Severance Packages: Key global trends

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Employees who are terminated, either involuntarily or voluntarily, may be offered severance pay by some employers. The main reasons for providing a severance package are to mitigate the impact of an involuntary termination and avoid future lawsuits by requiring the employee to sign a release in exchange for the severance.

A decent exit package can protect your professional reputation, give you a cash cushion while you hunt for new work, ensure a positive reference, and keep you out of the legal limbo. It's vital to remember that you're under no duty to accept an exit package if you're offered one. It's always worth considering if the terms are reasonable and the amount given is comparable to what you may reasonably expect to receive through litigation (Pattinson Brewer Solicitors, 2020).

Common benefits in severance packages include:

- Salary continuation—an amount determined by years of service or job.
- Uncontested unemployment benefits. An employer may agree not to contest an ex-unemployment employee's benefits application.
- Outplacement services - assistance in obtaining new employment or taking time off to seek or interview for new positions.
- References - a contract that specifies what information will be shared with future employers. If there is a potential that the employer will be held accountable for the omission in the future, seek legal advice before agreeing to withhold information.
- Other—aspects of the employee's circumstances may be important, such as loan forgiveness or the transfer of an employer's cell phone to the employee.

Research by the Manpower group shows that the legal environment in which the organization operates is the most critical element influencing employee severance procedures. Severance policies are generally governed by corporate policy and local/national law in all regions. Employers in Brazil (45 percent) and Italy (44 percent) said that national and local legislation is the most common determinant of their practices. Company policies are more likely to determine severance procedures in India (36 percent), Sweden (35 percent), Belgium (35 percent), and Switzerland (34 percent). Severance policies are more likely to be created by local/national law in emerging markets (28 percent) than in developed markets (21 percent). Those in developed countries were slightly more likely (26 percent) than companies in emerging markets (23 percent) to be governed by company regulations.

Three out of every four businesses polled (75 percent) by Right Management reported a formal, documented severance benefits policy. Companies in the Asia Pacific have a considerably greater prevalence of formal policies (82 percent) than companies elsewhere in the world, particularly in Japan (94 percent) and China (92 percent). Both emerging markets and developed economies appear to have well-established severance policies, with 80 percent and 73 percent having formal, written procedures in place, respectively. Management and Enterprise Companies (84 percent), Educational Services (82 percent), Construction (80 percent), Utilities (79 percent), and Manufacturing (79 percent) are the industries with the most formal, written policies in place (79 percent). Only 5 percent of businesses do not have a formal severance policy in place today. (This excludes those respondents who reported their policies are "governed by law").

Most organizations (62 percent) are required by law to provide a specific amount of advance notice to employees in the event of employee terminations, albeit this is less common in the Americas (53 percent) compared to Europe (63 percent) and the Asia Pacific (72 percent). Companies operating in emerging areas are required to offer advance notice significantly more frequently (66 percent) than companies operating in developed markets (61 percent). Those in the Americas (38 percent) and the Asia Pacific (35 percent) are more governed by rules regarding the continuance of benefits than companies in Europe (23 percent).

To be eligible for severance benefits, one-third of firms (33 percent) demand a year of service or longer. With 35 percent of enterprises requiring a year of service in Europe and the Asia Pacific, compared to 28 percent in the Americas, this was slightly higher. The Netherlands (59 percent), Japan (46 percent), and France (45 percent) are the most common countries that need a year of employment before getting severance pay. Other Services (46 percent), Retail Trade (39 percent), Manufacturing (39 percent), and Wholesale Trade (39 percent) were the industries that took the most time to qualify for benefits (39 percent). Similarly, 44 percent of large organizations with over 50,000 employees required a year of service or more to be eligible for benefits, compared to 30 percent of small businesses with less than 100 employees.

In terms of severance pay, senior executives earn the most per year of employment, whether willingly (3.53 weeks per year) or involuntarily (3.53 weeks per year) (3.48 weeks per year). Severance is most commonly offered as a flat sum payout, regardless of position or form of separation. Severance pay is capped in more than half of the employers studied (55 percent).

The majority of organizations (55 percent) set a severance payment cap or ceiling. This is especially true in the Asia Pacific (61 percent) compared to the Americas (58 percent) and Europe (to a lesser extent)

(48 percent). When compared to smaller employers (100 employees), large employers (>50K employees) cap payments more frequently (59 percent) than small employers (100 employees) (43 percent). The most common form of severance granted to top executives (34 percent) is a lump sum payment. This is true for the majority of the planet. Employees in the Americas (40 percent) are more likely to get a lump sum payment than those in Europe (33 percent) or Asia Pacific (31 percent).

A survey carried out by Industrial Psychology Consultants on executive contracts and the benefits given at termination of the contract found that;

- Most CEOs/MDs (46%) are on open contracts without a limit of time.
- 42% of the CEOs/MDs are on fixed contracts.
- On termination of fixed-term contracts for CEO/MD before the expiry of the contract, 55% are offered a pre-agreed gratuity, and 45% are paid an exit package in line with retrenchment regulations.
- 25% of the Executives are on fixed-term contracts.
- Most of the Executives (22%) who are on fixed-term contracts are on 5-year contracts.
- Most Executives (26%) are placed on fixed-term contracts to motivate them to perform.
- 84% of the participants said they have not encountered any challenges in administering fixed-term contracts for Executives.
- Most CEOs/MDs/Executives/Senior Managers (88%) do not qualify for a package when they resign voluntarily.
- Generally, most CEOs/MDs/Executives/Senior Managers (70%) are given 3 months of notice for renewal/non-renewal of their contracts.
- 50% of the organizations negotiate new terms when renewing a fixed-term contract.
- 32% of CEOs/Executives/Senior Managers get a laptop as part of the package when the employer terminates the contract, 32% get a motor vehicle as part of the package, 24% get Medical assistance as part of the package, 7% get school fees, and other 5% get office furniture as part of the package.

There has been an upsurge in redeployment as an alternative to layoffs and voluntary exits, according to RiseSmart's 2019 Guide to Severance and Workforce Transition. More businesses are providing severance packages to all employees. Non-exempt, hourly employees are increasingly being included in outplacement services. The top six reasons were given by the employers they canvassed for providing severance to relocated employees were:

- To promote a company culture that prioritizes employees.
- To look after employees.
- To safeguard the brand's reputation.
- Limiting the company's liability.
- To find and hire talented people.

- To keep the employer-employee relationship going.

Scates (2019) offers the following improvements to severance policies and retention initiatives. Create universal eligibility policies that encompass a larger number of people. Due to the natural shortening of job tenures, exclusively evaluating personnel with a tenure of 5 years or more is no longer feasible. Companies that continue to see employees who have been with the company for a shorter time as deserving of a fair solution when positions are removed are missing out on an opportunity to establish loyalty. Offering reasonable severance compensation to all outgoing employees is an investment in a business's future success as boomeranging (returning to a company after a period outside of the organization) becomes more common among brilliant people and more accepted inside organizations.

As part of your severance package, include outplacement. The outplacement market has evolved in lockstep with severance policies. If you haven't recently reviewed your existing outplacement service, now is a good opportunity to do so. Suppose your outplacement firm is still using the same 50-year-old models. In that case, it may be time to investigate a more modern solution that provides 24/7 access and mobile accessibility to match the way people search for jobs today.

Recognizing the value of the employer brand in whatever economic scenario is the first step in building a name that attracts new workers while engaging and keeping those who stay. The second step is to devise a strategy to ensure that each person is treated equally during their employment with the company. The third step is to put in place procedures that support both organizational and employee goals.

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