

Changing IT Compensation Practices for a Remote/Hybrid Workforce

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Initiatives: [CIO Leadership, Culture and People](#); [Future of Work Reinvented Resource Center](#); [Total Rewards](#)

With more IT organizations adopting a remote/hybrid work model, CIOs are asking: Do we need to change pay practices to effectively attract and retain IT talent in this new environment? This research advises CIOs on how to ensure competitive pay practices and compelling experiences for employees.

Overview

Key Findings

- Remote/hybrid work is here to stay. Survey data shows that 80% of workers who have established that they can work from home during the pandemic expect to continue to do so in the future.
- Adjusting pay for remote workers has not been a common practice. Prior to the pandemic, few organizations (21%) adjusted remote workers' compensation based on their geographic locations.
- If given the opportunity to work from home permanently, 48% of newly remote or hybrid employees surveyed would consider relocation. Pay adjustment would be very or extremely influential in their decision to voluntarily relocate.
- With CIOs in almost every geography reporting their enterprise has embarked on digital business acceleration, the competition for critical digital skills and talent will continue to intensify.

Recommendations

CIOs seeking to effectively attract and retain a remote/hybrid IT workforce should work with their HR/compensation team to:

- Reset the foundation for pay based on the cost of labor in the job market in which you compete for IT talent, and apply the same when employees choose remote working or change their living location.
- Establish a skills premium program to differentiate pay for attracting and retaining IT talent where skills are in shortage, yet critical to digital business success.
- Evaluate employees' preferences for flexibility in choosing where they work to adapt a flexible work policy and compensation decisions aimed to deliver a fair, competitive and – more importantly – a compelling experience for the employee.

Introduction

Far from being an exception, remote working has become the norm for many roles, making the hybrid workforce model a more realistic option for more organizations than ever before. In the 2020 Gartner ReimagineHR Employee Survey, 80% of respondents indicated they wanted to continue to work from home at least part of their week. ¹ The 2021 Gartner Digital Worker Experience Survey also shows that most workers require location flexibility when considering a job change with the current company or a different company. Sixty-five percent of IT workers would only consider a new job or position that allows them to work from a location of their choice. ² (See Figure 1.)

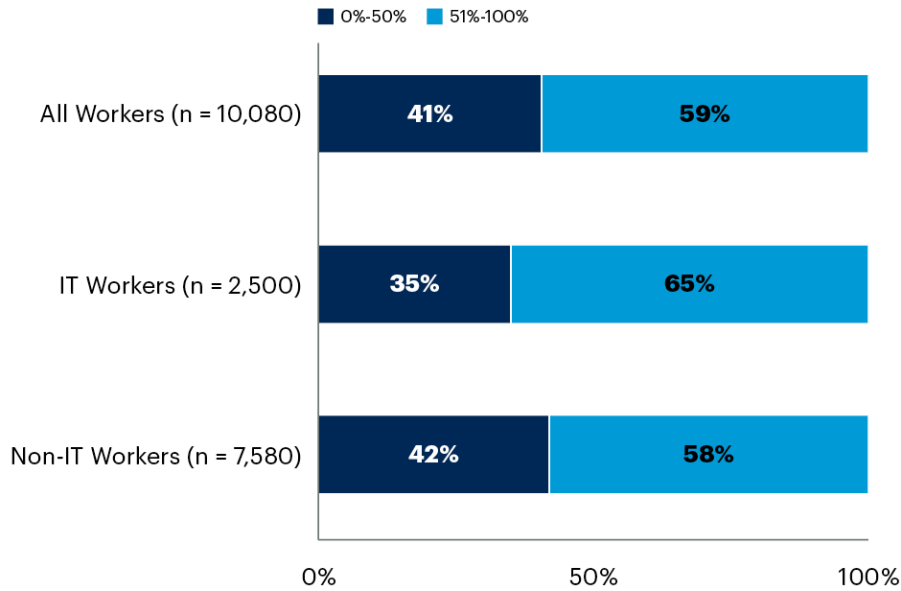
Figure 1: Location Flexibility Required for Job Change

Location Flexibility Required for Job Change

Work Habits and Preferences, Percentage of Respondents

0 = Choosing the location I work from will be irrelevant next time I'm looking for a new position or job

100 = I would only consider a new position or job that allows me to work from a location of my choice



Q: Please slide the arrow to indicate which of the two statements you agree with most.

Source: 2021 Gartner Digital Worker Experience

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With CIOs in almost every geography reporting their enterprise has embarked on digital business acceleration,³ the competition for digital skills and talent will continue to amplify. Now is the time for CIOs to work with the HR/compensation team and reevaluate their IT compensation practices to ensure they remain competitive in attracting and retaining talent with different expectations or preferences for workplace flexibility.

Analysis

Reset the Foundation of Pay Based on Cost of Labor Versus Cost of Living

Location is a key input to determining employees' compensation. The August 2020 Gartner Compensation Watch Survey reveals about one-third of organizations use the location of the company's headquarters as the top location criterion to determine employee compensation, and an equal proportion of organizations use the location where the employee lives instead. ⁴ A little over one-third (36%) of organizations don't adjust pay when an employee moves to live in a different location in the same role, 25% noted HR makes decisions on a case-by-case basis, and 8% let managers or business unit leaders decide. ⁴ A Gartner poll of HR leaders in September 2020 also shows that, prior to the pandemic, only 21% of organizations adjusted remote employees' compensation for geographic cost-of-living differentials. And only 15% of organizations said they plan to adjust remote employees' compensation after the pandemic. ⁵

Compensation practitioners have always been part of the seemingly never-ending conversation with managers and leaders on how to pay when moving an employee into a higher or lower cost-of-living location. The confusion is often caused by explaining the difference between cost of living versus cost of labor. In the new remote/hybrid world, there is no longer a set location for each job. It becomes even more important for CIOs and IT leaders to understand the differences between using cost of living and cost of labor to set pay levels. Cost of living is a measure of the amount an individual has to spend to maintain a certain standard of living in a particular location, including housing, transportation, food and other necessities. In the U.S., a higher or lower cost-of-living location is largely driven by difference in housing costs. Cost of labor, though taking into account cost of living, is an indicator of the supply and demand of labor in a particular area and the cost to attract and retain employees (that is, high demand and low supply typically mean higher cost of labor, reflected in salary levels). The move to a remote/hybrid working model means that organizations are no longer confined by set locations where they have offices to attract and recruit qualified IT professionals. The two key questions CIOs must answer to determine how should the "location" factor be applied to determining a remote/hybrid employee's pay:

- What jobs are truly location dependent or must be based in a specific location?
- Where is the labor market(s) that the organization now competes for skilled talent for IT jobs?

To determine jobs' location dependencies, CIOs should establish criteria to evaluate the tasks and processes each job performs, whether or not they can be easily performed outside the workplace and without highly interdependent task work for success. Then use this information to rationalize job assignments to fit with locations (on-site/office versus remote/work-from-home), where possible (see [The Distributed Workplace of the Future Is Now](#)). For employees in jobs that are clearly best done in a particular location, ensure they are paid competitively locally. For jobs that can be done from anywhere, consider moving to a national pay structure to ensure employees in these jobs are paid competitively and equitably, wherever they choose to live or work.

Geographic pay is a critical issue for employers that are striving to improve their workforce experience as well as their talent attraction and retention efforts. The 2021 WorldatWork U.S. Geographic Pay Policies Study shows that expanding (38%) or consolidating (20%) the pay differential application by geographic area are the top two considerations for the 1,063 organizations surveyed in regard to addressing localized compensation. ⁶ Cost of labor is overwhelmingly a greater influence than cost of living for determining the pay policy approach. ⁶

As more IT organizations shift their IT talent sourcing from the local markets where the company operates or has offices to where the talent exists (works or lives), the IT job market will soon become national. This expansion to a national market, along with the increased adoption of remote/hybrid working, will even out differences in salary levels across various high- and low-cost geographic markets over time. It will lower numbers in big cities and push up numbers in more rural areas and smaller cities.

According to Mercer's research of high-tech industry geographic pay differentials relative to Silicon Valley, even before COVID-19, tech companies have largely been paying to their own industry standards. That is, pay differentials in lower-cost locations relative to Silicon Valley are already narrow and far less than what generalized national data tells us. ⁷ This is another reason for CIOs to consider creating a national pay structure that allows the organization to set competitive pay levels that will have a broad appeal to talent across various lower- and higher-cost locations. This approach can also facilitate employee mobility under a flexible work policy.

Recommendations for CIOs:

- Work with HR/compensation leaders to review and update compensation philosophy and strategy that ensures IT pay practices continue to meet the needs for attracting and retaining critical IT talent and skills under the remote/hybrid working model (see [Revitalize IT Compensation Practices to Compete for Digital Talent](#)).

- Establish criteria to evaluate the tasks and processes each job performs, rationalize job assignments to fit with locations (on-site/office versus remote/work-from-home) and to inform cost-of-labor analyses.
- Within the next 12 months, engage the HR/compensation team to conduct a comprehensive compensation analysis of all IT jobs to validate and support the shift to a national structure. Consider using geographic premiums as a variable pay component that can be easily added and removed when employees move to/from locations known to cost significantly more for hiring and retaining IT talent.

Establish a Premium Pay Program for IT Talent With Critical Skills

The battle for talent is going remote, with many companies across different industries (tech or nontech) and sizes (large or small) looking to compete for IT talent beyond the geographies they operate in. This means that, for IT professionals possessing critical, difficult-to-recruit or “hot” skills, organizations will likely experience the market pressure to pay more to recruit and retain them. One approach to increasing pay competitiveness for hiring and retaining key IT talent is to include a variable pay component for rewarding skills. An individual’s eligibility for premium pay and the amount paid can vary over time, reflecting the change in a skill’s criticality to an organization, as well as its market’s competitive conditions (cost-of-labor measure). Establishing a skills premium pay program will be essential for CIOs to improve their organization’s competitiveness in hiring and retaining IT talent in the remote/hybrid working world.

Like the geographic premiums, skills premiums can be removed once skills are no longer considered critical to the organization and also not difficult to recruit in the market. Working with the HR/compensation team, CIOs can apply the following practices in the design and management of a skills premium pay program:

- Skills qualified for premium pay should be not only highly sought after in the market, but also critical to the organization.
- Individuals eligible for premium pay not only possess a critical skill, but also regularly apply it in performing their jobs (for example, at least 50% of the time).
- Individuals must continue to deliver satisfactory performance to maintain their eligibility for premium pay.

Based on data from the 2020 North America Mercer/Gartner IT Jobs and Skills Survey, the premium pay amounts can range widely by skills, from the lowest 3.0% to the highest 30.0% of annual base salaries, with 10.0% being the most typical market median value. Most organizations make the payment once a year, some on a monthly or quarterly basis. ⁸ (See Table 1.)

Table 1: Skills Premium Paid as a Percentage of the Base Salary
(Enlarged table in Appendix)

Skill	Median Premium Pay as a Percentage of the Base Salary
Agile Methods/Practices (e.g., DevOps, Kanban, lean, Scrum)	10.0%
Architecture (e.g., application, data, infrastructure, security)	10.0%
Artificial Intelligence and Advanced Machine Learning (e.g., deep learning, neural networks, natural language processing)	10.0%
Business Analysis	10.0%
Business Intelligence/Information Analytics (e.g., predictive analytics)	10.0%
Business Relationship Management	10.0%
Cloud Computing (e.g., infrastructure, platform or software as a service)	9.0%
Hadoop (e.g., HBase, Hadoop Distributed File System, MapReduce)	10.0%
Information Security (e.g., cybersecurity, forensics)	10.0%
Information Technology Infrastructure Library	8.6%
IT Compliance (e.g., Basel II, Sarbanes–Oxley Act)	7.5%
JAVA	8.0%
Master Data Management	7.5%
Mobile Applications and Device Management	8.0%
Open-Source Tools (e.g., Apache, Eclipse, JBoss)	10.0%
Project Management	10.0%
SAP	8.0%
Service-Oriented Architecture	10.0%
UNIX (e.g., AIX, HP-UX, Solaris)	8.0%
Visual C#.NET	6.5%
Voice Over IP	6.5%
Web 2.0 (e.g., AJAX, Representational State Transfer, Rich Internet Application)	6.5%
Web Services (e.g., Simple Object Access Protocol, Web Services Description Language)	6.5%

Source: 2020 North America Mercer/Gartner IT Jobs and Skills Survey: Building the IT Workforce of the Future

Recommendations for CIOs:

- Engage with business leaders and other key stakeholders to sense, identify and assess technology skills required to design, deliver and sustain critical digital capabilities.

- Monitor and evaluate market trend data regularly to assess high-in-demand skills against the list of skills identified as being critical to the enterprise's digital initiatives. Conduct a monthly spot-check on market conditions for critical skills, and refresh the list of skills eligible for premium pay and premium amounts quarterly or every six months, as appropriate.
- Consider applying skills premiums and geographic premiums, along with remote working flexibility, to further enhance the competitiveness of pay packages for attracting and retaining critical talent.
- Perform an annual assessment of the program effectiveness as part of the overall IT compensation strategy review and update. This ensures the program continues to deliver equitable and competitive pay for recruiting and retaining talent with critical IT skills in support of changing business needs.

Accommodate Employee Location Preferences, Along With Competitive Pay and Compelling Experience

The 2021 Gartner Digital Worker Experience Survey results indicate that IT workers who intend to seek a new position within the next three years have a high preference for jobs that allow them to choose to work from a location of their choice (see Figure 2).²

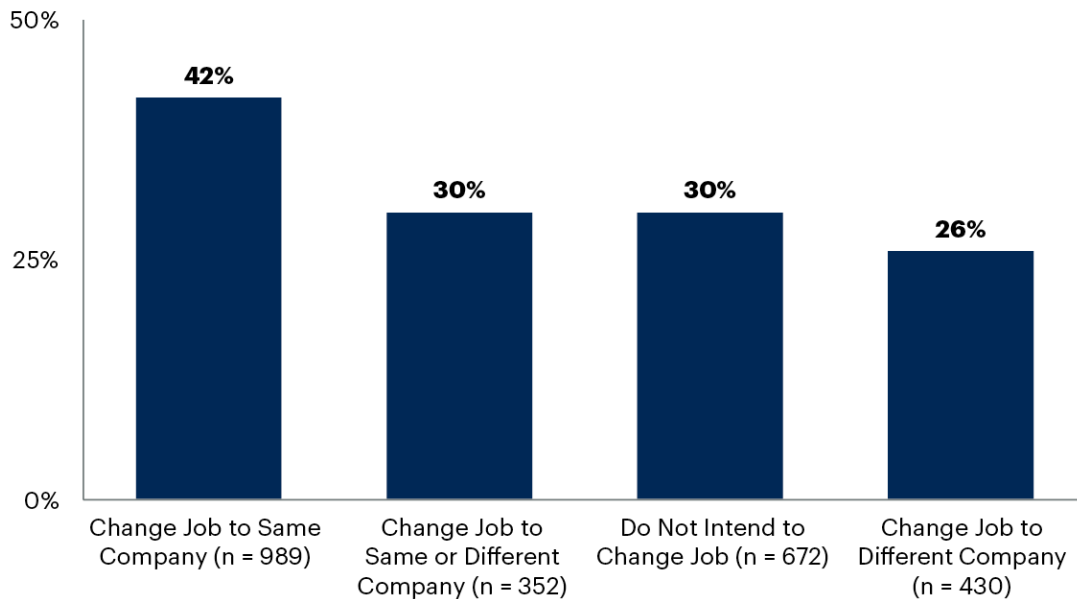
Figure 2: IT Workers Intending to Change Jobs Have a Higher Preference for Location Flexibility

IT Workers Intending to Change Jobs Have a Higher Preference for Location Flexibility

Work Habits and Preferences, Percentage Answering 80 or More

0 = Choosing the location I work from will be irrelevant next time I'm looking for a new position or job

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Q: Please slide the arrow to indicate which of the two statements you agree with most.

Source: 2021 Gartner Digital Worker Experience

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Findings from the September 2020 Gartner Improving Employee Engagement Survey show that: ⁹

- If given the opportunity to work from home permanently, 48% of newly remote or hybrid employees surveyed would consider relocation.
- Of those that would consider relocating, 62% would also consider taking a pay cut tied to the local cost of living.

Employees' willingness to consider a pay cut varies by their life stage, for example:

- Younger employees (under the age of 50) are roughly 1.5 times more likely than employees ages 50 to 65 to consider taking a pay cut.

- Employees with children are 1.3 times more likely to say they would consider taking a pay cut than those without children.

The 2021 WorldatWork U.S. Geographic Pay Policies Study also reveals that: ⁶

- Almost all organizations are somewhat or moderately flexible regarding voluntary relocations for full-time remote workers. However, only 29% are willing to establish a legal entity anywhere in the U.S.
- For the organizations that do not allow relocations outside of preexisting geographic or legal entities, the biggest challenges are legal, regulatory and tax implications, followed by cost.
- Fifty percent of employees said that a pay adjustment would be very or extremely influential in their decision to voluntarily relocate.

Warning! *Before cutting an employee's pay, leaders must not only carefully examine the legality, but also be fully aware of the effects such a drastic approach can have on employee morale, engagement and retention. The potential, long-term damaging effects on the organization and the workforce significantly outweigh the short-term cost savings to be realized.*

When offering permanent remote work to existing employees or accommodating their relocation interests, CIOs need to weigh their decision thoughtfully in regard to compensation adjustments, especially lowering salaries. For some employees, taking a pay cut may be a reasonable compromise, because they get to live in a location of their choice. They need less money to live there, for example, in Boise, Idaho, than where they were in San Jose, California. However, it is more common for employees to react negatively to their employer's decision to lower their salaries for any reason. They'll likely start to look for a different job.

Lowering pay for employees in jobs that have been hard to fill or requiring high-in-demand skills can be especially damaging and risky, resulting in unwanted turnover. Therefore, despite employees' willingness to accept a pay cut in exchange for location flexibility, CIOs need to work with HR/compensation leaders to provide managers with clear guidance on how to make decisions on pay adjustments. This way, they can ensure a fair, competitive and – more importantly – compelling experience for the employee. Be as transparent as possible in communicating the process and criteria used to accommodate employees' flexibility preferences (for example, role and task location dependency) and associated compensation practices.

To properly manage the flexible working policy once it's implemented, CIOs need to establish processes and mechanisms to track where their employees are and where they have been working. This ensures they are in compliance with labor laws and tax obligations for the employer (such as payroll tax registration and workers' compensation insurance) and the employee (such as income tax withholding). They also need to be aware that it can be difficult or even impossible to change work conditions and remuneration practices in countries or markets where work councils and trade unions must be involved in making such decisions. Also, it is illegal to reduce an employee's pay where there is an employment contract stipulating pay rate for a set period of time until the contract term is up for renegotiation.

Recommendations for CIOs:

- Work with the HR/compensation team to develop clear guidance that assists IT leaders and managers in compensation planning for the remote/hybrid workforce, ensuring a fair, competitive and compelling experience for employees. Be as transparent as possible in communicating the process and criteria used to accommodate employees' flexibility preferences and associated compensation practices.
- Instead of cutting pay when an employee relocates, consider slowing down or eliminating annual increases until their pay eventually evens out with the new area or realigns with the proper level in a national pay structure.
- Consult with HR, finance and legal to identify any regulatory or contract obligations in different countries and geographic markets that must be addressed before planning and implementing a flexible work policy. The new flexible work policy should set clear scope and guidance that ensures management decisions to accommodate employees' work location preferences are applied consistently, fairly and equitably.

- Employ mechanisms to enable employees self-reporting where they are working from and for how long to ensure HR and finance will have proper data to address compensation, benefits, taxes and other regulatory compliance and audit requirements.

Evidence

¹ 2020 Gartner ReimagineHR Employee Surveys (n = 5,000) and 2020 Gartner ReimagineHR HR Leader Survey (n = 60).

² 2021 Gartner Digital Worker Experience Survey. This study was conducted online during November and December 2020 among 10,080 respondents from the U.S., Europe and Asia/Pacific. Participants were screened for full-time employment in organizations with 100 or more employees and required to use digital technology for work purposes. Ages range from 18 through 74 years old, with quotas and weighting applied for age, gender, region and income, so that results are representative of working country populations.

³ [2021 CIO Agenda: Global Perspectives on 'Seize This Opportunity for Digital Business Acceleration.'](#)

⁴ 2020 August 2020 Gartner Compensation Watch Survey.

⁵ September 2020 Gartner Coronavirus Polling on Remote Work Impact on Total Rewards.

⁶ [Remote Work Raises Geographic Pay Policy Questions](#), WorldatWork.

⁷ [Cutting Pay for Jobs That Move Out of Silicon Valley? Not So Fast](#), LinkedIn.

⁸ 2020 North America Mercer/Gartner IT Jobs and Skills Survey: Building the IT Workforce of the Future.

⁹ 2020 Gartner Improving Employee Engagement Survey.

Recommended by the Author

Some documents may not be available as part of your current Gartner subscription.

[Revitalize IT Compensation Practices to Compete for Digital Talent](#)

[Compensation Adjustments for Remote Workers](#)

How Do Organizations Adjust Pay When an Employee's Living Location Changes?

Employee Relocation Preferences

CIOs Need to Embrace Radical Flexibility to Drive the Post-COVID-19 Work Experience

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