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How Google's Strategy For Happy Employees Boosts Its Bottom Line

Pavel Krapivin Contributor

Careers

I write about the intersection of work and happiness.

Happy smiling employee PHOTO CREDIT: DROBOT DEAN - STOCK.ADOBE.COM

As the war for talent heats up, a growing number of companies are investing heavily in perks to make employees happy. The tech sector is leading the way, and stories of the range of perks employees at companies like Google enjoy—from free food to free classes, lectures from global thought leaders to free gymnasiums—are legend.

Skeptics will scoff at such benefits, suggesting that they're designed with a trade-off in mind: the perks are designed so that employees won't ever have to leave the office and can work longer hours. It is a somewhat cynical perspective, but it does raise the question of whether such perks really do pay off. Do they improve the profitability of the companies that employ them?

Many have tried to answer that question. A few years ago, a team from **Warw**ick University researched the impact employee happiness had on an employer's bottom line.

“Companies like Google have invested more in employee support and employee satisfaction has risen as a result. For Google, it rose by 37%; they know what they are talking about. Under scientifically controlled conditions, making workers happier really pays off,” they explain.

They found that this was indeed the case, with higher employee happiness levels associated with a 12% rise in productivity, albeit primarily in laboratory conditions. A second study, led by the University of Tennessee, aims to put things to the test in real-world environments.

Why happiness matters

The researchers analyzed data from the Thomson Reuters ASSET4 database on employee relations and overall company financial performance from 3,500 companies spread across 43 countries over a 12 year period to 2014. The data contained five specific aspects of workplace culture that most accurately represent how those organizations treat their employees. These included employment quality, health and safety, training and development, diversity and human rights and labor laws.

What did the analysis find? Well, for starters, the number of companies that could be regarded as great places to work is relatively small. For instance, just 10.8% of those in the sample were listed in Fortune’s “Best Companies to Work For” list. While these are perhaps the gold standard of workplaces, the remainder did appear to cover some of the bases. For instance, 74% of companies had some kind of diversity program, with 62% providing training for employees.

Perhaps more importantly, however, this seemed to make a difference to their profitability. When the researchers controlled for various factors, including the age of the company, its debt levels, and even the rate of GDP growth in their home country, they were able to determine that treating employees well clearly paid off.

They found that companies with a higher score for employee friendliness (EF) achieved better returns on assets and equity than their peers with lower employee-friendliness ratings. What's more, the high achieving companies also scored above average for sales-to-assets ratios, the number of patents filed and were below average in terms of expenditure.

Overall, the message seems clear, that if you treat employees well, this then creates a social contract whereby those employees work harder, tend to be more efficient, and generally strive to do more for the company that's treating them so well.

"These results suggest that creating an EF culture is value enhancing when managers make choices (including the creation of an EF culture) that are in line with shareholders' interests," the authors explain.

The chicken or the egg

Now, you may argue that correlation does not equal causation, and what we're seeing here is that companies that do well financially have more disposable income to spend on making their workplace attractive for employees.

It's a hypothesis the researchers dispute because the long timeframe of their work allowed them to examine company performance over the course of a number of new regulations being enacted. For instance, in a number of European countries, laws were brought in requiring more lenient parental leave, which can be viewed as a proxy for improving the employee-friendliness of the workplace. They say that the implementation of these new laws did indeed have a positive financial impact on firms, especially if they had relatively poor parental leave policies prior to the new regulations coming into force.

What's more, the long window of time used for the study allowed them to span the period before, during and after the Great Recession. This allowed them to identify the impact employee-friendly policies and cultures had during this tumultuous period. As before, it emerged that companies with a high EF rating performed much better during and after the recession, suggesting that the power of a happy workforce provides a buffer even in the most severe of wider economic circumstances.

So next time anyone tries to argue that policies designed to improve the well-being and happiness levels of employees are a waste of time, you now have a couple of robust studies to disabuse them of that notion. It turns out that investing in your employees really does pay off. Who'd have thunk it?

I am the founder and CEO of VelvetJobs, the career matchmaking service used by millions of professionals. Founded in 2014, VelvetJobs is the leading innovator in employer branding and outplacement services. Prior to VelvetJobs, I served as the vice president of Warner Bros. ... MORE

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