

# THE HYBRID BONUS

December 2022

IWG CFO study reveals why companies are switching to the hybrid working model as recession looms

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# INTRODUCTION

**‘High Inflation Darkens Global Economic Outlook’ was the stark headline of the Wall Street Journal in October as financial officials from governments around the world gathered in Washington for meetings hosted by the IMF and the World Bank. The newspaper’s report highlighted not just inflation but also high energy costs and climbing interest rates as factors that could turn an existing global economic slowdown into a steeper slump. “Across many economies, recession risks are rising,” commented IMF MD Kristalina Georgieva.**

The message is clear: in economic terms, the future, at least for now, is looking uncertain. And companies are already tightening their belts. IWG’s CFO study of 250 financial leaders found that the overwhelming majority believe a recession is on the way in the next 12 months and, as a result, almost all of them (97%) are either currently implementing cost-cutting measures or are planning to do so.

Over the last few years, companies around the world have increasingly been switching to a hybrid model of working, in which employees divide their time between a central office, home, and a flexible workspace close to home. This new work paradigm brings with it many benefits for employees, including reduced commuting, a better work-life balance, improved health and wellbeing, and financial savings. In an IWG survey earlier this year, almost half of the 2,000 office workers polled said that far from seeing hybrid simply

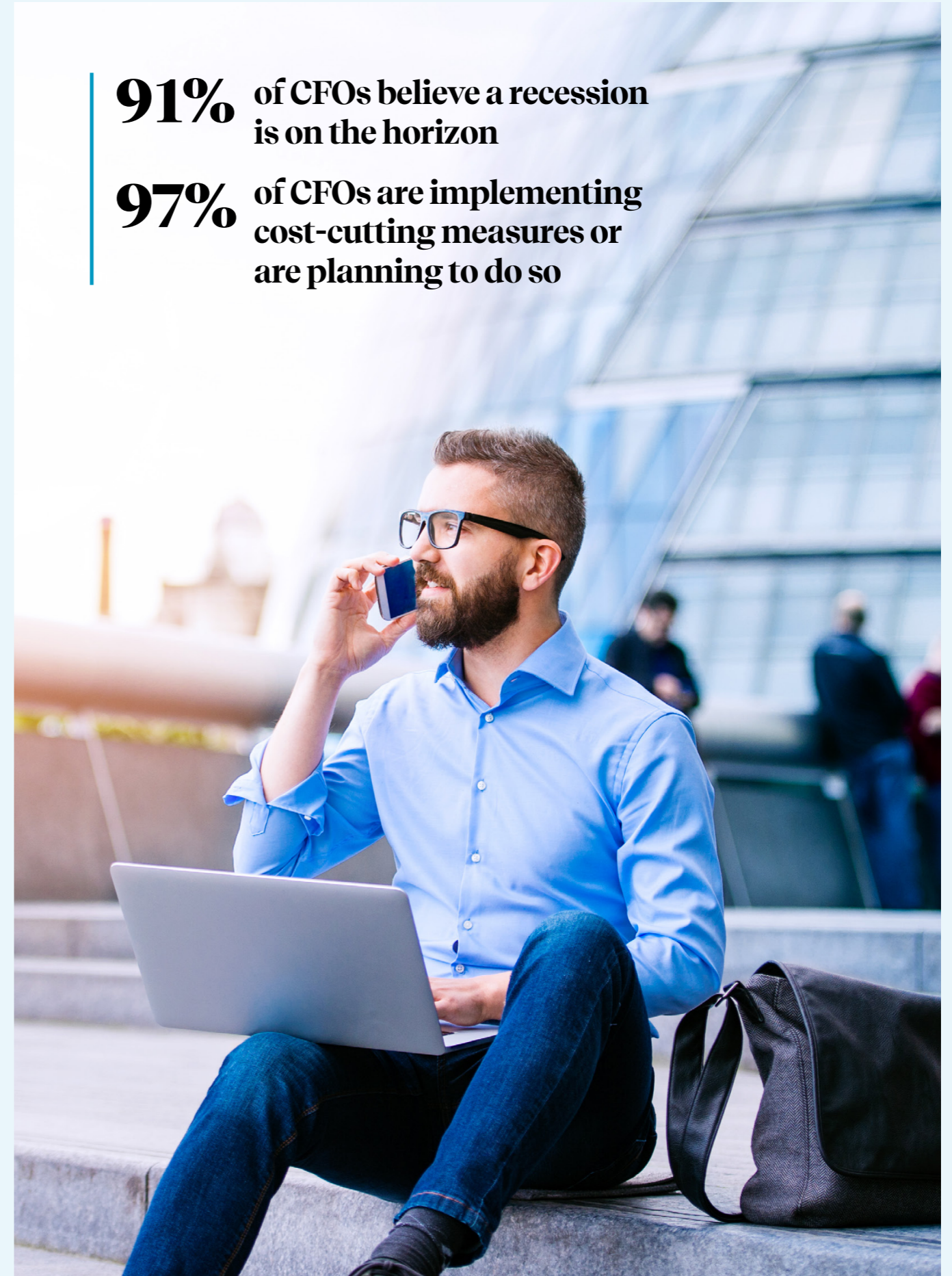
as a benefit, for them it was a must-have: they would actually only consider roles that offer hybrid working.

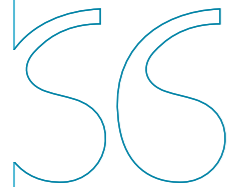
But it isn’t just employees who can benefit from the hybrid model. More than four-fifths of CFOs polled by IWG (82%) believe hybrid is a more affordable business model than one in which employees spend five days a week working at a central office. It allows companies to eschew long expensive leases and to scale up or down as needed. For small companies, the real estate cost savings brought by hybrid are particularly advantageous, bringing added agility and allowing them to focus more resources on growth.

In purely financial terms, analysis by research firm Global Workplace Analytics has shown that hybrid working can save organisations more than US\$11,000 per employee a year on average. Technology giant Cisco, which has a long-established

**91%** of CFOs believe a recession is on the horizon

**97%** of CFOs are implementing cost-cutting measures or are planning to do so





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**Nicholas Bloom**

Stanford Professor of Economics

tradition of flexible working, says its shift to hybrid working has saved the company in the region of US\$500m over the last five years. Much of its savings came in its property portfolio, and it has invested these savings in new technology to facilitate the hybrid model.

"As an economist, I'd point out that firms don't do things that lose them money, they do things that make them money," says Nicholas Bloom, an economics professor at Stanford, who has been studying remote and hybrid working since long before the pandemic arrived. "That's why every firm just about out there is doing hybrid, because it's such a no brainer to increase profit."

As we'll see in this paper, there are several areas in which hybrid can boost a company's bottom line.



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# Reducing

Office rent is one of a company's highest fixed costs, so it's no surprise to find that two-thirds (65%) of the CFOs surveyed by IWG are targeting a reduction in facility spend of more than 10% per year. A recent survey by workplace software provider Robin found that a similar proportion (60%) of US executives are planning to reduce office space by as much as a half or more. It's what IWG Founder and CEO Mark Dixon has termed the 'Great Lease Resignation', as long leases are increasingly shunned in favour of more flexible arrangements.

A recent piece of research led by Arpit Gupta at NYU Stern School of Business<sup>1</sup> examined the impact of remote and hybrid working on the commercial real estate landscape in Manhattan. New

leasing activity in the area has "fallen off a cliff" in the last year, according to the report, and office occupancy rates in Manhattan are currently the lowest they have been for 30 years, although newer, high-quality buildings are bucking the trend somewhat. Analysis of job postings in New York revealed that the growth of hybrid working was directly linked to the decline, with the demand for office space declining in proportion to the number of days per week employees were working away from the office.

By its very nature, hybrid working enables the switch to a smaller real estate footprint, as fewer desks are required in a central office. Companies that may have previously needed to accommodate 1,000 employees at the same time are



now looking at a figure of 200 or 300. Some companies, such as Airbnb, have gone even further. The company's flexible working policy allows employees to move anywhere in the country where they work, plus the possibility to travel and work around the world. The only stipulation is that they should expect to gather in person once a quarter for about a week at a time.

And it isn't just rent that companies can save by downsizing. Other costs of maintaining an office include cleaning services; facilities such as restaurants, or,

on a smaller scale, provisions for the office kitchen; and general office supplies. The potential for reduced energy costs is also a major part of the equation at a time of inflated global gas prices.

As a result, it's no surprise that companies have already begun cutting down on their real estate portfolios. Energy giant BP, for example, is working on a plan to radically reduce its working spaces while also introducing hybrid working. It recently sold its London HQ building to a Hong Kong investment fund and will lease it back for up to two years before moving out for good.

# facility spending



<sup>1</sup> 'Work From Home and the Office Real Estate Apocalypse', Arpit Gupta, Vrinda Mittal, Stijn Van Nieuwerburgh, 2022



**In the financial sector, Goldman Sachs CEO David Solomon attracted much publicity by ordering his entire staff back to full-time office work in February 2022, having described remote working as “an aberration that we’re going to correct as quickly as possible”. But the company is very much an outlier.**

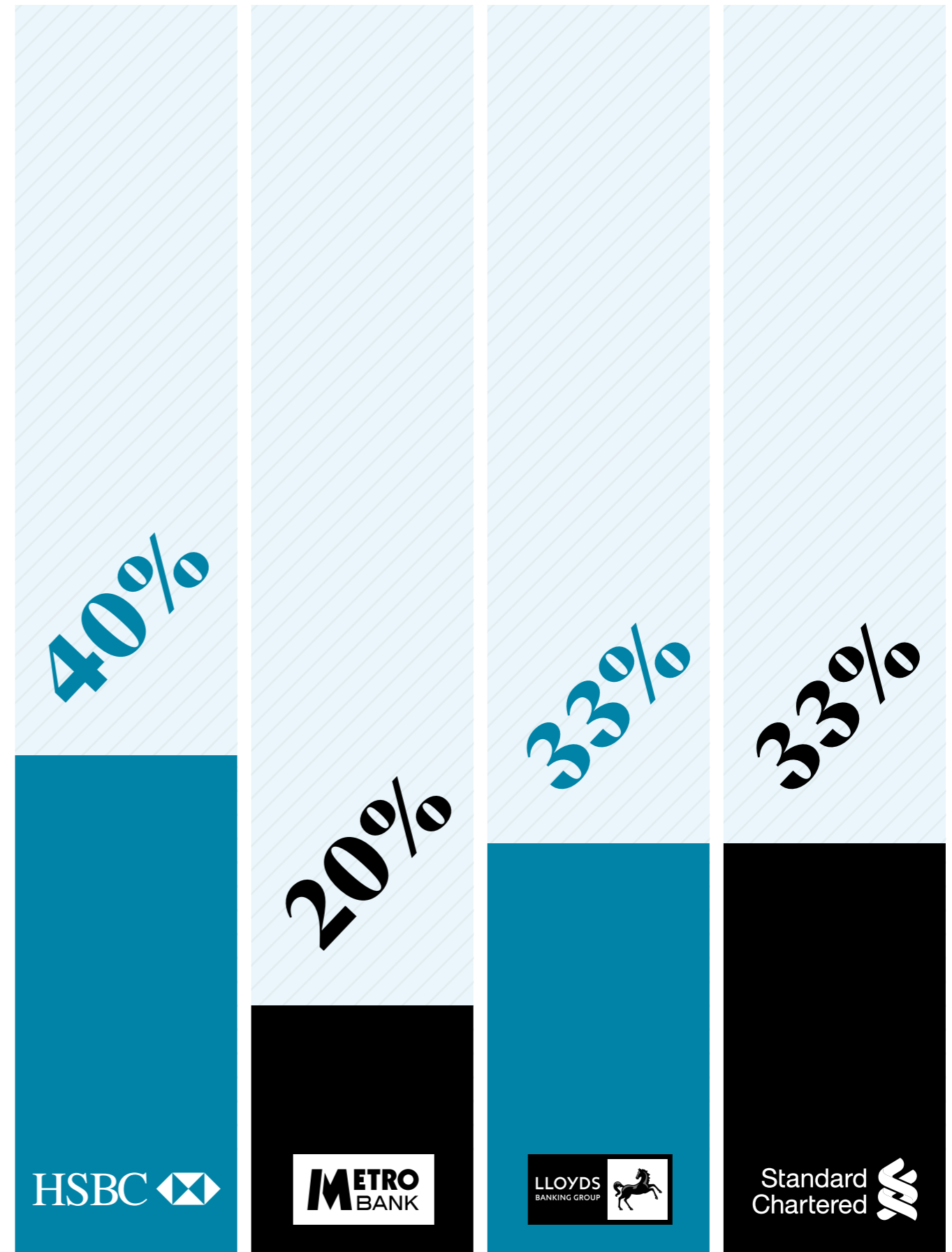
As far back as February 2021, HSBC announced that it was cutting its global office space by 40% as it moved to a hybrid model. Others in the banking sector have taken similar measures, among them Lloyds Banking Group, which has embarked on a two-year programme to reduce office space by 20%, and Metro Bank, which has begun cutting space by a third.


More recently, leading tech firms have been following suit: Twitter, Yahoo, Yelp, Netflix and others have all announced major reductions in office space. In October 2022, it was reported that Meta, the parent company of Facebook, was looking to close its office at 225 Park Avenue South in Manhattan, having also ditched plans to lease 300,000sqft of workspace in Astor Place, where it already had an office, and having paused plans to

add more office space in a new location at Hudson Yards.

The implications for landlords of this reduction in demand are considerable: net effective rents in Manhattan, for example, have declined by around 60%. Meanwhile, flex space is booming. IWG’s latest usage data shows that use of its flexible workspaces across the US has seen double digit growth since the start of 2022. The CFOs in IWG’s study confirmed this trend, with half (50%) of them saying their business has already opted for short-term leases or shared workspaces, giving them flexibility to quickly scale up or down depending on budgets, without being locked into lengthy contracts. Nearly two out of five (39%) say they are considering moving exclusively to shared spaces.

**% decrease in office space in the financial sector.**





It clearly makes sound financial sense to pay only for the space that you need when you need it, rather than maintaining a lease on an office that's likely not to be full. Last year, companies including technology services provider NTT, banking group Standard Chartered and cloud company Avaya all signed deals with IWG, giving their employees (almost half a million combined) access to IWG's global network of 3,500 flex spaces. "We need a new solution, a new way of working," said Arvind Kumar, Global Vice President of NTT Global Sourcing at the time. "People are going to work at home, at the office and at a third location – a partner location." Kumar added that the deal helped NTT to continue on a journey of "managing costs, managing its real estate portfolio, saving money, adding value and creating experience".

Dixon predicts that many more businesses will be making a similar choice: "It gives companies the financial flexibility to invest in their staff and in growing the business, instead of in the buildings in which they operate," he says.

By adopting the 'hub-and-spoke' model of a smaller central HQ together with satellite flex spaces in suburban and rural areas outside the city centre, companies can not only save money but also satisfy employees' increasing desire to work closer to home: an IWG survey found that more than three-quarters of workers (77%) consider an office close to home a must-have in their next job. A shorter commute also brings health and wellbeing benefits and an improved work/life balance.

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**Mark Dixon**

Founder and CEO, IWG plc

# REAPING THE HYBRID



In a survey by IWG earlier this year, nearly a third of workers (31%) said they believed productivity is enhanced by the hybrid model.



# PRODUCTIVITY BONUS

While some leaders have publicly expressed the view that hybrid working is a charter for loafing at home, the facts demonstrate the opposite: hybrid working leads to greater productivity. As Richard Osbourne, a senior manager at PwC, put it in May 2022: “Hybrid working isn’t about taking time off to be lazy – it is about flexibility to work effectively as and when we work at our best.”

Ongoing research into hybrid working patterns by Microsoft shows that productivity is booming in the hybrid world: the increase in the number of meetings on its Teams platform has continued post-pandemic, while multitasking during meetings is on the increase, with nearly half of meeting participants sending an email or ping, as well as reading them and working on non-meeting files.

In a recent survey<sup>2</sup> on working from home in 27 countries around the world, workers were questioned on how their productivity had changed compared to working full time in an office. More than half (56.4%) said they were now more productive, while almost a fifth (18.6%) said they were more than 20% more productive. On average, respondents in all countries declared a rise in productivity, with Brazil and India showing the biggest increases. In a survey by IWG earlier this year, nearly a third of workers (31%) said they believed productivity is enhanced by the hybrid model.

<sup>2</sup> ‘Working from Home Around the World’, Cevat Giray Aksoy, Jose Maria Barrero, Nicholas Bloom, Steven J Davis, Mathias Dolls and Pablo Zarate, 2022

“We are seeing an uptick in productivity and an uptick in many companies’ results,” said Ann Francke, chief executive of the UK’s Chartered Institute of Management, in February 2022, announcing the results of a survey of members that found 84% had adopted hybrid working in their businesses.

According to Bloom, studies generally place the increase in productivity brought by hybrid at around 3% or 4%. He says the first factor is time: employees who work from home two days a week save, on average, 70 minutes a day commuting. Of those 70 minutes, surveys show they’ll spend 30 minutes working more, and use the other 40 minutes doing other things. That extra hour of working in a 40-hour week means a productivity increase of 2%. On top of that, another 2% comes from the fact that people tend to work more efficiently when they’re at home.



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# Keeping staff costs down

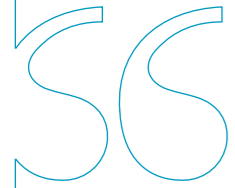


At a time of economic belt-tightening, it's crucial to keep payroll costs down. More than two-fifths (44%) of CFOs in IWG's survey said they were introducing forced redundancies, while others were looking at reviewing current staff salary bands (28%) and reducing the number of promotions (27%). Around a third of CFOs are also limiting the onboarding of new staff members, either by reducing new hires (36%) or delaying them (33%).

It costs money to hire new staff, so staff retention takes on even more importance when times are tight. This is where the attraction of the many benefits of hybrid

working for employees can play a key role. A recent study<sup>3</sup> led by Bloom looked at the potential benefits of hybrid working in a large online travel agency based in Shanghai. In the six-month trial, workers were divided into two groups: those who worked in the office full time and those who had the option to work one or two days a week at home. In the latter group, attrition rates fell by 35%, while work satisfaction scores also increased. (A small but significant rise in productivity in the hybrid group was also observed.) The company was so impressed that it has now extended hybrid working to the whole company.

<sup>3</sup> 'How Hybrid Working From Home Works Out', Nicholas Bloom, Ruobing Han, James Liang, 2022



**If people count hybrid as a 7% or 8% pay increase, you can basically not push their pay up by as much and have them not quit on you.”**

**Bloom**

When it comes to finding the best talent in what currently remains a very tight labour market, hybrid offers important advantages. Firstly, it allows companies to draw from a much more widely distributed (and more diverse) talent pool. And, secondly, it's increasingly the mode of working that potential recruits are looking for. As noted earlier in this paper, an IWG survey found that around half of workers consider hybrid working

a must-have in their next job. This strong desire for hybrid working was confirmed in data collected by Indeed, the world's largest job site. It found that the share of searches for the word 'hybrid' had increased by 6,531% over the 12 months to April 2022, making it one of the fastest growing terms on the site.

“What this means for employers is that if they can offer hybrid working, they should

be explicit about that in their job ads, because people are increasingly searching for it,” said Pawel Adrjan, head of EMEA research at Indeed's Hiring Lab.

So much do job candidates and employees value the flexibility of hybrid working that they equate it with getting a pay increase of around 7% or 8%, according to various surveys, Bloom says. The Working from Home Around the World

Survey mentioned earlier in this paper found that hybrid is particularly valued by women, people with children under 14, more highly educated people, and those with longer commutes. The monetary value placed on hybrid can lead to a significant payroll saving for companies. “If people count hybrid as a 7% or 8% pay increase, you can basically not push their pay up by as much and have them not quit on you,” says Bloom.



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# LOOKING AFTER THE TRIPLE BOTTOM LINE

The phrase 'triple bottom line' was coined in 1994 by author and sustainability consultant John Elkington to describe an accounting framework that measures not just monetary profit but also a company's social and environmental performance. In recent times, it's generally been referred to as the 'three Ps', standing for profit, people and planet, and has become a useful shorthand to remind company leaders that their responsibilities extend beyond simply producing dividends for shareholders. Even in times of economic recession, the three Ps remain fundamental to how companies act.

Here, too, hybrid working can play a key role. In people terms, as we have seen, the hybrid model tends to increase job satisfaction for workers. It can also bring health and wellbeing benefits. A report by the UK's Royal Society for Public Health highlighted the health impacts of commuting by rail, bus or car, showing that longer commute times are associated with increased stress and higher blood pressure and BMI, as well as a reduction in health-promoting activity such as exercising and sleeping. The curtailment of commuting brought by working from home or at a flex

space close to home, even for just two or three days a week, can lead to a significant increase in wellbeing. In addition, the short journey to a local flex space is likely to be undertaken on foot or by bicycle, bringing added benefits to health.

In Cisco's major global study of hybrid working this year, more than half (55%) of its 28,000 respondents from 27 countries reported that hybrid working has decreased their stress levels. In addition, four-fifths (82%) said hybrid had made them happier and more motivated in their role, three-quarters (74%) believed hybrid had improved family relationships, and two-thirds (68%) said hybrid had had a positive impact on their physical fitness.

There's also a significant financial benefit for workers who work from home or close to home – something that's particularly important as the cost of living increases. The vast majority of CFOs polled by IWG (87%) agreed that hybrid working is more affordable for employees, and Cisco's study found that the average hybrid employee saves a little over US\$150 per week, adding up to around US\$8,000 a year. That amounts to a 14.5% increase

in disposable income on average. The major saving comes from reduced spend on fuel and/or commuting, followed by decreased expenditure on food and entertainment, social activities, and wardrobe/personal care. Interestingly, more than two-thirds of those polled by Cisco (69%) said they would take these savings into account when considering changing jobs in the future.

When it comes to the environmental bottom line, simply optimising a company's real estate footprint can have a major effect. It's been shown that offices currently account for 40% of societal energy use, and that every unused desk creates a tonne of unnecessary CO2 each year, equivalent to driving a car 6,000 miles. Cutting back on commuting, even for one or two days a week, can have a positive environmental impact, even if it leads to increased residential energy use. A report by the International Energy Agency estimated that it is still up to four times more energy efficient than the daily commute. Following on from this research, the EU recommended hybrid working as a way of reducing energy demand at a time of reduced oil and gas supplies.



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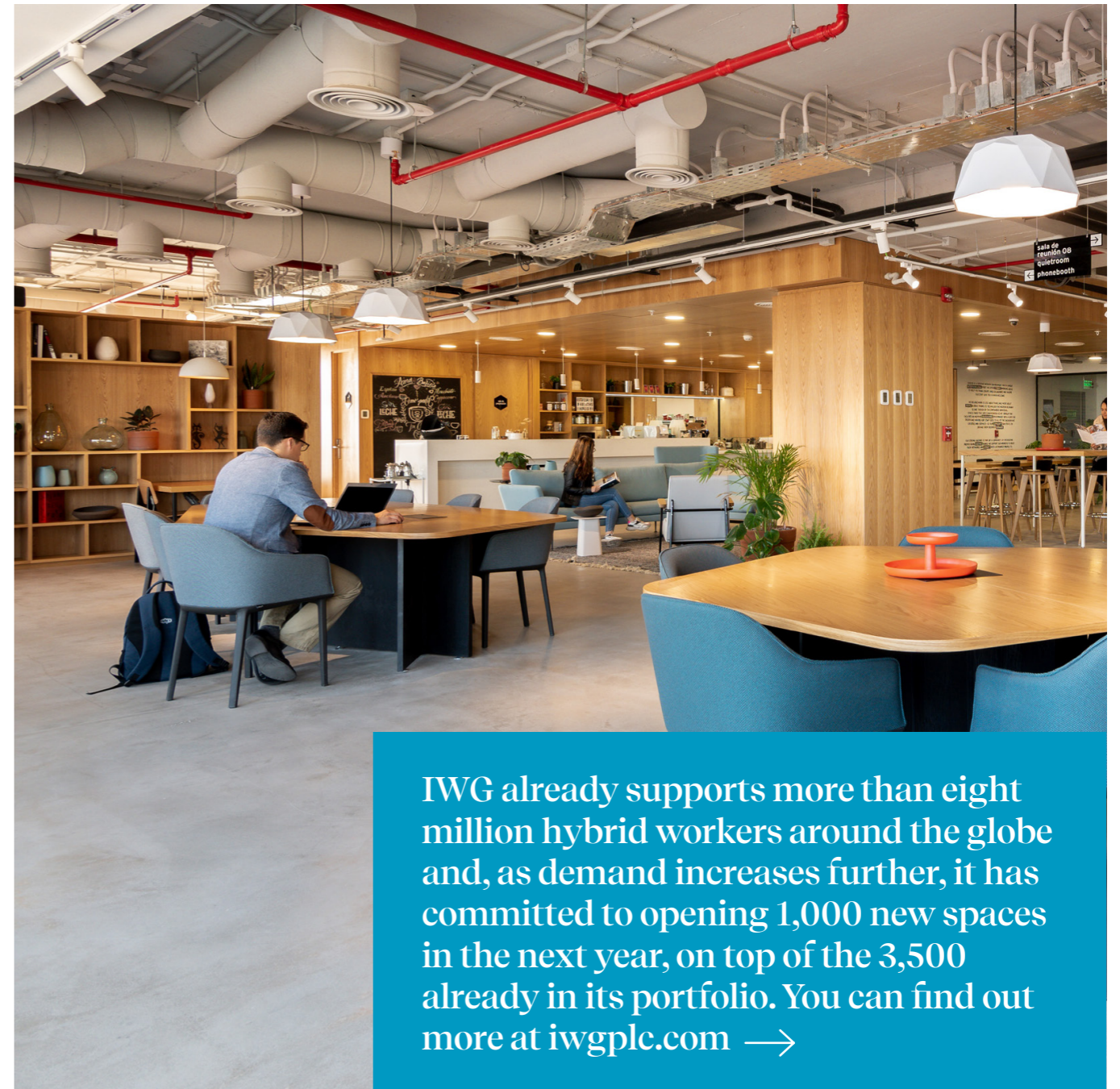
## CONCLUSION

# Pushing up profits with hybrid

Looking at the sum total of financial benefits that hybrid brings from increased productivity, reduced payroll and optimised facility costs, Bloom estimates that a company's profits could be increased by between 10% and 20%. As he puts it, "It's a no-brainer", especially at a time when the bottom line has never been more important. As he says, companies do things that make them money, and that's why so many are switching to hybrid.

Dixon notes that IWG is already working with 83% of Fortune 500 companies. "We're seeing the ongoing impact of the Great Lease Resignation, as businesses increasingly replace their traditional long-term leases with flexible arrangements," he says. "And they're doing it for sound financial reasons. Numerous pieces of independent research – as well as our own studies – show clearly that hybrid working helps businesses stay competitive and resilient, especially

in times of economic uncertainty. And not only does it provide a meaningful boost to a company's bottom line, but it also supports the work-life balance and wellbeing of employees – which further boosts productivity. It's a virtuous cycle. Added to that, hybrid brings environmental benefits, too. As the economic storm clouds gather, every company that isn't already using the hybrid model needs to think seriously about adopting it."



IWG already supports more than eight million hybrid workers around the globe and, as demand increases further, it has committed to opening 1,000 new spaces in the next year, on top of the 3,500 already in its portfolio. You can find out more at [iwgplc.com](https://www.iwgplc.com) →