3 Drivers Behind Company use of Lump Sum Payments

Amanda Jones, SVP of Sales & Account Management, APAC & Middle East

Considerations for Achieving Desired Mobility Goals

There are a variety of approaches to choose from when relocating employees, from moves that are fully managed by a relocation management partner to relocations that are self-guided by the employee. While a fully managed programme can best maximise company ROI, the employee experience, and programme alignment with overall company goals, for some companies, the lump sum model can be a valuable tool within their mobility plan. In this blog post, we'll review the three main reasons companies use a lump sum approach and considerations for each. Stay tuned for our next blog post, which will provide guidelines for companies utilising a lump sum approach to relocation.

3 Main Drivers Behind Company Use of Lump Sums

1. *Cost Containment*
2. *Employee Experience*
3. *Talent Strategy*

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To date, lump sum payments represent approximately 7% of all relocations, according to SIRVA's 2018-2020 volume data. Our experience demonstrates that the inclusion of lump sums into global mobility programmes is driven mainly by three main company goals: cost containment, employee experience and talent strategy.

1. Cost Containment

It's easy to understand why organisations believe a lump sum approach will aid programme cost control: Fewer management fees and minimised cost variability per move should, in theory, drive expenditure down. Although this may be true in some situations, the calculations seldom take tax liability, employee inexperience and intangible costs (resulting from poor choices or inexperience) into consideration. It will be important to manage these properly to ensure that an organisation's use of lump sum payments will achieve the desired result.

Tax Liability: Although the tax treatment of lump sums differs across the world, this benefit is usually considered taxable income. Gross-up amounts should therefore be duly included into the cost analysis.

Intangible/Soft Costs: Examples of intangible or soft costs include the administration costs that HR and line/department managers incur due to escalations and exceptions that may occur. Another indirect cost includes any loss of time when the relocating employee's focus must be redirected from job responsibilities to the necessary research, sourcing and managing of vendors related to his/her move – or the troubleshooting resources that are inevitably needed when employee inexperience results in poor decisions. These decisions can require extensive troubleshooting to be fixed. Issues resulting from timeline challenges, milestones not being met, or poorly chosen vendors can quickly add up.

For organisations that are expecting to see a reduction in programme cost via the use of lump sums, we suggest a quantification exercise. This one-time activity examines available escalation and exception reports and seeks input from HR and line/department managers regarding their experience dealing with lump sums. Areas to examine include time spent troubleshooting issues, number of employee education calls, the frequency and extreme of exceptions, and real-time consultations with suppliers regarding solutions. Focus groups with employees who received lump sums can also be very informative. Examining employee perceptions and gathering data on out-of-pocket spend, actual time spent managing the move, etc. can help to quantify potential productivity impacts.

2. Employee Experience

The second most common factor driving the adoption of lump sums is the expected improvement of the employee experience because, often, employees associate autonomy and flexibility with a positive relocation experience. While this association may hold true in some cases, we do caution that this correlation may be restricted to less complex move types, in which there are only a few variables to consider. In cases of more complicated moves, employees may have a poor experience when applying lump sum payments, simply because “they don’t know what they don’t know”. Choosing a temporary housing provider that hasn’t been properly vetted, for example, could result in exorbitant fees if a housing extension or early termination is required. A lack of familiarity with interrelated milestones on a relocation timeline can cause delays in processing that can further delay an employee’s arrival at their destination. Inexperience can result in a variety of scenarios that add unexpected time, expenses and complications to a relocation.

Compare, for example, the variables between cost and quality for an international move from North America to Australia, involving a household of three, and another move involving a single employee who is relocating within the European community. The probability of move-related challenges and quality issues with self-selected vendors is arguably much higher in the former case, due to its complexity. Using household goods as just one of many examples, inexperienced employees who aren’t aware of potential pitfalls may find that the final costs of shipping goods can be significantly higher than were originally quoted. Addressing those unanticipated changes can result in distracted employees who, stressed and sometimes scrambling for additional funds, aren’t able to fully prioritise their jobs and organisational goals.

A family that was relocating from the West Coast of the United States to Australia received a lump sum from one of our Oil & Petrol clients in Australia; they were expected to self-manage all of their costs. They would soon realise, however, that they would have to compromise on quality to reduce their out-of-pocket expenses. They decided to go with a less expensive vendor to manage their shipment. The family later learnt that lower costs meant less attentive service and a lower level of care: Their furniture included antiques and was being partially stored on the East Coast of the United States, which meant that part of the packing had to be done completely unsupervised. The furniture that had been stored on the East Coast was shrink-wrapped, and many pieces of furniture had contents left loosely inside the drawers. Because standard procedures weren't followed, in which all pieces were packed individually and with care, the shipment sustained significant damage during its lengthy sea journey. The experience was so disturbing to the employee and family that they, soon after, decided to end his employment altogether. The client eventually changed its policy to establish a fixed container allowance, outside of the lump sum amount, to be managed by SIRVA.

Although many employees indicate a preference for lump sums, this is sometimes driven by a belief that they can "do it for less", often hoping that they will be able to retain some of the cash allowance, rather than spend the lump sum on the relocation that it was intended for. These employees may also be unaware of just how complicated international relocations can actually be. Each country has its own rules, regulations and intricacies, so even employees that have relocated before may not be able to anticipate the nuances that they will encounter in a new country or city. As a result, when companies do choose to provide lump sums as a relocation approach, we recommend that they always provide a measure of supervision and guidance to ensure that the relocation and assignment run smoothly. Managed lump sum approaches can provide that valuable guidance.

3. Talent Strategy

Talent strategy is also a driver of lump sum use amongst clients for their employee relocations. Organisations that routinely hire new graduates, for example, may feel the need to adopt a lump sum approach to jockey for position amongst their competitors, who promote their lump sum policy as a recruitment tool when attracting this employee population. Receiving a lump sum of cash, fresh out of university can seem like an attractive benefit to new graduates and, therefore, an enticement when regarding which one of multiple offers they should accept. Not surprisingly, countries with large populations of new graduates such as the United States, India, Germany, China and the UK are responsible for the largest number of lump sum payments, according to SIRVA's 2018-2020 volume data.

The known risk to anticipate regarding this population is a tendency for some employees to misspend their funds on items that aren't related to the intent of the programme – or a tendency to exhaust their funds too quickly by overspending on some items/vendors and not rationing to ensure that there will be enough funds for the remaining services they need. SIRVA professionals have heard of, or been asked to intercede in, cases in which distressed employees have reached out to their supervisors, requesting a salary advance to cover necessary move-related items that had been budgeted for as part of their lump sum.

Striking a Balance Between Autonomy and Guidance

The three drivers described above represent legitimate company goals and reasons for retaining lump sums as part of their existing mobility programmes. It is important to note, however, that a balance between providing the appropriate lump sum payment, employee autonomy and employee guidance will be key to ensuring that each of these company goals is realised effectively. Without this balance, negative impacts can occur.

To recap, actual programme costs could end up being higher if tax and intangible costs are not properly accounted for. Inexperienced employees may make poor decisions that require intervention and administrative time to correct. Employee job focus may suffer and/or insufficient vendor vetting can result in damages, timeline interruptions and extra costs. Additionally, a flat lump sum amount that is unilaterally applied to all demographics and geographies may unintentionally create inequality, especially in situations when employees are moving to areas with a higher cost of living. A positive employee experience is key to a positive perception of a company's mobility brand. That perception is crucial to talent acquisition and retention. Creating a lump sum programme that is fair and equitable will be important to that end, which requires careful examination of how it will be implemented and aligned with organisational goals.

Additionally, company culture should be considered, and employee experience weighed against that cultural perception. For instance, if a start-up wants their employees to feel valued, intelligent and independent, it may assume that providing a lump sum will contribute to that cultural value. Finding a balance between maintaining that value, while providing the tools their employees will need to effectively manage a move on their own will be key. Relocation approaches should be aligned with company culture whenever possible.

In our next blog post, we'll discuss guidelines to consider when using a lump sum approach as part of an organisation's mobility plan. In addition to discussing employee equity, gaining support, and providing guidance, we'll also discuss the importance of technology in providing a more positive experience to employees.

For more information on how SIRVA can help you adopt or re-examine the use of lump sums in your global mobility plan, please contact us at concierge@sirva.com.

Contributors:

- Jialin Chia, Senior Regional Marketing Manager, APAC & Middle East
- Lisa Marie DeSanto, Manager, Content Marketing
- Dean Bennetts, Senior Manager, Corporate Accounts, Sales & Marketing
- Girlie Velasquez, Director, Global Account Management

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