

Whistle while you work

Research suggests that happy employees are good for firms and investors



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THERE IS an old joke about a new arrival in Hell, who is given the choice by Satan of two different working environments. In the first, frazzled workers shovel huge piles of coal into a fiery furnace. In the second, a group of workers stand, waist-deep in sewage, sipping cups of tea. The condemned man opts, on balance, for the second room. As soon as the door closes, the foreman shouts “Right lads, tea break over. Time to stand on your heads again.”

Terrible working conditions have a long tradition. Early industry was marked by its dirty, dangerous factories (dark, satanic mills) and in the early 20th century, workers were forced into dull, repetitive tasks by the needs of the production line. However, in a service-based economy, it makes sense that focusing on worker morale might be a much more fruitful approach.

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Proving the thesis is more difficult. But that is the aim of a new study which examines the relationship between happiness and productivity for workers at British Telecom. Three academics—Clement Bellet of Erasmus University, Rotterdam, Jan-Emmanuel de Neve of the Saïd Business School, Oxford, and George Ward of MIT—surveyed 1,800 sales workers at 11 British call centres. All each employee had to do was to click on a simple emoji each week to indicate their state of happiness. Those workers were charged with selling customers broadband, telephone and television deals. In total, the authors had adequate responses from 1,161 people over a six-month period.

The results were striking. Workers made 13% more sales in weeks when they were happy than when they were unhappy. This was not because they were working longer hours; in happy weeks, they made more calls per hour and were more efficient at converting those calls into sales. The tricky part, however, is determining the direction of causation. Workers may be happier when they are selling more because they anticipate a bigger bonus, or because successful sales pitches are less stressful to make than unsuccessful ones.

The academics tried an ingenious way to get round this causation problem by examining a very British issue—the weather. Workers turned out to be less happy on days when the weather in their local area was bad and this unhappiness converted into lower sales. Since they were making national calls, not local ones, it is unlikely that customer unhappiness with the weather was driving the sales numbers. So it was worker mood driving sales, not the other way round.

Even if this reasoning proves to be correct, businesses may struggle to find it of comfort. Short of locating all their call centres in California or Hawaii, companies cannot control the weather conditions their workers face. The academics point out that “what we are not able to do, given our data and setting, is adjudicate as to whether investing in schemes to enhance employee happiness makes good business sense”. It is possible that the costs of such schemes might outweigh any gains in productivity.

More research is clearly needed. But there is evidence that happier workers are good news for shareholders, as well as productivity. Analysts at BofA Merrill Lynch Global Research studied the stocks of firms rated on Glassdoor, a website which allows employees to rate the companies they work for. Those with the highest ratings outperformed those with the lowest by nearly five percentage points a year between 2013 and 2019. The analysts also used software that picked over the text of employee reviews and found that incorporating this approach improved the risk-reward trade-off (as measured by the Sharpe ratio) of the strategy.

The analysts have now applied the same approach to picking stocks based on particular sectors. Again, the sectors where workers gave the best reviews on Glassdoor over the 2013-2019 period easily outperformed those where employees gave a thumbs down. None of this is unequivocal proof. The history of equity investing is littered with strategies that worked well when back-tested but then disintegrated when applied in the real world. But at the very least, it suggests that companies should consider the merits of a contented workforce. And that might mean giving them harps and ambrosia, rather than devilish treatment.