Dispelling The 'Work from Home' Productivity Myth

1 October 2020

investa

Through the COVID-enforced disruption to office work practices, productivity has been front and centre in the debate about whether it is "better" for business service employees to work from home or the office.

The recently released ABS National Accounts data put this debate into measurable and objective terms, showing Australia's office workforce productivity declined by 3.0% in the three months to the end of June 2020, when the majority of office workers were in their first phase of 'working from home'.

Key points

The office has an important role to play in enhancing the productivity of Australia's business services economy.

Working from home has not provided the office workforce productivity gains many recent employee surveys have suggested.

In fact, official economic data showed an overall decline in Australia's office workforce productivity through the initial months of COVID-enforced 'work from home'.

While there are no clear productivity gains to office businesses and workers when all office work is performed in home offices, 'working from home' can provide some benefits for specific office work tasks and roles.

Office businesses and workers can optimise productivity with further information to support an appropriate mix of flexible workplace options.

Labour productivity and Australia's commercial office economy

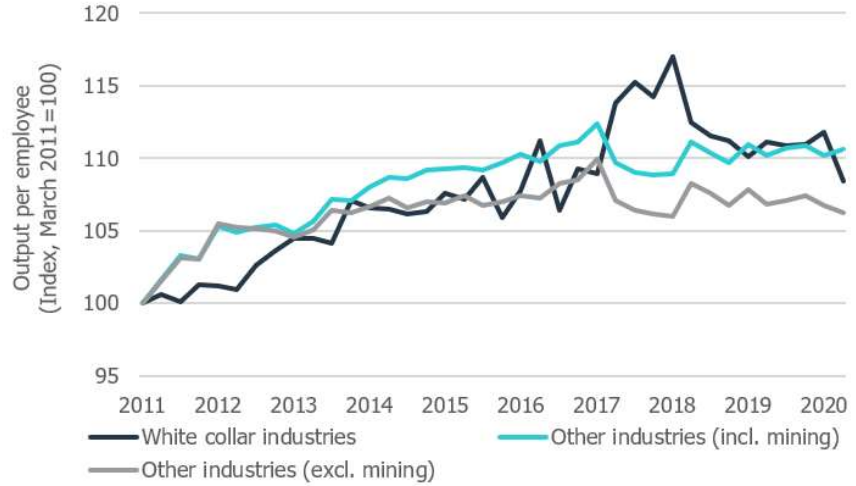
This paper outlines some of the complexities in estimating and attributing the impact of the workplace on Australia's business services, or office workforce productivity. While a variety of surveys and sources have concluded that the COVID-enforced 'work from home' experience has improved worker productivity, recent labour productivity data shows otherwise.

The balance of evidence suggests there are some benefits to providing a 'work from home' option for office workers amongst a mix of flexible workspace options. However, office worker productivity and the economic performance of the business services sector are greater with an office presence.

One of the key learnings for office-based businesses through COVID has been to reinforce that 'one size doesn't fit all'. That is, office business productivity is optimised with an appropriate business-specific mix of flexible workplace options. This mix is achieved by addressing the specific values, objectives and roles of each individual business.

Looking to the future of work beyond COVID, the business services economy is finding that workplace flexibility, resilience and adaptability is important in navigating potential shocks and an uncertain and rapidly changing future. Addressing the fundamental questions of 'how', 'what' and 'where' work functions and roles are performed is a critical first step in the path to optimising office business workforce productivity.

Australian Labour Productivity



Sources: ABS & Investa Research

Trust in data… or should you?

In an attempt to resolve the 'work from home' productivity debate, media and online platforms have been flooded with survey data. Unsurprisingly, **most surveys reveal that office workers feel they have higher productivity when working from home. However, on closer analysis many of these surveys are riddled with both subjective responses and sample bias** rendering the results and conclusions highly questionable:

- For reasons of trust and confidentiality**, employees are significantly motivated to respond that their productivity has increased to their employers and/or the market – regardless of the reality**. This is particularly relevant in a weak economy, where media are more frequently reporting a negative economic outlook, announcements of business downsizing and job cuts.
- There is doubt whether respondents clearly understand the definition of productivity, and **survey responses more likely reflect production (total output, regardless of hours worked) rather than productivity (output per hour worked** – see Box 1: What is Productivity?). This is a particularly important distinction for employees who are working more/less hours than usual or spreading work hours over a longer timeframe.
- **Survey sample design is inadequate** – small sample sizes and a lack of sample design introduces sample bias in responses. Despite an underlying response bias (see first dot point above), the balance of survey results show that personal circumstances (including home schooling responsibilities and shared living arrangements) and work roles have a different impact on home-based work productivity.

Given the distinct lack of objective data, flawed analysis and strong conclusions have been drawn from the survey data – which have been difficult to disprove or validate… until now. In statistics, surveys are used as an estimate or indication, when objective and measurable data is not available. ABS' Australian National Accounts[1] and Labour Force data provide the most reliable, longest running, trusted and objective survey measures of Australian output, employment and labour productivity available.

Comparing ABS output with employment data for white collar industries, or office-based businesses, shows that Australian economic output, employment, and hours worked all decreased in the most recent three months. In comparison to other sectors of the economy, the decline in white collar employment and working hours has been less severe, with a range of office-based roles and functions being continued in 'home offices' through COVID.

Consequently, the decline in white collar output (-5.6% q/q) has been sharper than the fall in employment (-2.6%) – representing a decline in white collar, or office workforce productivity. Taking a more granular view of **the data reveals that while office workers have been working fewer hours and producing less, office worker productivity has not improved, but remained broadly unchanged**, with office-based labour productivity per hour of work increasing a meagre 0.1% in the three months to June 2020.

[1] ABS Australian National Accounts is estimated from survey data. However, the survey scope, coverage and methodology are compliant with international standards and ensure the data are accurate.

Australian Economic Output, Employment and Productivity by Sector

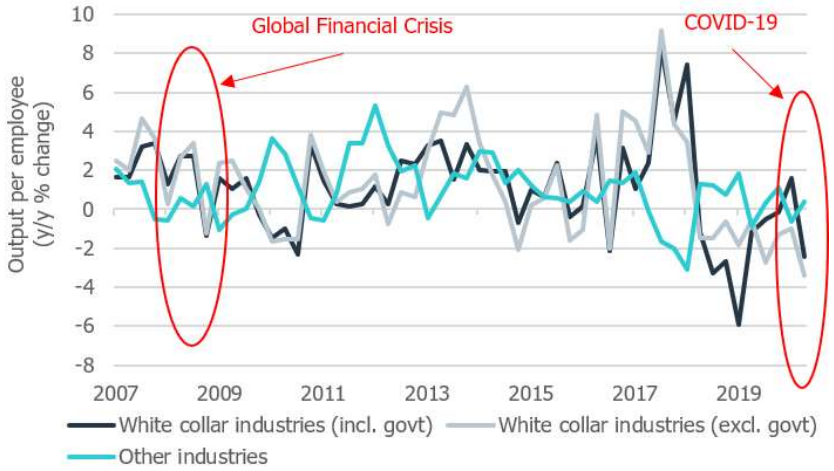
March 2020 – June 2020	**White collar industries**	**Other industries**	**Total**
Output	-5.6%	-7.2%	-6.7%
Employment*	-2.6%	-7.5%	-6.2%
Hours worked per employee per week*	-2.6%	-5.5%	-4.7%
Labour productivity (per employee)	**-3.0%**	**0.4%**	**-0.5%**
Labour productivity (per hour worked)	**0.1%**	**6.1%**	**4.4%**

Source: ABS & Investa Research

While a quarterly fall in white collar labour productivity in an economic downturn is not unusual, it does provide counterevidence to the view that office worker productivity has increased with the enforcement of 'working from home' through COVID. In comparison to the outperformance of recent years, **white collar labour productivity has declined sharply through COVID despite the ability to transition most office-based work to home offices**.

While this decline jars in comparison to the initial period of the Global Financial Crisis, where productivity accelerated with the drop off in white collar employment, it partly reflects the unique office sector challenge of managing a sudden transition to 'working from home' in lockdown and with social isolation through COVID.

Australian Labour Productivity: Historical Comparison by Sector



Sources: ABS & Investa Research

Drivers of Productivity: Cost vs Output

As detailed in *Box 1: What is Productivity?* on page 4, two variable factors drive productivity; output and inputs. What we are seeing in COVID is the normal business response to maintaining productivity, and profitability, through an economic downturn**. To maintain productivity and profitability in a slowing economy, where business revenues and output are generally constrained by weaker economic and demand conditions, businesses will focus primarily on reducing their cost base.**

For business services, reducing their cost base usually involves reducing the total wage/salary costs by cutting headcount, and/or reducing individual employees' wages/salaries. In office markets, businesses will also consider reducing (or offsetting) their short-term accommodation costs by decreasing their workspace footprint, typically by offering excess leased space for sub-lease. This has been reflected by increased office sub-lease vacancy in Australia's major office markets in recent months.

In COVID, we are also seeing businesses reassess their office lease commitments. Some office-based businesses are holding off on making a longer-term commitment to their office workspace needs until the economic outlook is clearer.

In addition, some businesses are considering permanently reducing their office occupancy cost base (ie. office lease commitment) and shifting to more remote, or 'home-based' office work in response to the perceived (but flawed) "productivity success" of the COVID-enforced remote working experiment. **While this strategy of debasing the workplace clearly has a direct impact on reducing business occupancy costs, there is some uncertainty about the broader and longer-term impacts on both total business operating costs (i.e. employee attraction and retention, remote working operational support costs) and worker productivity.** Reflecting both the heightened economic and strategic uncertainty, CBRE[2] have reported around 20-30% of office-based businesses are uncertain about how they will respond longer-term with their utilisation of office space, or workplace strategy.

In the short-term, a focus on containing, or reducing a business' cost base is an effective temporary measure to maintain business viability through a cyclical downturn. However, on the other side of the downturn (i.e. in a recovery and growth cycle) and **'through the cycle', a pure focus on cost reduction is not sustainable, and businesses need to focus on driving output and revenue growth to establish and increase market share.** As Reserve Bank of Australia Governor Phil Lowe highlighted (see *What do we know about pre-COVID productivity?*), "investment in human capital" is a more sustainable strategy to driving productivity, and for the business services sector this starts in the office not in homes spread throughout suburban Australia.

[2] CBRE, The Future of the Office, 2020 Global Occupier Sentiment Survey.

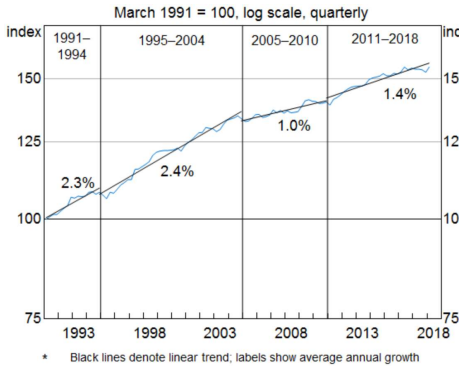
What do we know about pre-COVID productivity?

The Reserve Bank of Australia (RBA) have conducted extensive analysis on Australian economic productivity. In his speech to the Australian Industry Group on Productivity, Wages and Prosperity (June 2018), Governor of the RBA Phil Lowe showed that Australia's labour productivity had slowed since 2005. In comparison to a quite robust average growth rate of 2.4% pa in the decade from 1995-2004, labour productivity increased at a more moderate 1.4% pa from 2011-2018.

In decomposing the drivers behind Australia's labour productivity, Lowe highlighted that productivity performance across sectors had been quite variable, with the mining sector, goods-related production and business services outperforming the productivity contribution of the household services sector.

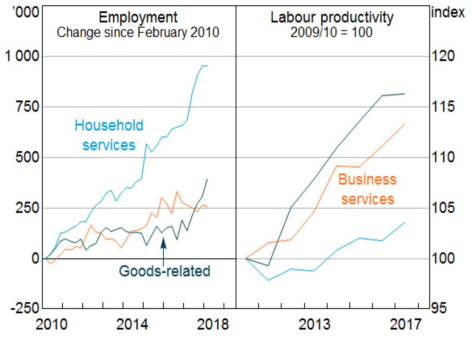
Beyond the implications for policy reform, Lowe also pointed to the importance of businesses investing and developing human capital to drive labour productivity growth. This is particularly important with respect to the adoption of new technologies and responding to emerging labour market skill requirements. That is, deploying new technologies and work practices without upskilling, investing, and addressing the human needs of Australia's business services workforce will limit the potential of Australia's labour productivity.

Australian Labour Productivity*



Source: RBA

Australian Employment and Productivity



Box 1: What is Productivity?

First year economics students are commonly taught about economic productivity under the first principles of producer theory. Conceptually, **economic productivity measures the ratio of output (measured as goods and services produced) to inputs (measured as labour, land and capital – or input factors)**. Economic output is generally measured as Gross Domestic Product (GDP), or Gross Value Added (GVA) for an industry or sector. However, either measure does only account for economic output and productivity. There is a whole further conceptual debate about whether economic output sufficiently captures the full extent of output and productivity (including social output, utility and externalities).

The most commonly used measure of productivity for the business services sector (or office-based businesses/work) is labour productivity. That is, output per person, or per hour worked – separately identified for either office-type roles (ie. management, administration/clerical, etc) or white-collar businesses (ie. legal, management consulting, technology, etc). Given either input categorisation by role or industry work type has some overlap between office and non-office work, both measures are considered sub-optimal to measuring the individual productivity of every worker in an office, but a reasonably good estimate of office sector productivity.

There are also advantages and disadvantages in measuring labour productivity using either output per person, or per hour worked. While productivity per hour worked adjusts for changes in an employee's working hours (ie. productivity when working), productivity per employee is a useful measure of productivity where workers are paid a fixed salary, regardless of hours worked.

A number of factors can help explain the divergence between surveyed perceptions of productivity and measured productivity. One explanation, supported by the variation in white collar productivity per employee and productivity per hour worked, is because the delineation between work and home has blurred. That is, **a lack of separation between home and work has resulted in white collar employees working more dispersed, if not more hours**, and survey responses may reflect a feeling of producing 'more output' as opposed to 'more efficient output'. Consequently, output per hour worked, rather than output per worker, is typically the preferred measure of productivity.

In addition, the concept of labour productivity represents only work-related output and inputs. Consequently, hours worked represent the labour input to measuring productivity and commute time savings from home-based work do not have an impact on economic productivity.

Further Information

Investa Research

David Cannington
Head of Research & Strategy
P +61 0418 655 200
E dcannington@investa.com.au

Jack van Aanholt
Research Analyst
P +612 8226 9921
E jvanaanholt@investa.com.au

About Investa Research

Investa Research focuses on understanding the drivers and analysing the movements and trends within the Australian commercial office market. The research function is fundamental in guiding group investment strategy and decision making, as well as providing a competitive advantage through insightful analyses and forecasting.
The research team publishes regular updates on the performance of the major Australian office markets, as well as occasional papers and reports examining a broader scope of topics that may be of interest to investors and other Investa stakeholders.

About Investa

Investa is a leading Australian real estate company managing more than A$12 billion of quality office real estate.
As a specialist office manager of commercial office buildings Investa manages assets in the key Australian CBD markets on behalf of ICPF, Oxford Investa Property Partners (OIPP) and private mandates.
Its end-to-end real estate platform incorporates funds, asset, property and facilities management, development, sustainability, capital transactions and research.
Investa strives to create Australia's most valued working places by delivering consistent outperformance for its investors and exceeding the expectations of its tenants and staff, while remaining an industry leader in sustainable building management and responsible property investment.