

3 Takeaways Podcast Transcript

Lynn Thoman

(<https://www.3takeaways.com/>)

Ep. 158: Learn The Latest Findings On How Working Remotely Effects Productivity, Hiring, Real Estate, And More.

INTRO male voice: Welcome to the 3 Takeaways podcast, which features short memorable conversations with the world's best thinkers, business leaders, writers, politicians, scientists, and other newsmakers. Each episode ends with the three key takeaways that person has learned over their lives and their careers, and now your host and board member of schools at Harvard, Princeton and Columbia, Lynn Thoman.

Lynn Thoman: Hi everyone, it's Lynn Thoman. Welcome to another 3 Takeaways episode. Today, I'm excited to be with Stanford professor Nick Bloom. Nick has done the most thoughtful data-based and insightful work on how working from home has changed us. I'm excited to find out how working from home has changed how we live, how we spend our time and what we want in a job, as well as how it's changed our homes, our offices and organizations. Welcome, Nick, and thanks so much for joining 3 Takeaways today.

Nick Bloom: Thanks very much for having me, Lynn.

LT: It's a pleasure. Let's start with the employees - who works primarily from home?

NB: It's basically a breakdown by education. So, if you look at, for example, at North America, northern Europe as well, roughly around 40% of people can work from home. They're mostly professionals, managers. They typically have a university degree, so I'm guessing most people listening fit into that. And then roughly the other 60% of folks that you might think of as kind of front line, working in shops, retail, security, transport, accommodation. They can't really work from home, because their jobs don't allow it.

LT: For the 40% of people that you say work from home, are these people fully remote working five days each week from home, or is it some kind of a hybrid?

NB: That's changed a lot. So, you know, I've been working, I've been working from home for almost 20 years. Pre-pandemic, it was binary. You either did or you didn't. And if you did work from home, you were basically full-time. It's pretty rare. But when you did, you were basically full-time. Nowadays, what we see of that 40%, three-quarters of them are doing what's become known as hybrid. That's actually a new word, that's a new post-pandemic word. Hybrid means, typically, you're in the office three days a week. Most commonly, that will be, say, Tuesday, Wednesday and Thursday, and you work from home Monday and Friday. The other 10%, they are fully remote, and they tend to be spread right across Europe, US, in fact globally. So, there's a lot of folks, who've been called digital nomads, who are working fully remote - could be Americans, could be Europeans - floating around the world.

LT: Interesting. What do we know, if anything, about the productivity of fully remote and hybrid

workers?

NB: Hybrid versus fully in the office, that looks like it's about flat. So, roughly hybrid, say coming into the office Tuesday, Wednesday and Thursday, working from home on Monday and Friday, that looks like people's productivity is about flat. There are some good sides to that, which is you save them the commute - that saves people about an hour a day - and it's quieter at home. Those are both positives. There are some negatives, which are you don't get as much face-to-face time, and maybe you feel less energized because you're at home in the office. It turns out they roughly seem to net off at about zero. So, hybrid is about flat. The other thing, fully remote, there is also evidence coming out on that, and that looks like it's negative. There's a range, but I'd say folks are maybe 10% less productive working from a home. Why? It looks like it's harder to mentor... It's harder to be creative and have the fluid conversations you have in person.

NB: And it's harder to build office culture. Now, before I end, I should say that does not mean that fully remote is bad thing, because if you're a company, you're looking at two things. One is how productive the employees are. And let's say, let's just accept minus 10%. Then you're saying how much does it cost to have those folks there? And you have to be aware that, A, you save on office space, which is typically 10-20% of overhead, and B, you can hire globally. So, it turns out that fully remote it's maybe 10% less productive, but maybe 40, 50% cheaper for a lot of roles. And so actually, it's a fantastic proposition for many companies.

LT: So interesting. How important is a flexible schedule, a hybrid work schedule, for employees?

NB: So, this is another big topic. This battle has been raging now for at least three and a half years since the beginning of the pandemic. Initially, which was my view at the beginning, I thought choice dominates. Let employees choose which day they come in. We know that choice matters. Everyone, including me, loves choice. You like to pick day by day, week by week. And so, we should let each person choose. It turns out, as we found over the pandemic and from a lot of the survey data, that when people come to work, the reason they want to come to work is to work with colleagues in person, in meetings and presentations. They really hate coming into work to spend four, five hours a day on Zoom.

NB: And so, the biggest complaint I heard, certainly in 2021 and 2022, in the early days of the return post-pandemic or during the pandemic, when people are coming in, is they'd say, "I came into the office, I spent six hours on Zoom. What's the point of coming in? I have this painful commute, [and the office] is dead, it's boring, there's no energy." And so, the "anti-choice", if you want to have a more positive twist than what I'll call it, is the "organized hybrid" which means that team by team or at the company level, you set days in, days at home.

NB: So, a classic thing may be like Disney. Disney says you're going to come into the office Monday to Thursday, and you're going to work from home on Friday. In the data, we see the organized approach seems to be winning out. I don't think, in many ways, it's that surprising actually. If you go back to 2019, we basically came into the office five days a week, but everyone agreed that you're roughly going to do 9am to 5pm Monday to Friday. I'd never heard of people saying I'm going to work 5 days a week, but I'm doing 7pm to 4am, or I'm going to

come in Wednesday, Thursday, Friday, Saturday and Sunday. It just wasn't a thing. And the reason is you come in to work with others. So, I think we're going to end up at least team by team, mostly in an organized setting.

LT: A lot of people seem to have moved. Can you tell us about the move - about how many people have left city centers like New York and San Francisco and elsewhere, and where did they move to?

NB: Yeah, so this again, it's fascinating. So, if I was to step back a bit and give you the history, if you go from 1980 to 2019, across North America, across Europe, there was a big move of people into city centers. So, starting with the US, take New York. You go back to 1980, New York. I remember visiting as a kid with my parents, it was... I remember going to the McDonalds in Times Square in the probably late 1970s, early 1980s. So, from 1980 to 2019, the city center became richer and richer and richer, and they become very expensive, beautiful places in most cases to be in.

NB: That's partly unwound, not completely, but a little bit. So, what happened during the pandemic is what's called the donut effect. So, a lot of professionals, high-end managers, grads are saying, "If I'm only going to go into the office three days a week, maybe two days a week, I can put up with rather than commute for an hour, maybe I can commute for over an hour and a half, two hours. And in return, I get a home office, or more space, may be a back yard. And as a result, we've seen about a million people across America leave the city centers. More than a half, I think, about 60%, have actually gone to the suburbs of the same city. Of the rest, about 30% went to other big cities, and about 10% went to rural places.

LT: So interesting. How is working from home changed what people want as far as their home?

NB: They want more space actually. And one factor... of course, interest rates for a while, were low. They've risen a lot more recently. Another factor is if you spend more time at home, you care about your house more. And as an economist, for every \$100 you earn, you get a choice of what you spend it on... And if I'm now spending four or five days a week at home, including weekends and maybe two at three working days, I care much more that my house is nice and has a yard and has enough space. They're also just spending money on nicer houses, bigger houses, bigger apartments and nicer places, because they're just spending more time in them. So, the boom in work from home has been one of the big drivers of the boom in housing.

NB: One other interesting twist is, because people are prepared to commute now for further, there's a lot of land around the edge of big US cities that suddenly becomes in scope. That land is kind of hard for folks who are commuting into the [city] center pre-pandemic to use. No one really wants to drive an hour and a half each way. It's a pretty tiring commute to do five days a week. If you're now doing that commute two days a week, that becomes in scope. And so, another thing I think we'll see over the next 5, 10 years will be a building boom right on the edge. This is land that previously wasn't that valuable, because a lot of the high-paid workers tend to be in the center of cities. That land now, has suddenly become desirable.

LT: How is the office changing?

NB: The office has changed. Partly, they're empty Fridays. [Steven] Roth, the head of Vornado, one of these big massive property companies, made this fantastic comment, saying "Fridays is dead. We've lost Friday, it's gone. Monday is on life-support, it's kind of like beep beep beep. Monday is really empty. Tuesday, Wednesday, Thursday seem to be okay." I'm not sure that's a bad thing. People say, well, offices are only half full. It's worth being aware that even pre-pandemic, there's what? 24 hours a day, seven days a week. And offices are only full for like 50 of them, 9am to 5pm Monday to Friday. Now, they are only full... probably, if you're lucky, for 30 of them, So offices are full less of the time.

NB: When we're in, we're much more focused, not on treating it the way a student treats a library as a place to come in and give you kind of the motivation to work, but as a place to meet and engage and have presentations and lunches and coffee. So, the office, is much more than a place to kind of give me the feeling that I'm there to work hard. People are now expected to do quiet reading, writing, emails, analytical stuff at home. When they come in [the office], it's lively, interactive stuff.

NB: So, the office of the future, you're in probably few days, maybe Tuesday to Thursday. It's got a lot of meeting rooms, a bunch of open plan areas like airports where people are meeting and you've ripped up much of the cubicle land and much of the individual offices for low level managers. So, when I come in, my schedule is much more like meeting, meeting, meeting. It's exhausting. I mean, I agree, it's tiring. It's very social, a lot of lunches, coffees. But the quid pro quo for that is to have three days of that, or maybe just two, and the other days I can work from home tranquil to some extent. So that's really the office of future. Think more social, think more kind of meeting space and less like a library.

LT: How has down time or leisure changed?

NB: I think Americans, those that are certainly hybrid, particularly fully remote, have gone to what I, as a university professor, think of as the student lifestyle. If you look at undergrads, my students or my graduate students, they are just like, whatever. They're getting their work done, but they're often pulling all-nighters, they might be sleeping on the lawn or going to an event or working all weekend... They just kind of come and go as they are. And it's much more flexible and fluid and the work leisure boundary is more porous now. Now, a lot of commentators have said, "Well, work-from-home, hybrid, is terrible, because the work leisure boundaries are blurring over and people aren't liking it, and there's no separation." On the other hand, if they're choosing to do that... I mean as a student or as an individual, we could choose to work 9 to 5. The fact that what we see in the data is people leave work early to pick their kids up or maybe go play a round of golf, pickleball, go to the gym, go shopping, and then work more in the evenings or over the weekend. And, in fact, if you ask people why they like work from home, number one by far is no commute. So, commuting, number one. I think exercise is third, commuting the big number one. But number two is flexibility. This work-life boundary is blurring because of that.

LT: For people working from home a few days a week, have their loyalties or their connectedness to organizations changed?

NB: Again, really interesting. So, I've run two randomized control trials, one on people in call centers, and the other was on computer engineers, accountants, finance professionals basically, all undergrads or a third had master's degree, in two multinationals. And what we did in both cases is you have a control group that come in to the office five days a week, and a treatment group who are randomized based on their birthdays, and allowed to work from home between two to four days a week.

NB: And what we saw in both cases was quit rates fell a lot, between 35% to 50%, for people allowed to work from home. And this is a pure causal effect, as these are basically all volunteers and they're randomized. So that tells you letting people work between two to four days a week, they like it a lot. Their quit rate falls. It's very appealing. Now, that's not fully remote. So, the trickier thing is, what do you find in fully remote? There, it's less obvious. So, if you're my manager, if I'm going in every day, we probably bond, talk about kids, you give me more training in person and events, I feel connected to my co-workers, etcetera. If, on the other hand, I'm fully remote, it feels a bit more transactional, there's less connectivity.

NB: It's probably easier to shop around, it's easier to go for an interview, because at the end of our Zoom call, I just move on to the next one and that's the interview and I apply online. So, I wouldn't be surprised if offering hybrid versus fully in person reduces quit rates, because employees like it. Fully remote is less clear. I wouldn't be surprised if that increases churn, but it's hard to know. We did hear that during the great resignation, turbulence and churn rate was very high in 2021 and 2022. Some of that may have been, you're breaking a bit the bonds between employees and their co-workers.

LT: What do you see as the future of work and working from home?

NB: I think, in terms of levels of work from home, if I was to graph it out, we have data back to 1965. So, 1965, there's almost none of it. It's like half a percent of days of work from home. One every 200 days. So, the average person is doing about one a year. It's very rare. That was doubling every 15 years, but from a very low base. So, by the time you get to 2019, it's 5%. So, it's gone up ten-fold, which is a lot, but it's still only 5%. With the pandemic, it just explodes to 60% in April/May 2020. Everyone that could was working from home and doing it full-time. It's now dropped back down to 25% and it's just been flat for most of 2023. So, we're in a new normal now whereby we have a five-fold increase versus before the pandemic, which is a massive jump. It's like 30 years of growth. In the future, I think we're kind of in the middle of a Nike swoosh. So, we've seen a bit of a drop throughout the pandemic, it's kind of flattening out. Looking ahead three to five years, I'm very confident it's going to be higher than it is now. Why is that? There are two big factors that are easy to explain. One is technology.

NB: Work from home is massively dependent on technology, so I've interviewed people... I'm one of four kids. In fact, both of my parents worked and they worked from home when I was growing up in the 70s and 80s. And talking to them, working from home was like shuffling pieces of paper... It was not great, it wasn't very nice. There were no personal computers. You felt very isolated at home. Then the personal computer comes along in the 90s, that's a big step forward. And the internet, really late 90s, early 2000s. And then the cloud which enables what we're using now - video calls and also Dropbox and file sharing. And so, by the time you get to

2015, technology looks kind of like what it is now, which is you can have video calls and share files. But it's progressing. So, if you compare Zoom now, to what it was three years ago, there's no emojis, you can't move the boxes around, there's no virtual backgrounds - there's a lot of stuff that's been added. Cameras have gotten better. I've talked to a number of start-ups, software is improving. So, if you progress forward three to five years, there'll be much better hardware and software, better technologies. Many of these are hard to predict. I heard an interview with the founder of Dropbox, it was a great interview, and he was saying, "You know when, I founded it, it was aimed at techies, because no-one had more than one computer." But of course, everyone uses it now. So, there are a lot of things that will come out now, new technologies that make work from home much easier three to five years from now. So, that's one upward force.

NB: The other is what I kind of think of as imprinting. So, startups, firms that are founded now and new firms are much more remote-focused. As they grow and become tomorrow's small medium and particularly large firms, they'll bring that with them. So, I think the future is actually a higher level [of work from home].

NB: I was reading the other day about someone from a commercial real estate saying, "Well, I'll give it another two years and we'll all be back in the office." And I was like, I couldn't disagree more. We know the data. I've looked at the data now for the last nine months, it's flat. We're not actually going back to the office, it's the reverse. I reached out and said, "Look, if you're interested in making a side bet, I'm open." They never replied. [laughter] I think that tells you about their confidence in what they're talking about.

LT: Before I ask for the 3 takeaways you'd like to leave the audience with today, is there anything else you'd like to mention, Nick? What should I have asked you that I have not?

NB: Another interesting angle which is less for the US, more for Europe and particularly Asia, is the connection between work from home and fertility and slowing down population decline. So, the US population is still rising, if you look at particularly southern Europe and Asia, they're facing real issues with declining birth rates, declining population sizes, and aging populations. Governments there are putting enormous amounts of effort now into often paying money, child allowances, putting expensive kindergartens, creches and things ... and that's probably all a good idea. It looks like the data shows that allowing people to work from home, particularly having the government support it for two, three days a week, is not only free because it doesn't reduce productivity and makes the average employee pretty happy, it also appears to support fertility because it makes it much easier for couples to parent kids. So, what I foresee in the next 5 to 10 years is a big push, actually more in Asia, which is kind of lagging right now in work from home levels, and in southern Europe, to promote this. China, Japan, these are rapidly aging societies thinking, "Wow, here's a policy. Costs us nothing, makes people happy. It has no downsides and it has all these benefits." So, work from home would be top of my list of policies to enact.

LT: So interesting, Nick. What are the 3 takeaways you'd like to leave the audience with today?

NB: I think the first is work from home is here to stay. To some extent, it seems amazing, that I'm still saying this in 2023, but it's clearly here to stay. I don't think we're reversing. The second takeaway is that there are a mix of individuals, there's not one-size-fits-all. Roughly 60% of

people currently right now, can't work from home at all. We should remember them. Of the other 40%, mostly they're hybrid, some are fully remote. So, it's very very heterogenous. And finally, certainly hybrid does not damage productivity. Don't believe the wild claims. I call them wild claims. We hear from heads of certain banks, some outspoken tech moguls, etcetera claiming it's terrible. You just don't see that in the data and I've seen a lot of data on this. Fully remote, maybe damages productivity by about 10%, but it saves you maybe 30-40% on cost, so it's also a great deal. It's just kind of a different flavor. It's not better or worse, it depends on your strategy.

LT: Nick, this has been fascinating. Thank you so much.

NB: Lynn, thanks so much for having me on.

OUTRO male voice: If you enjoyed today's episode and would like to receive the show notes or get new fresh weekly episodes, be sure to sign up for our newsletter at <https://www.3takeaways.com/> or follow us on [Instagram](#), [Twitter](#), [LinkedIn](#) and [Facebook](#). Note that 3Takeaways.com is with the number 3, 3 is not spelled out. See you soon at 3Takeaways.com (<https://www.3takeaways.com/>)

This transcript was auto-generated. Please forgive any errors.