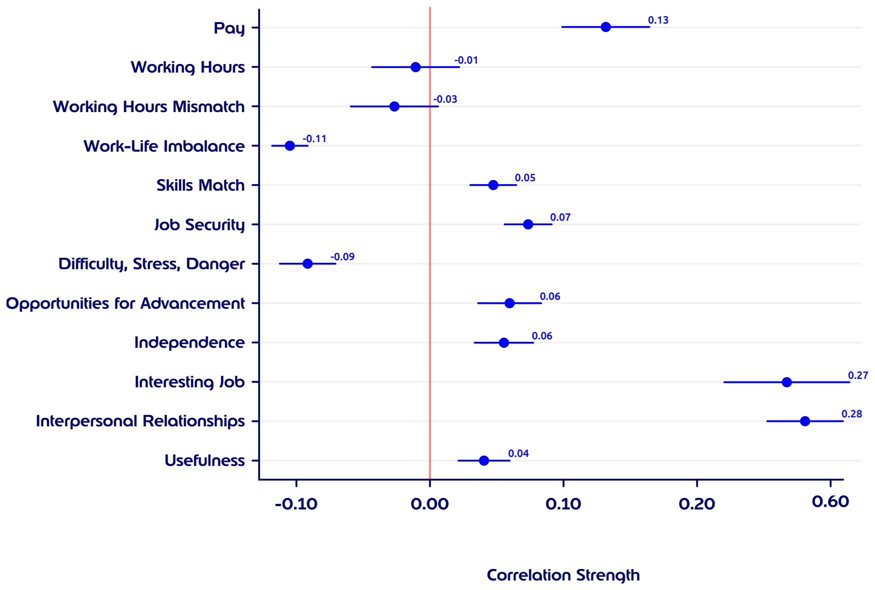
What the evidence shows

Krekel et al. [47] provide one of the most comprehensive empirical answers to this question, drawing on the International Social Survey Programme (ISSP), a long-running, cross-national programme covering around 1,300 respondents in each of 37 countries. Using job satisfaction as their measure of employee happiness, the authors related it to twelve domains of workplace quality, controlling for socio-economic characteristics, industry, occupation and country fixed effects:

1. Pay (including actual and self-assessed income)
2. Working hours
3. Working hours mismatch (whether individuals would like to adjust their hours)
4. Work-life imbalanced (including working on weekends, work interfering with family life, and difficulty taking time off)
5. Skills match (including the degree to which employees' skills align with their job and whether they have access to training)
6. Job security
7. Difficult, stress, and danger (including hard physical work and stressful work)
8. Opportunities for advancement
9. Independence (including the ability to work independently, to work from home, and flexibility in terms of work organisation, hours, and schedule)
10. Interestingness
11. Interpersonal relationships (including relationships with management and co-workers as well as the degree of social contact, for example with clients)
12. Usefulness (including whether the job involves helping people or is perceived as useful to society)

All variables were standardised, making the results directly comparable across domains. The headline findings are clear, and in some cases, rather unexpected. Fig 2 on the next page shows the key results.

Figure 2: Workplace Quality and Employee Happiness



Notes: Correlation Between Workplace Quality and Employees' Job Satisfaction (International Social Survey Programme, Module on Work Orientations Year 2015; Confidence Intervals 95%). The figure plots correlation coefficients obtained from regressing job satisfaction on different domains of workplace quality. All variables are standardised with mean zero and standard deviation one. Pay, Working Hours Mismatch, Work-Life Imbalance, Skills Match, Difficulty, Stress, Danger, Independence, Interpersonal Relationships, and Usefulness are principal components obtained from separate principle component analyses that condense various variables in the respective domain of workplace quality into a single indicator. The sample is restricted to all individuals who state that they are working and who report working hours greater than zero. Source: Krekel et al. [47].

Interpersonal relationships matter most.

By a considerable margin, the strongest positive associations with job satisfaction are having good relationships at work – that is, good connections with one's co-workers and manager, in addition to connection to the wider organisation, its values and its mission. They are roughly twice as important as pay. This finding aligns directly with Self-Determination Theory: good relationships at work speak to both relatedness and competence needs.

The importance of management quality is well-supported elsewhere in the literature. High-quality managers are able to effectively communicate updates and information to employees, as well as offer them support or signpost them to relevant resources, if needed. Evidence from the World Management Survey reinforces this, demonstrating that good management is strongly associated with employee productivity and firm performance, yet that management practices vary enormously across organisations and countries [48]. The implication is that management quality is not fixed: it is an area where targeted investment can yield real returns.

Beyond the manager, broader connections within the organisation also matter. Employees who feel connected to their co-workers, even in dispersed or hybrid teams, to their senior leadership, and to the values and mission of the organisation tend to be more engaged, more productive, and less likely to leave. A large-scale meta-analysis of 558 studies confirms that perceived organisational support – the extent to which employees believe their organisation values their contributions and cares about their wellbeing, and so feel valued and connected to their organisation – is strongly associated with higher job satisfaction, greater engagement, and substantially lower turnover intentions [62]. Organisations that keep employees updated on company performance and goings on, and that tie values and mission into everyday working life, create the right conditions for feeling connected and valued.

Pay matters, but so does perceived fairness, value and recognition

Pay ranks third in the analysis, but both actual pay levels and employees' perception of whether their pay is fair are important. Moreover, Effort-Reward Imbalance Theory reminds us that pay is not only a financial transaction – it is a signal of recognition and respect. When employees feel that their efforts are not adequately recognised or rewarded, whether in terms of pay, feedback or career opportunities, the consequences can be serious: the literature consistently links perceived effort-reward imbalance to exhaustion and turnover intentions [49], reduced mental health [50], and burnout.

The good news is that these effects are modifiable. Workplace interventions that improve effort-reward balance have been shown to yield durable mental health benefits [51], and importantly, the rewards in question need not be financial [52]. In budget-constrained times, symbolic recognition, meaningful feedback and non-monetary gestures of appreciation can go a long way towards signalling to employees that their contributions are seen and valued, and so increase their happiness at work.

When it comes to downstream effects of recognition and reward, in particular, meta-analytic evidence by Stajkovic and Luthans shows how social recognition, feedback and monetary rewards affect task performance. Already early on, in 1997, the authors showed that behavioural management interventions – for example, monetary rewards such as bonuses or pay-for-performance, performance feedback and social recognition such as praise or acknowledgement from a manager – improved task performance by 17% on average [56]. Their 2001 study showed that social recognition alone **had a meaningful effect on performance,** comparable to financial incentives [57]. A follow-up meta-analysis in 2003, covering 72 studies, confirmed a **16% average improvement in performance** and found that **combining recognition, feedback and pay produced the strongest synergistic effects** [58].

Importantly, recent longitudinal evidence from the field, tracking more than 3,400 employees from 2022 to 2024, also found that well-recognised employees were **45% less likely to have turned over after two years [64].**

Financial stress also deserves particular attention. It is both widespread and self-reinforcing, in the sense that past financial stress is a strong predictor of future vulnerability [53], and it is associated with higher absenteeism, presenteeism and poorer employee health [54].

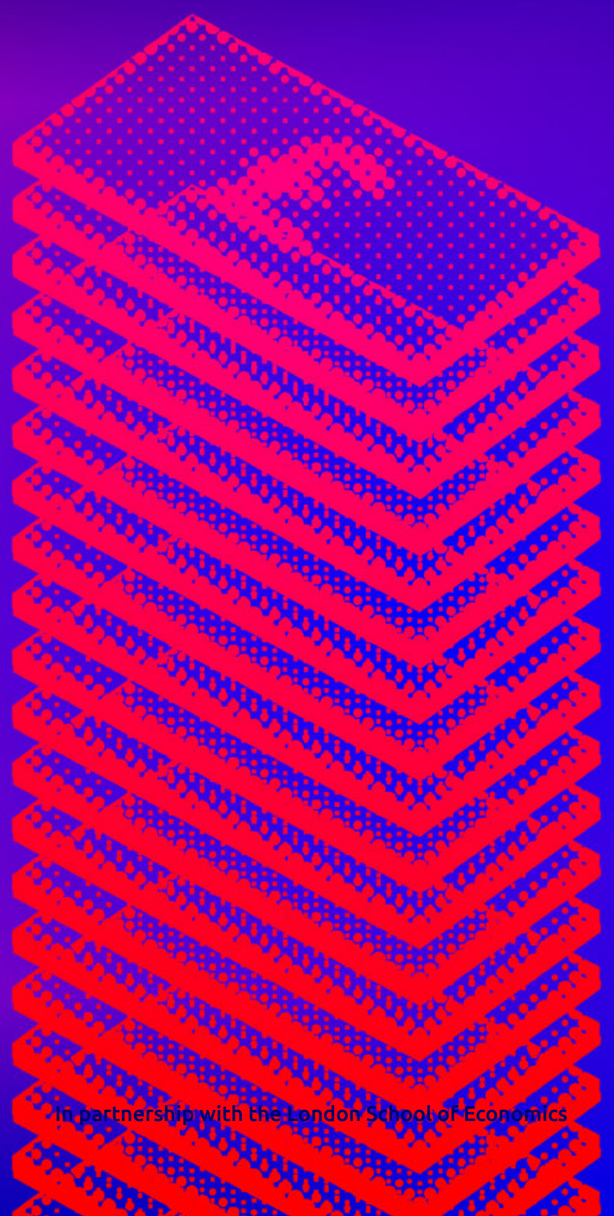
Importantly, financial education alone offers limited relief: meta-analytic evidence suggests that such programmes explain only 0.1% of the variance in financial behaviours, with effects that decay rapidly and prove weakest among those who need them most [55].

More structural workplace interventions around financial wellbeing, ideally those going beyond education to address the conditions that generate financial stress in the first place, are therefore likely to be more effective. This could include, for instance, workplace financial support programmes and employer loan schemes as an additional safety net from employers.

Work-life imbalance is a strong negative.

One of the most striking findings in the analysis is the negative effect of work when it is intruding on life outside it. Work-life imbalance, particularly when work interferes with family life, is amongst the strongest negative contributors to job satisfaction, alongside having a difficult, stressful, or outright physically dangerous job.

The practical implication is direct: enabling employees to avoid work-life imbalance, for example through flexible working arrangements, is likely to be one of the more powerful levers available to employers seeking to improve workplace happiness.



Independence and flexibility are key

Several dimensions of workplace quality cluster in the middle of the importance ranking, including skills match, job security, opportunities for advancement or progression and independence. All matter, but less so than interpersonal relationships at work and pay.

Within this group, independence deserves particular attention. What drives its positive association with job satisfaction is not independence in the abstract, but two specific features: the ability to work autonomously, and having some genuine flexibility over how work is organised and when it is done. This resonates with the idea of job crafting, the notion that employees perform better when they have some scope to shape their working conditions, rather than operating within entirely fixed structures and schedules.

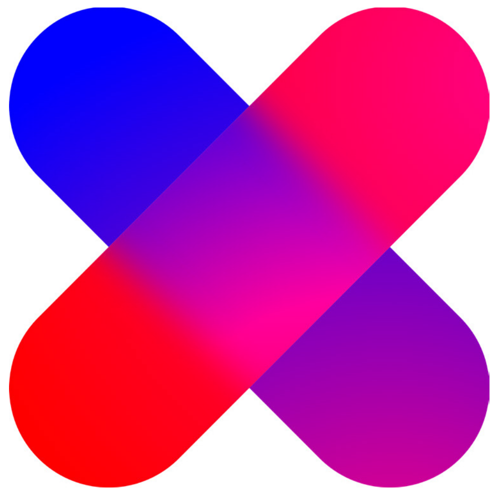
Opportunities for advancement also merit a brief note: employees who see a credible path for career progression within their organisation tend to report meaningfully higher job satisfaction, particularly when advancement is perceived as fair and transparent.

AI and automation will be crucial

The rapid adoption of AI and automation is clearly reshaping the world of work, and thereby, employee happiness. Public discourse has largely focused on the threat of job displacement, but emerging evidence suggests a more nuanced picture, particularly when it comes to happiness. As the data behind Krekel et al. [47] do not allow looking at these factors, we resort to external evidence here.

On AI, the findings so far are cautiously reassuring. Ward and Kaats [59], drawing on over 10 million job satisfaction surveys in the US, find that occupations most exposed to generative AI tend to have higher, **not lower, levels of workplace happiness**, a pattern that stands in stark contrast to earlier waves of automation, which disproportionately affected lower-happiness occupations.

Longitudinal evidence from Germany reinforces this: Giuntella et al. [60], using a difference-in-differences design to estimate causal effects, find no negative effect of generative AI on employees' happiness or mental health.



Addressing the fears that AI will lead to the automation of jobs at the expense of human employment, Josten and Lordan [61] find that jobs combining cognitive complexity and interpersonal engagement appear safest from automation. Taken together, AI and automation will not affect all workers equally, and the implications for employee happiness will depend on which jobs are displaced, which are augmented, and whether workers have the skills and support to adapt.
This last point suggests a critical role for HR to play, namely to champion the thoughtful integration of AI into the workplace. Recent survey evidence from the UK suggests that this is not yet happening as required.

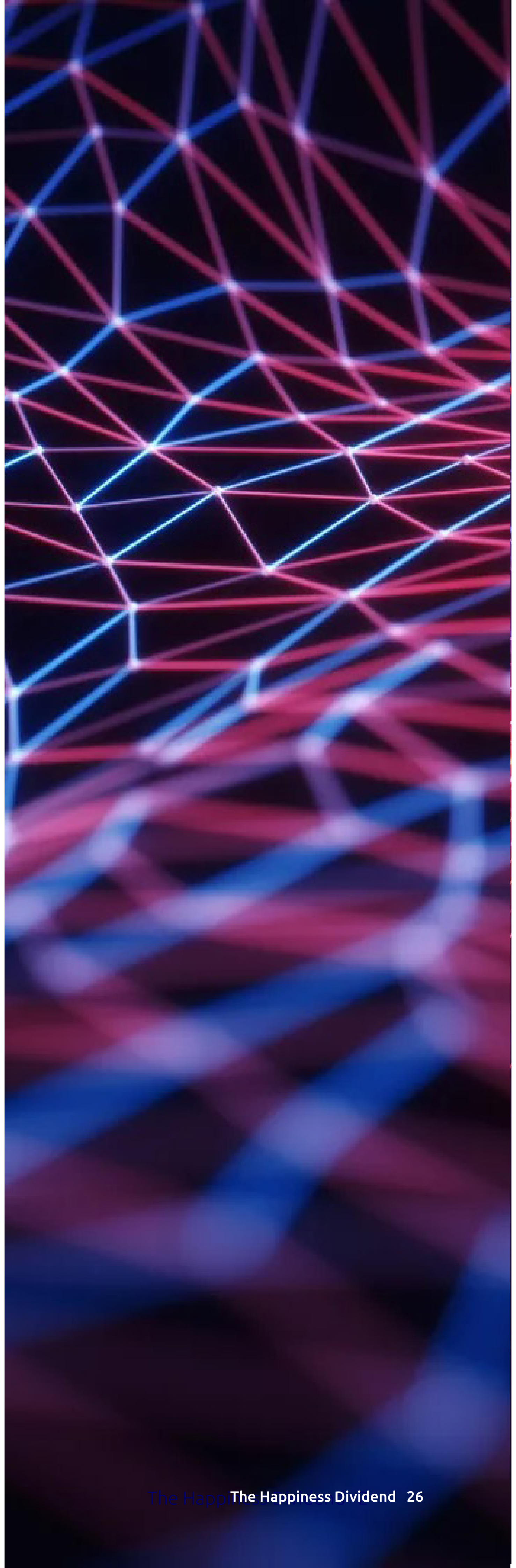
Large-scale survey evidence from the UK found that, while 73% of HR managers said they provide AI training, only 21% of employees reported having received it [41]. Moreover, **fewer than half of employees (44%) felt comfortable using AI at work**, and nearly a quarter actively felt uncomfortable. Importantly, these findings highlight that this gap between policy and practice has real consequences for employee happiness: 22% of employees feared AI could make their role redundant, and 30% worried it could remove the human element from decision-making, a phenomenon that has been labelled FOBO (Fear of Being Obsolete). These anxieties were markedly stronger amongst older workers and those who had received less training.

The message for HR policy is clear: investing in transparent communication, formal training, and inclusive AI policies is not merely a technology question but ultimately boils down to employee happiness. Employees who understand how AI will affect their work, and who feel supported in adapting to it (rather than being displaced), are far less likely to experience the stress and uncertainty that erode happiness.

What UK employees and HR managers say

Overall, the academic findings in this chapter resonate considerably with survey evidence from UK employees and HR managers [41]. Work-life balance and flexible working (38%), feeling connected to colleagues (30%), feeling recognised and rewarded (29%), having a positive and supportive manager (28%), and finding one's work meaningful (25%) are identified as the primary drivers of workplace happiness among over 2,000 employees surveyed. This mirrors the academic evidence, and suggests that employees themselves have a clear sense of what they need and want.

The same survey finds that **only 30% of HR teams currently measure employee happiness directly, despite 51% of employees reporting that they are not frequently happy at work**. This gap between what organisations track and what actually drives performance is one of the most important challenges the field faces. Closing it begins with measurement.



6. Evidence-drawn implications

The evidence reviewed in this report points to a single, consistent conclusion: **employee happiness is good for business**. It is associated with higher employee productivity, lower turnover, stronger business-unit performance and better long-run financial returns. These associations hold across industries, countries and levels of analysis. What is more, in the most rigorous studies, where experimental or quasi-experimental designs allow for a causal interpretation, the identified effects are strong and meaningful.

Yet for all the evidence, a significant gap remains between what organisations measure and what actually drives performance. Most HR teams are already tracking engagement, satisfaction and retention, but **fewer than one in three measure employee happiness directly**. And with over half of employees reporting that they are not frequently happy at work, closing this gap is both a measurement challenge and a strategic opportunity.

It is clear, from this research, that the field has moved decisively beyond the question of whether employee happiness matters.

From the evidence reviewed in this report, several practical implications can be identified:

Measure what matters.

The four-question framework recommended by the World Wellbeing Movement [20], covering job satisfaction, sense of purpose, happiness at work, and stress at work, provides a practical, validated and benchmarkable starting point. Consistent measurement over time, using established question wordings and at least 100 observations per wave, is what transforms survey data into actionable insight.

Foster connection and support.

The presence of strong, supportive relationships an organisation is an essential component of employee happiness. Communicating more effectively and cultivating everyday behaviours that make employees feel valued and connected, will be crucial in moving the needle. Structures and practices that strengthen wider organisational ties can ensure people feel aligned with co-workers, senior leaders and the organisation's mission, even in hybrid or dispersed settings.

Invest in management quality.

The single strongest driver of employee happiness in the evidence reviewed is the quality of interpersonal relationships at work, particularly with managers. This is not primarily a selection problem – it is a development opportunity. Supportive managers who understand their employees' work, provide meaningful feedback and recognition, and actively support their teams are associated with significantly higher job satisfaction [48]. Investing in management development appears to be one of the highest-return interventions available.

Build a proactive financial wellbeing strategy.

Financial stress is widespread, self-reinforcing, and costly, to employees and organisations alike. But financial education programmes alone have limited impact [55]. More structural approaches to financial wellbeing, that address the conditions that generate stress as well as improve employees' ability to manage it, are likely to be more effective.

Treat happiness as a strategic asset, not a cost.

The stock market evidence is instructive: firms with high employee happiness consistently outperform their peers over the long run, and the market is slow to price in this advantage [38, 39, 40]. This suggests that organisations which invest seriously in employee happiness today may be building value that is not yet fully reflected in their current valuation. At the same time, managers evaluated on short-term metrics may face implicit disincentives to make these investments. This is a market failure that boards and leadership teams would do well to recognise and address.

7. Concluding remarks

It is clear, from this research, that the field has moved decisively beyond the question of whether employee happiness matters. The frontier is now about precision: which interventions work best, for whom, in which contexts and at what cost. Organisations that invest in answering these questions – via consistent measurement, thoughtful experimentation, and a genuine commitment to acting on what they find – are likely to be well-positioned to turn the science of employee happiness into a durable source of competitive advantage. The evidence is in. The question now is what organisations choose to do with it.

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