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Employee Well-Being and its Relationship with Productivity

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Abstract

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Employee well-being is an important topic and widely discussed. For employers to truly make a difference, the issues need to be heard and understood. There is no one model that fits all. This study will explore how employee well-being and productivity are linked. This thesis will also give insight into the definition of employee well-being, which is widely discussed and difficult to measure.

This research is conducted with secondary data to answer the research question “What factors influence employee well-being, and how does well-being affect productivity?” By taking a closer look at Finland’s situation, the connection between employee well-being and productivity will be analyzed.

Keywords: Employee well-being, productivity

Contents

Glossary

1	Introduction	1
2	Literature Review	3
2.1	Definitions and Dimensions of Employee Well-Being	3
2.2	Key Factors Influencing Employee Well-Being	7
2.2.1	Leadership Styles	7
2.2.2	Workplace Culture	9
2.2.3	Flexible Work Arrangements	10
2.2.4	Career Development Opportunities	13
2.3	HRM and Employee Well-Being	16
2.3.1	HRM Practices and Employee Well-Being	16
2.3.2	The Tension Between Strategic HRM and Employee Well-Being	18
2.3.3	Sustainable HRM and Employee Well-Being	19
2.4	Well-Being and Productivity	20
2.4.1	The role of engaging leadership in well-being and productivity	22
2.5	Synthesis of key themes and gaps in literature	22
3	Research Methodology	23
4	Data presentation and analysis	24
4.1	Employee well-being in Finland	25
4.2	Development of employee well-being	29
4.3	Productivity	33
4.4	Initiatives to better employee well-being	34
5	Discussion and Conclusion	35
	References	38

Glossary

ADT	American District Telegraph
HR	Human Resource
HRM	Human Resource Management
SHRM	Strategic Human Resource Management

1 Introduction

Employee well-being is a central topic in organizational studies because of its significant impact on both individual health as well as organizational productivity (Guest, 2017). Well-being is shaped by a complex collaboration of individual, organizational and societal factors. Its direct relationship with productivity is still not fully understood, especially when talking about different cultural and organizational behaviours. Workplaces continue to evolve due to technological advancements, remote work, and shifting employee expectations, but understanding what drives well-being and how it influences productivity is now more important than ever.

One of the key challenges in studying well-being and its effects on productivity lies in how it is measured. For example, while some research emphasizes the importance of psychological safety in the workplace (Kahn, 1990), others highlight the role of physical health interventions, such as employee wellness programs (Kumar, McCalla, & Lybeck, 2009). Research even defines employee well-being differently, which is good because employee well-being cannot be defined in one way. Employee well-being and its importance is different for each individual.

A significant number of studies depend on self-report questionnaires (for example the Finnish Institute of Occupational Health, McKinsey, Schaufeli), but these are affected by cultural differences of employee well-being. Some research emphasizes the importance of psychological safety in the workplace, others highlight the role of physical health interventions, such as employee wellness programs (Kumar et al. 2009). The differences in viewpoints highlight the complexity of well-being and shows that it should be studied further.

The biggest influencers of employee well-being are leadership styles, workplace culture, flexibility and career development opportunities. These aspects also have different influences, which is why there is no model to improve employee well-being that would fit all. Employee well-being needs to be a continual discussion between employers and employees. To actually make a change, employers need

to be interested in how their employees are doing and how to help. Some employers have gotten the idea of improving employee well-being wrong, by just offering wellness programs and not understanding the real problems. Wellness programs are a great start, but they will not help employee well-being if everything else is wrong at the workplace. Poor well-being can lead to costly organizational consequences, through absenteeism and presenteeism. Organizations play a crucial role when it comes to shaping workplace well-being, for example through leadership practices, work-life balance initiatives and employee engagement programs.

This thesis will examine employee well-being, answering the research question “What factors influence employee well-being, and how does well-being affect productivity?” Specifically, it will analyse how organizational culture, leadership styles, and workplace practices shape employee well-being and how well-being fosters productivity. To achieve this, the study will offer insights into the key drivers of well-being. By addressing these questions, this research aims to provide valuable guidance for organizations seeking to foster a healthier, more productive workforce in an increasingly competitive and dynamic work environment.

2 Literature Review

2.1 Definitions and Dimensions of Employee Well-Being

Employee well-being is a diverse form that includes physical health, psychological safety, job satisfaction, work-life balance as well as overall satisfaction of life (Guest, 2017). It is generally recognized as a crucial element of both individual as well as organizational success that influences engagement, productivity and retention (Guest, 2017). However, according to Dodge et al. (2012) the defining of well-being remains a challenge because of its subjective characteristics and the different elements that influence it.

Dodge et al. (2012, p.230) proposed a new definition of well-being “as the balance point between an individual’s resource pool and the challenges faced”, which explains that well-being is a never-ending balance between challenges and available resources. Their need for proposing a new definition was that existing research only describes what well-being is, rather than defining it. Dodge et al. (2012, p.230-232) argue that their definition of employee well-being has strengths which are “simplicity, universal application, optimism and basis for measurement”. Simplicity gives employee well-being a more defined definition rather than a broad and complex one. Their definition of employee well-being can be applied to all, regardless of gender, culture or age because the resource pool can be different to each individual. The perspective implies that well-being might not be a static state but more likely a constantly changing state that is affected by external pressures such as workload, leadership, and career development opportunities.

Employees who have better access to supportive resources which include flexible work arrangements and career growth opportunities, tend to manage a positive well-being balance (Redekopp & Huston, 2018). White (2010) argues that well-being can be showcased with a triangle (Figure 1) to emphasize that all three; material, relational and subjective are connected and can not be without one dimension. The reason for this is that each aspect is their own, but to understand what influences well-being, each aspect has to be taken into consideration.

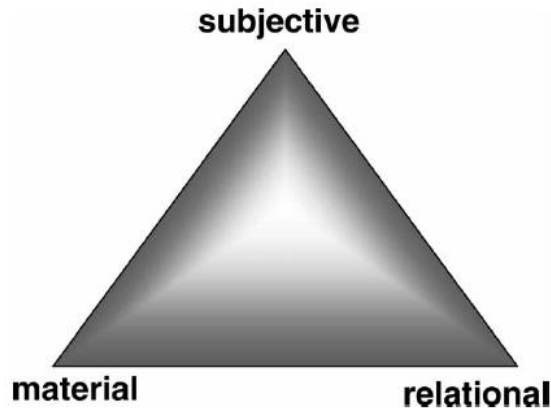


Figure 1. Dimensions of wellbeing (White, 2010)

At the same time White (2010) points out that understanding well-being is a process and it will constantly change. Figure 2 shows what factors are drivers and which ones are driven. It also shows which factors are more important when different situations and actions are in place.

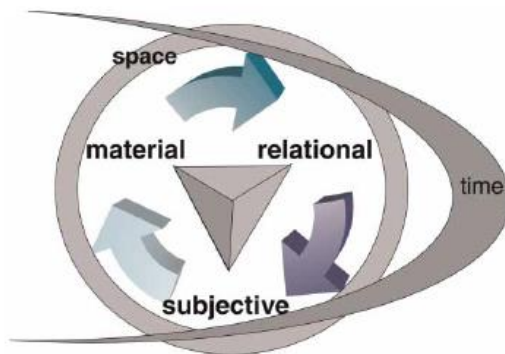


Figure 2. Factors of employee well-being (White, 2010)

However, from an organizational perspective, strategic human resource management (SHRM) has an essential role when it comes to forming employee well-being. Brown et al. (2012) point out the tension that is between SHRM's focus on traditional performance metrics and the increasing demand of prioritizing well-being. They argue that while SHRM aims to maximize efficiency while simultaneously overlooking employee well-being, it can lead to less engagement and an increased in turnover (Brown et al., 2012).

Chadwick et al. (2023) continue the discussion throughout their study by highlighting the differences between “job resource HR practices” that promote well-being (e.g., career development, social support) and “challenge demand HR practices”, which are more likely to induce stress and burnout because of the focus on high performance and competitive pressure (e.g. time pressure, workload).

McKinsey & Company (2023) emphasize in their article that psychological safety is an important factor for well-being so that employees can feel secure when they express themselves without the fear of negative consequences. It also fosters better performance and for employees to feel good at work. “Psychological safety means an absence of interpersonal fear. When psychological safety is present, people are able to speak up with work-relevant content” (Edmonson, 1999, as cited in McKinsey (2023)). According to a survey done by McKinsey, 89% of employees responded that psychological safety is essential at a workplace. Kahn (1990) emphasizes that psychological safety is an important factor for well-being so that employees can feel secure when they express themselves without the fear of negative consequences. When promoting job security, commitment and performance are nurtured. “Pfeffer (1998, cited in Salas-Vallina et al., 2020) stated that providing job security to employees increases their level of confidence, which, in turn, nurtures commitment and performance.” This can encourage employees to have long-term perspectives and therefore invest their best for better performance (Salas-Vallina et al., 2020).

Another important aspect of well-being is leadership. Leaders who adapt transformations with qualities such as empathy, a clear vision and fulfilling work experiences, have been able to improve well-being (Newman et al., 2017). According to Schyns and Schilling (2013) leadership styles that are dictatorial may reduce well-being and simultaneously increase stress as well as dissatisfaction.

Employee well-being also has a strong connection with organizational culture. A positive workplace culture which is characterized by collaboration, trust and recognition contributes to greater well-being and performance outcomes (Quigley et al., 2022). The importance of career development opportunities and flexibility are recognized as crucial aspects of employee well-being. A study done by Ray and Pana-Cryan (2021) on flexibility and work well-being, demonstrates that flexible work arrangements, such as adaptable schedules and the ability to take days off, can improve work-life balance and reduce job stress. However, if they are not properly looked over, it can confuse the boundaries between personal life and work which can then potentially lead to burnouts (Lindemoen, 2023). Career development is another important aspect of well-being, as employees who recognize growth opportunities tend to experience higher job satisfaction and have smaller intentions to leave the organization (Redekopp & Huston, 2018). Organizations that integrate career development with individual goals can promote better overall well-being and productivity. According to Meister (2021), a guide for leaders on prioritizing employee well-being, can be showcased in a graph (Figure 3). It shows the seven pillars of employee well-being.



Figure 3. Seven Pillars of Holistic Employee well-being (Meister, 2021).

Meister (2021) points out that “the future of work is employee well-being”. In Meister’s (2021) article he says that according to the survey “The Future Workplace 2021 HR Sentiment”, 68% of senior HR leaders rate employee well-being and mental health as a top priority. This is no wonder, because according to the Fortune Business Insight (2025), the global corporate wellness market size

was \$65.25 billion in 2024, \$68.41 billion in 2025 and is projected to grow by 2032 up to \$102.56 billion.

“The key factors driving the market growth are the growing awareness related to mental health issues in the workplace, the shifting focus of employers on employee engagement and retention, the rising prevalence of chronic disease, and the launch of various services.” (Fortune Business Insights, 2025)

2.2 Key Factors Influencing Employee Well-Being

As discussed in section 2.1, both organizational and individual factors play a crucial part in shaping employee well-being. These factors include leadership styles, such as transformational leadership, which fosters psychological safety and job security, whereas dictatorial leadership may increase stress and dissatisfaction. Workplace culture, characterized by collaboration, trust, and recognition, significantly impacts employee well-being and performance. Flexibility in work arrangements, such as remote work and adaptable schedules, can enhance work-life balance but, if not properly managed, may blur the line between personal and professional life. Additionally, career development opportunities, including mentorship, training programs, and clear growth pathways, contribute to job satisfaction, engagement and long-term well-being.

2.2.1 Leadership Styles

Research constantly shows that leadership style plays an important role in employee well-being. Transformational leadership, which is characterized by empathy, support and clear communication, promotes engagement and psychological safety for employees (Newman et al., 2017). In environments that are of high-stress, leaders who offer clarity and support help to reduce burnout. On the other hand the passive leadership style can often lead to stress, confusion and reduced trust within teams (Schyns & Schilling, 2013). Therefore leaders need to set the tone for organizational norms and simultaneously impact the overall culture of well-being within the workplace.

According to Karp (2023), many leaders face the same problem of leadership theories and abstract models do not help when it comes to dealing with every challenges. There is a lack in empirical studies when it comes to theory and practice. Majda I. Ayoub/Al-Salim (2023) argues that leaders succeed based on “how” their leadership is done and effectiveness lies in compassion, care and drive of emotions. According to Ulmer (2005), the differences in methods and styles of leadership also lie in the culture. “Trustworthiness, of course, remains the essential medium in any leadership situation” (Ulmer, 2005).

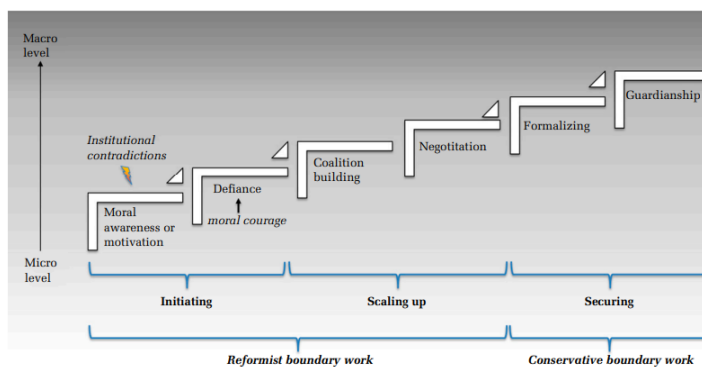


Figure 4. Successive Steps in How Emergent Moral Leaders Spur Change in Moral Systems (Solinger et al., 2020)

Solinger et al. (2020) showcase with Figure 4 a process where leadership evolves from individual moral awareness to institutional change. According to Solinger et al. (2020), the process goes along the lines of *initiating*, *scaling up* and *securing*. Each part has their own step on how they are gained. “Moral awareness or motivation” as well as “moral courage”, refer to recognizing the issues and getting the courage to speak up.

In the second phase “scaling up”, leaders take the role of influencing others through expanding their moral perspective, though gathering support and working with others. Individual viewpoints, when combined, create a shared understanding withing the organization (Solinger et al., 2020).

The next phase involves negotiation, where leaders interact with institutional stakeholders to facilitate change. Successful negotiation paves the way for

formalizing new practices, embedding ethical changes within organizational frameworks. The final stage, “securing”, is where leaders formalize and guard their moral boundaries (Solinger et al., 2020).

2.2.2 Workplace Culture

According to Bayot et al. (2024), leadership styles promote positive workplace culture. “Work culture is a management concept that encompasses the attitudes, beliefs, and perceptions of the employer's principles and practices” (Bayot et al., 2024). They also point out two relationships that should be considered: relationship between individual members as well as between managers and staff. Their study focuses on healthcare staff, but it can also be true when it comes to different sectors (Bayot et al. 2024). When the workplace culture is not good, it can lead to stress which then leads to burnout.

Organizational culture has a significant impact on employee well-being because it determines the emotional and social environment of the workplace. Quigley et al. (2022) argue that a culture that is centred on collaboration and respect improves both well-being and productivity.

Safeer and Allen (2019) emphasize that social influences shape culture, while it is difficult to capture all of them. To better understand and visualize the biggest influences, a map has been created by Safeer and Allen (2019), which can be seen in Figure 5.

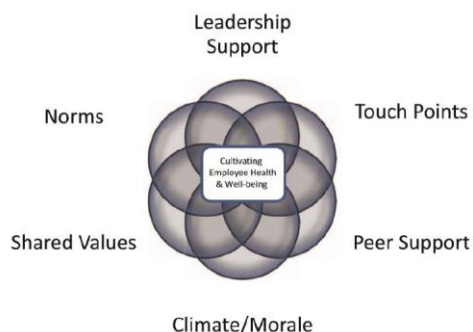


Figure 5. The spheres of cultural influence (Safeer and Allen, 2019).

According to the Harvard Division of Continuing Education (2025), poor workplace culture affects employee well-being. Which then also impacts the company's bottom line and therefore affects productivity. The main pillars of a positive workplace culture are "trust and psychological safety", "a sense of belonging" and "professional development opportunities" (Harvard Division of Continuing Education, 2025).

2.2.3 Flexible Work Arrangements

Flexibility in work arrangements is becoming more crucial when promoting employee well-being. Flexible work schedules and remote work options can improve work-life balance, reduce stress and enhance overall job satisfaction. The growth of hybrid work models (blend of remote and in-office work) shows new challenges for organizations when establishing clear boundaries and maintaining employee engagement. "When constructed well, meetings can provide a forum for creative thinking, discussion, debate, information sharing, problem solving and decision making. They can also help organizations meet important employee socio-emotional needs such as empowerment, engagement, affiliation, and perceptions of supervisor support" (Karl et al., 2022).

Broom (2021) reviewed a global survey which was conducted by the World Economic Forum in July 2021, which examined employees' opinions on work after the COVID-19 pandemic. The survey revealed that approximately two-thirds of individuals want to retain flexible working arrangements once the pandemic ends. At the same time, nearly one-third indicated they would consider leaving their job if required to return to full-time, office-based work. While the majority of respondents reported feeling more productive when working from home than in the office, 52 percent mentioned missing being around their co-workers. This highlights an apparent contradiction, employees value socializing and being connected with colleagues, yet may not be willing to commute to the office regularly. These mixed responses suggest a complex balance between the desire for flexibility and the benefits of in-person interaction.

According to a report by Owl Labs (2021), 70 percent of employees who worked from home during the COVID-19 pandemic said that it is less stressful to have online meeting than in-person and 64 percent prefer hybrid meetings. Hybrid meetings are a great opportunity for those who live close to the office or have a way to commute and want to interact with others, but it is also a great opportunity for employees who live in another country or cannot come in-person.

“Several studies over the past few years show productivity while working remotely from home is better than working in an office setting. On average, those who work from home spend 10 minutes less a day being unproductive and work one more day a week. These same remote workers are up to 47% more productive than office workers according to a Stanford study” (Bradshaw, 2025).

According to Bradshaw (2025) a study done by Standford with 16,000 workers over a period of nine months showed that productivity can increase by 13 percent when working from home. The increase was because employees could work in a quieter environment and therefore got more work done than in the office. Employees were also working more per day because of shorter and fewer brakes and on sick days they were not completely unavailable. The same study done by Standford showed that the employees work satisfaction was improved and a 50 percent cut on attrition rates.

When it comes to training online, everyone already has something in common which can make the bonding easier because everyone is dealing with the same situation or problem. “The shared stress, anxiety, and frustrations can create ties that further bind already collegial global teams. This shared experience has the potential to enhance cohesion going forward” (Caligiuri et al., 2020).

“Work from home has shown how different working conditions can be for the same type of work (office work); therefore, the promotion of personalized workplace risk assessment should be encouraged. Even if virtual workplace visits using photos and videos are not the

traditional way the workplace risk assessment should be done, it is effective; workers who report that their employers assessed their working conditions report fewer health effects” (Matisāne et al., 2021).

Matisāne et al. (2021) conducted a focus group study where participants were divided based on their jobs. The aim was to find out about the working conditions of the employees and to figure out how they have been taken into account by companies. The results showed that 71.9 percent of the focus group participants acknowledged that working conditions were not checked and that they had thought about workplace risk assessment but did not provide it. They also believed that it was not necessary to provide a workplace risk assessment because workers already have a good working environment at the office and believed that telework was only a temporary solution during the COVID-19 pandemic and was therefore not necessary. Some employers did provide their employees with for example laptops down the road to ensure that the transition to telework was smoother and employees could work better from their homes. 12.5 percent of all focus group participant mentioned that they got a training on office ergonomics which was then adapted to the online form.

According to the same study, a lot of employers used the “Let’s wait” tactic at the beginning and justified it for not doing workplace risk assessments. To ensure a workplace risk assessment employees were able to fill out a checklist and provide a photo of their working environment at home and actions were taken accordingly to ensure their health and wellbeing (Matisāne et al., 2021). According to a survey made by Anik and Habib (2025), on flexible work arrangements after the Covid-19 pandemic, 55% of employees prefer work from home. 57% of employees would like to have flexibility when it comes to working hours.

2.2.4 Career Development Opportunities

Career development opportunities are important when maintaining employee well-being. Employees who feel that they have clear paths for growth and advancement in an organization are prone to encounter higher levels of job satisfaction and lower levels of stress. Career development initiatives that have a focus on upskilling and adaptability also help employees to build resilience when having job-related challenges. Research by Redekopp and Huston (2018) highlights that organizations that align career development with employees' personal goals are more likely to experience lower turnover rates and at the same time enhanced morale. Conversely, the absence of clear development opportunities can lead to frustration, disengagement and reduced employee well-being.

According to research done by Dixon (2017), 39% of employees said that the chance to progress is one of the reasons why they are engaged at work. "Career development programs lead to retaining more people who are productive and grow their skills, thus benefitting the organization, said Phyllis Millikan, senior vice president for career management at Right Management, a ManpowerGroup company focusing on talent and career management" (Dixon, 2017). To compete, organizations need to invest in career development and programs that support it.

Hedge and Rineer (2017) proposed a career pathway model that focuses on the employees' career development (Figure 6). The model shows, what factors influence career growth and success, both organizational as well as personal. With this model, it becomes more clear, how many factors actually influence career success and development. If done correctly, it can take into account both employers and employees' needs. When both parties are involved, both benefit.

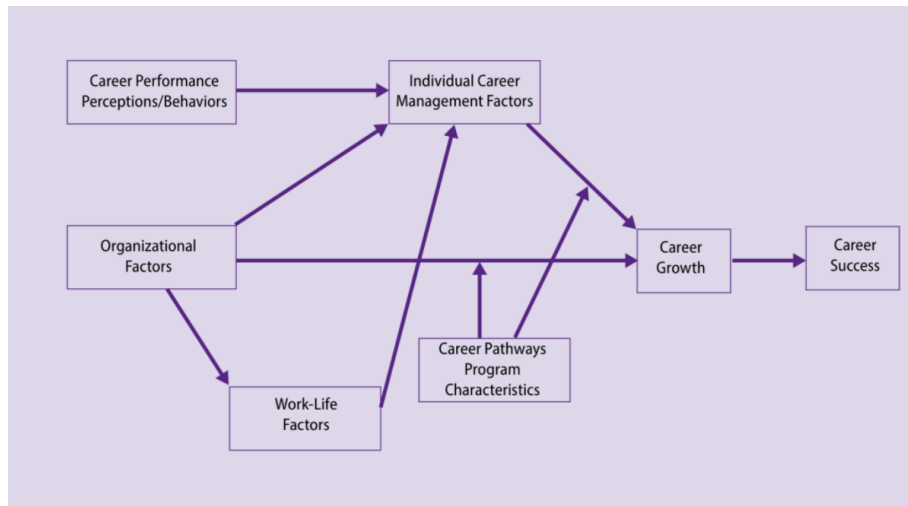


Figure 6. Employee focused career pathway model (Hedge and Rineer, 2017)

The most important programs for career development are clear communication and development of criteria for advancement, training and development, collaborative approach between employers and employee, continual evaluation, and employees' nonwork demands (Hedge and Rineer, 2017). A traditional pipeline does no longer take into consideration all of the aspects that have an impact on the employee. According to Hedge and Rineer (2017), there is still research to be done on how these programs are done and evaluated successfully.

Shaito (2019) also supports the need of career development programs, as they decrease the risk of losing employees. The most important elements of career development are education, capability, network and experience (Shaito, 2019). Shaito (2019) showcases a career development process which can be seen in Figure 7.

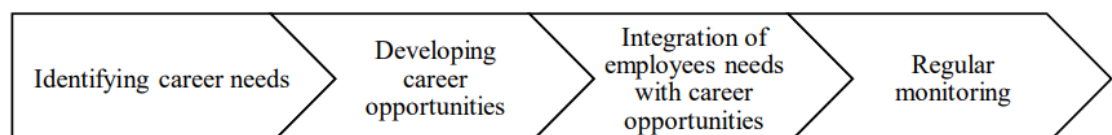


Figure 7. Career development process (Shaito, 2019)

The identification of career needs is the first step of the career development process. Some organizations have assessment centres or workshops, to help employees to identify their career goals and what steps they have to take to achieve them. Job analyses help to identify career opportunities and these are done through discussions with managers. The discussion includes what jobs are available within the organization and where the employee sees himself in the future. It is also important to discuss what steps the employee needs to take to achieve their goals. The integration of 'employee needs' with 'career opportunities' aims to align employees' needs and ambitions with career opportunities. This is an important step, because it ensures that right employees meet the requirements of the organization. At the end, regular monitoring is necessary to ensure that the right steps are being taken and if not, changes should be done to ensure a better outcome (Shaito, 2019).

Career path is defined as the journey of an employee from the very beginning to the last position before retirement (Shaito, 2019). Shaito (2019) argues that organizations put the effort into developing their employees, but employees should also take initiative when it comes to developing their careers. It is a combined responsibility, to also ensure that the employee has a say in his career path and his autonomy is not restricted when the organization has too much control.

One of the benefits of career development is open communication within the organization, which is also the foundation of an organization. Employee skills are brought to light through communication and these can be better used for the organization when employees are given the opportunity for change and therefore have better results. Discussions and feedback can help to reform the policies and initiatives of an organization (Shaito, 2019). According to Shaito (2019), career development strategies are important for the organization as well as the employee. Job satisfaction is an important aspect when it comes to career development opportunities. According to Bourne (2020), employees who feel satisfied, secure and that there are career development opportunities, will stay longer with the organization and improve productivity.

2.3 HRM and Employee Well-Being

This section examines key HRM practices that influence employee well-being, the challenges of balancing strategic HRM with well-being initiatives, and the effects of HRM on workforce sustainability. Human resource management (HRM) is crucial when shaping employee well-being which includes implementing practices and policies that align organizational goals with employee needs. Effective HRM can enhance well-being and productivity but tensions often arise when profit-driven HR strategies are implemented (Brown et al., 2012).

2.3.1 HRM Practices and Employee Well-Being

HRM systems include a variety of practices that can either support or restrict employee well-being. Job resource HR practices, such as supportive leadership, career development opportunities and flexible work arrangements, tend to focus on supporting employees. Whereas challenge demand HR practice's main focus is on improving efficiency, setting performance targets and implementing cost-cutting measures (Chadwick et al., 2022). Organizations that use both of these approaches can create environments that will enhance well-being while also maintaining productivity.

Salas-Vallina et al. (2022) also emphasize how the engaging leadership style reinforces HRM initiatives. Their research shows that HRM practices are more effective in enhancing well-being when leaders engage with employees, provide regular feedback and create a supportive work culture.

Kim et al. (2018) argue that HRM systems work more effectively when HR professionals and line managers work together to execute well-being initiatives. If HRM strategies are effectively communicated as well as supported by leadership, employees are more likely to have job satisfaction and lower turnover rates.

Another aspect of HR initiatives are employee wellness programs. These programs often included fitness centres, nutrition counselling and stress management workshops. ADT (American District Telegraph, a security company) implemented a wellness program for their employees. With the program, ADT's employees could apply for health benefits and better their diet, exercise or even quit smoking. ADT believed that by making their employees more healthy and therefore work longer hours and have less absenteeism due to health-related issues. Their goal was to improve productivity and increase profit (Kumar et al., 2009).

The benefits included reduced healthcare costs and absenteeism, but their long-term impact was on productivity tools on sustained employee engagement. The ADT case study demonstrates that rewards or benefits, such as financial rewards for health assessments, can significantly increase participation rates. ADT would offer their employees a \$200 bonus if they filled out a 30-minute questionnaire about their health. This was controversial, because the organization was losing money and productive time, as this was done during business hours. Organizations that invest in wellness programs can see differences in the health cost analysis in the long run (Kumar et al., 2009). Wellness programs are not universally effective. Critics argue that such initiatives often adopt a one-size-fits-all approach, failing to consider the diverse needs of employees (Kumar et al., 2009).

Miles (2014) proposes that a capabilities-based approach, which emphasizes individual autonomy and freedom, could enhance the inclusivity and effectiveness of wellness programs. Expanding on these findings, Kumar et al. (2009) emphasize that understanding employee specific health risks and tailoring interventions accordingly can lead to more sustainable outcomes. Programs that include both financial and non-financial incentives, such as recognition awards, have demonstrated higher engagement and satisfaction levels among employees.

Redekopp and Huston (2018) suggest that wellness initiatives combined with career counselling can better psychological resilience, equipping employees to handle workplace stress more effectively. Bianchi, Tontini, and Gomes (2022) take this discussion further by exploring how subjective wellbeing interacts with organizational culture. They argue that fostering a culture of innovation and adaptability can enhance the effectiveness of wellness programs by aligning organizational goals with employee aspirations.

2.3.2 The Tension Between Strategic HRM and Employee Well-Being

Although HRM strategies show potential benefits, there still is fundamental friction between the goals of an organization as well as employee well-being. Brown et al. (2012) emphasize that strategic HRM is often developed to better efficiency and performance, which sometimes can come at the expense of employee well-being. High-performance work systems (HPWS) for example have a focus on continuously improving performance while at the same time it may also lead to excessive workload and stress.

Podolsky and Hackett (2021) introduced the concept of HRM system situational strength which is connected to how strictly HRM practices are applied within an organization. Their findings show that strong HRM systems can improve performance, but they might also reduce employee independence which leads to stress and disengagement. A more flexible HRM approach which allows employees to shape policies accordingly to their needs is prone to have a more positive effect on well-being.

Another challenge is HRM communication. Den Hartog et al. (2012) say that employees' awareness of HRM effectiveness is formed by how well HR policies are communicated. If HRM practices are badly communicated or inconsistently implemented, employees might feel frustrated, uncertain and it might have a negative effect on well-being. Transparent and clear communication about HR initiatives is therefore important when ensuring that well-being initiatives achieve the set goals.

2.3.3 Sustainable HRM and Employee Well-Being

A large amount of research highlights the importance of sustainable HRM, which includes well-being initiatives in long-term HR strategies. Gyensare et al. (2022) explore the role of Green HRM practices, which focuses on employee well-being, corporate social responsibility and sustainability. Their findings indicate that organizations that focus on environmental and social responsibility are likely to have more job satisfaction and employee engagement than organizations that do not.

Guest (2017) also argues that HRM systems should be developed to support long-term employee well-being rather than short-term business objectives. Organizations that align HRM strategies with well-being initiatives tend to experience higher levels of productivity, lower turnover and greater workforce resilience. By including well-being in strategic HRM, companies can create a more sustainable and engaged workforce. This would require transforming from traditional performance-focused HRM models to more holistic approaches that also consider employees' physical, psychological and professional development needs.

In summary, strategic HRM can significantly influence employee well-being through policies that support career development, leadership engagement and flexible work arrangements. However, tensions between performance-driven HRM strategies and well-being initiatives highlight the need for a balanced and sustainable approach. By integrating well-being into the core of HRM strategies, organizations can enhance both employee satisfaction and long-term business performance.

2.4 Well-Being and Productivity

“Productivity is a measure of performance that compares the output of a product with the input, or resources, required to produce it. The input may be labour, equipment, or money.” (Kenton, 2024)

Clear (2022) defines productivity as “a measure of efficiency of a person completing a task.” Clear (2022) also points out that productivity is done at a maintained average speed on just some things, rather than on the highest speed and everything.

Gallup (2025), an analytics and advisory company, conducted research on what the cost of poor well-being is. As seen in Figure 8, poor employee well-being affects productivity greatly. Not only does it affect productivity, but it affects overall costs which could have been avoided with good employee well-being. 75% of medical costs were spent on conditions that were preventable. \$322 billion was lost due to burnout. \$20 million was lost opportunity, which was due to employees suffering or struggling. 15-20% of payroll costs went to employees leaving the company due to burnout.



Figure 8. The economic impact of poor well-being on productivity and health cost (Gallup, 2025)

Research has consistently shown that employee well-being is closely linked to improved productivity, including enhanced innovation, collaboration and job performance. Miles (2014) suggests that well-being acts as a driver of productivity by fostering fundamental motivation and creating a sense of purpose among employees.

In addition to individual productivity, well-being also plays a crucial role in promoting organizational innovation, particularly in knowledge-intensive sectors where creativity and problem-solving are essential to success. Bianchi et al. (2022) highlight the significance of well-being in stimulating innovation, demonstrating that a well-supported workforce is more likely to contribute to the continuous development of new ideas and solutions. This underscores the importance of considering employee well-being as a strategic priority for organizations seeking long-term competitive advantage.

While the link between well-being and productivity is well-established, the precise causal mechanisms that drive this relationship remain largely underexplored. Existing research suggests that healthier employees are generally more productive because they experience fewer disruptions related to illness (Kumar et al., 2009). However, more empirical studies are needed to fully understand the long-term effects and mediating factors that influence how well-being impacts workplace performance. Such research is vital for organizations aiming to design well-being initiatives that translate into tangible productivity improvements.

The relationship between well-being and productivity is inherently complex and multifaceted. Well-being not only results from effective organizational practices but also actively contributes to employee performance. Guest (2017) offers a comprehensive framework for understanding this dynamic, highlighting the significant role of human resource management (HRM) practices in fostering employee well-being.

According to Guest (2017), when HRM practices are strategically aligned with organizational goals, they can enhance both employee well-being and productivity by providing employees with the resources and support they need to thrive in their roles. This interactive approach positions well-being as both a cause and consequence of organizational success, linking HRM practices to outcomes like productivity, innovation, and employee satisfaction. By viewing well-being as a key driver of organizational effectiveness, companies can create a more resilient and productive workforce.

2.4.1 The role of engaging leadership in well-being and productivity

Leadership engagement is a critical factor influencing both well-being and productivity. According to the literature review of Salas-Vallina et al. (2023), some literature argues that leadership and HR are separate forces but their interaction shapes employee behaviour and attitude. They need to be aligned so that optimal effects can be achieved.

Salas-Vallina et al. (2023) proposed a dual impact model where engaging leadership not only enhances employee well-being but also enhances performance outcomes. Their findings suggest that when leaders actively support and motivate their teams, employees experience a greater sense of purpose, leading to higher productivity. Engaging leadership also adds to existing well-being initiatives by fostering a workplace culture that values employee input and development. This approach differs from traditional leadership models by encouraging more participative decision-making, which has been linked to higher levels of psychological well-being.

Schaufeli (2015) argues that engaging leaders have an effect and could reduce employee burnout and enhance engagement. Schaufeli (2015) did an online survey of the Dutch workforce to support his argument. His findings showed that leaders only have an indirect effect on burnout and engagement through job demands and resources. But his findings also show that leadership has an effect when it comes to performance, employability and commitment.

2.5 Synthesis of key themes and gaps in literature

The literature on employee well-being and productivity reveals several key themes. First, leadership styles that prioritize empathy, support, and empowerment are crucial in fostering employee well-being. Transformational leadership, in particular, has been found to enhance psychological safety and engagement, making it a pivotal factor in creating a supportive work environment.

Workplace culture plays a significant role in shaping employees' sense of inclusion, fairness, and support, which directly impacts their well-being and productivity. Organizational cultures that promote trust, collaboration, and mutual respect tend to result in higher levels of employee satisfaction and retention. In contrast, hierarchical cultures with rigid structures may hinder employee autonomy, leading to dissatisfaction and burnout.

Wellness programs provide short-term benefits, such as reduced healthcare costs and absenteeism, but their long-term effectiveness depends on employee engagement and the making of programs to meet the specific needs of individuals. Programs that are more inclusive and flexible in their approach tend to see higher participation rates and sustained positive outcomes.

The link between well-being and productivity is complex, with many studies indicating a positive correlation. Employees with higher well-being are less likely to experience absenteeism and more likely to engage in discretionary efforts that benefit the organization. However, the causal pathways between well-being and productivity remain underexplored. There is a need for more research to understand how well-being influences various productivity measures, such as innovation, creativity, and overall job performance.

3 Research Methodology

Aityan (2022) defines research as “intellectual activity in the investigation of matter, life, society, and even abstract entities in all their aspect,” which means that research is a process that is aimed at expanding knowledge by investigating various aspects. Research has to be objective, comprehensive and unbiased. For this thesis, an exploratory research method has been chosen to answer the research question: “What factors influence employee well-being, and how does well-being affect productivity?”

To maintain credibility and relevance, clear inclusions and exclusions were set for the selection of literature. Peer-reviewed articles that have been published

between 2010-2025 were used to ensure that the relevance is current. Academic sources and books have been used, also from publishers that are recognized. Reports and articles were carefully chosen to remain credibility and bias, for example the Finnish Institute of Occupational Health. Some studies have been used which focus on how leadership, HRM, workplace culture and employee-wellbeing are linked. In order to find the appropriate literature, databases like Google Scholar and the Metropolia library were used to also ensure that the literature was credible. The most used keywords, with some minor modifications to broaden the search, were:

- Leadership and employee well-being
- HRM and employee well-being
- Productivity and employee well-being

Finding secondary data is not the problem, the biggest limitations was the use of it. Finland is very open when it comes to employee well-being and some surveys could be found to analyse Finland's situation.

4 Data presentation and analysis

This analysis will examine Finland's employee well-being by investigating existing data and surveys. The aim is to better understand Finland's situation and how available the data is to answer the thesis question "What factors influence employee well-being, and how does well-being affect productivity?"

According to the Ministry of Economic Affairs and Employment of Finland (2025), employment plays an important part when it comes to people's well-being. To ensure employment growth, labour markets and Finland's international competition are essential. Changes have become crucial, which is why opportunities to adapt to the changes are available, employees and organizations can access tools to learn and grow.

Helsingin Sanomat (2025) reports on how “wrong” businesses have gotten the importance of employee well-being. Eira Roos (an occupational health physician) argues that even in 2025 employers think that exercise solves employee well-being, which is far from the truth. Roos (2025) argues that exercise can not better employee well-being when everything else is wrong at the workplace. “Things that undermine well-being at work can usually be identified by the fact that they are precisely the things that annoy and distract you at work.” (Roos, 2025) So employers should listen to employees to better understand what the problems are to truly understand how to better employee well-being. This is where the leadership style comes into play, as Newman et al. (2017) argued, only transformational leadership which is characterized by empathy, support and clear communication promotes engagement and psychological safety for employees. Roos (2025) does also point out that employers are interested in employee well-being and know that it is linked to productivity. To truly understand what is missing from employee’s well-being, employers need to listen to their employees and come together to find a solution.

The current employment rate in Finland is quite poor. According to the statistics provided by the finish Job Market, “Työmarkkinatori”, the employment rate is 76.5% which when compared to one year ago, has dropped by 0.9%, this percentage has been also published on the official statistics site of Finland. In February 2025 there were 325,800 unemployed people, which is 34,600 more than in 2024. Comparing the number of unemployed people to the current vacancies, the number will not change much. In February 2025, there were 95,400 vacancies which is 38,000 less than in the previous year. According to the job market, there are only 41,874 published job applicant profiles.

4.1 Employee well-being in Finland

Väänänen et al. (2024) conducted research on occupational health using existing literature as well as their own surveys. The data was collected in 2022-2023, which shows data during the Covid-19 pandemic. Their target group was employees that were born approximately between 1950-2000.

According to their findings some job insecurities for employees came because of constant changes, such as uncertainty about what is happening in the world and their employment status. The biggest influences were the Covid-19 pandemic and the Ukraine and Russia war, which also made employees think more about their job safety, security and well-being. According to their findings, one of the most significant insecurities related to the job market is that more people are being terminated and some jobs are being completely discontinued.

40% of employees have a daytime job whereas 30% of employees have flexible worktimes, which are typically at day times. 17% of employees have shift work or regular evening or night shift. Every fifth employee does work from home half of their working time, approximately 3 days a week but 43% reported that they do not have the option to work from home. The explanation for 43% not having the option to work from home is that work from home is not possible in all sectors, such as the social and health sectors. Väänänen et al. (2024) also argue that the option to work from home can be an attraction factor in the working life, so it should be discussed.

Taskinen (2020) analysed the Eurostat (2019) statistics on how likely employees are to get one to two hours off from work. He stated that 80% of employees in Finland are likely to get it easily or semi easily within a short period of notice. Whereas the average in Europe is 70% of employees (Taskinen, 2020). The average working time is 38.6 hours per week, which is the same for each gender and does not change if an employee works from home. Their findings also show that nearly 20% of employees works overtime and therefore they work approximately 50 hours per week (Väänänen et al., 2024). According to the Ministry of Economic Affairs and Employment of Finland (2025) “regular working time shall not exceed eight hours a day or 40 hours a week. Alternatively, the weekly working time may be organised in such a way that it averages 40 hours over no more than 52 weeks”.

Väänänen et al. (2024) made a connection when it comes to employee well-being and “not enough employees, overlapping tasks, and information overload”. According to the survey, they found that 46% of employees feel that they do not have enough co-workers when comparing it to the given tasks. 42% of employees feel that they need to multitask and therefore cannot do all of their tasks as well. When employees have to focus on too many tasks at the same time, their memory and concentration is affected. Multitasking has been linked to poor employee well-being. Overall, all three aspects affect employee well-being and can lead to employees wanting to resign.

42% of women reported that work takes too much time and energy from family and other life, whereas only 35% of men reported it. 51% of women in senior roles reported that work is on their mind even in their free time. 42% of men in the same positions reported that work is on their mind in their free time. According to Väänänen et al. (2024), remote work can especially blur the line between work and free time. The survey also found that the employees who reported that they tend to take work home, also get energy and happiness from their work.

Sutela (2020) supports the claim and argues that this is more common in Finland than in other European countries. Most employees are also available in their free time and almost half of employees read their work e-mails when on vacation. Sutela (2020) did an analysis of the statistics from “Tilastokeksus” (2018) on how much employees are reading their work e-mails and why. 6% of employees answered that they were expected to read their work e-mails while on vacation. 23% of employees said that they like to stay up to date with work matters. 15% of employees read their work e-mails on vacation to reduce the work load from when they go back to work (Sutela, 2020).

When employees felt that their work is meaningful, independent and they get the needed support, employees tend to make an effort which then improves productivity (Väänänen et al., 2024). In the “Työn Suomi” survey, 85% of employees answered that they find their work meaningful. 78% of employees find that they can make independent choices at their work. 67% of employees find

that they can manage their work independently when it comes to schedules and goals. Most of the employees who answered in the survey, think that they do get the needed support from managers (72%) and colleagues (86%). In their research Väänänen et al. (2024), found that Finland's employees tend to have more social support than in other European countries.

Väänänen et al. (2024) did an analysis of their own survey on work motivation with a different approach. 75% of employees answered that they felt motivated for work at least a couple of times per week. Every fourth of the employees who answered said that they only feel motivated for work once a week. Of the employees who have the opportunity to work from home twice a week, 79% reported to have high work motivation. Of the group of employees who work from home for three days a week, 76% said they have high work motivation. This was the same amount reported by employees with no opportunity to work from home. Employees in Finland tend to be motivated for their work, which is important when discussing employee well-being. Employee well-being needs to be considered from the positive aspect and not only from the negative.

Employees (9%) tend to have more burnout than entrepreneurs (4%). The survey also discovered that 11% of employees who work from home have a probable burnout, whereas 8% of employees who do not have the possibility to work from home reported to have a probable burnout. Another important aspect that the survey covered was "Work capacity/ability, recovery and performance at work". Nine out of ten senior officials believe that they can work until retirement. Two out of three employees answered the same. "Good work ability increases wellbeing and supports employment" (Gould, 2008).

Half of the employees who answered in the survey believe that they can recover from work well, and this recovery can happen between shifts or breaks at work. According to Väänänen et al. (2024) the factors need to be studied more because the differences between sectors as well as gender are showing. The survey and research also lack the input of immigrants. With more research, the ability to work and recovery could be made better.

73% of employees answered, that their performance at work is good. There was a significant difference when it comes to age, older employees answered, that their performance was better than younger employees. Väänänen et al. (2024) argue, that the differences could come from the Covid-19 pandemic, because at that time employees did not get proper training and feedback. This needs to be studied further.

Occupational health services are important when it comes to employee well-being. 67% answered in the survey, that they do get appointments and 65% said that they got examinations rather quickly. 72% of employees said, that the service they received met their needs. According to the survey, employees received better service and were more pleased with occupational health services than with other available health services.

Overall Finland is in a significantly positive position in terms of occupational health but there are still some gaps and need for more research when it comes to the differences between sectors, age and genders. The survey shows that younger employees do not recover between shifts and evaluate their performance at work worse than older employees. Here discussions are in need to evaluate the situation better and for employers to guide their employees.

4.2 Development of employee well-being

The Finnish Institute of Occupational Health conducted research between the years of 2019 and 2024 on how employee well-being has developed in the time. The aim of the survey was to investigate and showcase how Finnish employees were doing just before the COVID-19 pandemic, during and after. The focus group was workers between the ages of 18 to 65. The research highlights how employee well-being has changed over the years, even gotten slightly worse and the increasing uncertainty about the future of their work is burdening employees. Figure 9 shows, how Finnish employee's well-being has changed between the years of 2019 and 2024.

“Työn imu” refers to work motivation and the graph (Figure 9) shows a slight decline over the years of 2019-2024, which means, that employees are less motivated than in 2019. “Työssä tylsistyminen” is boredom at work which has slightly risen over the 4 years, according to the survey the main reason was remote working. “Työuupumusoireet”, symptoms of burnout, has increased over the years. “Työkyky”, the ability to work has decreased over the years, employees feel that they are not as capable to work as in 2019.



Figure 9. Finns' well-being at work has deteriorated since the pre-pandemic period (Työterveyslaitos, 2024)

The Finnish Institute of Occupational Health has done various kinds of studies to research Finns' well-being. According to the study on the time of summer 2021 to the end of 2023, 41% of employees had gone to work while sick at least twice a month. Figure 10 shows on the left, how often employees have gone to work while being sick.

Figure 11 shows a clear difference when it comes to age groups. In the graph the dotted line represents employees over the age of 36 and the solid line represents employees under the age of 36. The graph on the left side of Figure 11 (“Sairaana työskentely”) shows, that employees over the age of 36 have gone to work while sick more often between the years of 2021-2023. 38% of employees under the age of 36 had gone to work twice a month when being sick whereas 42% of employees over the age of 36 had gone to work twice a month when being sick.

At the end of 2023, 26% of employees had thought about resigning from their jobs and Figure 10 also shows on the right side, that between the years of 2021 and 2023 the amount of people that had thought about resigning their jobs on a scale to 1-5 of how many times they had thought about resigning.



Figure 10. Miten Suomi Voi? (Työterveyslaitos, 2024)

Figure 11 shows a clear difference when it comes to age groups. In the graph the dotted line represents employees over the age of 36 and the solid line represents employees under the age of 36. On the right, the graph “Irtisanoutumis-aikeet” shows, that employees under the of 36 have thought about resigning more often than employees over the age 36. 32% of employees under the age of 36 had thought about resigning their job. 24% of employees over the age of 36 had thought about resigning their job.

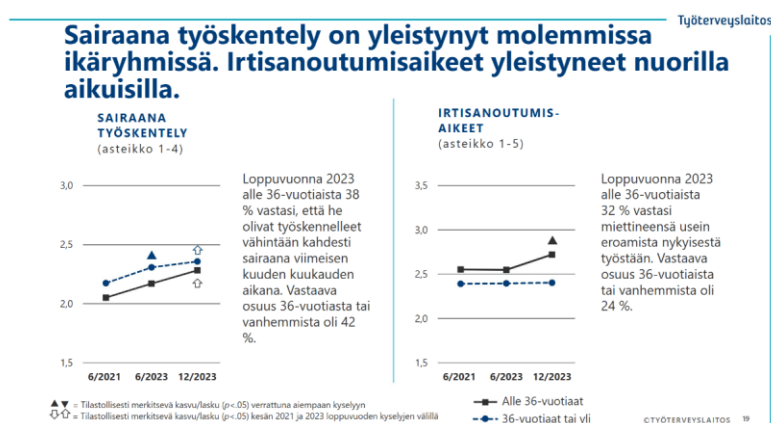


Figure 11. The difference between over and under 36-year-olds (Työterveyslaitos, 2024)

The same survey also asked employees to evaluate their burnout levels on a scale of 1-5. Figure 12 shows, that employees do feel more burnout over the years of 2019-2024. The increase is $x < 0.5$ so not much, but still an increase. To be noted is, that this particular graph (Figure 12) shows us only the results of 2019 and two dates in 2024 because Työterveyslaitos wanted to present how employees' well-being has changed in a short period of time.

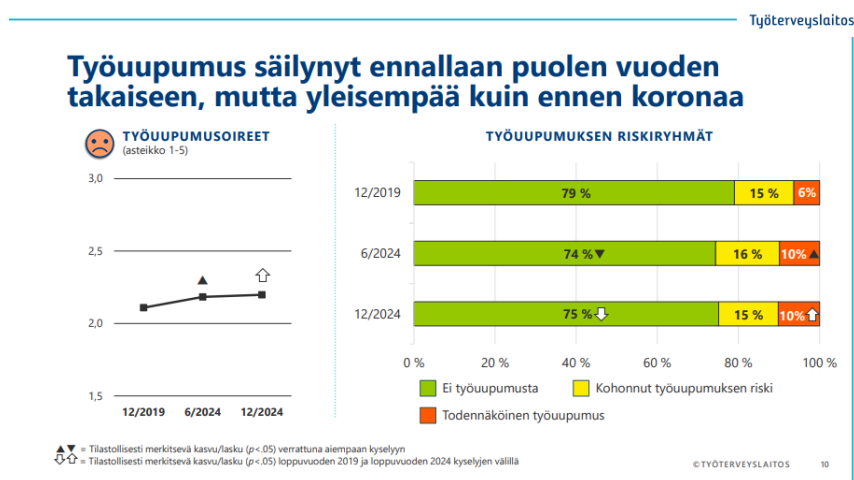


Figure 12. Burnout level in a period of six months (Työterveyslaitos, 2024)

According to the Finnish Institute of Occupational Health (2024), young adults have a slightly worse employee well-being, because of lesser independence, not enough challenge and because they can not show emotions at work in the ways that they would like to.

The key findings of the survey are, that Finnish employees' well-being has gotten worse during the COVID-19 pandemic and has still not gotten back to how it was before the COVID-19 pandemic (2019). The survey does offer meaningful insight but does not further explain why, for example, employees work motivation has gotten worse. It is not possible to determine specific factors, since the employees who answered the survey, did not specify their answers.

4.3 Productivity

Eurostat (2025) offers a table (Figure 13), where the labour productivity and unit labour costs changes from 2015-2024 can be seen as points. “They are defined as the average cost of labour per unit of output produced. They can be expressed as the ratio of total labour compensation per hour worked to output per hour worked (labour productivity)” (OECD, 2024).

For this analysis, 100 (2015) will be the starting point. In Figure 13, there has been some decrease and increase in productivity between the years 2015-2024. An increase can happen if labour costs rise faster than labour production. Whereas a decrease means, that labour productivity may have increased faster than labour costs, which means better productivity. So this means that productivity has gone down in Finland since 2019. According to Eurostat (2024), COVID-19 was one of the main reasons why growth was interrupted, which affected the whole EU.

TIME	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GEO										
Finland	100.000	98.983	95.770	98.326	100.060	100.634	104.484	109.859	115.390	115.267

Figure 13. Labour productivity and unit labour costs (Eurostat, 2025)

As discussed in section 2.4, organizations lose money when employees are sick. Tanskanen (2022) did a calculation on how much employers lose money per day when an employee is on sick leave. When an employee is on sick leave for under ten days, the organization/employer has to pay their salary. An employee’s salary depends on their status and education. Their value input can vary between 2-2.3, depending on their work and productivity.

If an employee earns 174€ per day, the amount is multiplied by a value input of 2.1 to achieve the real value which the organization is losing. Loss calculation using the given numbers: $174\text{€} \times 2.1 = 365.40\text{€}$. Employers lose approximately

365€ per one employee's sick leave day, which is a combination of salary and lost productivity.

According to the analysis by Tanskanen (2022), the whole country loses 10 million hours of work and approximately 3.6 million of euros (productivity) in a year due to sick leaves. This calculation was made based on EKs (Elinkeinoelämän keskusliitto) statistics, on how many hours were worked in a year (3.7 billion hours in 2020) and how often employees are sick for a short period of days (under 10). One employee is approximately five times per year sick for under 10 days. In conclusion, apart from how often employees are sick, it is still costly for employers and the organization.

4.4 Initiatives to better employee well-being

Finland is open to change and growth which can be seen because various tools are available for employers, for example the "Työ-hyvinvoinnin startti" which is a three-week course or workshop to shape employee well-being and learn how to improve it within the organization. The "Työ-hyvinvoinnin startti" is intended for entrepreneurs, managers or employees who foster employee well-being. These provided tools, gained from the workshop, can then be implemented in the company to improve employee well-being, which then promotes productivity. The workshop is cost free and linked to the WORK2023 program.

The Finish government has a "WORK2030" programme that is designed to develop new methods through collaboration with experts, workplaces and industries. The goal is to improve economic growth, competitiveness, employment as well as the reputation of Finland's work-life. The programs objectives can be seen in Figure 14.

Objectives of the WORK2030 programme are:

- Accelerate the reform of practices and the use of new technology in Finnish workplaces.
- Foster a work culture based on co-operation and trust.
- Make Finland a leading developer of work life innovations in the digital age.
- Make Finland the world leader in well-being at work by 2030.

Figure 14. Objectives of the WORK2030 programme (Ministry of Economic Affairs and Employment of Finland)

The Finnish Institute of Occupational Health offers different tools to strengthen employee well-being in organizations. Employers have the ability to conduct a survey within their organization to figure out how their employees are doing. The organization just needs to order the survey for their company via an online form. The surveys are anonymous, and so employers can only discover how the organization is doing as a whole and the mean value from their employees. The answers are also compared to the survey by The Finnish Institute of Occupational Health (Section 4.1) so that employers get the whole picture of the situation. At the end of the survey tips are offered on how to improve employee well-being. The survey mainly focuses on burnout, but it is still an important factor when it comes to employee well-being.

5 Discussion and Conclusion

Employee well-being is a complex and constantly evolving concept. According to Dodge et al. (2012) the definition of well-being is a challenge because of its subjective characteristics and the different elements that influence it. White (2010) supports the argument and says that well-being is a process which is constantly changing.

The aim of this thesis was to understand what employee well-being is and how it can affect productivity. The research question is “What factors influence employee well-being, and how does well-being affect productivity?” One of the

key challenges in studying well-being and its effects on productivity was how it is measured and defined. This thesis examines Finland's situation on employee well-being as well as productivity.

As has been discussed throughout the thesis, employee well-being is now more important than ever and widely discussed. Organizations are more focused on how their employees are doing and what they can actually do and offer their employees.

This thesis also discussed how employee well-being has become more significant than ever. Organizations recognize the need to prioritize their employees' well-being and implement initiatives to support them. Well-being is influenced by several factors, including leadership styles, workplace culture, flexibility, and career development opportunities. Each of these elements, explored in Section 2, plays a crucial role in shaping both well-being and productivity.

By including well-being in strategic HRM, companies can create a more sustainable and engaged workforce. Organizations that align HRM strategies with well-being initiatives tend to experience higher levels of productivity, lower turnover and greater workforce resilience. Poor employee well-being affects productivity greatly. Not only does it affect productivity, but it affects overall costs, that could have been avoided with good employee well-being, as stated in section 2.4 as well as section 4.3 when discussing Finland's situation.

With more knowledge and better tools, employee well-being can be improved, if an employer is genuinely interested. For organizations this means, that they have access to tools, for example the Finnish "Työ-hyvinvoinnin startti", which was introduced in section 4.4 "initiatives to better employee well-being" that allows employers to gain useful information for their employees' well-being. But even with the tools provided and information, employers need to be interested in their employees' well-being to actually make a difference. There is no employee well-being model that fits all, which is why discussions and open communication are important.

While the research in this field is substantial, several gaps remain. A comprehensive approach that considers physical, psychological, and social well-being simultaneously is still lacking in the literature. The measurement of well-being also presents a challenge, as many studies rely on self-reported surveys, which can introduce biases and may not capture the full complexity of well-being dynamics. Additionally, while leadership styles and workplace culture are well-studied, the broader contextual factors, such as national culture and organizational differences, are less understood. This creates a need for further exploration of how these elements interact across diverse cultural and organizational contexts.

After introducing and analysing Finland's situation in section 4, on employee well-being, the research question can be answered. Finland has a significant amount of data which shows how employees are doing. Each employee has a different perception of well-being. The surveys and their findings show that employee well-being is widely discussed. There is no clear way to present how exactly employee well-being is affecting productivity in the whole country, as this can also be affected by other forces, such as the Covid-19 pandemic, and well-being differs from organization to organization. Organizations can improve employee well-being if the necessary steps are taken into account and thus improve productivity.

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