

## **TRUSTWORTHY EMPLOYERS GET MORE FROM THEIR STAFF: Evidence from British workplace surveys**

Employees work harder when they trust their employers, according to research by **Sarah Brown, Daniel Gray, Jolian McHardy** and **Karl Taylor**, to be presented at the annual congress of the European Economic Association in Mannheim in August 2015. But their study also finds that the positive effect of employee trust on labour productivity in Britain was much higher in 2004, before the recession, than in 2011.

Analysing data from the 2004 and 2011 Workplace Employment Relations Surveys (WERS), which covers more than 1,400 workplaces and over 17,000 workers, the researchers find that:

- There is a positive association between three measures of workplace performance – financial performance; labour productivity; and product or service quality – and employee trust.
- For example, employee trust increases the likelihood that labour productivity, compared with other establishments in the same industry, is above average by 4-5 percentage points.
- The effect of employee trust on labour productivity was much higher in 2004 than in 2011.
- Restricting paid overtime in the recession potentially eroded employee trust.
- Requiring employees to take unpaid leave during the recession appears to have had no effect on employee trust.
- Reorganisations at either the employee or organisational level are associated with lower employee trust.

### **More...**

Britain's productivity puzzle has recently attracted the attention of both academics and policy-makers, with considerable discussion of how to boost productivity levels. This paper explores an influence on firm performance, namely employee trust in their managers, which to date has attracted limited interest in the economics literature.

It is apparent that employee behaviour may influence firm-level performance given that many workers are likely to have some degree of discretion with respect to how hard they work. It may be the case that employee trust in the workplace influences the behaviour of employees, which in turn affects firm performance.

In particular, the extent to which employees trust that their managers will treat them honestly and fairly may have some bearing on the extent to which employees engage in opportunistic behaviour or otherwise. Thus, the degree of trust that employees have in their managers may influence firm performance.

The study analyses detailed matched workplace and employee data to explore the relationship between employee trust and workplace performance using data from the Workplace Employment Relations Surveys (WERS), which provide nationally representative data on the state of workplace relations and employment practices in Britain.

Using both the 2004 and 2011 WERS makes it possible to analyse the role of employee trust in influencing workplace performance pre- and post-2008. The sample for the 2011 WERS comprises 1,550 workplaces, while for the 2004 WERS, the sample comprises 1,432 workplaces.

The empirical findings support a positive association between three measures of workplace performance – financial performance; labour productivity; and product or service quality – and employee trust. For example, employee trust increases the likelihood that labour productivity, compared with other establishments in the same industry, is above average by 4-5 percentage points.

Perhaps surprisingly, the results are generally similar in the 2004 and 2011 WERS with the exception that the effect of employee trust on labour productivity is much higher in 2004 (before the economic recession) than in 2011. The relationship between trust and different measures of firm performance also holds under a number of robustness checks.

The WERS also makes it possible to ascertain the determinants of employee trust by using the employee level data, which may shed some light on how such trust is engendered in the workplace. The samples comprise 18,492 employees in 2011 and 17,532 in 2004.

Analysis of the determinants of employee trust highlights the effects of how workplaces have dealt with the recent recession. It is apparent that restricting paid overtime as a result of the recent recession potentially eroded employee trust, while requiring employees to take unpaid leave as a result of the recent appears to have had no effect on employee trust.

In addition, the study finds that job or work reorganisation experienced at either the employee or organisational level are associated with lower employee trust.

The analysis highlights the importance of employee trust for workplace performance as well as shedding some light on how such trust is influenced by job and work-related characteristics. The findings, which show a clear link between employee trust and productivity, might also shed some light on ways to improve productivity and firm performance.

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