

# WHITE PAPER



## MANAGING THE RISKS AND CHALLENGES OF BREXIT RELOCATIONS: AN IMPERATIVE AFFECTING MOBILITY FUNCTIONS AROUND THE WORLD

Brexit has created a wave of uncertainty rippling through boardrooms across the world that is triggering organisation and/or supply chain relocations. Many organisations are currently assessing whether or not to relocate their critical talent all together to a new country. It's not only the Financial sector that is considering relocations of hundreds of employees to yet unknown EU countries, but organisations in other industries are also having discussions. This includes both UK and non UK headquartered companies – particularly those who have substantial investments in the UK, for example USA or Asia multinationals with European headquarters in the UK and financial institutions or manufacturers from all over the world. This paper explores the mobility dimension of Brexit that is at the top of many CEO's agenda and, by default, should be at the top of global mobility leaders' agenda.

### About the Author

Chris Debner is a renowned leader in strategic mobility advisory and the relocation of organisations and their employees. In the past fourteen years, Chris has supported and advised on more than twenty-five company relocations between various countries within Europe. Chris was awarded an EMMA last year for the Global Mobility Professional of the Year by the Forum for Expatriate Management.

### Introduction

During one of the most notable political times in recent history, Global Mobility and Talent Management functions have the opportunity to be pro-active with the most senior business executive by applying their insight and expertise to the possible business models. Approximately 60% of 'c-suite' leaders would like their Global Mobility teams focused on business succession planning, workforce planning and helping them to articulate the return on their investment, as reported in Santa Fe Global Mobility Survey 2016. Here is a perfect opportunity for Global Mobility to demonstrate such value.

It is essential that business leaders work in unison with their specialist advisers. Too often, business leaders will take un-informed decisions or make promises publicly, without fully understanding the fiscal, people and compliance risks associated with such promises. There is often a desire to convince or please employees whom they see value as key talent that need to be retained. When such promises cannot be delivered – for a variety of internal and external reasons, this can then lead to subsequent back-tracking, loss of confidence and credibility that could have been avoided by getting the specialists engaged in the earliest possible stages. This is a multi-dimensional transformation project that has to be delivered in a compressed time-scale. No easy task. Planning, stamina and communication are key ingredients in a successful large-scale relocation project.

If an organisation relocation is to be successful - with a high acceptance rate of targeted employees, minimal business disruption, and the retention of key talent - then the mobility and talent functions have to play a major role from the onset of discussions about the possibility.

This paper provides insights into the key aspects of relocation that should be considered, and highlights how to overcome the related risks and challenges. At the end of the paper you can also find a list of key questions. Having a structured and better understanding of a relocation can help provide more meaningful input into management.

### **Key aspects of relocating a group of employees**

It takes more to relocate a group of employees than to manage a standard expatriate programme. The relocation of groups of employees share a few common characteristics that distinguish them significantly from the usual international assignment management business.

#### **The following six aspects will be explored in more detail:**

1. Permanent move characteristics
2. Destination attractiveness
3. Relocation attractiveness
4. Employee communication needs
5. Group dynamics effect
6. Change management aspects

#### **Permanent move characteristics**

A permanent move aims at integrating an employee fully into the organisation in a new country, which has implications for human resources, compensation and benefits, taxation and social security. The linkages back to the home country are effectively broken and there is no return ticket issued. Potentially, this can lead to a much lower attractiveness for an employee to make the move other than specified (for a 3-year assignment for example). The alternative in a group move is often to become redundant. This is due to the job moving versus the employee moving to a job in a different country.

#### **Destination attractiveness**

Multiple factors determine the choice for a new location for a company. However, the attractiveness for employees should be one of the key decision criteria in the location decision. The best tax rates or employer-friendly labour laws, for example, are of secondary importance. Particularly if the targeted employees and their families cannot be convinced to relocate and be retained in the new location.

#### **Talent location assessment criteria, include:**

<b>Labour</b>	Local trends and practices for pay and benefits, availability of skilled personnel, management talent availability, regional/local labour costs, labour and management relationships, labour productivity, English speaking capabilities, multilingual capabilities.
<b>Skills</b>	Universities with finance/accounting/technical degrees, proximity to technical schools/universities, local labour competition (large employers with comparable skill types, government agencies), labour flexibility/unions/placement agencies.
<b>Environment</b>	Schools (international schools, language courses, special needs programs, enrolment), infrastructure (ease of transportation, utilities, telecommunications/internet), entertainment (restaurants, cultural variety), type and rate of crime.
<b>Financial</b>	Compensation levels and rules (bonus restrictions, stock option taxation), tax considerations (personal, government, financial incentives), housing (relative costs, utility costs, telecommunication costs, quality, availability), cost of living.
<b>Culture</b>	Difference in country cultures and cultural labour challenges.

Other, more miscellaneous, criteria can include; access to work permits, primary and secondary languages, immigration policies, and relationship with local government agencies.

### **Relocation attractiveness**

A group relocation for employees and their families can be a very tough decision. In order to keep employees and their families engaged, and positive, companies need to show that they care for their needs. Since financial aspects are a clear driver for attractiveness, a bespoke group relocation strategy and policy should be designed and packages developed that balance the attractiveness with cost. The company should allow employees to make an informed decision about their future, by being transparent and supportive and allowing employees sufficient time to make up their mind.

### **Employee communication needs**

Employees who are asked to relocate permanently with their families to a new location normally have much higher information requirements than the temporary international assignee and their family. Comprehensive country information should be provided, which includes details such as pension plans, health insurance, social security, labour law, and aspects about leaving the country. All these factors are relevant to the decision process. The timing of communication is a key success factor. Ideally comprehensive information on the offered relocation packages, the future compensation and benefits, and location information should be made available immediately after the announcement of a relocation. Answers to potential questions and a clear timeline for the employees should be given. Any delay in communicating this information, or pre-empting answers to typical questions, will ultimately create insecurity. This can influence employee engagement and in its absence can often lead to wrong answers.

### **Group dynamics effect**

The effect of the group dynamics should not be underestimated. In employee groups there are always different attitudes to a planned relocation and the people with a negative stance towards it will influence other members of the group. Any insecurity due to a delayed or incomprehensive communication about the location can become detrimental for the acceptance success of the targeted employee(s). Top management commitment and the use of strategic messaging is a great way to mitigate the risks of group dynamics.

### **Change management aspects**

Understandably, a group relocation is a big change for any organisation. There are multiple change management aspects such as stakeholder management, strategic messaging, and management buy-in, considerations of interfaces, effective project management and timing. Considerations around non-movers and the impact on their careers, in order to retain them, is often overlooked. It is important to make considerations about change management and plan and prepare thoroughly before announcing a planned relocation.

### **What are the key risks and challenges relocating a group of employees?**

The following are considered by various companies from different industry sectors as the key risks and challenges associated with a group relocation(s):

- Business disruption
- Costs
- Competency and capacity
- Confidentiality
- Compliance
- Commuters

### **Business disruption**

The biggest risk in group relocation is a potential business disruption. Well managed relocations generate typically a 'pick-up' rate of up to 95% of the targeted employees. If the pick-up rate drops below 80% there is a risk that replacement hires cannot be completed quickly enough. The newly hired talent could have a negative impact, with their inexperience, on successful business operations in the new location.

## Costs

When reviewing costs, it has proven successful to separate one-off relocation costs from ongoing employment costs. Costs play a major role in the location decision for a business. While at this time the policies and compensation packages are likely not yet designed, it becomes a challenge to make valid estimates. The relocation costs should be looked at in comparison to the potential replacement cost that could be incurred when a targeted employee rejects the relocation offer, or becomes redundant. A new employee needs to be found on the market to replace the incumbent of the relocated position. Depending on the level of seniority, typically the cost is between one and four times that of an annual salary per position. This includes severance payments, hiring costs and training costs - without even taking into consideration the likely costs of a performance lag of a new employee versus the experience of the previous role holder. This is something companies should keep in mind when designing bespoke group relocation policies and individual packages. By adopting a more holistic approach to the group relocation proposition, global mobility teams can demonstrate their value to the business by helping business leaders to assess their options from all aspects. Not only focusing on some of the more reactive and emotional tensions – especially in teams that have tightly knit units, including business leaders.

## Competence and capacity

Another challenge is to realistically assess your competencies and capacity in Talent and Mobility functions. In both the location of origin as well as in the new location. If groups of more than ten people - or as some discuss several hundred employees - are intended to be relocated, most mobility functions will reach their limits in terms of capacity. The same is usually true for the HR function and organisation in the new location as a whole. Particularly when they have to manage an intake of numerous new employees all at once. This coupled with the additional project planning and change management efforts needed, it's clear that (external) help is likely to be needed. It is therefore important to identify and consult with potential partners in both the current and future locations. Partners can act as a filter and an independent extension of the company's team to address employee's concerns more objectively – helping to ensure exceptions to a relocation policy are minimised or even better, consistently but differentially based on the employee's situation.

## Confidentiality

Traditionally the mobility function has a major role in group relocations because it has the relevant strategic and operational expertise and vendor network. What should definitely be avoided, however, is that the Mobility and Talent functions learn about a planned group move only when the management announces it publicly. In the past companies have faced situations where their employees learned about the relocation from public media, before the company informed them. This creates an immediate loss of trust by the employees and makes the subsequent management of the relocation much more difficult. Confidentiality is therefore another key consideration in relocations. Professional service firms and relocation companies are often engaged in strictly confidential relocations and this is an added advantage of being able to undertake assured forward planning and minimise potential information leakages.

## Compliance risks

Relocations always require companies to deal with tax, social security, immigration, labour law and duty of care. Relevant questions that need to be dealt with are around recharges of the relocation cost, permanent establishment risks and, in case of a 'green-field' move (moving people into a new entity), the whole set-up of a new organisation. Undertaking a 'turn-key group relocation' through the use of a dedicated team to act, operationally, as a single point of co-ordination and provide management information to the company's management team handling the group relocation. Never underestimate the time and resources required to ensure that all parties are informed with the right data. Updates on progress should be real-time to avoid miscommunications.

## Commuters

The UK and some of the potential future EU locations are well connected by air travel, so it is likely that commuting between the UK and the new workplace location will be a point of discussion. Both by employees as well as between business leaders and Mobility and Talent Management, as part of the discussion about the relocation strategy. Commuters come with multiple risks that should be considered. The costs involved in financing a commute for the employees are typically underestimated and unsustainable in the long run. Plus, compliance is also getting more complex. Even if employees chose to finance their own commute, this can create tax and compliance obligations for the employer.

The possible shrinking working week of when employees fly in on Monday morning and leave Friday afternoon is another consideration, as well as the incentivisation of a family separation and the cultural aspects of living and working between two different locations.

### Conclusion

The trend that companies are likely to relocate groups in the wake of the Brexit poses a great opportunity for the Mobility and Talent Management functions to prove themselves to the business leadership. Group relocations require extensive change management that needs strategic planning and consideration of the associated risks and challenges. Companies tend to have little or no experience in relocating groups, and the impact of the multiple risks materialising is far greater. There is only one chance to get it right. It is strongly recommended to properly prepare for a group relocation, ahead of any announcement. Project planning, the right relocation strategy, change management, and possibly the selection of trusted external partner(s) are of paramount importance to ensure that business continuity is maintained, and key talent is retained post relocation. Organisations need to ensure that before they get too far into the relocation planning process they have carefully selected an extended (external) team who can provide the necessary support from the planning, through to post relocation stabilisation.

Over the next decade, the concept of one-way permanent transfers of employees, rather than long-term three to five year secondments, is likely to become more popular for internationally mobile employees. To some extent a group relocation is a magnified version of this. Educating employees about the need to be internationally mobile as part of their career development should become part of an organisations' DNA, which in some companies has already happened.

It is evident that as a result of BREXIT global mobility functions have been offered an opportunity to demonstrate how they can help shape the future growth of a business. If your global mobility function has yet to be invited to discuss potential talent moves in this crucial business decision, then we recommend a pro-active communication either directly to business leaders or through executive HR leadership. This is a task for all mobility functions in headquarters around the world, as this not only affects UK headquarters. Especially if a company has a substantial amount of talent in the UK.

### Key questions

1. Do you understand who is to be targeted for the move, and who is to remain?
2. Is there a realistic timeline for the relocation?
3. Do you have a project plan that specifies timelines, responsibilities and identifies where external help is needed?
4. Do you have considered a position versus talent move - is it that the company needs the employee to move, or their job, and can a local hire carry out the same role?
5. Do you plan to offer key talent different package than other (local) employees – employee equity?
6. How does the group relocation strategy fit with company's global mobility strategy and other policies, such as the culture of the organisation?
7. What terms, and when, will localisation happen (in the case that local packages are not decided from the start)?
8. Have you considered both one-off and ongoing costs, as well as replacement and training costs for non-movers (cost management and control)?
9. What are the barriers and enablers of change and acceptance in the company?
10. Can you maintain a balance between keeping costs down, while providing enough incentive for employees to accept the relocation?
11. Are tax and social security planning, and its related cost, being taken into account when designing relocation compensation and benefits?
12. Does the relocation policy promote tax and legal compliance and mitigate permanent establishment risk?
13. Is a close cooperation ensured between Talent Management and the Mobility function with other work streams of the project?
14. Under what circumstances are 'commuters' allowed, if any?
15. Do you have a contingency plan for the quick hiring of replacements (for employees that did not relocate)?

## **About our Relocation & Assignment Management Service**

Our Relocation & Assignment Management Service is an extended arm of your Global Mobility function managing employees, and their family, relocate. We execute your services during pre-assignment, acceptance, preparation, move, arrival, settle in, plus the whole time while on assignment, through to repatriation or successive assignment. As part of the service, we implement industry best-in-class processes, including travel management, tax and medical co-ordination, as well as compensation and payroll.

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### **About us**

Santa Fe Relocation Services is a global mobility company specialising in managing and delivering high-quality relocation services worldwide. Our core competence is relocation services that support corporations and their employees relocate and settle in a new country, assisting them with visas, immigration, home and school, language and cultural training, managing property rentals, delivering domestic and international moving of household goods. We have the ability to provide these services to a consistent high standard, locally and globally. A key aspect is being able to manage our service delivery through our own operations across six continents. Santa Fe Relocation Services is wholly owned by the Santa Fe Group, which is listed on NASDAQ in Copenhagen, Denmark. For more information, visit us at [www.santaferelo.com](http://www.santaferelo.com).