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Helping Firms by Helping Employees?

Work-Life Balance in America

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Introduction and summary

There is a long history of debate within business, policy, and economic literature regarding whether firms can improve their performance by treating their employees well.[1] One view is that policies to improve employees' work-life balance—such as working from home, part-time working, child care support, and generous maternity leave—are both expensive and often counterproductive for firms. For example, the U.S. internet firm Yahoo famously banned working from home in February 2013, stating in its leaked e-mail that "Speed and quality are often sacrificed when working at home."[2] In this view, improved employee work-life balance will come at the expense of substantially lower profits for most firms.

An alternative view is that improving employees' work-life balance may simultaneously raise firms' profits. For example, the U.S. airline JetBlue allows its call-center employees to work flexible hours from home in order to attract highly skilled employees, such as college educated women with young children, so that JetBlue can offer superior customer service.[3]

However, how representative are these two anecdotes, and where does the typical American firm lie along the spectrum of work-life-balance policies? To address these questions, we used a double-blind survey originally developed by McKinsey & Company[4] in order to collect international management and work-life-balance survey data from U.S., U.K., French, and German firms. The survey revealed:

1. The use of better work-life-balance policies—including working from home, part-time working, child care support, and shorter working hours was strongly correlated with both superior general management practices and also higher sales revenues in comparison to firms that lack such policies. This result was robust to controlling for country, industry, and firm characteristics, suggesting that better-managed and better-performing firms treat their employees better.

2. While U.S. firms lead the world in the adoption of modern management practices, their adoption of progressive work-life-balance practices lags behind many European countries—particularly France, Germany, and the United Kingdom.

To further substantiate these findings, we reference the results of a working-from-home experiment at Ctrip, a Nasdaq-listed Chinese travel agency with over 16,000 employees. Call-center employees who volunteered to participate in the experiment were randomly assigned to either work from home or the office for nine months. Working from home led to a 13 percent performance increase, which came from a mix of working more minutes per shift—resulting in less time lost on breaks and commuting—and more calls per minute due to a quieter home-working environment. Home workers also reported improved work satisfaction and employee turnover rates were halved. The experiment was so successful that Ctrip estimated it saved around $2,000 per home-based employee. Due to the success of the experiment, Ctrip made the option to work from home available to the whole firm. Interestingly, in advance of this experiment, Ctrip was highly skeptical of home working—as were almost all other firms in the travel industry.[5] This suggests that many firms may not adopt these types of profitable pro-employee work-life-balance practices because of a skepticism regarding the benefits of working from home.

Based on this evidence, we argue that many firms could improve profitability by providing better work-life-balance options for their employees. One question then is: Why were firms not already doing this? Competition should mean that firms tend to adopt profitable practices in the long run. However, these market forces may not always lead all firms to act efficiently in the short run. Indeed, there is empirical evidence of wide variations in performance across firms and plants—even within narrowly defined industries—in recently available accounting and census microdata. For example, in a 2011 research paper, Chad Syverson from the University of Chicago shows that in the average U.S. manufacturing industry—examining data broken down by narrowly defined industry categories such as ready-mix concrete, automotive, or pharmaceutical drugs—the best firms, those in the top 10 percent, are twice as productive as the worst firms, those in the bottom 10 percent, highlighting the existence of huge performance gaps even within these narrowly defined industries.[6]

These performance differentials could be in part attributed to the fact that many firms generally struggle to keep up with management best practices. Examples of this include the revolution of statistical decision making in sports made famous in the book *Moneyball* by Michael Lewis, which highlights how some teams in baseball, as well as in other sports, adopted these winning practices more than a decade before others.[7] Another example is the slow roll out of lean manufacturing from Japan in the 1970s to the U.S. automotive industries in the 1990s, discussed in detail in the book *The Machine That Changed the World* by James P. Womack, Daniel T. Jones, and Daniel Roos.[8] A similar inertia may also explain why many firms underprovide pro-employee, work-life-balance policies even now that many options to improve employees' work-life-balance conditions—such as working from home and job sharing—have become more attractive through rapid improvements in information technology, or IT.

While there may be more scope for many firms to improve both profitability and employee work-life balance, what should be the policy response? One policy approach is to continue to encourage competitive free markets, which prior work has argued leads to the adoption of better management practices, including better work-life-balance policies. Competition appears to force firms to raise their game to survive, improving their management practices.[9] A second policy approach is to encourage firms to experiment with improved employee work-life-balance policies, such as the program adopted by Ctrip, whereby firms can test what works before rolling out new policies. Greater experimentation is essential for learning what works best for each firm and is likely to be lead to improved work-life-balance policies for firms and employees.

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