How to Redefine Total Rewards for the Hybrid Workforce

by Brent Cassell

To meet the needs of an increasingly hybrid workforce, total rewards leaders must ensure their 2022 strategies address four key challenges: the relocation of existing employees, perceptions of pay fairness, recruiting from more diverse geographies and employee burnout.

During the past two years, location flexibility has emerged as an increasingly critical component of the employee value proposition (EVP). Fifty-five percent of employees agree that whether or not they can work flexibly would impact whether they stay at their current organization.[1] Forty-three percent of employees also say if they were to look for a new job, they would only consider roles that offer remote work.[2]

While hybrid work delivers a number of benefits to both employees and their organizations (for example, increased productivity, improved work-life balance), it also creates challenges for total rewards leaders. In conversations with Gartner clients this summer and fall, we identified at least four issues they will need to address in 2022 to capture the full benefits of hybrid work:

- Relocation of existing employees
- Perceptions of fairness
- Recruiting from more diverse geographies
- Employee burnout.

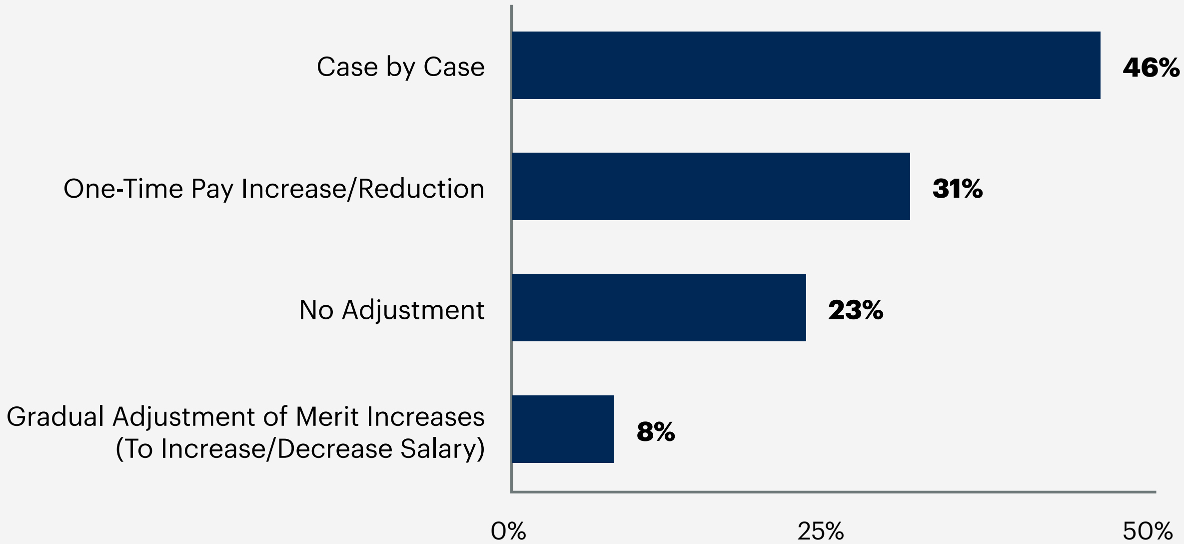
Employee Relocation

In a recent Gartner survey, 39% of employees said they would consider relocation if their organization allowed them to work from home permanently. An additional 9% of employees noted they had already relocated within the past 12 months. With close to half of employees potentially or actively relocating, total rewards leaders must consider whether to adjust employee pay in accordance with any change in cost of living.[3] While nearly two-thirds (63.3%) of organizations factor employee location into pay decisions, less than half (46%) of HR leaders say they have a standard practice for scaling compensation following a move. Instead, these decisions are made on a case-by-case basis or at the discretion of individual managers or business leaders (see Figure 1).[4]

For our clients in the public sector, relocation has been a nonissue. For example, in the United States, when federal employees choose to relocate, their locality pay automatically adjusts to the new market. Meanwhile, some total rewards leaders in the private sector have responded by placing all remote employees on a single, national salary scale. Some have even formally adapted their compensation philosophy to reflect this shift, stating, for example, that they now pay for "cost of labor," not "cost of living."

On the whole, though, most employees have not seen their pay decrease because they moved to an area with a lower cost of living. In the Gartner 2021 Pay Perceptions Survey, only 3% of employees said their pay decreased after a relocation, but then again, only 8% of employees actually moved to less expensive locales. Most employees who relocated (67%) moved to places with higher costs of living, and 60% said their pay increased after their relocation.[5] Many employers are hesitant to cut pay for employees whose living costs decrease because they fear this might lead to unwanted attrition. However, some have slowed the rate of future pay increases for those individuals by placing them in a different pay band. Regardless of the path you choose, remember the vast majority (95%) of employees who saw their pay change due to relocation believed the adjustment was fair.[3]

Figure 1. Methods Organizations Use to Adjust Compensation After Relocation



n = 26 HR leaders worldwide whose organizations allow employee relocation

Q. How does your company adjust pay when an employee moves to live in a different location while working in the same role? Select all that apply.

Source: 2Q21 Gartner Compensation Watch Survey

Note: "Case by case" includes, "We don't have one practice, HR makes decisions on a case-by-case basis" and, "We let managers and business leaders decide what they want to do."

Perceptions of Fairness

Despite the considerable investments that total rewards leaders have made in manager pay training and increasingly transparent pay communications, significant numbers of employees still feel they are underpaid. In our pay perceptions survey, 15.8% of employees said they thought their base pay was lower than other employees in their position at their organization, and 18.5% thought it was lower than employees in their position at other organizations, while 19% disagreed with the statement that the pay they receive is fair.[3]

While these concerns of unfairness were present before the pandemic, many HR leaders are worried they will worsen because not all roles are equally well-suited to hybrid work (for example, field service technicians, retail employees and other site-dependent personnel). As a result, we've heard many leaders worry about further contributing to a culture of "haves and have nots" in their organization. While some total rewards leaders may have been able to postpone their concerns by offering bonuses during the earliest days of the pandemic, most organizations have told us these were temporary measures that did not persist into 2021.

To combat employee concerns about pay fairness, some total rewards leaders have continued to rely on more traditional pay communication strategies. For example, some have created TR statements and trained managers on explaining some of the more complex calculations in those documents, such as compa-ratios. Others have set boundaries on location flexibility, stating, for example, that employees must live within 90 miles of their home office and will not be reimbursed for any new, travel-related expenses resulting from their relocation.

Another trend that emerged in our conversations with clients this summer was the impact of an increasingly tight labor market on emerging pay inequities. One client told us, "We have to pay a lot for talent right now, and that creates pay inequities with our current employees." Our research refers to these moments when an employee's experiences do not match their expectations as "expectation gaps." Unfortunately, due to the abundance of pay benchmarking online and the weakening taboos surrounding pay discussion, these gaps, while painful, are increasingly unavoidable. We recommend companies rethink their pay communication strategies so they focus on not only preventing these gaps but also helping employees recover from them. For example, one retail company has begun to proactively audit online sources of pay data so they can alert managers to potential discrepancies and prepare them for potential pushback from their employees.

Recruiting From More Diverse Geographies

Hybrid and remote work provide organizations with the ability to recruit talent from more geographically diverse candidate pools. Since the start of the pandemic, 37% of companies have begun offering remote work or location flexibility in a large percentage of their open roles.[5]

As with the relocation challenge, we've seen organizations (particularly in the U.S.) experiment with migrating to a national pay scale to support their expanded recruiting operations. Others have chosen to limit choice by placing restrictions on geographies they would not consider: for example, places where labor laws are restrictive and difficult to manage and/or where a cost-of-living premium would be too high. Others recommend partnering with external pay benchmarking vendors immediately to benchmark compensation for key roles in a particular geography before you start hiring there. While skipping this expensive and time-consuming process and relying on one-off judgments can be tempting, miscalculations can come back to haunt you for years to come.

In addition to concerns about compensation, as organizations expand the geographical range of their recruiting, they may encounter a patchwork of laws and regulations regarding benefits. This variability is especially true in the U.S., where benefits such as paid sick leave are mandated in some states or cities but not others.

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Organizations that operate internationally also have to contend with a wide variety of national parental leave laws. Employers have three options for addressing this challenge, none of them ideal:

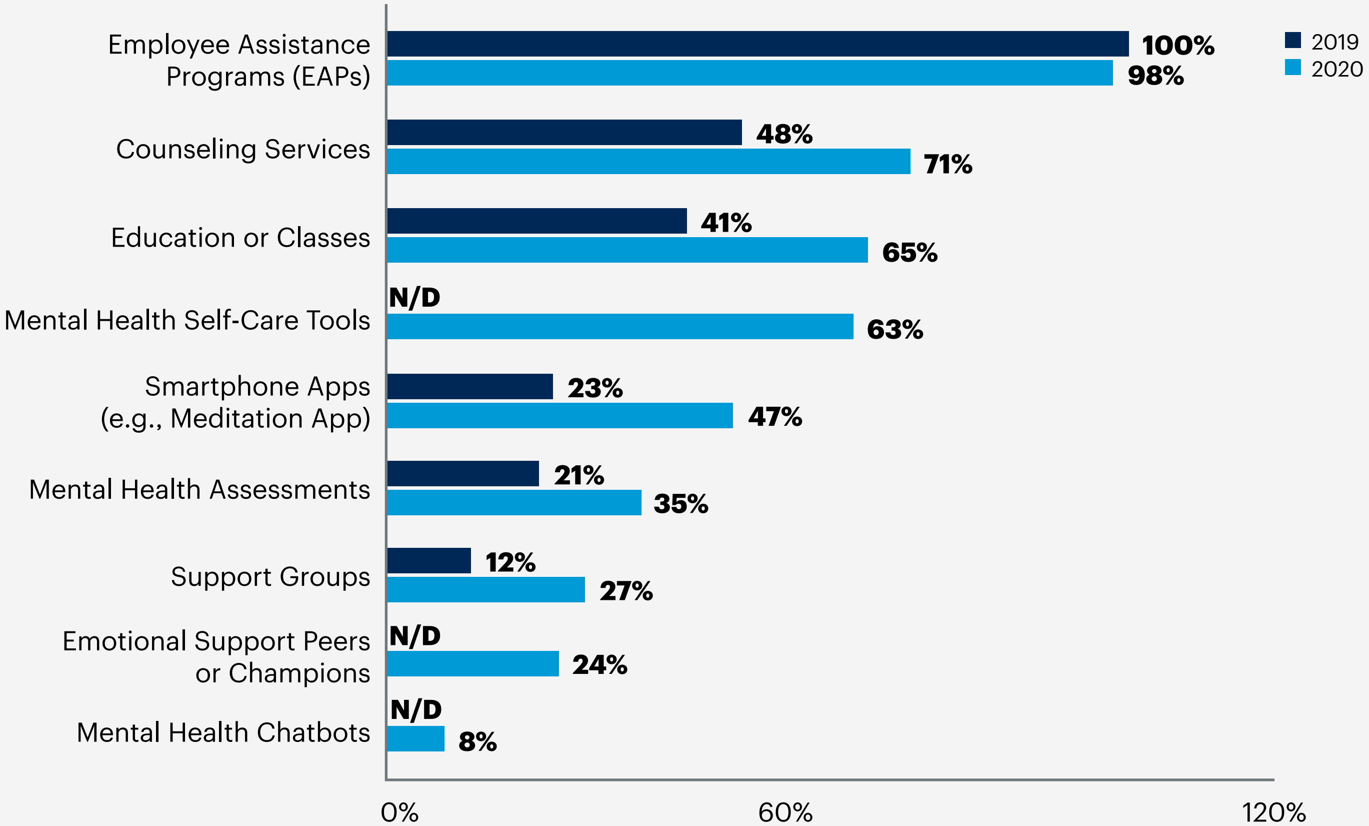
- Create different policies for different geographies.
- Create a universal policy that meets the highest applicable regulatory standard.
- Avoid recruiting in locales with regulations that are expensive or difficult to comply with.

To design policies for a more distributed workforce, total rewards leaders will need a solid understanding of regulations, benchmarks, and employee and candidate expectations in any new areas where their organization is hiring.

Burnout

Finally, total rewards leaders must address the mounting symptoms of employee burnout that overwork and the erosion of the traditional boundaries between work and life have created in their organizations. In our latest well-being survey, 57% of respondents said they were worried about the pandemic, 33% said they were angry, 31% said they were stressed, and 29% said they were depressed.[6] In response to the pandemic's impact on employees' physical and mental health, 64% of organizations have introduced at least one new well-being offering, and 34% have expanded access to an existing offering.[7] Adoption of a variety of mental well-being programs increased significantly in 2020 (see Figure 2).

Figure 2. Mental Well-Being Programs Offered (Percentage of Organizations)



n = 61 (2019); 51 (2020) organizations that offer mental/emotional well-being programs

Source: 2019 Gartner Well-Being Benchmarking Survey; 2020 Gartner Well-Being Benchmarking Survey

Note: "N/D" indicates that no data was collected.

Recognizing the role excessive meetings play in contributing to burnout, many organizations have begun to declare "quiet hours," typically on Friday afternoons or between 11 a.m. and 1 p.m., during which they actively discourage employees from scheduling meetings.

Beyond policies, we've also seen many organizations focus on new well-being technologies, such as Calm, Headspace, Wellbeats or Thrive Global. One engineering firm has even begun to offer free one-on-one online tutoring for their employees' children, and one financial services company created a "virtual summer camp" for 1,200 of their employees' children in 16 countries in 2020. Another company brought in on-site behavioral health specialists to help their employees cope with the stresses of the pandemic. Others have expanded access to their employee assistance programs (EAPs) or enhanced their dependent care benefits to better support working parents during a time of increased stress and anxiety. Some have implemented "mental health days" or made wellness training an ongoing part of internal meetings. In 2021, 34% of employees said their organizations offered additional paid time off for mental health.[8]

However, even as companies introduce new well-being offerings, they must also address the challenge of underutilization of those benefits. One total rewards leader told us this fall that she was canceling her organization's membership with a backup childcare service because only 12 employees out of 5,000 used it. As organizations consider expanding their existing well-being offerings, we believe they must consider new and innovative ways to increase the utilization of existing offerings. For example, we've seen more and more organizations relying on direct managers, peers and even senior leaders to boost participation rather than focusing exclusively on TR-led communications.

By addressing the four challenges discussed here, total rewards leaders will enable their organizations to reap the full benefits of hybrid work and update their EVP to meet employee and candidate needs in an increasingly tight labor market.

[1] 2021 Gartner Hybrid Work Employee Survey. This survey was fielded in November and December 2020 to over 4,000 employees in APAC (Australia, China, India, Singapore), ANZ (New Zealand), EMEA (Germany, France, Spain, South Africa and the U.K.), Latin America (Brazil and Mexico) and North America (the U.S. and Canada). Respondents worked for organizations employing more than 1,000 people. All industries were eligible for participation. The survey was web-based.

[2] 2021 Gartner Hybrid and Return to Work Sentiment Survey. This poll, conducted in October 2021, surveyed 3,000 employees across a wide range of industries, functions, geographies and current work statuses to understand their preferences and challenges related to current and future work design.

[3] 2021 Gartner Employee Pay Perceptions Survey. This survey was administered to 3,668 employees around the world on various aspects of their pay in March and April of 2021.

[4] 2Q21 Gartner Compensation Watch Survey. This survey was administered between June and August 2021 to HR leaders worldwide and received a total of 31 responses. The data shown here are from 26 respondents whose organizations allow employee relocation.

[5] Gartner Work Location Flexibility Webinar Poll (26 May 2021). This poll was conducted during the webinar "Benchmark With Brian: Work Location Flexibility." Participants included over 80 HR leaders from a wide spectrum of industries. A large majority were based in North America, though the perspectives and practices they shared were developed to support their global organizations.

[6] 2020 Gartner Well-Being Employee Survey. This survey was conducted online from 29 October to 27 November 2020, and contains responses of 5,055 respondents belonging to 23 countries. Respondents belonged to organizations with over 1,000 employees with representation from all industries and functions.

[7] 2020 Gartner Well-Being Benchmarking Survey. This survey was conducted online from 25 September to 18 November 2020, and contains responses from 53 total rewards executives from organizations across 19 industries and headquartered across 13 countries.

[8] 2021 Gartner Human Deal Benchmarking Survey: This survey was conducted from 24 August through 6 September 2021 among 3,548 employees worldwide on various topics relating to the employee value proposition (EVP). Respondents were permanent employees between the ages of 18 and 65 at organizations with more than 1,000 full-time employees, with representation from all industries and employee functions.