

The future of work from home

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A friend has come to dread her Friday afternoon 'Zoom Happy Hour'. I am told this weekly ritual involves bumping the computer camera with a glass and saying 'cheers' before engaging in some forced social chat with colleagues. Cue much awkwardness. Even more awkward is finding an excuse to leave – apparently easier in a physical bar than a virtual one.

Her Friday afternoon dread stems from the fact that our culture and etiquette have not yet figured out how to work from home because not enough people do it. Herein lies the 'chicken and the egg' problem. Without social adaption, more people will not work from home. But if more people do not work from home, society will not make the necessary adjustments.

This disconnect between potential and reality is why, since the dawn of the internet, technology evangelists have failed in their prediction that working from home would quickly become mainstream. They promised the holy grail of flexibility, empowerment, and comfort. But although work-from-home technology has been available for years, the price of office space has continued to rise, and ever more skyscrapers silhouette our skylines.

The working-from-home movement has always needed a social catalyst, one beyond the mere development of technological tools. Covid-19 may be exactly that. So it is no wonder that, since the outbreak, there have been various predictions that 30, 40, or 50 per cent of us will still work from home after the virus recedes. Our own survey shows that almost half of people believe that, once things are back to normal, they will work from home at least one day a week. That may be because about 60 per cent of people believe that they are at least as productive at home as they are in the office.

Will it actually happen this time? To answer this question we first need to put aside the possibility that during a recession, when companies are considering lay-offs, many people want to be seen in the office. We also need to put aside the research done on work-from-home productivity. For every study that finds a net benefit, another finds a net cost. Instead, the likelihood that at least some form of permanent working-from-home will become widespread may depend on the incentives for both employers and employees.

Employers first. Against the backdrop of the virus-driven recession, most managers have considered a smaller office. As managers eye the savings, they can also claim a win-win by citing the bevy of studies that extol the productivity benefits of remote working. They can also point to studies that show long commute times increase staff attrition.

For employees, the picture is different. Some benefits are obvious: greater flexibility, the ability to care for children, relief from micro-management, and the elimination of the daily commute are oft-cited. In fact, one study estimated that a 20 minute increase in commuting time each day was equivalent to a 19 per cent pay cut, in terms of job satisfaction.

However, many employees only consider the hidden costs when they are faced with the day-to-day reality of working from home for an extended period. These may significantly change their incentives. Consider that one of the few things agreed upon by almost every study on working-from-home is the need for people to have a dedicated work space. Setting oneself up on the kitchen table is fine for a week, but the clutter and hassle gradually gnaws away and work becomes less efficient.

The need for a dedicated workspace presents a particular problem for those at the beginning of their career who live in small apartments in big cities. After all, there is a reason why cheap, shared office spaces, such as WeWork overtook the local café as the popular workspace for entrepreneurs.

Take London as an example. Just a few of the most desirable places for city living, particularly for young people are central areas such as the West End, Midtown, and SouthBank areas. Renting an average one-bedroom apartment in these areas costs £2,400, £1,820, and £2,100 per month respectively. Upgrading that apartment to a two-bedroom version will add £2,000, £773, and £643 to the monthly cost, based on our analysis of Rightmove data. If we take an average of the extra costs the two cheaper areas, £708, gross it up for tax assuming a marginal rate of 20 per cent, it means a staff member will require an annual salary increase of just over £10,500 in order for working from home to breakeven.

Might it then make sense for employers to raise salaries for staff who work from home? Consider the office rental costs across popular office locations in London (the West End, Midtown, the City and fringe areas, and Docklands). If we assume an average annual rent of £65 per square foot, multiply by 80 square feet per employee, that equates to an annual cost of about £5,200. That is half the cost of a staff member upgrading their own home, meaning any employer subsidy will likely be insufficient to incentivise all but a handful of staff to work from home (rates and utilities were excluded from both).

Some would argue that people can just move out of the city to a cheaper area with a bigger house, especially if commuting is no longer an issue. But that is a very undesirable solution, particularly for young people who desire the excitement of a big city. And it only increases the problem of social isolation that many studies cite as a factor in work-from-home's desire to return to the office.

Aside from the financial cost of having a suitable apartment or house, both firms and staff should consider the intangible pros and cons of decentralised working. There are many studies on the topic and many contradict each other. Far more interesting are the few researchers who seemingly contradict themselves. Among them is Nicholas Bloom, a Stanford University economist. In 2015, he was held up as a work-from-home cheerleader after he found that a Chinese company with work-from-home policies boosted productivity by 13 per cent and halved the rate of employee resignations.

Yet, Bloom's response to covid-19 was very different. Working from home in this scenario, "will create a productivity disaster for firms". This is because most people cannot achieve the four requirements needed to successfully work from home. First, children must be in school or daycare. Second, employees must have a home office that is not a bedroom. Third, complete privacy in that room is essential. Finally, employees must have the choice to work from home. If they want to work from the office but cannot (either due to formal policies or informal 'nudges') work-from-home simply will not work.

Despite good intentions, many people will be unable to meet all four of these requirements on a consistent basis, at least in the short term.

That goes most of the way to explaining why half of the employees who chose to work from home for the Chinese company that Professor Bloom examined asked to come back to the office just nine months later. And that is despite them having an average commute time of 40 minutes each way.

There are other intangible reasons why working from home eventually grates away at many people. Perhaps the most important is the issue of human interaction and the retreat from physical contact to the virtual sort. This can be a particular problem for roles that require a high level of communication. There are several parts to communication and two of the most important are idea generation and social company. No matter how sophisticated the technology, and how well-appointed the home office, human communication is usually more effective and fulfilling when done in person. Without it, innovation can suffer.

Yet, all these problems amount to nought in the face of enforced lockdowns. These have and will catalyse change, and even if working from home is detrimental to businesses in the long term, it seems some will pivot that way nonetheless. Indeed, there are many reports of companies using the lockdowns and enforced working-from-home regimes to test how the setup could work on a more permanent basis. Many of these companies may not require employees to permanently work from home. Rather, they will likely encourage staff to come into the office only a few days a week. That will allow the firm to downsize rather than eliminate its office space.

So, despite the drawbacks, the mass working-from-home experiment catalysed by covid-19 means many employees must ready themselves for at least a semi-permanent change in the foreseeable future. To adjust, we should focus on, and look to amplify, some of the benefits that are not always obvious. First, the benefits of eliminating the daily commute extend beyond lost time. Various studies show the health improvements of avoiding the stress and stuffiness of public transport. And consider the impact on personal relationships. Indeed, if one partner in a marriage spends more than 45 minutes commuting, they are 40 per cent more likely to divorce, according to one Swedish study.

Further unexpected benefits may be in store for

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minority groups. Workplace biases are well-documented for things like race and gender. However, studies show that unconscious bias is also rife for other reasons, some of which working from home may help nullify. Indeed, studies have shown various degrees of height discrimination. Malcolm Gladwell found almost a third of Fortune 500 chief executives are at least six feet two inches, almost ten times the rate in the normal population (a fact that further disadvantages women). Working over email and video chat makes this less of an issue.

Another drag on some people's careers is their accent. One British poll found that over half of people believe a regional accent leads to discrimination in the workplace. Furthermore, one in five feel they must alter the way they speak to be successful.¹ Similar studies have found discrimination against people based on perceptions of attractiveness, introversion, and presentation ability. Of course, it can be argued that video conferencing still perpetuates these biases, however, there is some evidence that video conferencing is a 'great leveller'. People who appear to be strong presenters in person are perceived to be less so on a video call.

Perhaps the most important reason why working from home appears likely to become a more permanent fixture of our post covid-19 world relates to a human trait that the virus outbreak has highlighted more than any other. Quite simply, humans are very adaptable. How many people in February said Western countries could never pull off a lockdown?

Our ability to adapt is also accelerated when many people do the same thing at the same time. Take, for example, the thorny work-from-home problem of social isolation. This is very hard to fix in normal times, but with everyone thrown into the same boat during the recent lockdowns, there has been an explosion in new community organisations to help people deal with the issue. Common problems lead to common solutions. So if a great number of people all begin to work from home at the same time, they will all seek similar social interaction at the same time. Imagine how local community organisations could flourish once again.

Finally, consider the impact on house prices. As companies now encourage workers into remote working, a certain proportion of people will certainly embrace it. Some will move out of the city and buy a big house. If this helps solve the 'chicken and the egg' problem mentioned at the beginning of this piece, it could not only boost regional areas but also help make cities more affordable. That could lead to a reversal of the century-long trend of ever-denser cities. And given disease tends to spread faster in urban areas, working from home may just contribute to a virtuous cycle of deurbanisation that helps prevent, or at least lessen, the next pandemic.

¹ <https://www.peoplemanagement.co.uk/news/articles/one-in-five-feel-need-change-accent-get-ahead>