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WORKING FROM ANYWHERE COMES WITH A COST

BY MARK ATHITAKIS, WORLDDATWORK

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## hen we talk about the coronavirus pandemic and remote work,

the disruption that COVID-19 has caused might be most pronounced in Silicon Valley.

Twitter, which had been pursuing a distributed-workplace model for years, went all-in last May, when CEO Jack Dorsey announced that employees were free to work remotely from anywhere, and offered allowances for home-office supplies. Facebook also expanded its remote-work policies, with founder and CEO Mark Zuckerberg saying he not only anticipated half of his company's workforce would be remote within a decade, but bragging about it: "We're going to be the most forward-leaning company on remote work at our scale," he said.

Of course, there was a catch. Facebook employees who moved away from Silicon Valley to more affordable locations before 2021 were told they would face pay reductions. Twitter and VMware adopted similar pay localization structures based on the cost of labor in the regions to which employees moved.

Pay disparities based on location are nothing new, of course — companies have long adjusted salary structures to match the cost of living in particular locations. But the changes in Silicon Valley reveal how a more accelerated path to remote work, prompted by Covid-19, has forced a reckoning on compensation, pay equity and communication of benefits that requires more than a scan of regional average-salary charts. The pandemic sparked questions of what an employee is worth and how much location should factor into that calculation.

"HR organizations internally need to align themselves on what they pay for. Do they pay for cost



*HR ORGANIZATIONS INTERNALLY NEED TO ALIGN THEMSELVES ON WHAT THEY PAY FOR. DO THEY PAY FOR COST OF LIVING OR COST OF LABOR?"*

of living or cost of labor?" said Tauseef Rahman, partner at HR consultancy Mercer. "Most practitioners will say, 'Of course it's cost of labor.' But I guarantee if you ask around inside an organization, there will be confusion about labor versus living."

### **A REMOTE PLAN, FASTER**

This year has taken the growing trend in remote work and stomped on the gas pedal. Pre-COVID, remote employees were a small but growing segment of the U.S. workforce. In recent years, studies have put the percentage of U.S. employees working remotely anywhere between roughly 3% to closer to 10%, with information and technical fields having the highest proportion of remote workers, according to a GlobalWorkplaceAnalytics.com analysis of Bureau of Labor Statistics data.

To that end, when Twitter announced in May that it would allow workers to work at home permanently, it was instituting a plan it was working on well

before the pandemic. CEO Jack Dorsey has said that the company was exploring ways to expand a distributed workforce at least a year before the pandemic. "We're reaching a talent pool that expects a lot more remote work," Dorsey said in a February 2020 earnings call.

But the company's progressive remote-work policies adhere to what it's called "competitive" pay-localization structures. "You'd have to go back 30 or 40 years to find very many organizations that had a single salary structure for the entire country," said Mark Englizian, an independent HR advisor and former CHRO at Walgreens.

But the change in the nature of remote work, he added, may compel employers to be less rigid regarding salary for remote workers, especially for in-demand tech jobs. "If you have a skill set that is available nationally, you might make a decision that said, 'You know what, we're not going to go back and forth about whether you live in Austin or Boston or wherever. We're not going to make a location differentiation.'"



## THE TRADITIONAL OFFICE SPACE BECOMES IRRELEVANT IN A REMOTE-WORKFORCE MODEL, SO COLA [COST-OF-LIVING ADJUSTMENT] BECOMES IRRELEVANT.”

A determining factor for many employers will be if pay localization policies affect retention. “Employers can say, ‘If you’re not going to be living in Palo Alto and you’re going to move to Bakersfield, great, but we’re going to adjust your pay,’” said Steve Boddy, CCP, content director, total rewards at WorldatWork. “But it’s a bit of a slippery slope, because those people might say, ‘OK, I’m going to update my resume and go work for a company that isn’t going to do that to me.’”

And some companies have announced they aren’t doing it. In October, social content site Reddit announced that it would eliminate “geographic compensation zones” within the United States. “We believe this is the right balance of flexibility and support for employees, recognizing the varied trade-offs people consider when deciding where to live,” the company said in a release.

That environment may spark a war for talent within the tech industry and compel companies to revisit the long-term value of pay localization. “A lot of tech work has been associated with geographic locations — Silicon Valley, Silicon Beach in L.A., New York,” said Sue Holloway, CCP, CECP, director of executive compensation strategy at WorldatWork. “If the work has gone remote and you have people who want to relocate, then your policies around geographic differentials have to be revisited.”


### **MORE THAN JUST LOCATION**

Rahman notes that some of this flattening of tech-industry salaries is already underway. Research that Mercer conducted in the summer of 2020

found that pay differentials between Silicon Valley and other major American cities have been relatively modest for high-tech jobs — in the 10% to 15% range — and those figures haven’t widened as the year went on. But, he adds, “it’s not a uniform impact. It has to do with the criticality of the job. There might be a small pay reduction here or there, but not as large as what people might think, especially if the jobs are critical or hard to find.”

Moreover, he said, the expansion of remote work — and the potential for employees to move farther away from their home offices — is prompting companies to recognize that competition for jobs is expanding geographically. To that end, they’ve been auditing their pay structures and looking at what’s most equitable. And location is just one factor to consider.

“Organizations are very much exploring not just the jobs that can have more flexibility on the ‘where,’ but the jobs that can have flexibility on the ‘when,’” he said. “It’s not just to save on real estate costs. They want to diversify their talent pools and realize that if they’re able to provide more flexibility on where and when, they might be able to attract and retain different kinds of folks. Or eliminate the boring work and get more engaged employees.”



Those discussions might not change regional pay structures in the near term, but they allow organizations to rethink opportunities for career advancement and relocation that may be better long-term advantages for workers.

One determining factor for employers, said Englizian, is their long-term strategy around distributed work. “How long will this remote-working craze last?” he said. “Have we seen a permanent sea change in how work gets done? I think it’s certainly too soon to tell.”

Moe Vela, chief transparency officer of TransparentBusiness, a remote-work software firm, said that it’s an environment organizations need to be prepared for, even if offices reopen after COVID-19 fades. “COLA (cost-of-living adjustments) mattered when we were all having to be geographically restrained, because you were going into a traditional workspace,” he said. “But the traditional office space becomes irrelevant in a remote-workforce model, so COLA no longer applies.”

## MAKING CHANGES CLEAR

The debate over what the future workplace will look like isn’t going away. But HR companies still need to be clear with their employees — and potential employees — about their compensation packages, and how an employee’s location factors into it.

“If there’s a best practice in any of this, it’s to be very clear as soon as you can,” said Holloway. “Help employees understand the consequences of their relocating, and manage your retention, fairness and culture issues.”

Vela said companies would do well to formalize remote-work policies into their benefits packages now. “It’s no different than offering health insurance, vision, dental and paid time off,” he said. “That’s the only way an employer is going to be able to compete for the best talent.”

But any policies around remote work and compensation need to encompass some degree of flexibility around employees’ different circumstances, not just their job roles, said Englizian.

There’s a distinction between an employee who moves in order to take advantage of a lower cost of living and an employee who’s moving to support a family member who’s had to shift to an assisted-living environment. And how the policies are presented matters too.

“Don’t frame it as a ‘salary reduction’ or a ‘salary decrease.’ It’s an accommodation for the change in work location, just like we would have done if a company moves you from Denver to the Bay Area. I think how organizations talk about it, refusing to get caught up in how the media talks about it, is really important.”

“Because your external environment has changed, your internal deals have changed,” added Holloway.

“Employees no longer have the pantry. They no longer have the on-site gym. They no longer have the commute, they no longer have the wardrobe costs. There are so many new dynamics that you need to reassess and say, ‘What is a compelling value proposition in this new way of work?’” **WS**

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