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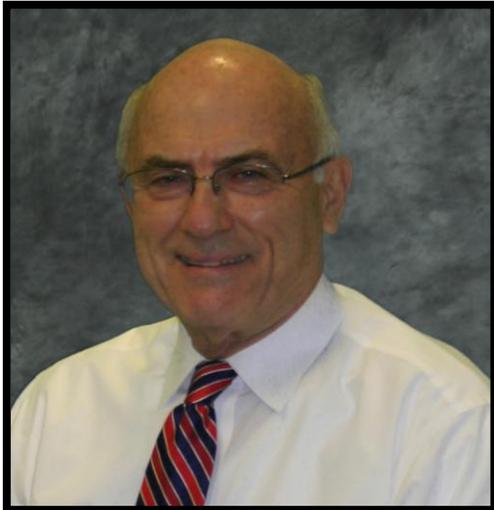
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> *Happiness can be defined as the positive conscious and emotional experience that accompanies or stems from achieving one's values or goals and exercising one's individual human potentialities, including talents, abilities, and virtues. In other words, happiness results from personal flourishing.*
>
> — *E. W. Younkins (2002)*

Values-Based Leadership and Happiness: Enlightened Leadership Improves the Return on People

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Introduction

In *Management Challenges for the 21st Century,* Peter Drucker wrote, *"one cannot manage change. One can only be ahead of it… . But unless it is seen as the task of organization to lead change, the organization…will not survive."* This paper will discuss how values-based enlightened leadership — *understanding the challenges faced and using the proper tools* — can lead the organization to become a flourishing (happy) enterprise with a strong return on people and finances.

Background

The past 100 years have seen massive changes in the field of management and employee - labor relations — from a violent period of strikes and confrontation to the evolution of labor law

that includes workers' rights and safety considerations. To meet the challenges for continued performance improvement, effective leaders now seek further betterment in the management of employee relations and personal commitment. With the evolution of positive psychology, enlightened leaders are seeking a better understanding of the effect of creating and stimulating a positive mindset within the organization and a clearer comprehension of employee needs as well as the tools necessary for improved employee motivation.

A leadership-centered culture develops leaders who do not consider employees to be mere cogs in a machine or links in the bureaucratic process, but as human capital worthy of nurture, trust and respect. Enlightened leaders strive to attain results from committed people who maintain both personal and professional stakes in the organization. Human capital (intangible assets) — including employee knowledge, customer relationships, patents, and trademarks — represent approximately 75% of the market valuation of the S&P 500 companies versus the tangible assets of property, plant, and equipment (Baker, Greenberg & Hemingway, 2006). In most organizations, the value of human capital is a very heavily-weighted asset. It has been argued that to arrive at an accurate accounting of worker productivity, people should be considered as long-term assets on the balance sheet (Mansuy, 2003).

Leadership-centered cultures look to the future and seek not just "smiley faces" and singing "kumbaya around the campfire," but a better understanding of employees' needs. The ultimate result is an environment where all can constructively work together toward a common goal, find personal and professional worth and fulfillment, and make positive differences in the lives of others. Some are calling this a definition of happiness in the workplace. Personal happiness has been defined as the following:

> *Happiness can be defined as the positive conscious and emotional experience that accompanies or stems from achieving one's values or goals and exercising one's individual human potentialities, including talents, abilities, and virtues. In other words, happiness results from personal flourishing.* — *E. W. Younkins (2002)*

In summary, we are witnessing an evolution in the treatment of employees. Enlightened, values-based leaders see their task to understand these changes, future challenges, and lead the enterprise.

Objectives for Values-Based Leadership

To work toward a goal of becoming a flourishing, high performance enterprise and a workplace that enables employees to grow on a personal basis requires a close linkage among the leader, organizational situation, and the employees. For purposes of this review, flourishing (happiness)

in a high performance workplace is achieved by values-based enlightened leaders understanding immediate challenges in the global marketplace. These leaders utilize the results from the positive psychological movement, treat employees as stakeholders, combine the latest approaches in employee motivation and the balanced scorecard approach, and measure their return both with respect to employee contentment and financial returns.

21st Century Challenges

As leaders assess or reassess strategic moves, develop roadmaps, detail and manage operational plans, and evaluate projects implementation, they face multifarious challenges. The workplace is more dynamic than ever with increased global competition, complexity, rate of change, new technologies, economic uncertainties, and movement to a service-oriented economy. As a result of the recent recession and the current economic situation, leaders will require new skills tailored to an external environment of urgency, high stakes, and uncertainty — even after the current economic crises subsides. It would be reassuring to label the current economic crisis as simply a temporary glitch, but economies cannot build a firewall to insulate against intensifying global competition, energy constraints, climate change, and political instability. We must plan ahead to prevent immediate economic uncertainty from morphing into a sustained or even permanent crisis of serious and unfamiliar challenges (Heifetz, Grashow, & Linsky, 2009).

There is little doubt that as organizational hierarchies continue to collapse and decision-making continues to become more decentralized, employees will take on increased levels of responsibility for their own job performance (Gebert, Piske, Baga, Lanwehr, & Kearney, 2006). We have witnessed a growing trend for many years toward increasing the level of employee participation in workplace management. Employees throughout organizations participate in the decision-making process from problem definition to operational implementation. Participation has been defined as a new form of joint decision-making in which employees are invited to help solve organizational problems (Tjosvoid, 1987).

With fewer non-renewable resources available to sustain business operations, a leader must have employees who are more intelligent, skillful, willing to learn, and committed. High-performing employees are ostensibly more valuable to the organization, but are concomitantly more mobile than ever before. It is also most likely that employees are using a low percentage of their strengths on a daily basis in their respective work environments which deficits could be contributing to a lack of commitment to their employers and the business they serve. Based on the Gallup Poll database of 1.7 million employees in 101 companies from 63 countries when ask the "opportunity to do what I do best" question only 20% felt their attributes were being used on a daily basis (Buckingham & Quinn, 2001).

Beginning at an early age, most people have been steadily guided by their parents, teachers, and managers and by psychology's fascination with pathology. We have become experts in our weaknesses and in methods designed to repair our flaws, while our strengths lie dormant and neglected *The Peter Principle* — a 1960's study which evolved into a book (Peter & Hull, 1969) — describes the corporate phenomenon of promoting people according to their individual levels of expertise, ultimately reaching a level of promotion which exposes their incompetence. Through

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the decades, *The Peter Principle* has become widely accepted as prosaic business jargon. Business still views promotion to the highest level of responsibility and competency as the most appropriate method of recognizing and rewarding individual contribution. How many of us can think of one or more colleagues in our own organizations who have been promoted "to their levels of incompetence?"

Six Keys to the Corporation

The keys to success in the corporation begin with the values that establish our identity. Next we decide to value employees as much as investors and treat them as stakeholders. Enlightened leaders also utilize the results from the *positive psychological movement*, combine the latest approaches in employee motivation and the *balanced scorecard approach*, and measure their return both on people and financial returns. It is also important to institutionalize our working model for continuous improvement.

(1) *Values-Based Leadership:*

*"CEOs set the values, the standards, the ethics of the organization. They either lead or they mislead" (*Drucker, 2007*).* A.G. Lafley, Chairman and CEO Chief Executive Officer of Procter & Gamble (P&G), believes values are about organizational behavior and serve to provide identity to the organization. In his first year at P&G, Lafley incorporated the establishment and identification of operational values as an integral part of the company's strategic operations. Those values already in place were not immune to review and revision to comport with the overall corporate structure. P&G's ethical priorities include trust, integrity, ownership, leadership, and a passion for winning (Lafley, 2009).

As stated above, managerial leaders serve themselves and others best when they are committed to a set of core values:

- Leaders need to be clear about what values they champion;
- Leaders must effectively communicate their values clearly and meaningfully to key stakeholders; and
- Managerial leaders need to ensure their actions are in alignment with their espoused values. The *positive psychology approach* also tells us that "*factors such as character strengths, optimism, and resilience can play significant roles in how goals are managed" (*Kerns, 2005*).*

(2) *Employees as Stakeholders:*

With the political realignment occurring in many countries and the effects of the worst destruction of wealth and economic meltdown since the Great Depression, the odds appear to be favorable that enlightened leaders will keep stakeholder interests at the forefront by respecting the needs not only of the investors, but also of the stakeholders who are customers, employees, and suppliers. In this age of knowledge work, outsourcing, global supply chains, and activist interest groups, enlightened leaders know that establishing a meaningful relationship with each of the stakeholder groups is important for organizational success.

Employees are all stakeholders — and sometimes shareholders — of the companies where they are employed. Several recent studies have shown gains in both profit and productivity by companies that have implemented certain historically unconventional work practices including investing in decentralized decision-making, training, and establishing pay practices which are contingent upon organizational, as opposed to the more traditional individual, performance. There has also been a tendency to employ other non-traditional practices designed to measure not only the financial success of the organization, but to engage stakeholder participation as an indispensible cog to successful organizational performance (Pfeffer, 2009).

(3) _Positive Psychology:_

It is important for enlightened leaders to help employees capitalize on their strengths to fully participate in the organization's success. Although the universal human need for prestige, recognition, and respect are seemingly all pervasive, it has been suggested that not everyone is driven by a craving for power over others but rather that many people derive person prestige and satisfaction in other ways. Such acquisition of self-confidence, satisfaction, and work pride can be related directly to the full use of that employee's attributes. Of course, such strengths must first be identified before they are further developed and fully activated. Identifying strengths can also enable assigning people to those tasks and responsibilities for which they are best suited. Imagine an organization in which all persons are doing the job for which they are best trained and for which they will be accorded prestige that will best satisfy their personal needs. While not necessarily infallible, this process is certainly worth considering (Buckingham & Quinn, 2001).

Ostensibly, management and organizational researchers have made significant strides in the field of goal and performance management. Additionally, the emerging field of positive psychology appears to offer many findings and insights that can help managers become more effective as they define and manage their organizational goals, individuals in the organizations, and the organizations themselves. *Positive psychology*, as opposed to traditional management methods, focuses on employee strengths and psychological capabilities. This movement is further characterized as *"the new positive psychology movement that has shifted from the traditional emphasis on illness and pathology, towards a focus toward a focus on human strengths and virtues"* (Seligman and Csikszentmihalyi, 2000). Consistent with the positive psychology movement, additional work has been done to investigate the positive side of organizational processes and how individuals in organizations and the organizations proper can become exceptional. *Positive psychology* is further defined as:

> Concerned primarily with the study of positive outcomes, processes, and attributes of organizations and their members, *Positive Organizational Scholarship* (POS) does not represent a single theory, but focuses on dynamics that are typically described by words such as excellence, thriving, flourishing, abundance, resilience, or virtuous.... It channels attention to enablers (e.g., processes, capabilities, structures, and methods); the motivators (e.g., unselfishness, altruism, and contribution without regard to self); and the outcomes or effects (e.g., vitality, meaningfulness, exhilaration, and high-

quality relationships) associated with positive phenomena. (Cameron, Dutton & Robert Quinn, 2003).

This positive psychology movement and how positive mindsets can help transform organizations positively is the subject of additional work on organizational processes and performance more commonly known as the "Science of Happiness."

(4) Employee Motivation – Needs, Levers and Actions:

Evolutionary psychology has also provided additional information about employee motivational needs and drives. Recent research identifies four drives that underlie employee motivation. This research is particularly focused upon two studies — one targeting two global businesses (i.e., a Financial Services giant and an IT services firm) — and a second focusing on 300 *Fortune 500* Companies. This work outlines four drives (i.e., emotional needs) that motivate people, as well as primary levers and actions that managers can take to achieve maximum motivation, all of which are more particularly described as follows:

(a) **To Acquire:** Managers can use the reward system and tie rewards closely to performance.

(b) **To Bond***:* Managers can work to develop a culture that fosters mutual reliance and cooperation among co-workers, values teamwork, and encourages best practices.

(c) **To Comprehend:** Managers can use job design to give employees distinct and important roles in the organization that is meaningful and fosters a sense of contribution to the organization.

(d) **To Defend.** Managers can use performance management and resource allocation processes to increase transparency of all operations, emphasize fairness, and build trust in granting rewards, assignments, and recognition.

The authors reference different companies that were successful in utilizing an organizational lever to help employees satisfy their emotional drive in these particular four areas to achieve motivation. Their conclusion is that if you can fulfill all four of the drives for employee needs, your company will be in a leading position in terms of motivation; this, in turn, will generate a major competitive advantage in terms of employee satisfaction, engagement, commitment, and retention (Nohria, Groysberg, & Lee, 2008).

(5) Balanced Scorecard:

To keep track of their total organizational efforts and employee-related programs, managerial leaders can utilize a "Balanced Scorecard." This is an equitable approach that not only addresses the financial aspects of the business, but complements these concerns with improving customer satisfaction, internal processes, innovation, and the learning perspective. The innovation and learning aspects emphases focus on the intangible assets that include human capital (i.e., skills, talent, and knowledge) as well as organizational capital (i.e., culture and leadership). *"The balanced scorecard approach provides an*

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excellent vehicle for the managerial leader to develop people-based metrics for measuring their return on people." (Kaplan & Norton, 1996).

(6) <u>Leadership Centered Culture</u>:

To provide the lasting leadership that will use positive psychology, understand and implement actions for employee motivation, and utilize a balanced scorecard requires institutionalizing these activities. To constructively work together toward a common goal, find meaning and satisfaction means institutionalizing a values based leadership centered culture. Leaders provide motivation and inspiration to energize people, not by pushing them in the right direction but by leadership satisfying basic human needs. To institutionalize this type of leadership requires activities such as *"1) Recruiting with leadership potential as only the first step, 2) Providing significant challenges early in the career to learn from triumphs and failures 3) Plan for development of high potential employees and 4) reward people who successfully develop leaders" (Kotter, 2001).*

Results from the Return on People

Research has further demonstrated how positive mindsets can take hold in organizations and transform their character by focusing upon a return on *people*. This process is accomplished by integrating vision, energizing spirit, encouraging life-long learning, developing trust, seizing opportunities, stimulating employees to use their talents beyond those merely comprising the job description, and elevating unquestioned integrity.   Fulfillment of these goals produces a flourishing, "happy" enterprise:

> *The definition of a "happy" company is "an organization in which individuals at all levels of authority exhibit a diversity of strengths, constructively work together toward a common goal, find significant meaning and satisfaction in producing and providing high-quality products and services for profit, and through those products and services make a positive difference in the lives of others."* *(Baker, Greenberg & Hemingway 2006)*

In addition to the above definition, a study of 750 firms across the world, *"companies with the best people practices provided a 64 percent total return to shareholders over a five-year period, more than three times the 21% return for companies with weakest practices" (Baker, Greenberg, & Hemingway 2006).*   Additionally, on average, when employees are actively engaged in the organization, customers are happier, productivity is up, turnover is low, and the organization is financially productive and profitable.[1]

When calculating the business utility and the probability of business units being successful as a function of employee engagement, the relationships are clearly nontrivial. Business units that use principles of positive psychology may be able to influence employee engagement which may then enhance the bottom line. The above studies have demonstrated a relationship between happiness and workplace success. There are a number of additional research studies that

suggest satisfied and happy employees are relatively more successful in the workplace. There appears to be a direct correlation between happiness and the production of income (Diener & Biswas-Diener, 2002), favorable evaluations by superiors (Cropanzano & Wright, 1999), and social support from colleagues.[2]
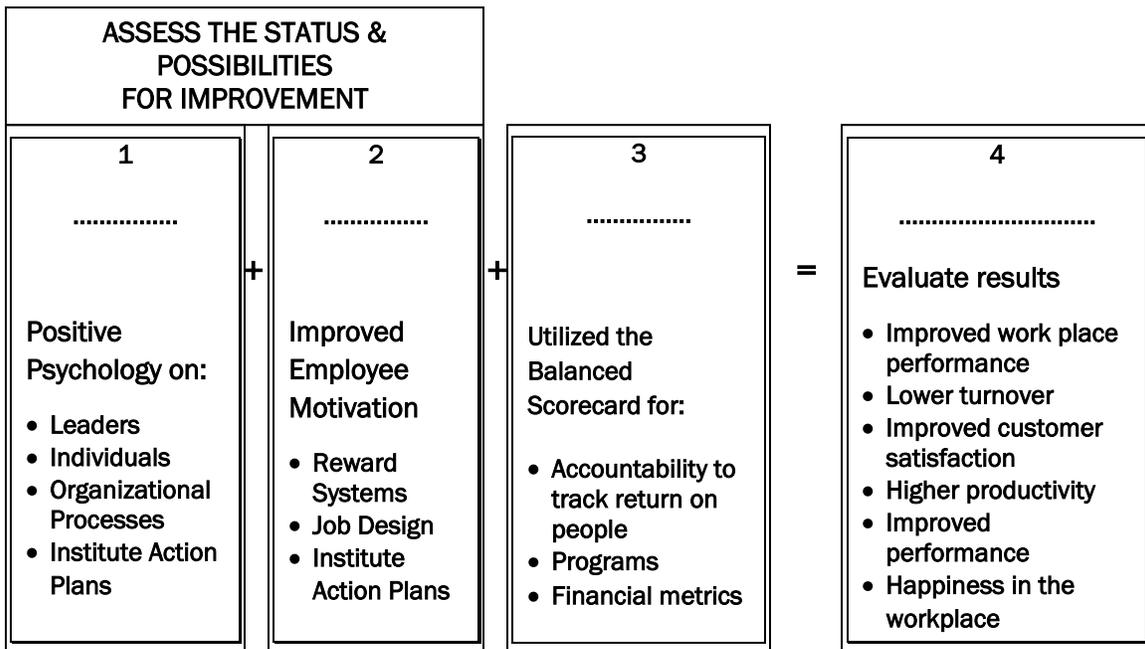
Furthermore, people in a good mood are more likely to enter into novel situations, interact with other people, and pursue new goals (Carver, 2003). A safe and comfortable environment allows one to "broaden and build" intellectual, social, and physical resources, which can be utilized in later times of need. Armed with previously acquired resources and primed to pursue new goals, people who experience positive emotions are well suited to experience success. (Boehm & Lyubomirsky, 2008).

World-Class Deliverables

When employees are actively engaged in an organization, customers are happier, productivity is up, turnover is low and the organization is financially productive and profitable. Enlightened leaders want their organizations' performance to improve. They know their businesses and have designed managerial strategies, roadmaps, operational plans, and projects, but they have not forgotten the human capital aspects of their respective businesses which are critical to positive reformation. Business is about relationships. Based on the previously discussed tools and research, the following represent the next steps in the process to improve performance.

(1) **Assess** the organization's status and possibilities for transformation into a positive organization using the results of the positive psychology movement studies and developing action plans to begin to close the loop between the "as is" and "to be." One method of benchmarking could be to assess the impact on leadership measured against a culture built around a forward-looking and constructive *team*work, the institution of a viable belief system, and increasing emphasis on accountability and autonomy.

(2) **Assess** the feasibility of implementing the latest approaches designed to stimulate employee motivation. Such approaches should include reward systems and job performance designs. Inevitably, the query must be asked: Is the business providing the levers for action necessary to satisfy the drives (emotional needs) of its employees which will ultimately improve the performance of the organization?

(3) **Develop** and implement a "balanced scorecard" for the organization to track not only the financial aspects of the business but also those factors which help to determine the *return* on human capital.

(4) **Evaluate** the results. As we have seen from past studies, organizations with the best people practices and engaged employees have a better track record for improved performance. Performance metrics can include improved work place productivity, lower employee turnover, improved customer satisfaction, and reduced costs. These four steps are more succinctly demonstrated in Chart 1.

<u>Chart 1</u>

ASSESS THE STATUS & POSSIBILITIES FOR IMPROVEMENT			
1	**2**	**3**	**4** ....
Positive Psychology on: • Leaders • Individuals • Organizational Processes • Institute Action Plans	Improved Employee Motivation • Reward Systems • Job Design • Institute Action Plans	Utilized the Balanced Scorecard for: • Accountability to track return on people • Programs • Financial metrics	Evaluate results • Improved work place performance • Lower turnover • Improved customer satisfaction • Higher productivity • Improved performance • Happiness in the workplace

Between box 1 and 2: **+** Between box 2 and 3: **+** Between box 3 and 4: **=**

Conclusion

Enlightened leaders regard the human element as an integral part of the organization's future success by understanding the challenges employees face. These leaders utilize the results from the positive psychological movement combined with the latest approaches in employee motivation and the balanced scorecard approach to implement action plans. Values-based enlightened leaders understand that in order to develop and maintain continuously flourishing, high-performance enterprises and workplaces, they must enable employees to use their full potential, be engaged and dedicated, and ultimately flourish to achieve happiness.

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Endnotes

[1] For profitability measures (which were all calculated as a percentage profitability of sales), the difference between employee engagement, top and bottom quartiles ranged from 1 to 4 percentage points in profitability. On average, business units in the top quartile on the employee engagement produced 1 to 4 percentage points higher profitability. For many organizations in a highly competitive

market, 1 to 4 points per business unit is quite substantial and can represent the difference between success and failure *(Harter, Schmidt, & Keyes, 2002).*

[2] Happy people, compared to their less happy peers, earn more money, display superior performance, and perform more helpful acts. A preponderance of researchers has stated that the accomplishments of such indicators of success in the workplace cause a person to be happy. The alternative hypothesis — that happiness causes success — may be equally plausible*. (Iverson, Olekalns, & Erwin, 1998).*

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Charles A. Millick is an assistant professor of Management in the Department of Business at Wheeling Jesuit University. He also is a professional engineer and is an experienced army officer, corporate executive, entrepreneur, and professional consultant. Professor Millick earned his undergraduate degree in Engineering from the U.S. Military Academy at West Point, New York and an M.B.A. from Xavier University in Cincinnati, Ohio. He continued his education with General Electric (G.E.) in its Management and Advanced Management Programs, BOC Group's Senior Management Program, and the Harvard School of Public Health for decision support to the U.S. Department of Energy. He has instructed GE's Management Training Program as well as maintained a series of managerial positions in Operations and Corporate Staff with General Electric and other major corporations, completed evaluations in Europe and Japan, and provided consulting services for commercial clients and federal agencies.