Fairness & Equity

In Remote Compensation

A Whitepaper by Boundless in partnership with Grow Remote

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Remote compensation:

The question on everyone's lips

How should we be structuring our remote team compensation? What should we pay remote workers?

At Boundless, we get asked variations of these questions every week by progressive global organisations grappling with the complex issue of how to remunerate remote employees doing similar work while distributed across multiple geographies.

As an Employer of Record (EoR) in 22 countries and an expert in helping organisations manage their remote teams effectively, we have a raft of anecdotal evidence about how different founders, CEOs, HR and People Ops leaders are tackling this question. But we have never had a comprehensive set of data to provide any concrete indicators of the prevailing trends and attitudes in this complex area.

So we've teamed up with Grow Remote, a social enterprise on a mission to enable people to work, live and participate locally, to create a quantitative study of current employment practices and determine the mix of approaches taken to address the tricky question of remote compensation. We also partnered with WeWorkRemotely, Workplaceless, Distribute Consulting, Humaans, Hubble, and Zyte who helped us spread the word about the survey.

A variety of organisations completed our survey, which covered topics ranging from overall compensation philosophy to benefits harmonisation. In this short paper, we'll share the survey results so you can see how your organisation benchmarks against the wider remote working community. We'll also analyse the different approaches taken to remote compensation in more detail and consider how company strategies can evolve going forwards to become fairer and more equitable, regardless of where individual employees are located.

Recognising that the remote employment landscape continues to move at pace as the world of work becomes increasingly flexible, we have decided to repeat this survey on an annual basis.

Remote compensation:

Our findings

Our study reveals that organisations are currently adopting a variety of different approaches to hire, remunerate and support their remote workers. None of them stands out as an outlier.

While more than half of participants have considered the question of remote compensation, there is no clear consensus on the best way to approach this challenge. Anecdotally, one company told us that, "*We believe you should earn the same salary whether you're remote or office based,*" whereas another admitted that their entire remote employment strategy has evolved reactively due to Covid, and the need to "*let workers move where they felt most comfortable.*" A number of organisations said that their number one challenge around remote compensation was fairness, and "*finding a fair and equitable way across all country regulations that makes sense for a startup*". Others noted the difficulties in competing for global remote talent against Silicon Valley companies with deep pockets.

In terms of specific compensation approaches, the survey shows a relatively even split between organisations using local pay rates, formula-driven approaches, and those attempting to deliver 'equal pay for equal work'. One participant explained that they were championing "*Fairness and equal pay regardless of the country's economy*", with benefits and perks also the same across the board, albeit calculated with an awareness of local tax regulations. In contrast, one organisation was benchmarking salaries against the capital city of each employee's country, while another was using local market rates for all employees except developers, where an international comparison was preferred.

The question of whether location should determine employee pay provoked several different responses, with more than a quarter of organisations suggesting that it could be a factor in their thinking going forwards. Some companies told us that they were finding salary inflation a growing problem across their international workforce, while one participant explained that they had not yet fully resolved the question of how to cater for an employee moving from a lower cost to a higher cost locations.

Finally, the study shows a relatively even split between organisations that are trying to harmonise some or all of their employee benefits, versus those that have not yet attempted this. Some participants were limiting benefits harmonisation to professional and personal development budget, along with various non-statutory forms of leave. One organisation in particular stood out for their all-encompassing approach, offering all remote workers 25 days' holiday, equity options, health insurance, company trips/activities, L&D budget, tech budget, WFH anytime, 18 weeks maternity and four weeks paternity leave.

While the survey included a range of questions and generated many different permutations of response, the following five questions capture the essence of what we were seeking to establish regarding organisations' remote compensation strategies.

Question 1:

How do you hire remote workers?

We hire them as independent contractors	**64%**
We are locally registered to employ them	**56%**
We use an Employer of Record	**33%**

NB. Respondents were allowed to select multiple options.

These findings demonstrate that most companies currently use a mix of approaches when hiring remote workers. Indeed, it is likely that some will combine all three hiring methods across their global operations.

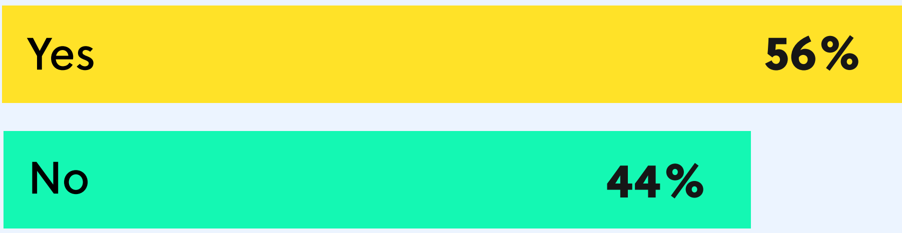
Independent contractors are often the entry point for companies looking to expand overseas as it is far easier to recruit contractors than to permanently employ them – hence almost two-thirds of companies' remote workers are hired on this basis. However, this approach is not a viable long-term strategy as most jurisdictions outlaw the use of independent contractors on a full-time basis. Failure to comply with these local laws can result in severe fines or even jail time for company directors, not to mention the reputational damage accrued once word gets out.

There are benefits to registering locally in overseas jurisdictions to directly employ people – most notably, the ability to maintain control and a close watch over all aspects of operations, minimising the risk of any compliance breaches occurring. The problem is that this approach requires a company to get to grips with all nuances of local employment legislation, rules, mandates and cultural norms. And because every country has its own laws and customs, it can quickly become too onerous for an organisation to manage.

Hence why, alongside the 56% of companies currently registering their businesses to employ people in overseas territories, one third of survey participants use the services of an Employer of Record to employ remote workers legally and compliantly on their behalf. Using an EoR, organisations don't have to worry about understanding every last rule and regulation – as that's the EoR's job. Instead, they can focus on finding the right hires and dedicate more time to figuring out an appropriate compensation strategy for these remote workers.

Question 2:

Has your company spent time figuring out an approach to remote compensation?



Figuring out remote compensation takes time and careful consideration, so it's encouraging to see that more than half of organisations have put effort into determining their approach. What's more, not every company may consider it an urgent priority, even if they employ remote workers across multiple geographies. After all, if there's no internal pressure to make a change, it may be seen as a topic that can be kicked into the long grass.

However, the world of work is changing fast. More employees are demanding remote-first roles and, similarly, more people want to take greater ownership over where they base themselves. With more than two in five employers yet to give due thought to remote compensation, there's a risk that these organisations may be caught out in the months ahead, once more relocation requests come in, or as local talent shortages force them to consider making remote or overseas hires.

Remember, remote compensation is a subject well known for creating unforeseen consequences. Strategies cannot simply be dreamt up on the hoof, and companies would be well-advised to dedicate sufficient time and energy to examining the issue now before their employees start driving the debate.

Question 3:

Which of the following best describes how you pay remote workers currently?

Local rated*	**38%**
Equal pay for equal work**	**35%**
Formula-driven***	**28%**

* Salaries are benchmarked to local market rates
** People in similar roles are paid the same salary, regardless of location
*** A formula adjusting for a set of criteria helps calculate how much someone should be paid

From our experience at Boundless, there are several different ways of working out pay across multiple territories, and at the heart of our study, we wanted to find out how each approach pans out in reality.

The first option is to pay local market rates. This means looking closely at average salaries in the country/city you're hiring from – taking into account the job role and seniority 'bands' – and matching that rate of pay. Unsurprisingly more than one third of employers rely on this benchmarking data to determine their remote compensation strategy.

The second approach is to offer equal pay for equal work, taking a lead from one specific location, usually the company's headquarters (country and city). So, if you're a company based in Dublin, you commit to paying Dublin wages to teams all over the world. It is known as equal pay for equal work because geography plays no role in determining how much someone is earning. Thirty five per cent of organisations are adopting this policy', determining compensation purely according to job role rather than an employee's location. As we'll discuss, this approach certainly creates a more transparent pay structure, but it doesn't necessarily equate to fair outcomes for everyone.

A third, middle ground approach, is creating a formula that draws upon local benchmarking, but adds other factors such as employee feedback and preferences, data regarding geographic income disparities, local tax information – the list is endless. This is a generally more complicated approach and, perhaps understandably, this option came as the least popular (although not by a significant margin).

Question 4:

Do you reduce people's salaries if they move to a cheaper city/country?

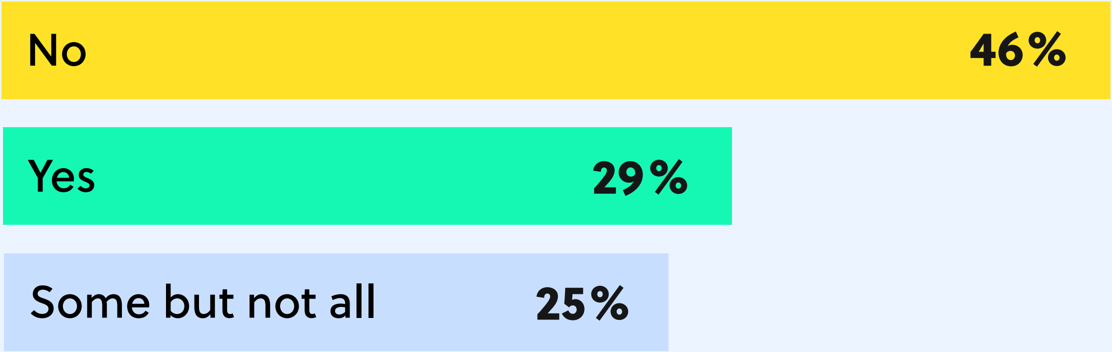
Yes	26%
No	26%
No But we may implement this in the future	26%
Sometimes Circumstance dependent	21%

How to compensate employees when they move to a 'cheaper' location is a tricky issue, which explains why there's no consensus about the best approach to take. Companies that already operate location-based pay structures may struggle to accommodate relocation requests from high-earning employees. The same is true of those with carefully defined equal pay formulas.

Maintaining an employee's existing compensation when they're moving to a location where the organisation's average pay level is significantly lower could distort the formula and up-end the entire strategy. So it's unsurprising that more than one-quarter of companies are assessing relocations on a case-by-case basis. Of course, the risk here is that one employee gets to keep their current salary, while another sees theirs cut significantly, upsetting the apple cart once word spreads internally.

Question 5:

Do you offer the same benefits across different countries?



Given the significant disparity in state-mandated benefits from country to country, it's remarkable to see that three in ten organisations are offering harmonised benefits wherever they operate. This approach helps ensure perceptions of fairness and equity among employees, but it can prove extremely expensive and difficult to manage. Further, there's also the risk that these benefits will suffer from poor uptake in countries where they're less relevant to employees..

In contrast, almost half of organisations aren't currently attempting to harmonise benefits, doubtless due to the considerable complexity involved in doing so. It will be interesting to observe this trend over the months ahead, given the number of organisations shifting from an in-country model to running dispersed global workforces where everyone is effectively part of the same team.

Making equal pay for equal work, work

For many progressive organisations, Boundless included, 'equal pay for equal work' is the holy grail of compensation models. But it's also the hardest model to figure out, particularly as companies expand globally and start employing people in different cities and countries to perform similar roles.

The same gross pay packet could look very different from one territory to the next due to local taxes and employment laws. And an employee's net pay won't go nearly as far if they live in one of Europe's most expensive cities, compared to an employee working from home in the countryside.

Then there's the question of benefits. Again, these differ greatly from country to country depending on what the Government provides (or mandates that employers provide). Consequently, certain benefits such as health insurance may be more valuable to employees in some locations than others. The value of benefits is also incredibly subjective. Gym memberships are of no use to people who hate gyms; childcare support is irrelevant to people who don't have children. There is a drive to fix this by allocating pots of money or stipends rather than specific benefits but we are a long way from wide-scale adoption of such practices due to the admin complexities that come with them.

Truthfully, it may not be possible to arrive at a pay structure that is scientifically, certifiably 100% equal for every employee, everywhere. But it is possible to take on 'equal pay for equal work' with fairness top of mind. The question is, how do you get started, and how can you tackle the fairness issue in a way that's sustainable and scalable?

Define what equal pay means

Without a definition of equal pay, it's going to be very difficult to propose a solution for your global workforce. So you need to start by determining what exactly you're targeting.

Gross pay:
Defining equal pay in terms of gross pay (i.e. before tax and deductions) will allow you to speak with clarity about how employees are remunerated and publish clear guidance about salary expectations within your organisation. However, the take home pay that employees end up with post deductions will vary greatly. Team members living in more expensive locations will also end up with less disposable income.

Net pay:
If you choose to go for equal pay after deductions, your job gets a lot more complicated, as you'll have to take the time to understand the impact of many different tax systems, depending on where employees are located. But if you can get it right, then you'll have a pay strategy that can be seen as even fairer on your team, as everyone ends up with the same amount of take home salary.

Local market rates:
The above solutions don't account for the local cost of living, nor does it account for how expensive it is for your company to employ people in one location versus another location (as employer taxes also differ greatly, as do operating costs).

Many companies attempt to solve these issues by paying local market rates, looking closely at average salaries in the country/region they're hiring from - taking into account the job role and seniority 'bands' - and matching that rate of pay. However, defining equal pay according to comparable roles within a territory can lead to disquiet amongst employees in different locations, who might be doing the same job but receiving vastly different renumeration.

Median salary:
Given how complicated it can be working out territory-specific discrepancies in take home pay and company expenses, some organisations opt for equal pay for job roles based on a median salary between all the locations in which a company operates. Inevitably, some employees will view this approach more favourably than others, but the bigger problem is one of scalability. What happens if you expand into another territory, or if you find yourself unable to offer an attractive salary in some key markets because it distorts the overall strategy?

Benefits harmonisation:
For many organisations, the question of benefits harmonisation might be one complication too far, which is why we're seeing more and more companies changing tack and empowering employees to choose their benefits. When we speak about benefits that do not carry a monetary value, such as additional time off, harmonisation is relatively easy.

However, for benefits in kind that do have a monetary aspect to them, companies have to figure out local taxation and find local providers, which can be a huge undertaking. Offering stipends may be a solution for countries where there are no benefits and perks ready to go but that comes with its own set of admin and payroll challenges. Finding a local pick-and-choose benefit provider that allows employees to select from a basket of options based on their life situation and current needs, might be a slightly less cumbersome solution but we are far away from having such a local solution for each market. So often times employers with even the best intentions, opt not to harmonise benefits as it's simply too difficult.

It's not always a matter of choice, however, as some of the benefits with financial value are in fact mandatory and companies have no choice but to adopt them. This can make equal benefits for all employees very tricky to achieve. For example, while US-based employees have come to expect a health insurance as part of their benefits package, it's not actually mandatory to provide it, whereas in the Netherlands, employers are legally required to make a contribution towards the health insurance of employees. However, fairness can still be your watchword. If you're giving employees generous benefits and empowering them to select the options best suited to their lives, you'll find there's less resistance if certain benefits are only offered in some countries but not others.

Find a formula that works for you

Once you've decided what equal pay means to your organisation, you need to figure out how to implement it everywhere you operate.

Some companies opt to take the lead from their headquarters – i.e. an organisation based in Dublin commits to paying Dublin wages to teams all over the world. However, this can lead to some vast anomalies – you might be paying well over the market rates for a job in one territory and way under in another.

In contrast, other companies devise formulas to work out individual salaries based on the total cost of an employee to the company – considering gross salary in addition to the statutory employer payments they'll need to make.

From here, it's possible to layer in local market rates, local employee taxes, locational cost of living data, and even employee-specific factors such as whether a team member is home, office or hybrid working, how far they are from the office or how regularly they're required to come in. It's all a question of how deep into the weeds you want to get; indeed, we've met some companies that employ their own data scientists to take on these questions and take the question of equal pay to the next level.

What’s clear, however, is that global pay strategies are hard to navigate – and recruitment experts agree that making exceptions is problematic too. You might want to rewrite the rule book for a very talented staff member or blow the budget for a group of roles you really need to hire. Unfortunately, exceptions lead to precedent-setting and might come back to bite you when other employees demand the same treatment.

Commit to open communication

The best compensation strategies tend to evolve from consultation, with employees actively encouraged to share their preferences as part of the process.

Of course, everyone wants to earn as much as possible, but companies are often surprised to find that employees value other things just as highly – such as better benefits, more flexibility, or the opportunity to choose their work location. No compensation strategy can perfectly meet everyone's needs, but it's crucial that employees feel involved and understand how these decisions are shaped. If communication channels aren't open, employees will simply air their grievances privately with one another instead.

Some savvy employers – Buffer and Bitlab, to name just two examples – are going so far as to publish their equal pay 'formulas' so that all stakeholders, including current employees, prospective hires and partner organisations, understand the methodology.

Regardless of the approach taken, every company should expect to be challenged about its remote compensation strategy. However, employee concerns can be addressed head-on with open and transparent communications, lowering the risk of misunderstanding or fuelling the internal rumour mill.

Achieving fair and equitable compensation, everywhere

Operating across multiple territories is complex. Even companies with the best intentions can get remote compensation wrong from time to time.

You need as much information as possible to inform your compensation strategy, especially regarding mandatory local employer commitments. And you need to think long-term – taking into account how your recruitment needs will evolve as your company grows, as you move into new territories, or launch new products.

It's a lot to think about, so it may be worth teaming up with an outside partner to advise on the best compensation strategy for your company.

At Boundless, we're specialists in helping companies get their heads around the many differing laws, regulations and cultural norms that impact employee remuneration and benefits from country to country. Through our Employer of Record model, we help global employers go beyond the basics and adopt best-practice employment principles wherever they operate.

So if you'd like an impartial perspective, get in touch with us today or visit https://boundlesshq.com/, where we've compiled resources designed to help you achieve fair and equitable compensation for your global workforce.

If you are a remote-first company or are making the transition to remote/hybrid, connect with Grow Remote, which offers a range of training and enablement services, a fully remote careers centre and a thriving community of remote workers and job seekers.

Finally, a special thank you to the partners that helped us spread the word about the survey - WeWorkRemotely, Workplaceless, Distribute Consulting, Humaans, Hubble, and Zyte.