Human Resource Challenges in a Corporate Relocation

Corporate relocation’s significant benefits, such as substantial savings and qualitative advantages, need to be weighed against the considerable risks.

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Relocation Drivers
Companies relocate business operations for a variety of reasons. Whatever the motivating rationale, the bottom-line goal is to improve competitive position and business performance. Many companies relocate for non-financial reasons, such as getting closer to customers.

Typically, corporate moves for the following operations do not yield a positive economic payback: corporate headquarters, research and development, regional offices, service centers and data processing centers. Generally speaking, these kinds of entities have employee populations dominated by professionals (exempt personnel) wherein geographic salary differentials are more compressed.

On the other hand, there are several types of business entities wherein relocation is driven by the imperative of lowering the corporate cost structure. Such entities often include manufacturing facilities, distribution centers, customer service centers, shared services centers and various back-office operations. These enterprises usually have a high proportion of hourly (non-exempt) employees wherein geographic wage contours can be markedly different.

When contemplating a potential relocation, executive management must ascertain and prioritize the overriding reasons and likely benefits of moving targeted business units. Figure 1 depicts some of the motivating forces underlying corporate relocation.

The Analytical Process
A structured approach should be followed to determine whether to move and, if appropriate, where to move. A three-phase analytical process includes phase one, discovery and definition; phase two, feasibility; and phase three, location selection.

Phase Two: The Feasibility Challenge
In this phase, executive management needs to make an informed decision on whether relocation comprises a prudent business strategy. Principal tasks involve delineation of the following:
1. Base case for comparison purposes (e.g., remaining at the existing site)
2. Base case profile (e.g., headcount, real estate, business costs)
3. Post-relocation operating requirements (year one and future) such as staffing
4. Relocation scenarios
   - All business units move to a single site
     - Short distance (within the current site’s commute zone)
     - Long distance (beyond the current site’s commute zone)
   - Split operations, e.g.,
     - Designated units remain at existing site and the remainder move either short or long distance
     - Designated units move short distance and the remainder relocate long distance
   - Hub/spoke
     - Selected operations move to a larger metro area
     - Remaining units relocate within a pre-determined distance (e.g., two-hour drive or one-hour flight) of the hub site
5. Illustrative locations to utilize for study purposes
   - Sample areas most likely capable of supporting business operational needs
   - Not necessarily optimal locations
6. Quantification of relocation’s impact (for each scenario)
   - Human resource effect
   - One-time costs
   - Real estate

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Chapter 4: Future Challenges

Location Selection/Screening
Once a company decides to move business operations, the next challenge that must be resolved is “where.” To resolve this challenge, a two-stage process is followed.

Stage One
In the first stage, an iterative procedure is followed wherein candidate locations are systematically eliminated until a short list (typically three) emerges. The finalist locations offer the greatest potential for satisfying critical operating requirements.

To identify finalist locations, a structured process must be followed. At the outset, fundamental criteria are employed to reject obvious unacceptable locations. Depending on the nature of the business, such criteria could include minimum population size, airport hub status, time zone and distance to major customers.

Intermediate stage criteria are then interjected until a long list of some 10 promising areas surfaces. Criteria utilized to generate the long list might embrace population and household income characteristics, labor force trends including employment by industry and occupation, average salaries by pertinent occupation, average construction costs or lease rates, presence of onerous taxes, distance to interstate highways, and costs of utilities.

Until this juncture, research typically embraces statistics from published and private data sources. Most of these sources can be accessed online. Some are free (e.g., U.S. Bureau of Labor Statistics) while others require a modest fee (e.g., wage data from sources like Salary.com or Wagework).

Stage Two
Once a long list has been created, it is time to collect more detailed information from appropriate economic development agencies. Such information should provide insights on considerations such as competitive labor market conditions, wage levels from local surveys, unionized employers and election activity, transportation services, office or industrial space availability/cost, telecom and electric power infrastructure, specific taxes and possible incentives.

Longlisted areas must be contrasted and ranked. A factor weighting/area scoring model should be utilized to accomplish this task. In the model, individual factors are aggregated into several broad categories such as the labor market, business operating conditions, business costs and the quality of life.

In ranking the long list, examine the range by factor for all areas. Then interject insights on what the data means and the extent to which disparity among the areas should be rated. Comparative ratings are then tabulated. Typically, the long list will divide into tiers (excellent, very good, good).

Selection of three or so finalist areas is now possible, grounded on a well-thought-out research approach. Shortlisted areas are carried forward to the next analytical phase.

Location Evaluation/Selection
Each finalist location should be subjected to comprehensive, first-hand evaluation. The primary objective is to determine the best match between an area’s evolving locational attributes and the business’ forecasted operating requirements, especially human resources. Representatives from the company’s project team visit...
each area to gain empirically derived insights on the locational fit for the targeted business.

Generally speaking, field visits can be arranged by either the state or local economic development agency. It is usually important to demand total confidentiality from these entities. To help the ED organization optimize service, it is a good idea to supply a thumb-nail sketch of the project (e.g., staffing, real estate, payroll, capital investment, etc). Field study is composed of the following:

1. Confidential interviews with comparable employers to learn of their recent operating experiences and opinions on future conditions (e.g., competitive demand for requisite skill sets, employee recruiting/retention, starting wages necessary to generate a sufficient flow of qualified labor, workforce quality)
2. Confidential interviews with other groups who can shed light on overall labor market and business operating dynamics, e.g.,
   - State job service
   - Personnel agency
   - Executive recruiter
   - Local chapter of Society of HR Managers
   - Education/training officials
   - Economic development groups
3. Tours of available sites and/or buildings meeting basic criteria
4. Tours of current/emerging commercial/industrial areas
5. Viewing area maps to ascertain if potential sites are closer to resident labor pools vis-à-vis competitor employers
6. Request of the lead economic development agency to offer a preliminary incentives package

Once field studies are completed, results must be analyzed and interpreted. During this time, revert back to the critical business objective and the most important locational criteria. Each area should then be ranked predicated on its attractiveness both over the short haul and longer term. The comparative assessment of each finalist location would embody the following:

1. Multi-year business costs (e.g., payroll, occupancy, taxes, etc.)
2. Labor market
   - Competitive demand

   - Availability
   - Total applicant pool
   - Percent well-qualified
   - Selectivity ratio (qualified applicants per position)
3. Quality (e.g., basic skills, PC literacy, turnover)
4. Wage structure
   - Effective starting rate
   - Range by occupation
   - Progression time to reach max in range
   - Future wage adjustments beyond merit increase, reflecting competitive conditions
   - Fringe benefits offered by the most successful employers
   - Off-shift staffing/premiums
   - Overtime policy
   - Seasonal employment staffing, if applicable
5. Human resource practices utilized by the area’s best employers, (e.g., flextime, alternative work weeks, etc.)
6. On-site amenities strongly desired by targeted employees (e.g., cafeteria, health/fitness center, game room, etc.)
7. Most effective recruiting sources/methods
8. Labor/management relations
9. Post secondary vocational-technology training in the area
10. State labor legislation (family leave, workers’ comp, etc.)
11. Unemployment insurance
12. Workers’ compensation
13. Ability to relocate talent from around the country
   - Recent college graduates (often single)
   - Experienced (often married with a family)
14. Quality-of-life pluses and minuses

3. Sites/buildings
   - Construction cycle
4. Utilities (capacity, reliability, redundancy, cost)
5. Taxation
6. Transportation

This analysis will lead to a recommendation of the preferred location. A back-up should also be selected both for negotiation lever-
age and in case an unforeseen event occurs in the top-rated area (e.g., major labor market competitor announces a decision to locate a large facility in the area). Final real estate and incentives negotiations would then be undertaken in the two locations. If everything goes according to plan, the preferred location is usually the ultimate winner.

Conclusion
Corporate relocation provides a unique window of opportunity to interject new life and vitality to an organization. Savings can be substantial and qualitative advantages impressive.

However, there is considerable risk, such as loss of key employees. Risk must be quantified and mitigation programs put in place. Then potential risks must be weighted against likely rewards.

By adhering to this analytical process, corporate management can make confident decisions on whether relocation will materially improve business performance. If the answer is yes, then finding a location wherein performance optimization is enhanced can also be achieved in an efficient manner.