

Why Employers Benefit From Hybrid Working

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Introduction

Three years on from the start of the Covid-19 lockdown, which prompted the biggest change in working practices in living memory, the world of work is starting to revert to a new normal. For many employers this involves flexible working arrangements, but some are forcing workers to come back into the office for a stipulated amount of time. Bob Iger returned as CEO of Disney and immediately demanded staff come in four days a week. Other major organisations, from Goldman Sachs and JP Morgan to Starbucks, have made similar demands.

However, as we at AWA have found through our work with employers from Manchester to Mumbai, Seattle to Sydney, employees are simply not keen on being forced to commute into an office for a mandated number of days a week when they see no benefits from

that arrangement. Academics argue this has much to do with showing who is in charge. “A lot of it seems to be about power,” Rob Briner, a professor of organisational psychology at Queen Mary University of London, was recently quoted as saying. Our view, based on working with leaders close-up in many large organisations around the world, is that the truth lies deep in the way the brain forms habits. When people have been doing things the same way and thinking the same way over and over for many years, they develop deeply formed habits, which in turn tend to govern their mental model of the world against which they make judgements. The mental models in the minds of many senior and aging leaders is one of ‘command and control’ whereas we know that a more ‘transformational’ model of leadership is required for success.



Senior leaders also tend to be high on ego, almost by necessity in order that they have the confidence to take risks and lead. Post pandemic, many leaders sought to get back to the old pre-pandemic world and were freaked out when their 'commands' were ignored. Old leaders will need to learn new tricks in order to successfully lead their organisations from this point on and they could do worse than using the 'six factors' articulated in our report 'Managing the virtual workforce'¹. They will however need to recognise that they need to change.

Critically, and what this paper demonstrates, is that employers benefit from hybrid working because they get happier, more focussed and more productive teams and can pay lower wages for flexibility while saving on office costs and CO2 emissions. We appreciate that the most senior leaders in businesses will need to change their approach to leadership, which for some will not be easy, but it is time for CEOs to take their heads out of the sand and embrace modern, flexible, hybrid working. The genie is out of the bottle.



Employers get 9.5 extra days from hybrid workers

The findings of the analysis – which captures the benefits of hybrid working for organisations – result from a combination of academic research and studies by AWA itself.

It also found that employees often work better when in a distraction-free environment, with more than half their time dedicated to working alone or focussed work.

A study, published by the National Bureau of Economic Research in Cambridge, Massachusetts, in January 2023², found that workers not going into an office save on average 72 minutes a day from not having to commute. Of this time, they dedicate 28.8 minutes to additional work.

AWA's Hybrid Working Index, a global study of 220 offices in 33 countries, representing nearly 250,000 employees, during October and November 2022, revealed that employees are working from home an average of 3.5 days a week.³

This would suggest that they work an additional 101 minutes, or 1.7 hours, a week. Over a typical working year of approximately 45 weeks, this would equate to 75.6 extra hours of work, or just over 9.5 days – that's nearly two whole work weeks, assuming an eight hour day.

For responsible employers, the good news is that not having to commute could also improve employee wellbeing as well as save them time. A study by the University of West England, published in 2017, when the pandemic was still a twinkle in our eye, found that long commutes lead to decreased job satisfaction and increase the risk of mental health issues.⁴

There is also a crucial financial dimension to commuting. According to Totaljobs' Commuter Calculator, the average London commute costs £122 a month (or £1,464 per year).⁵ More than two-thirds (68%) of 1,000 UK office workers in an Emburse/YouGov poll said they would consider returning to the office if employers covered commute costs.⁶ These statistics suggest that commuting could be costing people too much in terms of time, health and money.

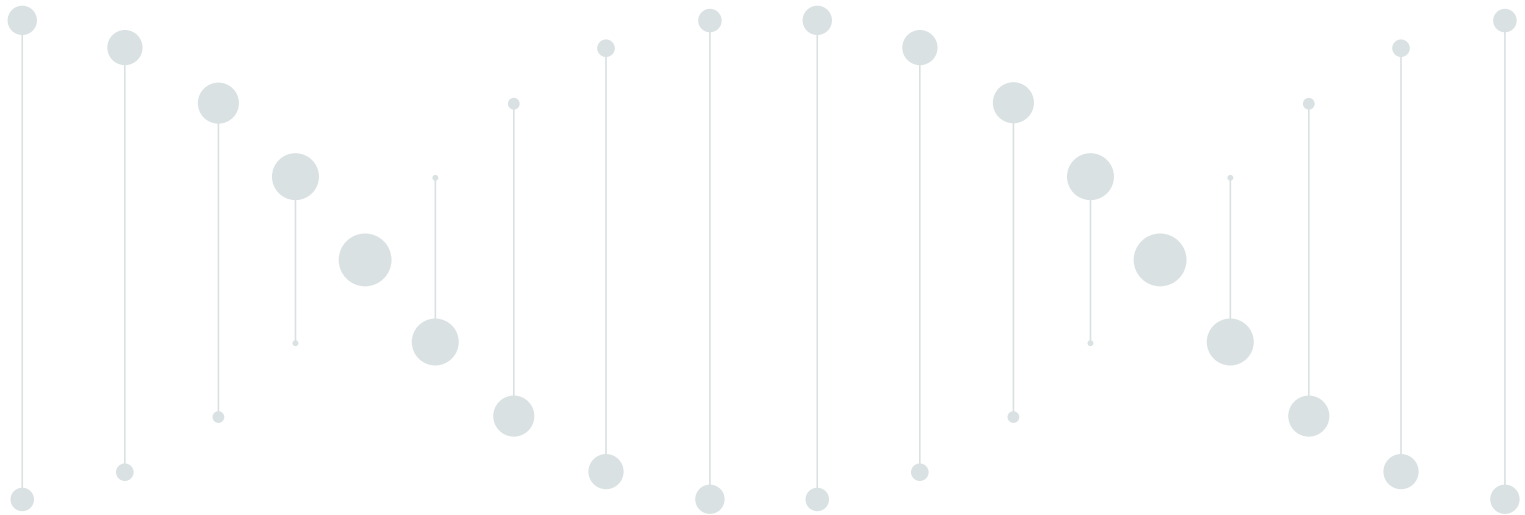


Meanwhile, reducing commuting also has a major benefit on emissions. Government figures show that in 2019, just before the pandemic, 68% of British workers drove to work.⁷ Cutting road journeys remains an important plank in the UK government's green agenda. How many drove after then?

Finally, the switch to a hybrid working model also allows employers to widen the talent pool by recruiting people from beyond commuting zones and even national boundaries. Where previously, organisations were limited in hiring people who lived in close proximity to the office, now they can tap into markets that have an abundance of highly skilled workers in a specific discipline, a great benefit at a time when almost every industry is experiencing dramatic labour shortages.

This will allow employees to have a better life by moving to the countryside or places where housing costs are lower. This may allow organisations to reduce employment costs. Also this would allow greater employment in deprived areas and fit in with the levelling up agenda pursued by the UK government among others.

Likewise, removing the geographic limits to hiring can solve old problems. For example, in the past, if a married employee had to move to a different region for a new job, their partner would have to resign and follow them. In a hybrid working system that no longer needs to be the case, saving the organisation £30,614 (the cost of replacing a staff member) each time.⁸

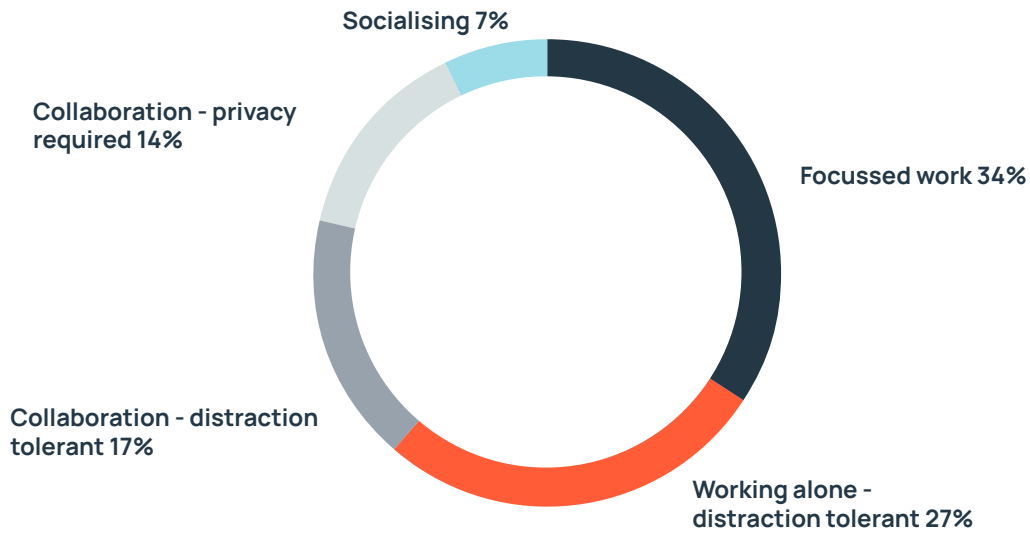


Workers prefer hybrid working

Multiple studies have found that workers prefer the flexibility of hybrid arrangements. This is partially because, as AWA research has found, nearly two thirds of the average office worker's time is associated with working alone with half of that time requiring a distraction free environment to enable focussed work.

A hybrid system can lead to significant productivity improvements by allowing people to pick and choose the spaces

they need for the activities they are doing at any given time. Before the pandemic, one of the biggest complaints about working in an office was that the distractions created by noisy environments with poor acoustics created friction. Hybrid empowers employees to work wherever they will have the fewest distractions, whether they're doing solo focused work or team activities.



Employees want flexibility and the autonomy to make their own choices about where and when they work. That means the employers providing these things will earn their employees' trust and more loyalty as a result. As AWA's research into the effectiveness of teams – especially those working in a hybrid or virtual environment – has found “trust” and “perceived supervisory support” are both crucial, not least because they enable social cohesion within teams and the creation of a psychologically safe environment in which teams can flourish. An employee who feels trusted to make their own decisions and work effectively away from the permanent gaze of their manager would feel a greater sense of psychological safety and therefore deliver better results for their team and the wider organisation.⁹

A recent study by LinkedIn found that more than a third of employees have said they would resign if they were told to return to the office full time. What's more, LinkedIn revealed that nearly

two-thirds of workers are considering a job change in 2023, yet a fifth of those would stay in their current role if they were able to maintain the ability to work remotely or with greater flexibility.

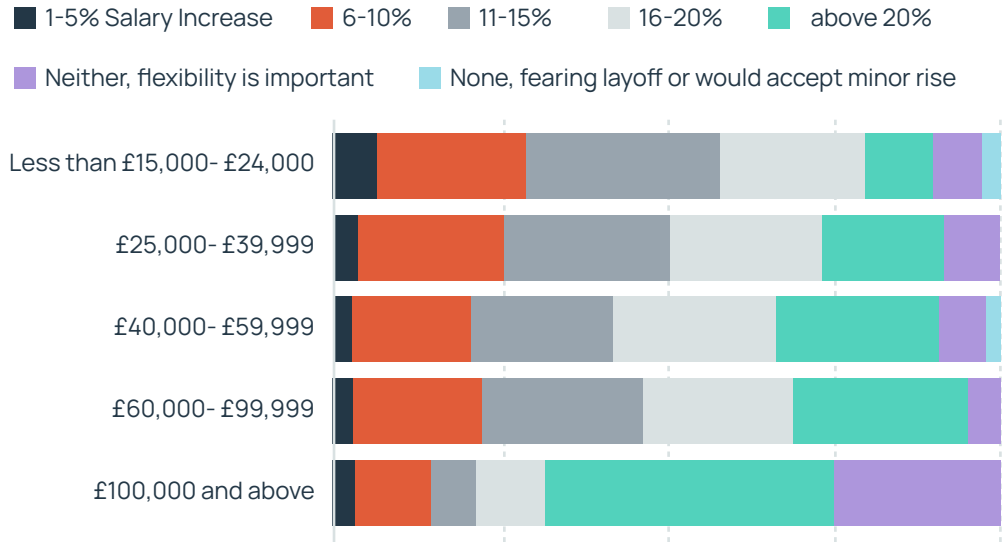
In addition, a recent analysis by Bloomberg Intelligence¹⁰ found that employees would require a significant increase in their pay to give up hybrid working. This is an issue, particularly for highly paid workers, with more than two-fifths of employees earning at least £100,000 a year saying they would need a pay rise of about 20% to give up hybrid arrangements. Critically, a significant percentage of workers say no amount of money would persuade them to go into an office five days away.

These findings strongly suggest it is both more economic for employers to maintain hybrid arrangements as workers can recruit people offering lower remuneration if the candidate can maintain hybrid arrangements. Hybrid working is also critical to retaining valued talent.



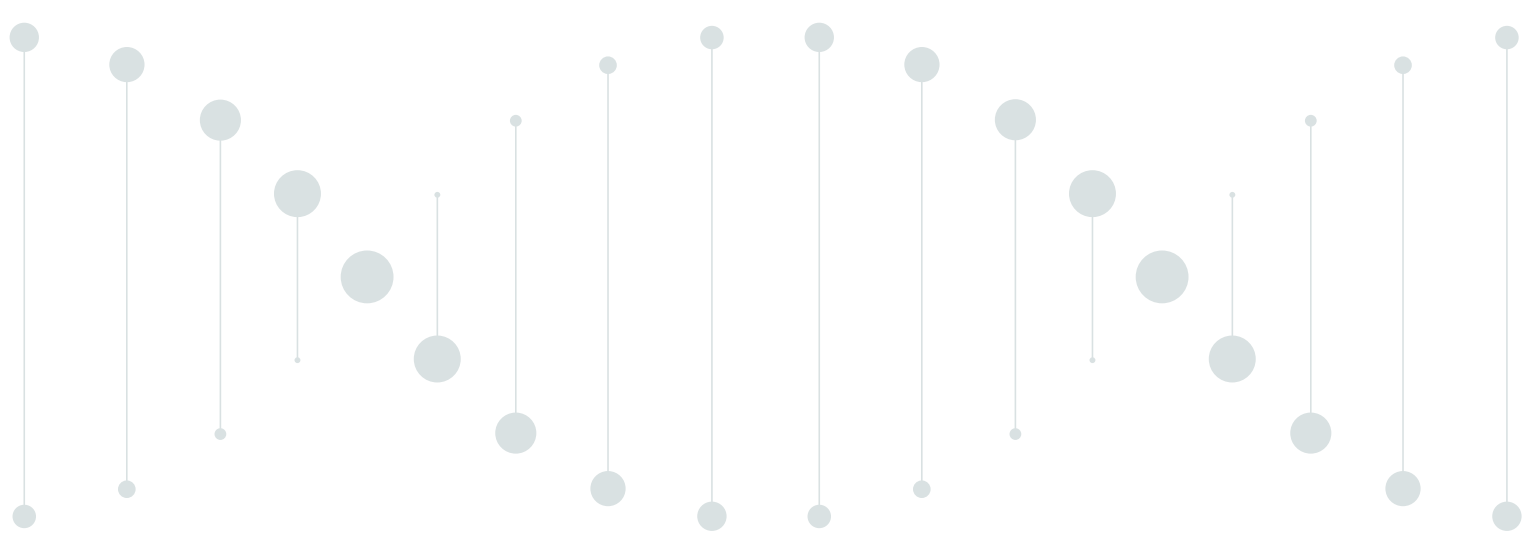
Salary raise needed to give up WFH by income range

Would a salary increase convince you to stay with your current employer if they require you to work on-site full time (5 days a week)?



Source: Bloomberg Intelligence

Note: Question was only given to respondents who had selected they would change employers if flexibility was not offered



Cutting real estate expenses and saving carbon

Assuming that organisations have the ability to isolate and sublet individual floor plates, hybrid working may also give organisations the potential to reduce expensive real estate costs by up to a half by consolidating their use of space to a smaller number of floors by adopting techniques such as 'activity based working' in which workers are mobile within the office and are provided with a palate of spaces

allowing them a pick and mix approach choosing the places best suited to the different tasks they perform throughout the day. We can now proactively structure how we work so that people coming into the office a few days a week don't all show up on the same day.

Four different hybrid occupancy models at a team level have emerged that maybe useful in planning office occupancy.

Different Occupancy Models

'I **need** to be in the office most days to comply with regulatory requirements, facilitate learning, access to equipment, fast moving complexity'



Office based

'We want you in the office at least three days a week. The other two days you can work virtually'



Office centric

'We work at home most of the time but our team **comes into the office** one/two days a week'



Home centric hybrid

'We work at home all of the time but come into the office when **we need to** for a specific meeting'



Home centric

Some teams must be in every day because they have a business need to do so, others need to come in for specific tasks, and some barely need to come to an office at all. If organisations keep traditional space management models where people own their own desk, they will find that their buildings are peppered with empty spaces.

Organisations working efficiently, with the opportunity to offload space, could cut their office occupancy costs by as much as 50%. The impact is already being seen, with recent estimates indicating that 330 million square ft of office space in the US alone would become vacant thanks to hybrid working. Data from the Valuation Office Agency, part of HM Revenue & Customs, indicates that the amount of office space occupied in the UK has dropped by nearly 5% since the start of the pandemic in 2020 to around 875 million square feet.

Many organisations that have decided to reduce their real estate footprint will now be sitting in, and paying for, costly

empty space until their lease ends, an especially acute issue in the UK where lease lengths tend to be longer than in countries such as the US. In response, business leaders should consider innovative ways to use or monetise the empty space, including converting it to coworking, providing other useful amenities such as retail, or subleasing it to other businesses.

Similarly, organisations must consider the strategic flexibility that comes with more short-term lease agreements. The world is increasingly volatile and uncertain. Real estate costs are high and fixed for many years, a trend that is incompatible with the changes many businesses are experiencing. The less fixed-space commitments and organisations has, the easier it is to stay agile and adaptable. Recently, the UK over-50s insurance company Saga announced that it was shutting its head office due to dwindling occupancy levels and switching to several smaller hubs, reflecting “a successful transition to hybrid home/hub working”¹¹



The empty space would also likely result in generating additional unwanted carbon by cooling and lighting unused areas. However, research conducted by AWA¹² indicates that the amount of CO2 emitted per worker could be reduced by as much as 37% with the adoption of both hybrid working and smarter office management practices.

According to the United Nations Environment Programme, nearly two-fifths of all carbon comes from new construction projects. So, reducing the amount of office space needed should lead to fewer new office buildings. While changes in the way people work are leading to a shift in the way offices are used – going from places people go to for work to places where workers collaborate and connect – this can be achieved by refurbishing older offices, many of which need to be updated to meet upcoming emissions standards.

Research by infrastructure consulting firm AECOM¹³ indicates that at least 500 kg of CO2 per square metre of office space could be saved by refurbishing a building rather than building new space. Once built, there is little difference in the emissions of a new build and refurbished offices, so the CO2 is never recovered. With over 1.4 million square metres of new space under construction in London alone, there is the potential to save 700,000 tonnes of CO2 in the UK capital by refurbishing space rather than building new offices.

According to the UK Green Building Council, 80% of the buildings that exist today will still be in use by 2050. If the world has any chance of reaching the 2050 net zero target set by the Paris Agreement, decarbonising the current building stock is essential.¹⁴

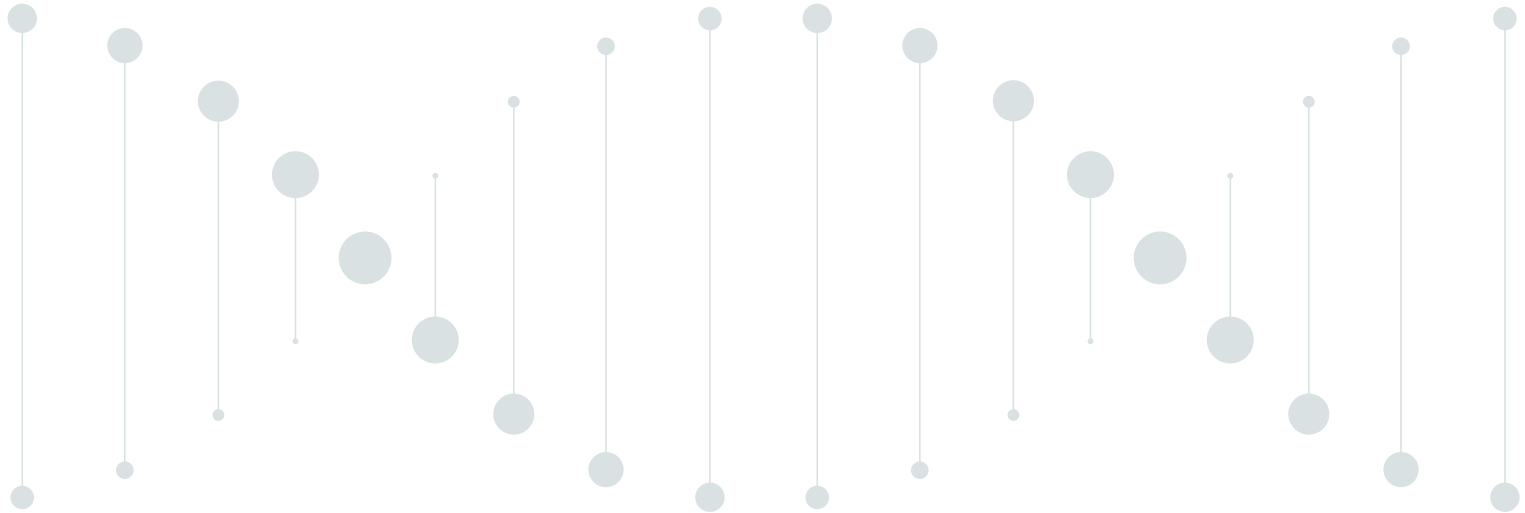


Buildings are estimated to generate almost 40%¹⁵ of global annual carbon emissions, either through construction and related materials used (embodied carbon) or operations that take place in completed buildings (operational carbon).

The effective implementation of hybrid working can significantly reduce operational carbon, which contributes 28% of all global greenhouse gas emissions, as organisations begin to manage their buildings, services and people in sync with new attendance patterns.

As the World Green Building Council has stated: “This requires deep collaboration across the entire value chain, and radical transformation in the way buildings are designed, built, occupied and deconstructed.”

Switching to a hybrid working system can also reduce the threat of terrorism or vandalism against employees and physical infrastructure. Moving to a hybrid system where employees work from home, in smaller hubs or other third spaces creates an extra line of defence against cyber criminals who might target the larger and more information-rich IT systems in central offices. In December 2022, The Guardian newspaper faced a ransom demand to unlock its IT systems after hackers shut down the newspaper’s workplace. The attack wiped out WiFi access at The Guardian’s headquarters in King’s Cross and employees were asked to work from home for the rest of the week. The issue took months to resolve.¹⁶

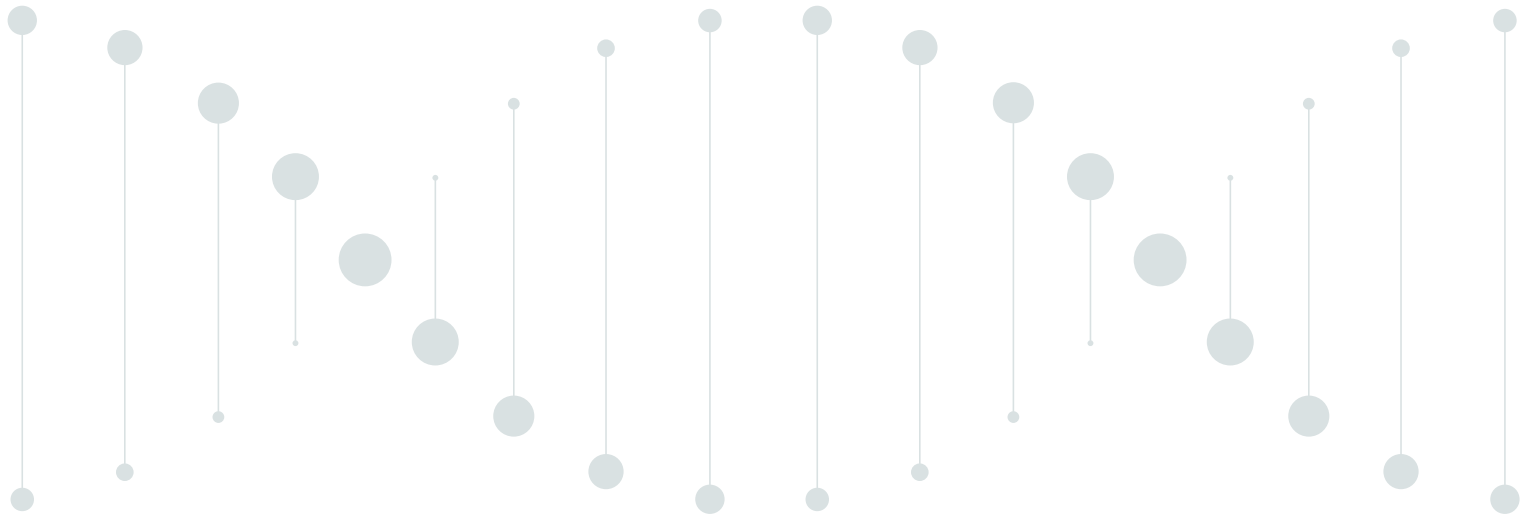


Conclusion

There is a clear business sense for adopting hybrid working. Employees work longer, more efficiently and are happier, and many would not accept going back to an office five days a week. Workers are demanding or seeking out employers who will offer the opportunity to work flexibly and leaving behind employers who do not offer flexible options. In the war for talent, inflexible employers will lose out.

Hybrid working creates the opportunity to reconfigure offices to be more collaborative, efficient spaces that encourage teamwork. It will allow organisations to reduce the amount of space they need with commensurate reductions in costs and CO2 emissions.

The world of work has changed for the better. There is no going back.



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