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THE IMPACTS OF NEW WAYS OF WORKING ON THE LABOR MARKET AND HR STRATEGIES

Peter Cappelli is the George W. Taylor Professor of Management at The Wharton School and Director of Wharton's Center for Human Resources. His specialties include human resource practices, public policy related to employment, talent, and performance management. Professor Cappelli is also a Research Associate at the National Bureau of Economic Research, and since 2007, has been a Distinguished Scholar of the Ministry of Manpower for Singapore. He currently serves on the Global Agenda Council on Employment for the World Economic Forum, as well as a number of advisory boards.

The Capgemini Research Institute spoke to Professor Cappelli about how virtual working, labor markets and reward models will evolve in a post-pandemic world.

THE FUTURE OF WORK AND HYBRID MODELS

Peter Cappelli
Professor of Management at The Wharton School and Director of Wharton's Center for Human Resources, University of Pennsylvania

Will the hybrid model remain in a post-pandemic environment or will it return to a majority of people in the office?

— A hybrid model can mean different things to different people. If a hybrid model means more people in white collar jobs can occasionally work from home, there is probably going to be more of that. If a hybrid model means permanent work from home, there may very well be a push for that among some companies – for example, if they are thinking of it as a "real-estate play" to save money and get rid of office space.

There are risks though to permanent remote working. First, it is really not in the best interest of employees, unless he or she has a profound reason for living someplace else. In my research and experience, permanent work from home is not great for one's career. In fact, it can actually be detrimental

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Permanent remote working can be a prelude to turning those positions into contractor roles."

to a career trajectory and development. For example, based on my own research, on-site employees often have the chance to contribute to decisions that are not part of their formal responsibility, simply because they are present and can be a part of the conversation. Remote workers do not have this opportunity to shine and lose out. And, remote workers may have a more difficult time being promoted – one study found a 50% lower promotion rate than their in-office peers.[1] Second, it can be a prelude to turning those positions into contractor roles. Companies might have an incentive to transition those full-time roles with all the associated benefits to consultant or contractor roles for cost-saving reasons.

> **"Permanent remote working is not in the best interest of employees."**

Today, companies will no longer delegate the decision on hybrid and remote working completely to local managers the way they have before. I often saw incredible inequality within the same organization depending on whether an employee worked for a specific manager, or within a specific job or location. One manager might not allow an employee to work from home while another manager might allow an employee in the same job to work remotely. Their own personal views came into the decision-making process. We will see this paring back and these decisions will move away from local managers to an enterprise or global level. And this will require very detailed HR polices on remote and hybrid working.

How does the nature of communication change with some employees at home and some in the office?

— There are lots of things that are just difficult to pull off in a remote setting. Coordination and communication are the biggest issues to my mind. Before the pandemic, many companies believed face-to-face meetings, ad hoc interactions, and agile teams were critically important to their ways of working. And we were seeing offices being designed with these goals in mind, such as having more open community spaces. The pandemic has shifted this. If you have some people who are not in the office, interactions must be scheduled in advance and the serendipitous nature of meeting

1 Nicholas Bloom, James Liang, John Roberts, Zhichun Jenny Ying, "Does working from home work? Evidence from a Chinese experiment," National Bureau of Economic Research, March 2013.

colleagues disappears. As you increase the uncertainty as to when people will be in the office, with more remote work or irregular schedules, the more difficult it will be to even schedule in-person meetings. And then you're back to Zoom, basically.

How are companies balancing the fine line between trusting employees and monitoring activities remotely?

— Companies are split on this. Initially, at the start of the pandemic, there was very much a feeling of "we need your help" and "we just have to trust you." This approach seemed to work well given the urgency with which we moved to remote working and views on human nature and doing the right thing. But now we are also seeing this incredible explosion of monitoring and tracking software that companies are spending money on. But it does not appear to be an evidence-based phenomenon rather an ideological battle of individual mangers who assume people are just goofing off at home and are pushing back and demanding software to monitor their activities. Some managers believe since they cannot see their employees, they cannot trust them, but productively evidence suggests otherwise.

"We are seeing this incredible explosion of monitoring and tracking software, but it does not appear to be an evidence-based phenomenon rather an ideological battle."

"There is a lot of talk about employee burnout, but have companies really been willing to do anything about it? Largely no."

Are organizations doing enough to combat the rise of employee burnout?

— Burnout has arisen largely because of the overlap of family and work responsibilities. The first question is will companies care enough to try? I think the answer so far has been, frankly, no. There is a lot of talk about employee burnout, but have companies really been willing to do anything about it? Largely no, because it requires something that many companies are not able or willing to do – and that is to pull back the amount of work.

THE FUTURE OF LABOR MARKETS, TALENT, AND REWARD

What are some of the key issues that will emerge in terms of a shifting labor market affecting future ways of working?

— A key issue going forward is whether the labor market will be tight or slack. In other words, after the pandemic, will there be more job openings and fewer unemployed people, or will there be fewer job openings and more unemployed people? And the answer to this will be a driver of future working models. According to employers I've spoken with who are hiring now, the demand from talented people who have bargaining power to strike a deal is that they want to be able to work remotely. And my guess is that if the labor market is tight, we will see a lot more of that happening.

The demand from employees to be able to work remotely will likely rise as more job candidates – because they are used to it – ask for it. Companies will be forced to think about ways of working in a more systematic fashion, as existing employees will see incoming hires who have been granted a remote work arrangement. If the labor market is slack, however, many companies will likely say "no, sorry, just come back to the office."

> **"The demand from talented people who have bargaining power to strike a deal is that they want to be able to work remotely."**

With location becoming less important to where work is done, how will demand and supply of talent be affected?

— The more companies are willing to let people work remotely, the less location matters. This expands employers' supply and it expands employees' opportunities. There is a risk though for employees with the "live anywhere you want" idea.

There are communities trying to entice people to remote or rural parts of the country in the US. For example, "come to Wyoming and live here and work for a company in Silicon Valley." Some companies are even telling employees that they can relocate to a cheaper place and save money. For example, e-commerce and mobile payment processer Stripe is offering a $20,000 bonus to employees who move away from San Francisco, New York City, or Seattle, but it comes with a 10% reduction in pay.[2]

Pay reductions notwithstanding, there is another huge risk to the employee with this type of relocation. One reason we have these agglomerations in the US – tech in Silicon Valley, finance in New York City, pharma in the New Jersey corridor – is because you could lose your job and go work someplace else close by quite easily. You did not have to relocate your family. The problem if you are the employee who takes this bet and moves somewhere cheaper or more rural, is it only pays off if you keep working for that same company. Given the high turnover rate in the tech industry – the average

2 Forbes, "Stripe is offering $20,000 bonus to employees who relocate to less expensive cities, but it comes with a pay reduction," September 2020.

tenure is about three years – it is likely employees will not stay with the company long term, or they might even be laid off. He or she is betting there will be another company that comes along who is willing to let them work from Wyoming. Otherwise, there is a really good chance the employee will have to pick up and move every couple years because another company might not offer the same deal. It is a big risk to relocate if your next employer won't let you work remotely; it is a big task to move back. I do not think we will see a lot of this.

"The more companies are willing to let people work remotely, the less location matters, but there is a risk for employees with the 'live anywhere you want' idea."

Do you foresee any new compensation models emerging in the future?

— I think this dynamic might very well lead to changes and rethinking geographic differences in pay that many companies have imposed. These policies come from a period where companies would require that an employee relocate and it was felt that the employee should not suffer if they had to move to a more expensive location with a higher cost of living. Once employees make those choices themselves, then companies may soon question why they even have those pay differences in the first place. The issue at play today with remote workers is not about compensating people to live in expensive areas, but rather cutting pay for people who move to a place with a lower cost of living, which is not fair to the employee. The pay is high in Silicon Valley because those employers want the best talent and are willing to pay market rate. It is an expensive place to live because a lot of people want to live there, largely because of those jobs. If a tech worker at a Silicon Valley company decides to move to Iowa, she shouldn't be paid any less than someone in the same role who chooses to live in New York City because where they are based is immaterial now. People are making choices as to where they want to live and it is a national labor market now, not a rural or a local labor market. My sense is this is going to push companies to rethink the whole idea of geographic pay differences, and the push will be to just get rid of them altogether.

Do you think there is a trend today – or an emerging trend in the future – that companies will make more use of a fluid workforce, such as contractors, freelancers, and gig workers?

— Many companies already employ fluid workers, and yes, I believe it will only continue to grow as we adapt our ways of working. However, a key challenge in this area in the US is that many fluid workers are being paid as contractors and managed as employees. These type of misclassification can lead to severe financial and legal penalties if prosecuted. But these violations have largely gone unchecked in recent years because of a lack of government enforcement. My guess is that it will begin to change. Companies need to take employing contractors or other fluid workers quite seriously and ensure there are highly detailed contracts with clear roles and responsibilities.

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"Employing fluid workers will only continue to grow as we adapt our ways of working."

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