The High-Growth Guide to Compensating Remote Teams

Strategies to attract, retain, and inspire today's distributed workforce.

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Introduction

After COVID-19 hurled businesses into remote work arrangements, employees proved they could communicate, stay productive, and thrive away from HQ.

Now, as employees reconsider where, how, and when they work in the Great Reshuffle, remote life is the top choice.

A Gallup poll of remote workers found that 91% hoped to continue fully remote or hybrid work after the pandemic. Three in 10 said they'd look for another job if their company eliminates remote work.

This shift holds immense opportunities for organizations to stand out in the competitive marketplace with compensation programs designed specifically for distributed teams. And the foundation of these compensation programs are geographic pay differentials.

Geographic pay differentials are adjustments in pay based on an employee's location and the local cost of labor.

In this guide, you'll learn why geographic pay differentials are essential for a fast-growing company's success in today's market, as well as trends and implementation strategies for location-based compensation.

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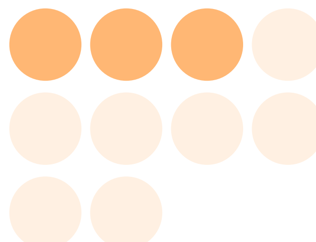

SAID THEY'D LOOK FOR ANOTHER JOB IF THEIR COMPANY ELIMINATES REMOTE WORK.

Source: Remote Work Persisting and Trending Permanent, Gallup, October 13, 2021.

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Why Geographic Pay Differentials Matter

If you have a workforce distributed across multiple locations, you're in a competition for talent in different geographic markets. A compensation plan based on geographic pay differentials helps you pay competitively in local markets to increase offer acceptance, keep high performers longer, and build cultures of trust and transparency.

Geographic pay differentials help you determine:

- **YOUR BUDGET**
- **HOW TO OPTIMIZE YOUR SPEND**
- **HOW TO BUILD A HIRING PLAN THAT SUPPORTS COMPANY OBJECTIVES**
- **HOW TO APPLY COMPENSATION PRACTICES FAIRLY ACROSS YOUR TEAM**

While the simple administration of a single pay strategy for all employees may tempt you, it comes with the risk of overpaying for talent. And there's no guarantee that a higher than average salary equals high performance.

A well-defined pay program for a distributed workforce can increase offer acceptance and retention. It also supports a culture of trust and transparency because it shows that pay isn't random, but is based on data and strategy. For employees, it's not just about the value of the package, it's about trusting that an employer compensates fairly.

The 3 Types of Distributed Work Models

Companies with employees based in different locations often have one of the following work arrangements.

In-Office

- Employees work primarily or entirely from a company's physical location.
- Inestments and programs encourage work from the office. For example, meeting times, training, and culture-building opportunities prioritize in-office workers.

Remote First

- Employees work primarily or entirely from home.
- Investments, such as communication and productivity tools, and programs support work from anywhere.
- Remote-first companies design physical office locations as co-working spaces.

Hybrid

- Employees have the option to work where they choose, whether from home, the office, or a combination of both.
- Investments, such as communication and productivity tools, and programs support work from anywhere.
- Hybrid companies still invest in physical office locations, but consider themselves remote-friendly.

Plan: 5 Questions to Kickstart Your Remote Compensation Program Design

Ready to design a compensation program for your distributed workforce? The following are questions to consider as you begin. Your answers will inform how you update your organization's compensation philosophy, the formal document that explains how your company pays and rewards its employees. Learn more about compensation philosophy at the end of this section.

1. WHO DOES A REMOTE WORK STRATEGY AFFECT WITHIN YOUR ORGANIZATION?

- Employees work primarily or entirely from a company's physical location.
- Investments and programs encourage work from the office. For example, meeting times, training, and culture-building opportunities prioritize in-office workers.

Keep in mind that your remote compensation strategy will also affect current employees who move or transfer to different locations.

2. WHAT DO YOU NEED TO DO TO BE COMPETITIVE IN THE MARKET?

- What are your top competitors for talent doing?
- Are your competitors removing geographic differentials for roles that are essential to your company's growth? For example, is there a company you're competing with for engineers who's paying San Francisco rates regardless of the employee's location?
- Do you need to do the same thing as your competition to attract talent?

3. WHAT DO YOU NEED TO DO TO BE COMPETITIVE IN THE MARKET?

- Salary isn't the only driver of cost and burn.
- Is there recurring overhead from setting up entities in different locations or state-specific business costs?
- Will you bring everyone together for occasional events like annual meetings?

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4. WHERE WILL YOU HIRE?

- Often, where you hire depends on the location of talent pools.
- Are there certain cities where there are strong university engineering programs whose graduates you'd like to attract?
- Do you want to attract people who work for certain companies in a specific city?
- Where do you already have a cluster of employees?
- Are there hubs for top talent, such as San Francisco or New York?
- Where are you most likely to find the talent to support growth objectives? For instance, if you're focused on ad sales for auto companies, you may focus on hiring in Detroit or Chicago
- Another consideration for some companies is where to find qualified low-cost talent. This could mean outsourcing engineering or customer service to countries like India or the Philippines.

5. HOW DO YOU NEED TO ADJUST YOUR COMPENSATION PHILOSOPHY?

Once you've nailed down the details of your location-based compensation strategy, document everything in your compensation philosophy.

Your compensation philosophy is the "why" behind your compensation practices. Your managers and people teams turn to this document for answers to all pay-related questions, so don't skimp on the details.

In the following sections, we'll review your data options and implementation strategies for regional differentiation. Include your decisions in those areas in your compensation philosophy as well.

Need to get up to speed on compensation philosophy?
Download your copy of "Compensation Philosophy 101."

Research: 5 Data Options for Regional Differentiation

Effective salary and equity ranges are built on solid market data. Below are strategies for data segmentation — including pros, cons, and our recommended option.

Keep in mind: Fresh market data that's relevant to your industry and stage of growth will set a sound foundation for your entire compensation program. Don't rely on surveys or websites that compile user-submitted information, your peers' opinions, or even your own experience. Get your data from a reputable, real-time source source.

To dive into the essentials of market analysis and benchmarking, download your copy of "The High-Growth Guide to Compensation Benchmarking."

1. INDIVIDUAL EMPLOYEE LOCATIONS

When companies are very small and hire in only a few locations, they can get granular and use data specific to employees' individual locations. But as companies grow, this option becomes difficult to implement and manage.

2. UNIVERSAL RATE OF PAY

With a universal rate of pay, you'll base salaries on a single location or talent market, usually HQ. So, if you're mapping salaries to San Francisco rates, those rates would apply to all employees, even those in Little Rock, Arkansas.

While this method is easier to administer than the previous and is great for attracting talent, you'll likely spend more money than you need to. It can also be unfair to employees who live in locations with a high cost of living.

COST OF LABOR VS. COST OF LIVING

Cost of labor is used to calculate geographic pay differentials. Cost of labor is often used interchangeably with cost of living, but they're not synonymous.

- **COST OF LIVING** is the cost of maintaining a certain lifestyle based on things like rent, gas, and groceries.
- **COST OF LABOR** is the cost of attaining work-related skills, knowledge, and experience. Market data used for compensation benchmarking reflects the cost of labor.

Reputable market data will give you a solid baseline for the cost of labor in different locations. Recommended sources for cost-of-living data: Benchmark survey providers, the Census Bureau, and labor reports.

3. NEAREST OFFICE LOCATION

This approach ties an employee's salary to the location of the nearest physical office. While this strategy reflects the nearest cost of labor, it's difficult to scale as you grow and add physical locations.

4. MAJOR METROPOLITAN AREA

In this approach, you'll map salaries to a major metropolitan area. An example: A company decides to tie salaries to a major metro area that's within 50 commutable miles of an employee's location. An employee within 50 commutable miles from San Francisco would get that city's rates.

This approach is about being competitive because an ability to commute to hubs and major cities gives employees more opportunities for job selection.

5. OPENCOMP'S RECOMMENDED APPROACH: MAJOR METROPOLITAN AREAS GROUPED BY TIERS

Take the previous approach to the next level and create tiers based on metropolitan areas where current employees are located or where you plan to hire.

Areas with a similar cost of labor would fall into the same tier. Here's an example of how this works:

100% **TIER 1: SAN FRANCISCO**
pays at 100% of the San Francisco labor market.

90% **TIER 2: LOS ANGELES & SEATLE**
pays at 90% of the San Francisco labor market.

85% **TIER 3: AUSTIN AND DENVER**
pays at 85% of the San Francisco labor market.

As you add locations, you'd add them to the tier with a similar cost of labor.

DEPARTMENT OR ROLE EXCEPTIONS: While we caution against making exceptions in compensation, there are two cases where it makes sense.

EXECUTIVES: Typically, these roles rely on a national search for candidates and are not tied to location.

LOCATION AGNOSTIC ROLES: Some roles, like field sales, don't need a geographic differential because of the nature of the job. Field salespeople can be located anywhere and sell in many areas.

Tip: If you deviate from the defined programs often, it's likely time to reevaluate your approach.

Implement: Strategies for Applying Geographic Pay Differentials to Your Compensation Program

Once you've developed an overall strategy and analyzed the relevant data, it's time to apply geographic pay differentials to your pay program.

Here's a rundown of the three most common approaches:

1. NO CHANGE + SALARY CAP

This approach is typically implemented to support employees who move from a high-cost location to a lower-cost location. The company wouldn't decrease an employee's pay because of their move. But because they're at the high end of their salary range, that employee won't get an increase until the market catches up or they move to a higher position and are back in range.

2. CONSISTENT COMPA-RATIO

A compa-ratio, short for comparative ratio, compares an employee's salary to the midpoint of the salary range for their role.

When a company applies a consistent comp-ratio, an employee who moves to a new location with a new salary range maintains the same compa-ratio.

Take an employee with a 103% compa-ratio. This employee is paid 3% above the midpoint of her salary range. If she moves to a different location, the company would adjust her to a 103% compa-ratio for the new range so that a decrease in pay would be proportional.

3. % OF MAXIMUM RANGE

This strategy prevents significant decreases in pay related to changes in location. Instead of reducing an employee's salary consistent with their previous compa-ratio, you'd bring the salary to a certain percentage within the new salary range.

For example, if you bring the employee's salary within 5% of the new range, they'd have room for an increase before hitting the top of the range.

REMEMBER WHAT WE SAID ABOUT EXCEPTIONS?

No matter which approach you choose, consistency is essential. Document your approach in your compensation philosophy and apply it to all current and future employees, regardless of gender or ethnicity.

If an employee's pay changes because of a location change, you can explain succinctly that it's not a one-off change for them, but part of your company's well-considered and data-driven strategy.

Communicate: Best Practices for Sharing Your Geographic Pay Program with Employees

Once your location-based pay program is approved by leadership, begin sharing it with your employees.

Include information about the plan in your compensation philosophy and compensation philosophy statement, a one- to two-paragraph summary of your compensation philosophy.

Share your compensation philosophy statement on your company's intranet, FAQs, or HR materials. No matter the method, build your communication around the following three pillars:

Transparency

Provide as much clarity and detail as possible.

Education

Provide opportunities for learning about your compensation program

Open door for discussion

There will be questions. Be prepared and available.

How It Works In OpenComp's Compensation Intelligence Platform

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Dial in your remote compensation strategy
with our Geographic Strategy Tool to:

- Create regional hubs
- Organize locations into tiers
- Set different policies for each department, location, or level

SCHEDULE A DEMO TODAY