

Please read pages 1-8.

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("How Organizations Can Support Better Bosses")

The boss factor: Making the world a better place through workplace relationships

Businesses looking to make an external social contribution should, paradoxically, look inside: improving workers' job satisfaction could be the single most important thing they do.

by Tera Allas and Bill Schaninger

Today's leaders have never been under so much pressure. Even as they navigate the evolving COVID-19 crisis—keeping their customers and employees safe and their businesses viable—expectations are sky-high. Shareholders are calling for foresight, bold strategies, agility, and resilience, while governments and communities increasingly expect businesses to support broader goals, such as sustainability and social justice.

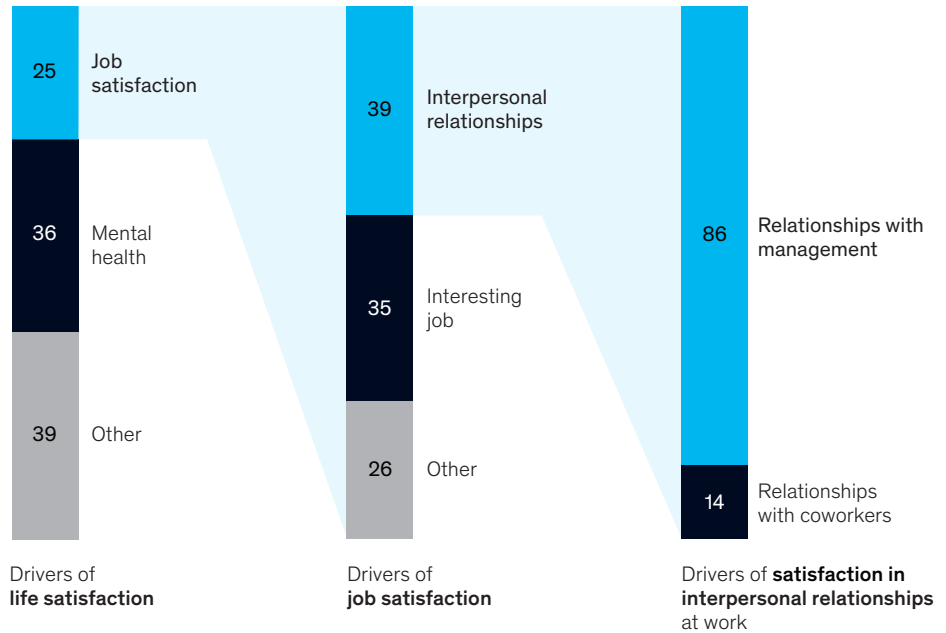
For purpose-led corporations, this is a defining moment. How can they remain committed to additional stakeholder values when the imperative is to conserve cash and, in many cases, aggressively restructure? And what about businesses that have only started defining their environmental, social, and governance (ESG) ambitions? When push comes to shove, do their leaders (and shareholders) really believe in the ESG premium? And, if so, where can they best focus their attention?

To move forward, rather than stand paralyzed, crystal-clear prioritization will be key. In this article, we argue that there is one essential area where companies can create

Exhibit 1

Relationships with management is a critical factor in employees' life satisfaction.

Share of satisfaction explained by each factor,¹ %



¹ Drivers of life satisfaction based on various UK and European surveys; drivers of job satisfaction and satisfaction in interpersonal relationships based on a 2015 International Social Survey Programme Work Orientations module (n = 27,732 respondents across 37 countries).

Source: Jan-Emmanuel De Neve et al., "Work and well-being: A global perspective," *Global Happiness Policy Report 2018*, February 10, 2018, happinesscouncil.org; Richard Layard, *Can we be happier?: Evidence and ethics*, London, UK: Pelican Books, 2020; McKinsey analysis

enormous social value: job satisfaction. Because of the connection between happiness at work and overall life satisfaction, improving employee happiness could make a material difference to the world's 2.1 billion workers.¹ It could also boost profitability and enhance organizational health.

When it comes to employee happiness, bosses and supervisors play a bigger role than one might guess. Relationships with management is the top factor in employees' job satisfaction, which in turn is the second most important determinant of employees' overall well-being. According to our analysis, only mental health is more important for overall life satisfaction (Exhibit 1). Unfortunately, research also shows that most people find their managers to be far from ideal; for example, in a recent survey, 75 percent of survey participants said that the most stressful aspect of their job was their immediate boss.² And those describing very bad and quite bad relationships with management reported substantially lower job satisfaction than those with very good and quite good relationships (Exhibit 2).

¹ Excludes the self-employed, who make up around 1.2 billion of the 3.3 billion people employed worldwide.

² Mary Abbajay, "What to do when you have a bad boss," *Harvard Business Review*, September 7, 2018, hbr.org.

Shifting the behavior of an entire cadre of managers might seem a daunting proposition. But McKinsey research on changing organizational culture indicates the key elements required. Senior leaders can create a step change in both shareholder and social value by clearly articulating the sizable upsides to high job satisfaction, including educating managers on their pivotal roles and embedding quality of workplace relationships into manager development and performance appraisals. They can also act as critical change agents by embracing servant leadership and approaching everyone in their organization with compassion and genuine curiosity.

Good bosses, good performance

It stands to reason that managers would play a crucial role in their employees' workplace happiness. The wealth of literature on what makes for a good workplace highlights two aspects that line managers directly control: good work organization—that is, providing workers with the context, guidance, tools, and autonomy to minimize frustration and make their jobs meaningful—and psychological safety, which is the absence of interpersonal fear as a driver of employee behavior. With burnout on the rise, and stress and anxiety a leading cause of ill health and absenteeism, the emotional health of workers becomes particularly important.

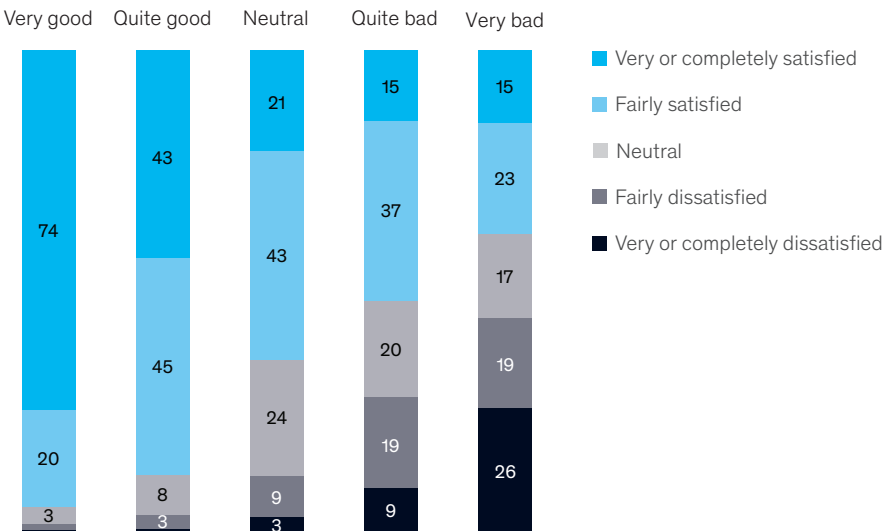
Exhibit 2

People in workplaces with good management relations are significantly more satisfied.

% of respondents

How would you describe relations at your workplace between management and employees?

How satisfied are you in your (main) job?



Source: ISSP Research Group, *International Social Survey Programme: Work Orientations IV - ISSP 2015*, GESIS, 2017, dbk.gesis.org; McKinsey analysis

There are complex interactions between these factors, giving rise to potential virtuous and vicious cycles. For example, a good manager instills a sense of trust and confidence, with a clear set of attainable goals rooted in customer-centric thinking. In such an environment, frontline workers feel empowered and often receive positive feedback from customers and colleagues. They are also more likely to raise issues when things do not go well. A safe and collaborative environment for joint problem solving generates innovation, a sense of achievement, and even higher levels of customer satisfaction. With more loyal customers, lower absenteeism, and low staff turnover resulting in higher profitability, a manager may now be in a position to allocate more resources to their workers.

Such a scenario is not just a theoretical construct. Countless studies show the empirical link between employee satisfaction, customer loyalty, and profitability. For example, in an ingenious piece of research, academics exploited a so-called natural experiment—different weather patterns in different locations at different times—to show that call-center workers' weekly sales increased by 25 percent when their happiness increased by one point on a scale of one to five.³ Similarly, a large-scale meta-analysis found that business units with top-quartile employee engagement achieved operating-profit margins that were one to four percentage points higher than those in the bottom quartile.⁴ Employee satisfaction has also been shown to contribute directly to shareholder value (Exhibit 3).

Why are servant leaders so rare?

In many ways, there is only one question any manager need ask: How do I make my team members' lives easier—physically, cognitively, and emotionally? Research shows that this “servant leader” mentality and disposition enhances both team performance and satisfaction.⁵ Moreover, studies also suggest that managers themselves are happier and find their roles more meaningful when they feel they are helping other people.

Even though most business schools, executive training courses, and leadership programs espouse servant leadership, few bosses manage to fully commit to it. Perhaps that's no surprise. In most organizations, the average manager has neither the incentives nor the skills to focus on employee happiness. Consider how most businesses make promotion decisions: people who get ahead tend to be either current high performers or those who appear most leader-like. Sadly, neither of these traits correlates well with servant leadership. For example, research suggests that the most productive individuals typically have high levels of technical skills and personal drive, but only 30 percent of them are likely to become the kind of leaders that prioritize and

³ The study found that workers reported being less happy on days with inclement weather. This allowed researchers to determine that the happiness of call-center workers caused the sales jump, and not the reverse. For more, see “Does employee happiness have an impact on productivity?,” Saïd Business School WP2019-13, October 2019.

⁴ James K. Harter, Theodore L. Hayes, and Frank L. Schmidt, “Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis,” *Journal of Applied Psychology*, 2002, Volume 87, Number 2, pp. 268–79, psycnet.apa.org.

⁵ Denise L. Parris and Jon W. Peachy, “A systematic literature review of servant leadership theory in organizational contexts,” *Journal of Business Ethics*, 2013, Volume 3, Number 3, pp. 377–93, springer.com.

Exhibit 3

Employees' satisfaction is positively correlated with several aspects of company performance, including shareholder value.

Correlation between employee satisfaction and selected performance metrics¹

Annual shareholder returns for 100 best companies to work for ("Top 100"), relative to given portfolio, 1998–2009,² %



¹Meta-analysis combining observations from >1.8 million employees and 82,000 business units.

²Risk adjusted; based on list compiled by *Fortune* for the United States.

Source: Jan-Emmanuel De Neve, Christian Krekel, and George Ward, *Employee Wellbeing, Productivity and Firm Performance*, CEP discussion paper, number 1605, March 2019, cep.lse.ac.uk; Jan-Emmanuel De Neve et al., "Work and well-being: A global perspective," *Global Happiness Policy Report 2018*, February 10, 2018, happinesscouncil.org; Alex Edmans, "Does the stock market fully value intangibles? Employee satisfaction and equity prices," *Journal of Financial Economics*, September 2011, Volume 101, Number 3, pp. 621–40; McKinsey analysis

support employee satisfaction.⁶ Moreover, Gallup research contends that only one in ten people possesses the necessary traits that great managers exhibit, traits that include building relationships that create trust, open dialogue, and transparency.⁷

People are also more likely to be promoted when they exhibit self-confidence, build extensive networks, and navigate organizational politics with ease. Creating a sense of personal power and toughness can have positive outcomes for leaders, particularly if they are confronted with an unchanging status quo. But such self-orientation is the polar opposite of what is required for building trust. Organizational psychologist Tomas Chamorro-Premuzic suggests that many leaders achieve their positions by being self-centered, overconfident, narcissistic, arrogant, manipulative, and risk-prone.⁸

So even if a manager believes, in their heart of hearts, that the right thing is to support their team members and enhance their job satisfaction, it might be hard for them to resist the siren call of a more authoritative style that seems to give them a better chance of recognition. Moreover, if they have previously excelled in their individual performance, this same manager and leader may have to improve their emotional intelligence and actively change their attitude to discern the frequent occasions when a softer touch is more effective than a tougher stance. All of which is more difficult

⁶ *The Politics of Potential: How Organizational Politics Are Poking Holes in Your High-Potential Program*, hoganhipo.com.

⁷ Randall Beck and James Harter, "Why great managers are so rare," *Business Journal*, gallup.com.

⁸ Tomas Chamorro-Premuzic, "Why do so many incompetent men become leaders?," *Harvard Business Review*, August 22, 2013, hbr.org.

because of the scarcity of role models to learn from within most organizations. The self-centered approach gets perpetuated by the hiring practices and performance evaluations of many organizations. In fact, companies fail to choose the right talent for management positions 82 percent of the time.⁹

Organizations that allow such dynamics to persist miss out on the upside of employee satisfaction. At the extreme, these organizations also risk creating or enabling a toxic culture that can lead to serious performance and health issues—and even death.

How bosses can change

The sizable role a boss plays in employee satisfaction and organizational performance provides an intriguing contrast with the simple measures needed to improve it. The fundamental elements are the same as with any other human relationship: mutual trust, encouragement, empathy, and good communication. These attributes create a supportive environment where employees can feel psychologically safe and satisfied and deliver their best work.

Even though managers' organizational context can blunt their incentives and restrict their actions, there are, nevertheless, simple changes bosses can make to improve the workplace happiness of the people who report to them—no matter what their organization's culture is like. In this regard, micro-actions often count more than larger, structural changes. Here, we highlight four practices that have proven effective:

- **Empathy, compassion, and vulnerability:** A manager who genuinely cares about an employee's well-being tends to be curious about it. Sincerely asking, "How are you doing today?" and showing empathy no matter the answer creates an opportunity for employees to raise issues and to feel safe when they do. If the problems relate to the workplace, solving them together and encouraging initiative taking can give workers a heightened sense of agency, in turn reducing their stress levels.

Moreover, curiosity and compassion typically go hand in hand. A sense of compassion, defined as caring for and being committed to the happiness, well-being, and quality of life of others in addition to our own, is at the heart of all great religious traditions—and of the secular ethics of the "happiness revolution." The economist Richard Layard proposes that "we should each of us, in all our choices, aim to produce the greatest happiness we can—and especially the least misery."¹⁰ For bosses, this is not merely an ethical choice. Research shows that when employees perceive compassion or kindness from their leaders, they become more loyal to them.¹¹ Loyalty in turn feeds better performance at work.

The best managers also open themselves up to others' empathy and compassion and share their own emotions in response, which requires the willingness and ability to

⁹ Randall Beck and James Harter, "Why great managers are so rare," *Business Journal*, gallup.com.

¹⁰ Richard Layard, *Can We Be Happier?: Evidence and Ethics*, London, UK: Pelican, 2020.

¹¹ Emma Seppälä, "Why compassion is a better managerial tactic than toughness," *Harvard Business Review*, May 7, 2015, hbr.org.

feel and show vulnerability. Doing so will help maintain a leader's emotional stability and build a close support network that is essential, especially during turbulent times.

- **Gratitude:** Being thanked makes people feel valued. Celebrating small achievements helps people face larger challenges. As outlined in Teresa Amabile's book *The Progress Principle: Using Small Wins to Ignite Joy, Engagement, and Creativity at Work* (Harvard Business Review Press, 2011), the experience of celebrating small accomplishments sets up a positive dynamic where everyone wants to do better. Routinely, frequently, and generously thanking team members costs nothing and has enormous benefits.

Yet there is a danger here. All of us have built-in radars for fake expressions of emotion and recognize when bosses and senior leaders are simply following a script without actually meaning what they say. To make their gratitude count, managers need to hone their ability to feel genuine thankfulness and use this emotion to express their appreciation in a heartfelt way.

- **Positivity:** Giving positive feedback builds employee confidence and reinforces beneficial behaviors. Unconditional positive regard—the practice of validating feelings, withholding judgment, and offering support—bolsters motivation and fosters authenticity. One study compared athletes who received unconditional positive comments from their coaches with those who received criticism. The former group experienced an increase in confidence, greater love for the sport, and stronger persistence through challenges. The latter group felt less secure, less motivated, and tended to wear out more quickly.¹² The same pattern has been found true for teachers and students, and it applies to bosses and the people they “coach” in the workplace as well.

In addition, positive regard is a key contributing factor to developing an individual's sense of autonomy and self-competence, which in turn is directly linked to greater happiness and well-being (Exhibit 4).

- **Awareness and self-care:** Being a supportive and compassionate manager is easier for people who are themselves aware of and at peace with their own inner state of being. Leaders must first relate to and help themselves before they can do the same for others. For example, sharing emotions or letting go of judgment is often only possible once leaders feel safe themselves.

Managers who prioritize their own well-being can better help others prioritize theirs. When it comes to self-care, research from the Wellbeing Project—a coalition of leading social institutions catalyzing a culture of well-being in support of social change—shows the benefits of self-care for changemakers in the social sector, a group that faces daunting problems and strenuous circumstances. The recipe for self-care will be different for everyone, but most often includes attention to diet, exercise,

¹² Lauren Kelly McHenry, “A qualitative exploration of unconditional positive regard and its opposite constructs in coach-athlete relationships,” University of Tennessee, May 2018, trace.tennessee.edu.

rest, and sleep. For many, mindfulness or other meditation practices are also powerful sources of resilience.

If a manager's organization does not reinforce such behaviors, it is important for that manager to build their own system of cues, routines, and rewards to help consolidate these actions as habits. As long as the intent is authentic, bosses can simply imitate the new behaviors they intend as a path toward consolidating those actions into their daily routines. For example, a manager could set themselves a goal of speaking less and listening more, and then systematically solicit feedback and observe the results. In time, they would likely notice the positive effects this has on team members, which would feed their intrinsic motivation to do even better. They could also benchmark themselves to see if they make it into the top quartile of managers whose team members rank their relationship with their boss as "very good."

However, in a hectic and demanding environment, it is not always easy to stick to good habits. It is even harder if good management is not valued or the model of leadership in an organization is primarily based on authority and personal achievement. In those circumstances, managers need their leaders to help.

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How organizations can support better bosses

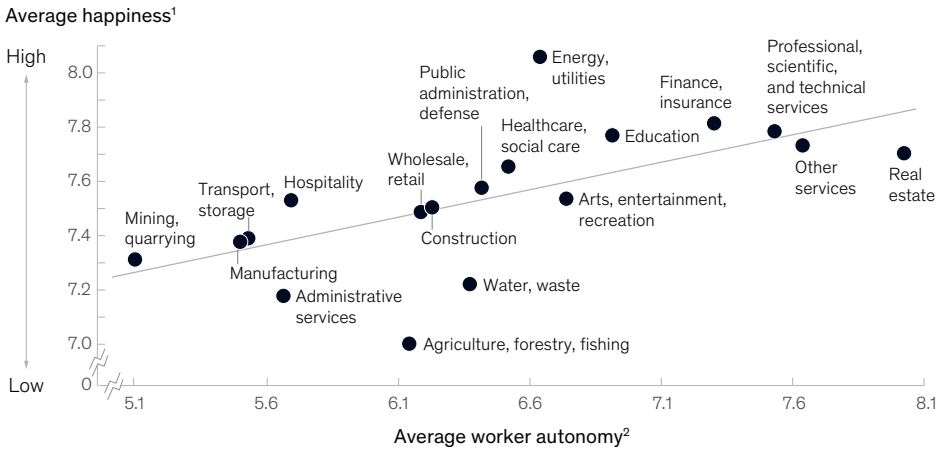
Although this article focuses on the role of individual managers, leaders of organizations have a fundamental duty as well to create an environment that enables good management, and good relationships more generally. Not only do they owe this to their shareholders, but there is also a clear moral imperative. While there are many sources of misery in the world—including poverty, illness, and discrimination—the one aspect of people's lives that is clearly within an organization's sphere of influence is the behavior of their bosses and supervisors.

Leaders who take this message seriously can draw on well-established literature for how to change mindsets and behaviors in an organization. Four ingredients are required:

- 1. Understanding and conviction conveyed through a compelling change story that solicits better behavior from bosses and supervisors.* A compelling story is one that builds in multiple narratives. Leaders might start by educating bosses and supervisors about the enormous positive and negative impact they have on the lives of the people who report to them. (Research shows that leaders consistently fail to recognize how their actions affect and will be interpreted by others.) The story might also connect the dots for everyone in the organization—for example, by relating how the aspiration for employee well-being explicitly matches the organization's social responsibility agenda. Similarly, the narrative might link the company's overall purpose statement to the individual purpose people feel in their working lives—the aspects of work they find most meaningful. A compelling change story might also connect ethical behavioral imperatives with the performance improvement of the organization as a whole.
- 2. Role modeling that demonstrates a leader's personal belief and commitment to employee well-being.* Many senior leaders consistently overestimate how much they are part of the solution and not the problem in a range of organizational matters. But

Employees who have more autonomy are, on average, happier with their lives.

Happiness and worker autonomy by sector



¹Weighted average responses to the question "Taking all things together, how happy would you say you are?"; 0 = extremely unhappy, and 10 = extremely happy.

²Weighted average responses to the question "How much does the management at your work allow you to decide how your own daily work is organized?"; 0 = I have no influence, and 10 = I have complete control.

Source: "European Social Survey Round 9," Norwegian Centre for Research Data, 2018, europeansocialsurvey.org; McKinsey analysis

nothing undermines a cultural-change initiative more thoroughly than lip service to a cause that leaders fail to follow through on themselves. Consider how one survey found that 27 percent of organizations have placed many of their inclusion and diversity initiatives on hold because of the COVID-19 pandemic,¹³ even though doing so negatively affects trust in leadership and leads to lower employee engagement and performance. In their own effort to bolster employee well-being in their organizations, leaders can start with self-reflection to identify biases and actions that either support or undermine change.

3. Skill- and confidence-building approaches to help managers create better employee experiences. Research shows that as people gain power, they lose the ability to judge a situation accurately, particularly with regard to how others will perceive their actions. They also lose some of their ability to empathize with people in positions of less relative power.¹⁴ Organizational leaders can tackle this tendency directly. While training courses for soft skills—such as providing and receiving feedback—need to become a more standard part of the corporate curriculum, organizations should also explore novel ways to address the loss of empathy that accompanies gains in authority.

To accomplish this, organizations can follow the experiments of academics such as Yale School of Management psychologist Michael Kraus. In his experiments, Kraus

¹³ "COVID-19 response: Diversity and inclusion," Institute for Corporate Productivity, March 25, 2020, i4cp.com.

¹⁴ Jerry Useem, "Power causes brain damage: How leaders lose mental capacities—most notably for reading other people—that were essential to their rise," *Atlantic*, July–August 2017, theatlantic.com.

managed to “re-anchor” powerful people’s sense of their own power by forcing them to rank themselves against people they perceive as even more powerful, such as billionaires and political leaders.

Organizations can also provide access to meditation apps and training courses that encourage mindfulness and self-awareness. Senior leaders can build on design-thinking practices that question established behaviors and reframe solutions to meet the unique needs of different employees. Skills and tools aimed at improving a set of employee experience factors—including trust in leadership and the relationship with a company—can further support employee engagement, well-being, and effectiveness.

4. Formal mechanisms that reinforce the right behaviors. Unless employee satisfaction, including satisfaction with an immediate boss, becomes a core part of a company’s performance evaluations, behavior is unlikely to change. By praising and promoting the best managers, organizations also help fill their ranks with the right kinds of role models. Companies that combine this approach with new HR screens to identify people with the desirable servant-leader traits can begin to form a supporting ecosystem for better management practices. Companies such as GE have begun substituting their top-down performance appraisals with novel approaches that emphasize continuous learning and coaching rather than criticism.

Few managers realize what a dramatic impact—either positive or negative—they have on the world through their everyday behavior. It is the responsibility of senior leaders to enlighten them and provide the organizational context that consistently fosters high-quality relationships between bosses and the people who report to them. Q

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