

Ethics



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Early retirement or voluntary severance packages “ Too often the severance package is decided by the head of HR under pressure from the chief financial officer” (Stybel and Peabody, 2009, p. 5). Why does this occur? Generally as a matter of cost savings and to improve financial performance by reducing payroll obligations. In many situations, the employee who is offered the severance package or early retirement option is not replaced within the organization, offering questions regarding whether these are considered to be unethical practices. It is not unethical and it is a common business practice. “ When a company has too many employees, they have two options: Involuntary layoffs or voluntary incentive programs” (Nixonpeabody.com, 2004, p. 5).

Severance packages or early retirement options as a method of reducing payroll costs can have severe consequences on the organization, especially in terms of motivation to work to business expectations. Even though the package was tempting to the exiting employee and they decided to take it, there are members of the organization who have worked with these exiting colleagues each and every workday. Socialization is bound to be impacted, in relation to the employees' sense of belonging in the organization, creating difficulty in adjustment for the remaining workers. The HR manager is often the person who develops and offers these early retirement plans, under pressure at the highest levels, and they must also balance their regular job role as the employee champion responsible for issues of motivation and performance. Sudden drops in employee volume, due to the need to cut payroll costs, can over-burden the workers with consolidated jobs roles and create rifts where positive socialization used to exist.

“ Layoffs can send shock waves through a local economy when a company

that downsizes is large and when several firms choose to downsize at the same time, in the same region” (Piturro, 1999, p. 39). These shock waves can be measured by the higher levels of unemployment in the local area, along with less-quality consumer lifestyles caused by income reductions, as well as loss of commerce at multiple levels, consumer and business-to-business. Early retirement packages are attempts at avoiding situations where local economies suffer, where employees are given incentives to take the option (as far as satisfying their emotional needs), and to improve the company’s bottom line. This is a major benefit, rather than the disadvantages which were discussed earlier, because it reduces the shock waves which often occur when layoffs happen. In this case, from the business and local economic viewpoint, offering early retirement packages give consumers enough money to look for other work opportunities and still maintain some quality of the lifestyle they had become accustomed to. This shows that severance packages or early retirement options can have very high benefit to the local community, to the employee and their families, and also the business. In fact, in many situations, the business is the long-term loser when offering these packages as they are paying sizeable amounts in lump sums rather than simply avoiding these costs by selecting layoffs. In areas of corporate social responsibility, offering these packages can show that a company is dedicated to their workforce rather than their profit margins.

References

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