The Latest Thinking

Hal Mayforth

The Happiness Metric

Countries and companies alike are increasingly equating the well-being of their people with productivity.

By many traditional measures, the United States economy has been getting better for a while now. Gross domestic product (G.D.P.) and personal consumption expenditures have been rising incrementally but steadily for several years; the unemployment rate dropped from 10 percent in October 2009 to 8.3 percent early this year; and the Dow Jones industrial average has nearly doubled since its nadir in March 2009. Yet large swaths of the populace are not feeling any better. Not just the poor and the unemployed, but most of the vast middle class are finding themselves no less stressed, stretched and fearful than they were two years ago. That can't be chalked up to some sort of perceptual time lag. It seems more likely that, as some contend, we are simply measuring the wrong things.

"I think the disconnect between our measures of national income — which have been growing — and how people feel about their lives is raising interest in broader measures of society's well-being," said Alan Krueger, an economist at Princeton and former assistant Treasury secretary.

Among those who have been interested is President Nicolas Sarkozy of France, who in 2008 created a commission to develop economic metrics that would better reflect the experience of the French people and be more indicative of social progress. The commission, which was led by the economists Joseph Stiglitz of Columbia University, Amartya Sen of Harvard and Jean-Paul Fitoussi of the Institut d'Études Politiques de Paris, argued in a detailed and far-reaching 292-page report that "G.D.P., the most widely used measure of economic activity, is useful." But, it went on, "the time is ripe to shift emphasis from measuring economic production to measuring people's well-being. Conflating the two can lead to misleading indications about how well off people are and to wrong policy decisions."

The report went on to assert that because G.D.P. is purely a measure of production, it tends to gauge the quantity of output rather than quality and to indicate current conditions rather than conditions over time, or sustainability. Also, the authors noted, G.D.P. draws little distinction between whether expenditures are for good or bad things. For example, traffic jams may increase G.D.P. by increasing the use of gasoline, but this decreases the quality of the air and the quality of life and doesn't even contribute to getting people to their destinations.

Well-being, the commission argued, has many dimensions, and public policy should be derived from measures that account not only for income, consumption and wealth, but also for health, education, environmental safety, personal satisfaction inside and outside of work, social connections, a sense of participation in one's own governance and a sense of personal security. The commission recommended broadening societal measures to include the distribution of wealth as well as nonmarket activities like household labor, parenting, community work and volunteering. It also recommended including subjective gauges of well-being: "cogni-

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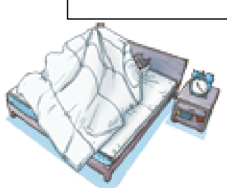
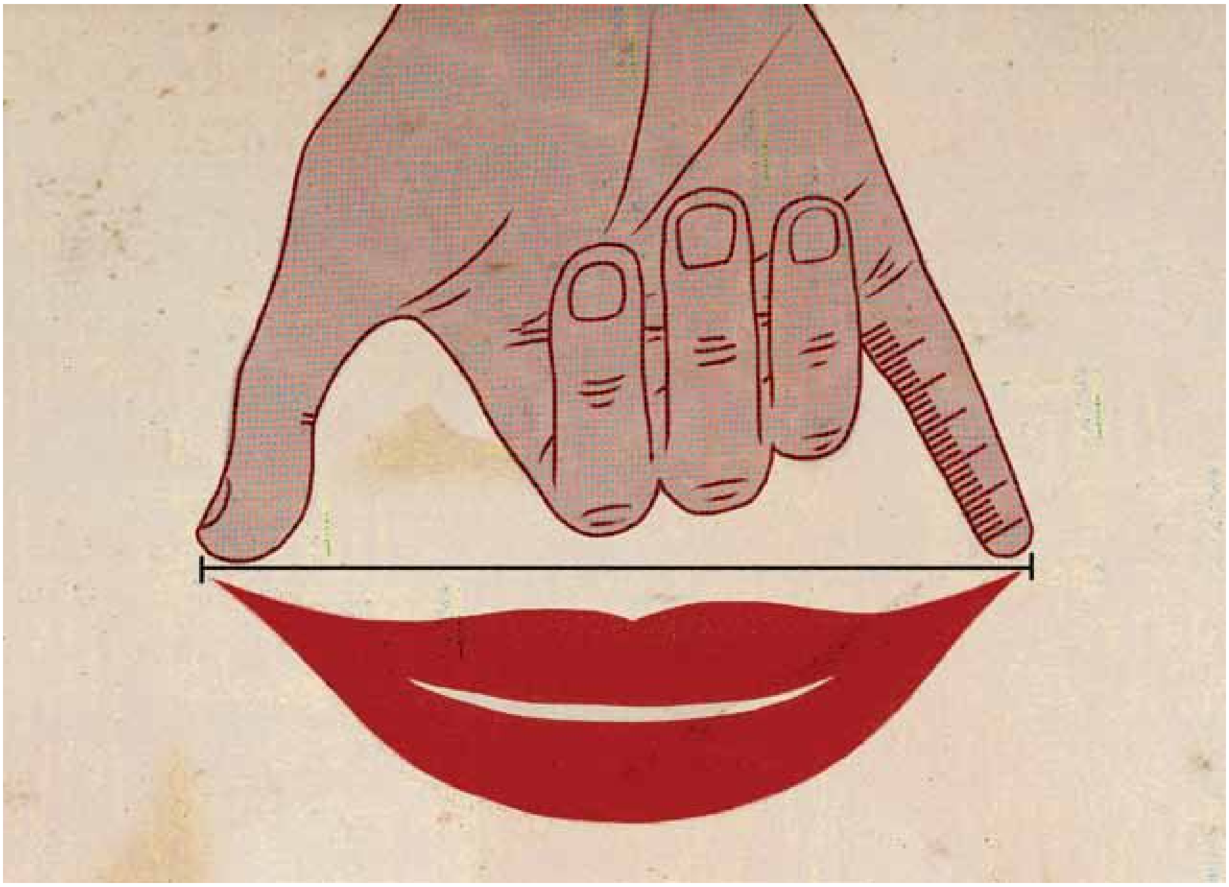


Flying the ~~Friendly~~ Crowded Skies: Between 2002 and 2009, the number of super commuters — professionals who have a residence in one city and work in another — grew in eight out of 10 large U.S. cities. SOURCE: BLOOMBERG



Beppe Giacobbe

tive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry."

Many of the views advocated in the commission's report come under the heading of "happiness economics," one of the newer branches of the dismal science. Of course, the idea that happiness is important to society is not new. John Locke and Thomas Jefferson famously put the "pursuit of happiness" on equal footing with life and liberty as fundamental rights. Jeremy Bentham and John Stuart Mill's philosophy of "utilitarianism" asserted that the proper course of action for individuals and societies is the one that maximizes overall happiness. Aristotle argued that happiness is the ultimate purpose of human existence. Happiness economics, however, goes a step further in that it advocates the use of objective and subjective measures of public well-being when formulating and evaluating public policy.

"People's quality of life is experienced, so we are going to have to get into the realm of actually asking them about that experience rather than just trying to measure it by how many things they have," said Nic Marks, psychologist, statistician and author of "The Happiness Manifesto." "We now have statistical methodologies — survey techniques — to do this. There have been great advances in psychological research, and we should be applying these to our public policy."

A number of policy makers have already taken note. In Britain, Prime Minister David Cameron recently directed the Office for National Statistics to conduct a nationwide survey asking citizens what they believe should be used to measure happiness, with the goal of formulating policy. In Germany, the Bundestag has established a Commission on Growth, Prosperity, Quality of Life to

Retirement Redefined

Only one out of four executives (25%) defines retirement as never working again.

SOURCE: MERRILL LYNCH

develop a more holistic measure of progress. Similar efforts are under way in Italy, Australia, South Korea, Canada and the United States.

The effort to use happiness as a measure of a society's productivity on a macro scale is paralleled and bolstered by research on the micro level, which shows that being happy at work actually makes individuals more productive. In a recent study done for Gallup using a longitudinal database of 2,178 business units in 10 large organizations, the researcher James Harter "found evidence supporting the causal impact of employee perceptions on bottom-line measures" like customer loyalty, employee retention, revenue, sales and profit. In a related finding, the Gallup-Healthways well-being index showed earlier this year that Americans of all ages and income levels felt less happy at work and more disengaged from what they do than ever before. Gallup found that this disengagement correlated with lower productivity and poorer health outcomes and cost companies an estimated $300 billion annually.

The Harvard Business School professor Teresa Amabile and the researcher Steven Kramer, co-authors of "The Progress Principle," also found a causal relationship between happiness and productivity in their research. Over the past decade, using data from daily diary entries of 238 professionals in seven companies, they charted each person's psychological state and found that it had a profound impact on that worker's creativity, commitment, collegiality and output.

"Most of us believe that if you achieve success, you will be happier, but that's backward," said Shawn Achor, author of "The Happiness Advantage." "A decade of scientific research shows that happiness fuels success. Your brain, when positive, performs significantly better than when you are negative or stressed. Your intelligence and energy level rise. You are more resilient and more productive."

If, in short, happiness is both the ultimate goal of productivity and a means to achieve it, then it is not an outlandish notion to suggest that organizations and societies should gauge their success, at least to some extent, by the well-being of their people.

In Search of

Not since the 1980s, when Japanese production methods demonstrated just how complacent and inefficient U.S. companies had become during their decades of post-war dominance, has American industry seemed as vulnerable as it does today. So said a recent Harvard Business School survey, which warned that the competitive threat America now faces is infinitely more complex because it comes not from one, but many nations with growing strengths and diverse capabilities. What's more, global enterprises are far less invested in the United States, or in any single location, than they were three decades ago, and the U.S. government is more fiscally constrained and politically gridlocked than it was then.

The latest Global Competitiveness Report from the World Economic Forum reached essentially the same conclusion. "The U.S. has continued to go down in the (competitiveness) rankings," said Jennifer Blanke, lead economist and director at the WEF. "There have been a number of weakenings across various areas, particularly related to the fiscal environment and the apparent inability of policy makers to really deal with that issue."

The WEF report was based on data from 142 economies contributing 98 percent of the world's gross domestic product and supplemented by an opinion survey of more than 15,000 executives worldwide. The Harvard survey was based on

a New Competitive Normal

Workers at Foxconn, China.

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not only the opinions of 10,000 alumni, but also the decisions they either made or anticipated making while leading a range of organizations, from startups to global multinationals, in every economic sector.

Both studies were quick to acknowledge America's strengths: a prodigious ability to innovate, an excellent university system that collaborates well with the business sector in R&D and the sheer size of its domestic economy. However, the studies also concur on America's potentially crippling negative factors: burgeoning public debt, burdensome regulations, an onerous tax code and a primary education system that is lagging much of the world in teaching basic skills.

Three out of four respondents to the Harvard survey expected U.S. competitiveness to decline over the next three years, and many were considering moving business activity out of the U.S. The most commonly mentioned alternative destinations were China, India, Brazil, Mexico and Singapore, but the full list extended to 146 countries. The most commonly mentioned reason for moving? Seventy percent were

Without systemic changes, the United States' ability to compete in a global economy will continue to wane.

seeking lower wages.

Although the U.S. still leads the world in research and development, the gap is narrowing. A recent National Science Foundation report said the United States is rapidly losing ground to Asia, and a recent study by the Battelle Memorial Institute predicted that China's R&D

spending will match that of the U.S. by around 2022. Of the Harvard survey respondents who were contemplating moving company activities out of the U.S., 42 percent said they were thinking about moving research, development and engineering operations.

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Respondents in the manufacturing sector were the most negative about the ability of U.S. companies to compete. "The challenge in setting up U.S. plants is finding a technical work force," said Martin Schmidt, associate provost at the Massachusetts Institute of Technology. In particular, companies say they need engineers with more than high school, but not necessarily a bachelor's degree. Many manufacturers contend that Americans at that skill level are hard to find. They say Asia is a particularly attractive because the unskilled and semiskilled workers there accept lower wages. Also, these companies say, factories in Asia can scale up and down faster, and Asian supply chains are more flexible.

A recent article in *The New York Times* about Apple's iPhone production in China graphically illustrated that speed and flexibility: "One former Apple executive described how the company relied upon a Chinese factory to revamp the iPhone's screen just weeks before the device was due on shelves. New screens began arriving at the plant near midnight. A foreman immediately roused 8,000 workers inside the company's dormitories. Within 96 hours, the plant was producing over 10,000 iPhones a day."

The article noted that similar stories could be told about almost any electronics company — or, truth be told, any company in almost any industry. Nevertheless, Apple's case does offer insight into why U.S. corporate success in the era of globalization often does not translate into large numbers of domestic jobs. "If that's the pinnacle of capitalism, we should be worried," said Jared Bernstein, a former economic advisor to the Obama administration, speaking to *The Times*.

Some observers think all the talk about Asian supply chain efficiencies and the dearth of engineers and semi-skilled workers in the U.S. is a smokescreen. Rather, they believe global companies are simply seeking cheap labor and increasingly finding it outside the U.S., often at state-subsidized facilities offering wages and working conditions that few if any American factory workers could or should live with. In a recent *Washington Post* editorial, former Secretary of Labor Robert Reich wrote, "The strategic responsibility for making Americans more globally competitive can't be centered in the private sector because (it has) less and less stake in America. It's designed to make a profit. It wants lower corporate taxes, less regulation and fewer unionized workers. These steps may lower the costs of production here, but (they won't) bring good jobs to America. Global companies can always find even lower costs abroad."

Or maybe not. Jim O'Neill, the chairman of Goldman Sachs Asset Management and the originator of the notion of the BRIC (Brazil, Russia, India and China) economies, believes "the great attraction to producing in China is rapidly disappearing, and it's coming back to this country. The Chinese right now are deliberately raising wages and converting to an economy more driven by domestic consumer demand. That is reducing their competitiveness." For those same reasons, a recent report from The Boston Consulting Group predicted a U.S. "manufacturing renaissance" over the next five years to the tune of an added $100 billion in G.D.P. and 2 million to 3 million jobs.

If true, that would certainly be a welcome turn of events for U.S. manufacturing, but would not address many of the financial, fiscal and macroeconomic weaknesses identified in the Harvard Business School and World Economic Forum studies. In the final analysis, those negative factors seem to speak less to a lack of ability or resources than to a lack of will — political and governmental will, certainly, but also, corporate will. As the Harvard study concluded, "Part of the business agenda for U.S. competitiveness (must be) to stop taking actions that benefit one's own firm but weaken America's business environment."

Selfish or Self-Interest?

Where Did We Go Wrong?

In March 2012, an executive director at a global investment bank stunned the financial world by publicly resigning in an article he wrote for *The New York Times*. In his article, he decried the "toxic and destructive" environment that had overcome the Wall Street institution, a part of which he led.

Such sharp criticism of a Wall Street institution comes on the heels of increased cynicism and lack of trust in global business. In fact, the erosion of trust in business may be one of the consequences of the world's economic troubles.

During the Great Recession, triggered by the sub-prime mortgage fiasco, the public's feelings about business and business leaders took a sharp turn toward the negative. Corporate greed and selfishness dominated the headlines, and cynicism about the current state of capitalism spread. According to the Edelman Trust Barometer, an annual survey of public attitudes, trust in business plummeted in 2009. In 2012, trust in government similarly declined, and according to Edelman, "trust in the two institutions tends to move in sync." Trust in business around the world continued to drop, and in the United States, the level of trust did not reach the 50 percent mark. Banks and financial services firms remain the least-trusted businesses, with 47 percent and 45 percent ratings respectively, while the trust levels for CEOs dropped 12 percentage points, down to 38 percent, which is the lowest in the 12 years the Edelman has tracked such numbers.

Another recent poll, from the Pew Research Center, found that only 50 percent of Americans reacted positively to the term "capitalism," and that number was even lower among younger Americans, ages 18 to 29. The poll concluded that those in that age bracket viewed socialism more positively than capitalism. Writing in *The New York Times* about the harm rogue bankers had done, Nicholas D. Kristof made the startlingly point: "In other words, America's grasping capitalists are turning young Americans into socialists."

Eric Palma

Have corporations pushed the rudimentary benefits of self-interest well over the line and into the realm of selfishness and greed? Are organizations continuing to reward the behavior that triggered the economic catastrophe in 2008 without regard for the consequences? Given the complexities of the global economy, is it possible, through reward systems, to reduce the level of selfish behavior driving so many individuals and organizations?

Steven Kerr, a senior advisor to Goldman Sachs and author of "Reward Systems: Does Yours Measure Up?" (Harvard Business School Press), has spent years in academia and at General Electric and Goldman Sachs, studying the impact of corporate reward systems. According to Kerr, finding the correct answer requires asking the correct question.

"The question is not one of selfishness," Kerr said. "It's not useful to say people are selfish. Human beings tend to be selfish. That's how we're wired. We would run into a burning building to save a child, but if our child was in one room and a stranger's child in another, we know where we'd go first and where the other parent would go. That's just the way it is.

"If you put me in a work situation, I'm going to be selfish and concerned with my own goals and career. It's neither good nor bad, it's simply how we're wired. The question is not one of selfishness, the question is one of alignment.

Kerr, who served as vice president of corporate leadership development and chief learning officer at General Electric under CEO Jack Welch, was on leave from the University of Michigan to run G.E.'s Crotonville leadership center when, in 2001, he was recruited by Goldman Sachs to take on a similar role.

"I didn't need the job and I wondered what I'd be getting into," Kerr recalled. "I had Gordon Gekko and that movie in my head, but I also realized that people who join Goldman Sachs are not randomly selected out of some phonebook. These are people who are going to be required to work incredible hours and will be probably be let go; a majority don't make it. But if you do succeed, you will be rewarded with wealth. Before Goldman was vilified for the recent crisis, it was quite prestigious to work there. So you get fame and fortune and a great chance to learn, so there are certainly selfish motives behind a decision to go there."

What Kerr quickly encountered, as he began working with Goldman's top executives, was an illuminating example of alignment. The Goldman aspiration, perhaps unfortunately worded, was to be "long-term greedy." Contrary to Gekko's opinion that "greed is good," the Goldman philosophy is built upon the idea that decisions must benefit the client in the long haul, regardless of what it costs Goldman in the short run.

Say What?

Likeonomics (n.): Personal relationships, individual opinions, powerful storytelling, and social capital that help brands and their products or services become more believable. SOURCE: OGILVY

"It's not about worshipping greed," Kerr explained. "Not everyone gets it right, but the idea is that you do what is right for your client, your customer, and if it looks like it is costing you money, you still do it because in the long term, you will come out ahead. That to me is a better message than telling people to not be greedy and think of others."

In other words, Kerr said, companies can try to teach employees right from wrong but the stark truth is that by the time people reach a Goldman Sachs or a G.E., they know right from wrong — and if they are behaving badly, they are well aware of what they are doing.

"So the question is not whether you can turn these folks into noble people, the question is how do you align your goals so that in the course of them getting what they want, they also give you what you want, and if you are lucky, you give society what it wants," Kerr said. "It isn't easy, but trying to convince people not to be greedy is pointless."

People are motivated to pursue their goals, and smart organizations find ways to make the achievement of employees' goals contingent upon achieving the organization's goals. "You think back to World War II, when people were more noble and risked their lives for the cause," Kerr said. "Soldiers were told, 'You go home when the war is won and until the war is won, you don't get to go home.' The soldiers knew if they stayed long enough, the odds were they would get shot. So it paid for them to do whatever they could to help end the war because it was the way you got to go home. It's goal alignment."

In fact, Kerr said it is important that people are selfish, as long as there is a solid control system within the organization. In today's wired world, where getting away with cheating, lying and stealing has become more and more difficult, a company only needs to make it clear that an employee caught behaving unethically or illegally will pay the full penalty for their behavior. If you screw up, you have a great chance of being caught and if caught, nobody will protect you, Kerr pointed out. "With that, I'm not too worried about your motives," Kerr added. "It's amazing how quickly you get changes in behavior."

Given such alignment, selfishness morphs into self-interest that benefits the organization and the individual, and in the best of all scenarios, society as well. Kerr acknowledges there are no guarantees in a world where so many strive to scam the system. Indeed, if the leaders, like Bernie Madoff or Enron, aim to do harm for selfish gain, then aligning goals and getting people motivated to do what the leaders want will still create problems for society.

"I hope it's selfish," Kerr stated. "I hope you concluded that it's in your own selfish best interests to behave the right way because then I know I don't need outside control."

Hal Mayforth