

THE
REALITY OF
VIRTUAL WORK:
IS YOUR ORGANIZATION READY?



By Chad Thompson, Ph.D. and Pat Caputo, Ph.D.
SENIOR CONSULTANTS AT AON CONSULTING

The Reality of Virtual Work: Is Your Organization Ready?

By Chad Thompson, Ph.D., and Pat Caputo, Ph.D., Senior Consultants at Aon Consulting

Innovative workplace strategies that efficiently leverage human capital are increasingly valuable in today's volatile economic environment. While organizations have long employed virtual work arrangements as a tool to recruit and retain key employees, implementing a virtual workforce is becoming a broader strategic option for reducing operating and real estate expenses.

The prevalence of virtual workers – employees whose primary work location is their home or other non-traditional location – has increased 39% over the last two years.¹ Access to high-speed Internet connections, software solutions that enable remote collaboration, and improved telephone conferencing systems all allow employees to work seamlessly with colleagues around the world.²

The combination of a greater focus on employer and employee cost cutting initiatives, the increasing influence of the Millennial generation on workplace practices and benefits, and new tax incentives for virtual work programs are contributing to the growth of virtual workforces.³

Realizing the benefits and minimizing the hidden costs of virtual work programs requires careful planning by an organization. By overcoming barriers to implementation, determining readiness, and adopting strategies for success, your organization can be ready for the reality of virtual work.

CLEAR AND TANGIBLE BENEFITS

The expected rewards associated with virtual work programs are well documented and include a combination of reduced fixed costs, improved scores on human capital metrics, and the long-term benefits of building a virtual workforce culture. Organizational success stories involving a restructuring towards an increasingly virtual workforce most often focus on real estate cost savings and increased employee performance and retention. However, other benefits can include improved recruitment, organizational attraction and corporate sustainability.

REAL ESTATE COST SAVINGS

Real estate cost savings associated with moving employees out of offices or facilities and removing commuting reimbursements are tangible and easily accountable savings. According to a recent article in *Workforce Management*, Sun Microsystems realized a savings of over \$70M with 18,000 virtual workers.⁴ Meanwhile, IBM has reported real estate cost reductions of up to 60% and Nortel notes \$22M in annual real estate savings associated with their respective telework programs.^{5,6} Most organizations can quantify the specific savings associated with a virtual work implementation, although, on average, organizations can save between \$5,000 and \$8,000 per employee on real estate costs alone.⁷

INCREASED EMPLOYEE PERFORMANCE AND RETENTION

Virtual workforces have been painted as a boon to both employee productivity and retention. The and degree of increased productivity varies with different organizations, which note increases in employee productivity ranging from 10% to 43%.^{6,8,9} In some instances, the net increase in productivity is on par with the real estate cost savings. Similarly, increases in employee retention can range between 10% and 50%.¹⁰ A survey conducted by *WorldatWork* of over 600 HR professionals showed 85% of respondents reported their organization's virtual work program had a moderate or high impact on employee retention.¹¹

Effective organizations frame virtual work as an incentive that adds to the overall employment value proposition without significantly impacting expenses. With stagnant salaries and unpredictable energy prices looming as big concerns for employees, virtual work provides a way to reduce an individual's cost of employment. Reduced fuel costs alone are akin to the salary increase or bonus that many organizations cannot currently offer. In addition, instead of losing a valued employee when personal circumstances dictate a need for relocation, remote work helps retain valued employees, as well as their institutional knowledge. It also eliminates the costly expense to recruit, hire, and train a replacement.

In addition to anecdotal evidence, organizational researchers are beginning to find more broad-based support for the positive impact of virtual work on organizational human capital. The emerging message is clear and robust. Virtual workers are often more productive and more likely to remain with the organization^{12,13}.

IMPROVED RECRUITMENT AND ORGANIZATIONAL ATTRACTION

Aon Consulting's 2008 Benefits and Talent Survey identified talent recruiting, selection, and retention as areas of increasing importance over the next three to five years. Virtual work has quickly become a key differentiator in attracting and retaining key employees. For example, Gen Y employees are known for expecting the work-life balance and flexibility afforded by virtual work.¹⁴

As organizations seek to battle the upcoming leadership and talent gap, Gen Y employees are a natural place to look. A successful virtual work program can be a key competitive advantage for employers seeking to add new talent.

Moreover, in today's housing market, organizations are increasingly reluctant to commit substantial assets to relocate employees. Employees do not want to move and sell their own houses at highly discounted prices. A virtual work arrangement allows organizations to significantly increase their recruiting base, as recruiters do not have to be constrained to a specific geographical area. Organizations are free to go after the best talent no matter where it is, without committing significant capital to recruitment and relocation costs.

ORGANIZATIONAL AND ENVIRONMENTAL SUSTAINABILITY

Virtual work programs also support corporate sustainability initiatives. By reducing real estate needs, organizations save on space and fixed costs such as energy. The environment benefits as well. Employees no longer commute, which helps reduce carbon output, gasoline usage, and highway congestion. Some estimates put the amount of gasoline saved into the billions annually.¹⁶ As virtual work continues to be adopted on a more widespread basis, the full impact to the environment and sustainability will become clearer.

OVERCOMING BARRIERS TO IMPLEMENTING A VIRTUAL WORKFORCE

Organizational restructuring resulting in an increase in virtual workers and decrease in on-site employees can yield notable cost savings. However, maximizing the return on a virtual workforce is contingent upon a planned, long-term commitment to remote employees. Achieving lasting organizational benefits depends upon anticipating and addressing the hidden costs of virtual workforce management. Unexpected costs can substantially mitigate the net impact of any organizational restructuring, including a virtual workforce.

STRATEGIES FOR SUCCESS

Reducing real estate costs and maintenance fees will lower operating expenses and increase profit margins. However, no organizational transition is without risk. Having a human capital management strategy for recently staffed or newly transitioned virtual workers is critical to ensuring a successful immediate and long-term return on investment.

Effective implementation is based on key elements, including the selection, management, and engagement of virtual workers, sound HR policies, and communication and change management support. Effective elements in implementing a virtual workforce include:

- Determining readiness for a virtual workforce
- Identifying jobs that lend themselves to work virtually
- Selecting employees who can work remotely
- Managing the virtual workforce
- Ensuring that virtual workers are engaged
- Establishing policies for the virtual work environment
- Developing a change management and communication strategy

DETERMINING READINESS FOR A VIRTUAL WORKFORCE

Organizations must consider a number of factors before instituting or expanding virtual work programs. Failing to adequately plan for the transition can introduce a significant amount of risk and hidden cost that can eat away at the program's anticipated return on investment. The following questions can help determine if an organization is ready for a virtual work program.

- Does the senior management team vocally support virtual work?
- Can we measure and manage virtual workers' engagement?
- Have virtual work-specific HR policies been established?
- Is there a space reduction or hoteling plan in place?
- Is there a plan for measuring virtual worker performance?
- Have we detailed the changing structure and tasks of virtual jobs?
- Is there a communication plan in place?
- Can managers be trained on how to manage virtual workers?

IDENTIFYING JOBS THAT WORK VIRTUALLY

Not all jobs can be performed remotely. Research conducted by organizational psychologists has shown that performance increases due to telecommuting depends on the particular job.¹² Transitioning jobs that are ill-suited for remote work can cost the organization lost revenue due to poor job design, workflow, and coordination loss. Successful workforce transitions require a great deal of analysis about which jobs are likely to fit new organization designs.

Detailed and rigorous assessment of the jobs being considered for a move to the virtual environment is a critical first step. Organizations can employ a structured job analysis tool to determine which jobs are suitable for virtual work. Job redesign initiatives can transform unsuitable jobs into those that can be performed effectively in a virtual environment.

Bottom Line Analyze tasks and responsibilities to determine which jobs are suitable for virtual work.

SELECTING EMPLOYEES WHO CAN WORK REMOTELY

Similarly, virtual work is not a good fit for all employees. Research indicates that employees who are autonomous, can deal with ambiguity in their work, and are highly planful and organized are better suited to working in a virtual environment.¹³ Ignoring key personality and work style preferences of new job candidates or transitioning employees puts the success of any virtual workforce at risk.

In addition, the onboarding of newly hired virtual workers or transitioning of current workers is greatly enhanced by understanding the candidates' strengths and weaknesses on key virtual work skills and attributes. Training can help to fill skill gaps.

Bottom Line Determine which employees are a good fit for virtual work and deploy training where necessary.

MANAGING THE VIRTUAL WORKFORCE

Successful virtual work programs include structured and robust performance management processes. The remote nature of the work makes tracking performance even more critical than in traditional office settings. Employee development, workforce planning, and organizational strategy all hinge on having reliable performance information. Consistent and agreed-upon performance metrics also serve as the foundation for a trusting relationship between managers and virtual employees.

Communication underlies many of the preconditions for a solid virtual worker-manager relationship. The good news is that the Gen Y'ers and Millennials (born between 1980 and 2000) who make up a significant part of the virtual workforce are very comfortable with technology-mediated communication, such as instant messaging, blogs, wikis, and social networking.¹⁵

An effective performance management process for a virtual workforce is designed to ensure that managers can provide accurate appraisals that are tied to objective outcomes. Clearly defining the final work product, as well as the iterative steps to successful task completion, are key aspects of managing virtual worker performance. A clear method for managing and measuring performance can help managers overcome many of their initial objections regarding virtual work. Managers must also utilize new communication technologies to interact with their direct reports.

Bottom Line Incorporate clear, objective, and measurable criteria in the performance management process. Employ technology and social media to manage performance.

ENSURING THAT VIRTUAL WORKERS ARE ENGAGED

A reduction in employee engagement and loyalty is an oft-cited concern about virtual work. The contextual differences between a virtual work environment and a traditional office require that organizations form a proactive plan for addressing potential engagement issues in both groups.

Engagement is due to a combination of employee- and environment-based factors. Research has found that employees who are well suited for virtual work are over 50% more engaged with their organizations than employees who are not.¹⁷ Selecting employees who are likely to succeed and be engaged is only half of the equation. Organizations must also foster a culture that supports virtual workers.

Manager commitment and buy-in is critical to building an environment where virtual workers can thrive. Managers accustomed to measuring progress by frequent, in-person drop-ins are no longer able to do so and feel a loss of control. This builds distrust between the virtual employee and the manager – and the cycle of disengagement begins.

Communication is crucial in promoting engagement between the organization and virtual employees. Web 2.0-technologies can be leveraged to act as a “water cooler” where employees establish relationships with one another and increase their ties to the organization. Strategic communication and change management plans also contribute to a positive environment for virtual workers.

Bottom Line Address both the employee- and environment-based factors of engagement.

ESTABLISHING POLICIES FOR THE VIRTUAL WORK ENVIRONMENT

In many cases, employees and employers have entered into virtual work arrangements in a highly unstructured and unstandardized way. Specific agreements, if they are made at all, vary significantly by department or manager. This variance can lead to a feeling of inequity between employees who work virtually and those who work in a traditional office setting. A transparent process for selecting the jobs and people appropriate for virtual work can ensure that morale and organization culture are not negatively impacted.

Effective real estate space planning can make the difference between a virtual work program leading to fixed overhead savings or not. Having workers in a virtual environment a significant part of the time but still reserving space for them in the office can lead to an increase in fixed costs.

A strategic approach to office space management is critical to ensuring optimal cost savings. Many organizations are moving towards a “hoteling” office, where open space is available but is not dedicated to individual employees. This allows an organization to reduce its real estate footprint while providing space for employees when needed.

A clear, detailed, and consistent HR policy, benchmarked against other successful virtual work programs, is a must. HR policies should include detailed information on what jobs can be performed virtually, technology needs, clear expectations on information security, and clear expectations on days worked in and out of the office.

Bottom Line Create an HR policy that proactively addresses the key issues and concerns of individual virtual workers. Ensure the virtual work policy and business strategy are aligned and implemented to address specific and targeted cost reductions.

DEVELOPING A CHANGE MANAGEMENT AND COMMUNICATION STRATEGY

A virtual workforce can require a great departure from the usual way of doing business; changes in management style, organization culture, and the basic way a job is performed are all affected. A comprehensive change management plan can help to ensure the long-term adoption of a successful virtual work program.

Virtual work programs without a well defined communication plan often struggle with internal communication and organizational cohesion. This can lead to issues of trust, accountability and productivity. Communication and change management plans work hand-in-hand to cement virtual work in an organizational culture.

Effective Change management require stakeholder buy-in from all levels of the organization and comprehensive education to workers about the virtual work plan. Metrics help to evaluate program effectiveness.

Bottom Line Develop change management and communication plans to ensure the successful rollout and ongoing support of a virtual work program.

* * * * *

There are numerous benefits to virtual work, both for employees and employers. Virtual work is here. Are you ready?

* * * * *

Chad Thompson, Ph.D. is a Senior Consultant in Aon Consulting's Human Capital Practice. He can be reached at chad_thompson@aon.com or +1.248.936.5448. **Pat Caputo**, Ph.D. is a Senior Consultant in Aon Consulting's Human Capital Practice. He can be reached at pat_caputo@aon.com or +1.212.441.2176.

References

- ¹ WorldatWork. (2009). *Telework trendlines 2009*. Scottsdale, AZ: Author.
- ² McLennen, K.J. (2008) *The virtual world of work: How to gain competitive advantage through the virtual workplace*. Charlotte, NCH: Information Age Publishing, Inc.
- ³ Goluboff, N.B. (January 16, 2009). *Telework's benefits in a troubled economy ... and thereafter*. Retrieved from: <http://www.WorldatWork.org/waw/adimComment?id=30651>.
- ⁴ Workforce Management (July 3, 2008). *Employers offering telecommuting to cut real estate costs*.
- ⁵ Durkin, T. (November 1, 1995) *IBM Offers system of virtual office management*. Telecommuting review: The Gordon Report.
- ⁶ Nortel. (2004). *This is the way, this is Nortel: Teleworking to mobility – over 10 years of evaluation at Nortel*. Retrieved from: http://www.nortel.com/corporate/success/ss_stories/collateral/nn110521-122004.pdf.
- ⁷ Stevens, M. R. (2009). *Telecommuting Calculator*. Retrieved from: <http://www.itbsuinnessedge.com>.
- ⁸ Thornburg, L. (November 12, 2007). Well-designed telework policies help you reap benefits. *Society for Human Resource Management*.
- ⁹ Crandal, W. & Gao, L. (June 22, 2005). An update on telecommuting: review and prospects for emerging issues. *SAM Advanced Management Journal*.
- ¹⁰ AHCCCS Virtual Office Pilot (May 21, 2007) Arizona AHCCCS Virtual Office Evaluation Project Final Report. Phoenix, AZ: Author.
- ¹¹ WorldatWork (October, 2007). *Attraction and Retention: The impact and prevalence of work-life & benefit programs*. Scottsdale, AZ: Author.
- ¹² Nicklin, J. M., Caputo, P. M., Cosentino, R. E., Arboleda, M., Lee, M., et. al (2008, April). Telecommuting and organizational attitude and outcomes: A meta-analysis. Presented at the Society for Industrial and Organizational Psychology, San Francisco, CA.
- ¹³ Gajandran, R.S., & Harrison, D.A. (2008) The good, the bad, and the unknown about telecommuting: Meta-analysis of psychological mediators and individual consequences. *Journal of Applied Psychology*, 92, 1524-1541.
- ¹⁴ Career Center at Cal State Fullerton, & Spectrum Knowledge. (2008) *The Gen Y Perceptions Study*. Fullerton, CA: Author.
- ¹⁵ Aon Consulting. (2009). *Social media and employee communications: Summary of survey findings*. Chicago, IL: Author.
- ¹⁶ Jones, K.C. (June 18, 2008). *Telecommuting could save gas and U.S. billion annually*. InformationWeek. Retrieved from: <http://www.informationweek.com/news/globalcio/trends/showArticle.jhtml?articleID=208700405>.
- ¹⁷ Aon Consulting. (2008). *Applicant Profile™ virtual worker assessment: Technical documentation*. Southfield, MI: Author

Aon Consulting is among the top global human capital consulting firms, with 2008 revenues of \$1.4 billion and 6,000 professionals in 117 offices worldwide. Aon Consulting is shaping the workplace of the future through benefits, talent management and rewards strategies and solutions. Aon Consulting was named the best employee benefit consulting firm by the readers of Business Insurance magazine in 2006, 2007 and 2008.

