



# Severance Practices Around the World

Executive Overview



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# A Word from the President

This research delves into severance issues that you deal with every day. As an influencer of severance policies in your company, we trust that the benchmarking data and analysis contained in the following pages will help inform your decisions in this critical area.

Right Management first conducted this research in the early 1990s and again in 2002. The current study spans data gathered from 28 countries and feedback from over 1,500 senior managers and human resource professionals.

This research is part of a series of thought leadership initiatives that Right Management conducts to ensure we maintain our industry leadership responsibilities and, as a trusted partner, inform you on relevant and timely trends related to your area of expertise.

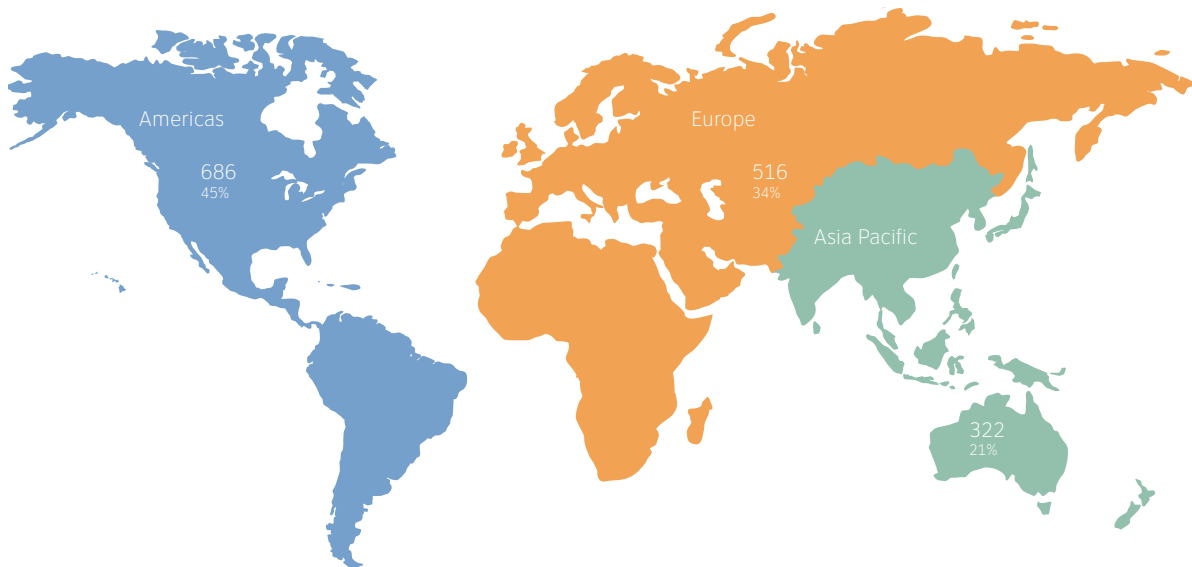
I would like to thank each of you who participated in this groundbreaking study. Your insights and experiences are of tremendous value to your peers throughout the world. My colleagues and I look forward to continuing to equip you with the essential resources and solutions you need to excel in your profession.

**Douglas J. Matthews**  
**President and Chief Operating Officer**  
**Right Management**

# How this Research Was Conducted

This report draws from statistics gathered through an online survey instrument targeting human resource professionals and senior managers responsible for making severance decisions in their organization. Right Management engaged International Communications Research to conduct the study in 28 countries between July and September 2008. The survey was translated into 18 languages for the convenience of respondents worldwide. Of the 1,524 survey responses received, 45% were from the Americas, 34% were from Europe and 21% were from Asia Pacific. A broad cross section of industries was represented.

**Figure 1.** Participating Countries



## Americas

Argentina  
Brazil  
Canada  
Mexico  
Peru  
United States  
Venezuela

## Europe

Belgium  
Finland  
France  
Germany  
Ireland  
Italy  
Netherlands

Norway  
Sweden  
Switzerland  
United Kingdom

## Asia Pacific

Australia  
China  
Hong Kong  
India  
Japan  
Korea  
Malaysia

New Zealand  
Singapore  
Taiwan

*Not all totals in this report add up to 100% due to rounding.*

## Legal Disclaimer

This report contains information of a general nature and should be used solely as a guide or as a supplement to other resources. While we have made every effort to provide accurate information, you should consult legal counsel for advice on any particular situation.

# Global Highlights

## INTRODUCTION

Throughout the world, laws, customs and business protocols regulate practices of how employers separate workers from their organization—no matter whether the departure is voluntary or involuntary. In some countries, companies that downsize or restructure face strict labor legislation, which can significantly affect the cost, extent and efficiency of the initiative. In other countries, companies are free to lay off workers with little or no government restrictions.

Understanding how severance practices vary by country is a critical component of an effective global workforce strategy. While legal and cultural differences across borders are important to embrace, an organization's severance practices can also be used as a differentiator in the tough war for talent and should be directly aligned with the company's business strategy and brand value. This knowledge can be leveraged to manage talent fluctuations, improve workforce effectiveness, avoid costly litigation, deliver on business objectives and maintain a positive brand image. Right Management is uniquely positioned in this area, with global resources in over 50 countries and local knowledge of severance practices gained from working with more than 5,000 clients worldwide.

The concept of severance has changed over the years. Previously, it was used to help bridge the gap for employees whose jobs had been eliminated as they look for new employment opportunities or consider retirement. Now, often is the case that the company desires to retain a relationship with the departing individuals and severance is viewed as a tool to retain and preserve that relationship. With the global talent pool decreasing due to the aging population, the focus is now on staying connected and maintaining a positive relationship instead of saying "goodbye." The company may need to rehire them for projects on an as needed basis in the future, or perhaps redeploy them to a new role in the organization. These employees are very marketable to a past employer as they understand the business, the culture and they can easily accelerate their contribution faster than a new hire.

A global economy demands global information. Companies are operating in unpredictable times. This fast-changing and demanding global market is placing increased pressure on companies to compete more effectively. The subsequent result may be frequent restructuring, downsizing and cutbacks, and when those initiatives are implemented, departing employees need to be supported with severance packages to aid their transition to new opportunities. Severance practices need to be aligned with the organization's sense of corporate responsibility and their employee value proposition (such as treating people fairly).

The main triggers for activating the provision of severance are either a reduction in workforce (77%) or an organizational restructure (75%). This is consistent with our findings in 2002. Separating employees is a fact of doing business—whether you are in Germany or Japan or in any one of the other 28 countries we studied. It is critical for those responsible for severance to have a sense of the policy and practice environment, not only locally or within an industry, but in other countries and cultures as well. Global corporations frequently implement changes that affect operations in multiple countries. They need to consider both company precedent and also what is accepted in each location, before final practices are determined. Differences exist between practices in emerging markets and developed markets. Global corporations would do well to understand these nuances before expanding into geographies with assumed norms applied to different levels of market maturity.

When comparing the findings from the study we conducted in 2002 with the current results, it is clear that most organizations infrequently change their severance policies. More people today are required to sign waivers to protect their former employer from recourse and more organizations have formalized severance agreements in place than they did six years ago. Most organizations offer outplacement today, even where not legally required. Outplacement is a standardized business practice and workforce strategy used when organizations restructure and downsize and is a common benefit provided in severance packages, irrespective of employee level.

## KEY FINDINGS FROM THE STUDY

Whether you are responsible for managing a workforce in one country or many, senior executives and human resource professionals in organizations of all sizes and industries can use this data to compare their own practices with broad-based norms to ensure they are providing fair and equitable packages to those who need to leave their employ.

### Severance Policy

- Across all regions, severance and termination policies are primarily governed by a combination of company policy and local/national law (62%).
- In the event of employee termination, most companies (63%) are required by law to give a certain amount of advance notification to the employee.
- Just over half (58%) of those surveyed said their company had a formal, written severance policy.
- Eligibility for severance differs by region, with over half of companies in the Americas (54%) having no minimum requirement and far fewer companies in Europe (32%) and Asia Pacific (34%) saying the same.

### Severance Calculation

- Top executives earn the most severance per year of service, whether they are voluntarily separated (3.39 weeks per year) or involuntarily separated (3.52 weeks per year).
- Regardless of position or type of separation, severance is most frequently offered throughout the world as a lump sum payment.
- More than half (56%) of the companies surveyed put a cap on the severance calculation.

## Benefits

- Regardless of employee level, the most common benefits included in a severance package are assistance programs (like outplacement and financial planning), continued benefits (such as healthcare and financial compensation), and to a lesser extent, company resources such as an office or car.
- Seventy-three percent of terminated employees are required to sign a waiver before they can access severance benefits.
- Although not legally required, most companies (73%) provide outplacement services.

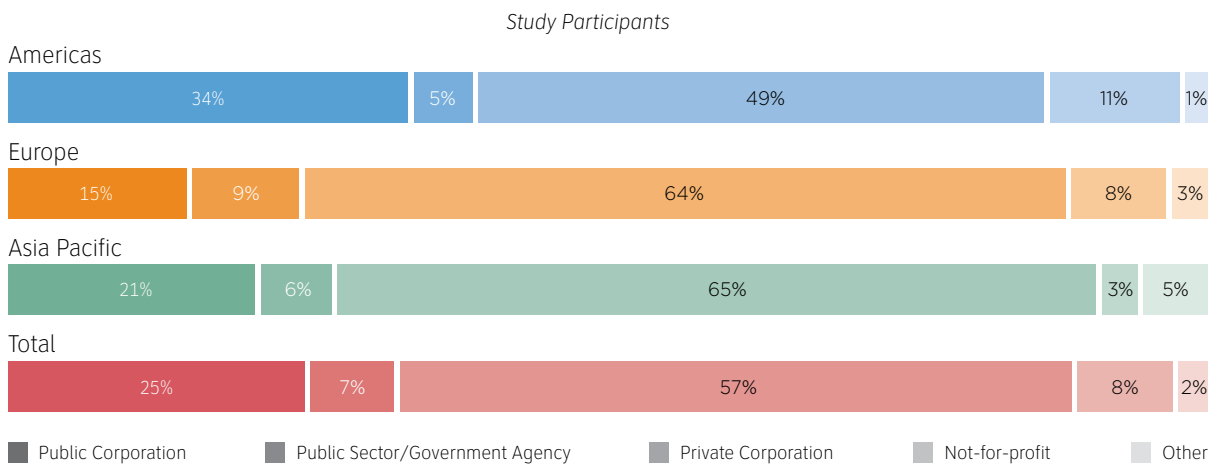
## Retention Bonuses

- Half of the companies surveyed do not offer any type of retention bonus.
- Of the companies that do offer retention bonuses, most do so in the event that extended notice is provided, for instance a plant closing or downsizing, and include calculations based on a mix of variables.

## RESEARCH OVERVIEW

More than 1,500 human resource and line leaders representing 19 industries in 28 countries participated in the study. One-in-four participants were from public organizations and over half (57%) were from private corporations. Twenty-nine percent of the organizations represented in the survey had revenue over US\$1 billion, with the mean falling at US\$5.6 billion.

**Figure 2.** Type of Organization

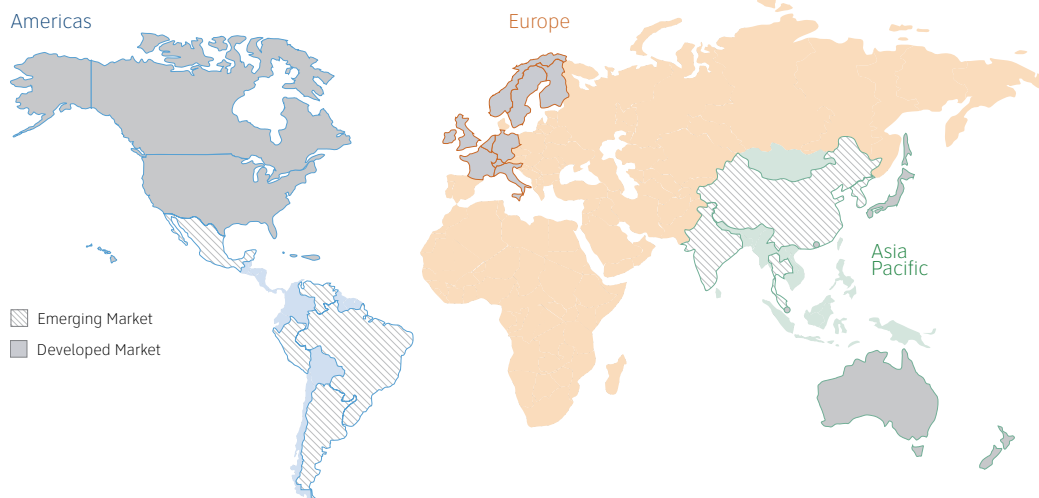


**Table 1.** Organization Size

	Americas	Europe	Asia Pacific	Total
500 people or less	29%	38%	31%	33%
501—5,000 people	43%	38%	43%	42%
5,001—10,000 people	10%	6%	10%	9%
10,001—25,000 people	10%	7%	8%	8%
25,001—50,000 people	5%	6%	5%	5%
More than 50,000 people	5%	5%	3%	5%

Analysis was also conducted on emerging markets (those countries in the process of rapid industrialization) and developed markets (those countries thought to be the most developed and less risky for investment). Seventy-five percent of the respondents from 18 countries were from developed markets, with the balance representing emerging markets.

**Figure 3.** Classification of Country by Market



**The industries represented in this research listed in order of participation:**

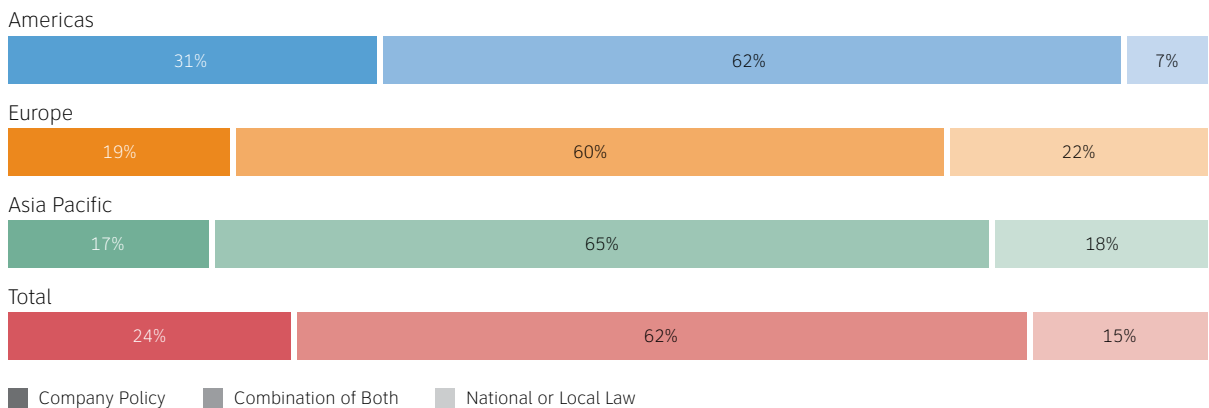
- Manufacturing
- Finance and Insurance
- Professional, Scientific, and Technical Services
- Health Care and Social Assistance
- Other Services (except Public Administration)
- Retail Trade
- Information
- Construction
- Wholesale Trade
- Transportation and Warehousing
- Utilities
- Educational Services
- Mining, Quarrying, and Oil and Gas Extraction
- Management of Companies and Enterprises
- Arts, Entertainment, and Recreation
- Accommodation and Food Services
- Agriculture, Forestry, Fishing and Hunting
- Real Estate and Rental and Leasing
- Admin/Support and Waste Management/Remediation

## SEVERANCE POLICY

The most important factor impacting employee severance practices is the legal environment in which the company operates. Across all regions, severance and termination policies are primarily governed by a combination of company policy and local/national law (62%). This is consistent with our earlier research in this area. While three in every five respondents in each region (62% Americas, 60% Europe, 65% Asia Pacific) reveal their severance policy is the function of both company policy and local/national law, significantly more respondents in Europe (22%) and Asia Pacific (18%), than in the Americas (7%), claim that only national or local law governs company policies. This was most prevalent in Belgium (44%) and Japan (26%). Similarly, emerging markets were more likely (21%) to have severance policies established by local/national law than in developed markets (13%). Developed markets were more likely to govern policy by company regulations (26%) than in emerging markets (11%).

So, even in some countries known for strict government involvement in setting parameters for severance packages, there still seems to be room for an organization to interpret and apply the law and to exercise a measure of discretion in individual situations.

**Figure 4.** *Severance Policy Drivers*



Consistent with our earlier research in this area, in the event of employee terminations, most companies (63%) are required by law to give a certain amount of advance notification to the employee, though to a lesser extent in the Americas (55%) compared with Europe (64%) and Asia Pacific (77%). Companies operating in emerging markets are significantly more often (84%) required to provide advance notice than in developed markets (59%). Companies in the Americas are more influenced by laws with regard to the continuation of benefits (42%), than in Europe (18%) or Asia Pacific (20%).

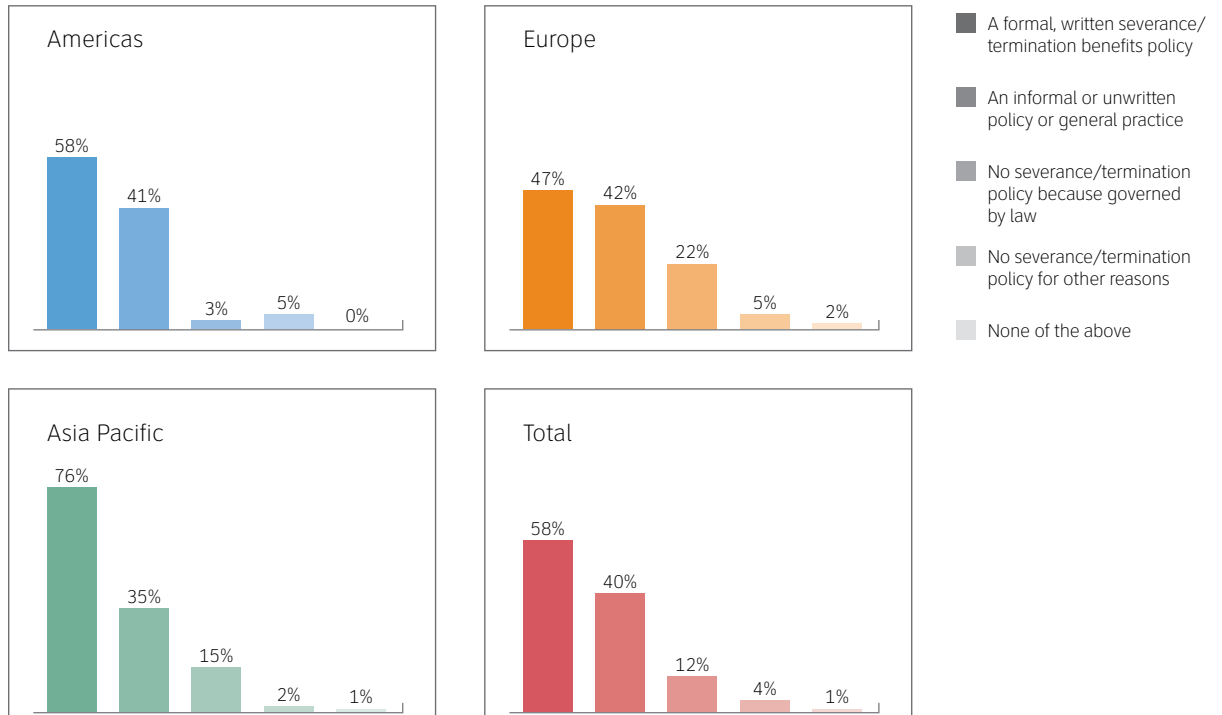
**Table 2. Severance Requirements by Low in the Event of Employee Termination**

	Americas	Europe	Asia Pacific	Total
Length of advance notification given to employees	55%	64%	77%	63%
Notification of unions	37%	39%	36%	37%
Minimum tenure at company needed for employee to qualify	23%	50%	46%	37%
Minimum time period an employee will receive termination benefits	28%	42%	45%	36%
Minimum monetary amount of termination benefits	18%	51%	52%	36%
Notification of government	30%	37%	28%	32%
Continuation of benefits	42%	18%	20%	29%
Consultation process	9%	41%	37%	26%
Provision of outplacement services	10%	30%	20%	19%
Other	3%	4%	3%	3%
None of the above	13%	4%	2%	7%
Don't know	4%	1%	2%	3%

More than half of those surveyed said their company had a formal, written termination/severance benefits policy (58%). Companies in the Asia Pacific region show a noticeably higher incidence of formal policies (76%)—particularly in Japan (90%), Australia (86%) and China (77%)—while companies in Europe were most likely to not have a formal policy because these benefits are governed by law (22%). Severance policies appear to be well-established in both emerging markets and developed markets, with 62% and 57% respectively having formal, written policies in place. Companies operating in developed markets were more likely (45%) to have an informal policy in place than in emerging markets (31%), perhaps stemming from the fact that these companies' practices are more often governed by their organization's own policy rather than laws.

Today, only 4% of companies do not have a formal severance policy in place, compared to nearly four-times that amount (15%) in 2002, signaling that severance practices have matured over the past six years. Those who do not have any policy in place run the risk of being unprepared for change and may lack knowledge about local laws and customs, thus increasing their exposure to litigation and government penalties.

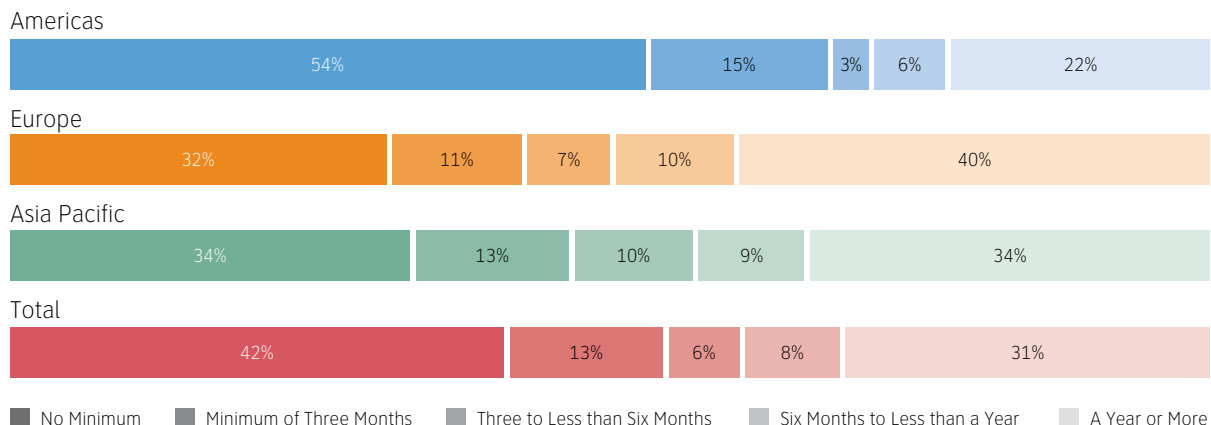
**Figure 5. Severance Policy**



Differences exist between regions with regard to severance eligibility. While over half of companies in the Americas (54%) have no minimum requirement for severance eligibility, far fewer companies in Europe (32%) and Asia Pacific (34%) say the same.

Companies in Europe and Asia Pacific are more likely to say employees must have a minimum of a year's service before receiving severance (40% and 34%, respectively); only one-in-five companies in the Americas (22%) hold this requirement. France (69%), Germany (54%) and Japan (53%) most frequently require a minimum of a year's service before receiving severance. Companies operating in developed markets were more likely (32%) to require a year or more service before benefits were eligible, compared to 23% in emerging markets. There was little difference between industries.

**Figure 6. Minimum Service with Organization to be Eligible for Service**



The main triggers for activating the provision of severance are either a reduction in workforce (77%) or an organizational restructure (75%). More respondents in the Americas (92%) reported severance is activated by a reduction in workforce compared with Europe (62%) and in Asia Pacific (68%). Employers in Europe and Asia Pacific are more likely to offer severance benefits when the employee is discharged for poor performance (59% and 59%, respectively), compared to the Americas (47%). While it might seem surprising that many companies offer severance to those “discharged for poor performance,” it is most likely the result of company policy or the individual having severance negotiated into their employment contract.

**Table 3. Triggers to Activate Severance**

	Americas	Europe	Asia Pacific	Total
Reduction in workforce	92%	62%	68%	77%
Restructuring of organization	88%	64%	64%	75%
Elimination of position	89%	61%	51%	71%
Discharge for poor performance	47%	59%	59%	54%
Relocation of business	61%	37%	45%	50%
Discharge for cause	24%	54%	60%	42%
Voluntary resignation	12%	32%	54%	28%
None of the above	—	1%	1%	1%

It is interesting to note that in Japan, employee terminations seldom happen as they are not legally possible. Instead, Japanese managers “solicit resignation.” This is where the employee agrees to leave the organization via a two-way communication process as opposed to a one-way communication process that is more common in other countries. This may account for the higher number (54%) of respondents in Asia Pacific citing “voluntary resignation,” including 68% in Japan.

## SEVERANCE CALCULATION

It is not surprising that top executives around the globe earn more severance per year of service than any other level of employee. There is very little difference between being voluntarily separated (3.39 weeks per year of service) or involuntarily separated (3.52 weeks per year of service). Employees in both Europe and Asia Pacific earn significantly more severance than their counterparts in the Americas.

Top executives being involuntarily separated from the Utilities sector earned the most severance (4.4 weeks per year of service) and those voluntarily coming from the Manufacturing and Educational Services sectors earned the least (3.5 weeks per year of service). Top executives voluntarily separated in China earned the most severance (4.53 weeks per year of service), followed by Canada (3.78 weeks per year of service). The same level of executive voluntarily let go in the United States earned the least (2.76 weeks per year of service), followed by Australia (3.06 weeks per year of service).

**Table 4.** Weeks of Severance per Year of Service—By Region

	Mean Number of Weeks			
	Americas	Europe	Asia Pacific	Total
<b>Voluntarily Separated</b>				
Top Executives	3.17	3.46	3.57	3.39
Senior Executives	3.07	3.39	3.47	3.29
Dept. Heads, Managers, Supervisors	2.47	3.22	3.38	3.00
Professional/Technical	2.22	3.04	3.19	2.79
All other employees	2.07	2.87	3.07	2.65
<b>Involuntarily Separated</b>				
Top Executives	3.23	3.77	3.67	3.52
Senior Executives	2.99	3.63	3.61	3.33
Dept. Heads, Managers, Supervisors	2.29	3.40	3.59	2.93
Professional/Technical	2.11	3.15	3.48	2.75
All other employees	1.89	3.02	3.40	2.59

For all levels of employees, those separated from organizations operating in emerging markets consistently earned more weeks of severance than in developed markets—regardless of how they were let go.

**Table 5.** Weeks of Severance per Year of Service—By Market Type

	Mean Number of Weeks		
	Emerging Markets	Developed Markets	Total
<b>Voluntarily Separated</b>			
Top Executives	3.86	3.30	3.39
Senior Executives	3.81	3.20	3.29
Dept. Heads, Managers, Supervisors	3.54	2.90	3.00
Professional/Technical	3.32	2.69	2.79
All other employees	3.35	2.51	2.65
<b>Involuntarily Separated</b>			
Top Executives	3.83	3.46	3.52
Senior Executives	3.70	3.27	3.33
Dept. Heads, Managers, Supervisors	3.63	2.82	2.93
Professional/Technical	3.65	2.60	2.75
All other employees	3.56	2.42	2.59

Regardless of position or separation type, severance is offered most frequently as a lump sum payment. This is found throughout most of the world. Employees in the Americas are more apt to be offered severance payments over a specified period in comparison to employees in Europe or Asia Pacific. Employees in Europe or Asia Pacific are more likely to be offered a combination of a lump sum and some payment over a specified period, unlike in the Americas.

Details of the how severance payments are made to all levels of employees are noted in the Global Report. (See the inside front cover of this report for how to access a copy.)

While just over half (56%) of companies globally enforce a cap on the maximum severance payment, two-thirds (66%) of employers in the Americas do the same, significantly more than in Europe (44%) or Asia Pacific (56%). Canada (76%) and the United States (68%) were most likely to enforce a cap.

## **BENEFITS**

Regardless of position or level, the top benefits offered tend to be assistance programs (like outplacement and financial planning), continued benefits (such as healthcare and financial compensation), and to a lesser extent, company resources (such as an office or a car.)

Companies in the Americas consistently offer continued health benefits more so than in Europe or Asia Pacific. This may be the result of more socialized healthcare programs being available in countries outside of the Americas. In contrast, companies in Europe offer company resources more frequently than the Americas or Asia Pacific.

Outplacement is a consistent benefit included in severance packages for all levels of employees, with a higher incidence being offered to those involuntarily separated from the organization.

The tables that follow outline the typical components of severance packages for involuntarily separated employees. The equivalent data is available for employees voluntarily separated in the Global Report. (See inside front cover on how to access.)

**Table 6.** *Benefits Included in Severance Packages—Top Executives Involuntarily Separated*

	Americas	Europe	Asia Pacific	Total
Top Executives Eligible for Benefits	532	449	246	1,227
Assistance Programs (Net)	78%	71%	57%	71%
Outplacement Services (includes individual, online or remote and group programs)	74%	56%	40%	61%
Retirement Planning	10%	17%	23%	15%
Financial Planning	13%	14%	15%	14%
Retraining	4%	14%	12%	9%
Relocation Assistance	5%	10%	14%	9%
Secretarial Services	6%	6%	6%	6%
Continued Benefits (Net)	77%	43%	40%	57%
Health Related Benefits (subnet)	75%	32%	26%	49%
Continuation of Medical Benefits	74%	26%	19%	45%
Continuation of Life Insurance	28%	19%	15%	22%
Continuation of Disability Insurance	17%	15%	12%	15%
Monetary Benefits (subnet)	25%	21%	26%	24%
Continuation of Stock/Share Options	16%	14%	18%	15%
Continued Bonus/Incentive Plans	16%	11%	13%	13%
Continued Tuition Reimbursement	6%	9%	6%	7%
Company Resources Provided (Net)	15%	25%	12%	18%
Use of Automobile	7%	22%	9%	13%
Use of Office Space	9%	6%	6%	7%
None of the Above	9%	17%	30%	16%

**Table 7.** *Benefits Included in Severance Packages—Senior Executives Involuntarily Separated*

	Americas	Europe	Asia Pacific	Total
Senior Execs Eligible for Benefits	622	459	268	1,349
Assistance Programs (Net)	79%	70%	60%	72%
Outplacement Services (includes individual, online or remote and group programs)	75%	55%	43%	62%
Retirement Planning	9%	17%	21%	14%
Financial Planning	10%	15%	13%	12%
Retraining	3%	13%	9%	7%
Relocation Assistance	5%	10%	14%	8%
Secretarial Services	3%	5%	5%	4%
Continued Benefits (Net)	76%	41%	40%	57%
Health Related Benefits (subnet)	74%	32%	24%	50%
Continuation of Medical Benefits	72%	24%	19%	45%
Continuation of Life Insurance	30%	19%	13%	23%
Continuation of Disability Insurance	16%	15%	10%	14%
Monetary Benefits (subnet)	22%	19%	25%	21%
Continuation of Stock/Share Options	12%	11%	16%	13%
Continued Bonus/Incentive Plans	14%	11%	13%	13%
Continued Tuition Reimbursement	5%	7%	5%	5%
Company Resources Provided (Net)	12%	21%	8%	14%
Use of Automobile	6%	18%	7%	11%
Use of Office Space	6%	4%	2%	5%
None of the Above	8%	17%	28%	15%

**Table 8.** *Benefits Included in Severance Packages—Department Heads/Managers/Supervisors Involuntarily Separated*

	Americas	Europe	Asia Pacific	Total
Dept Heads/Managers/Supervisors Eligible for Benefits	631	461	290	1,382
Assistance Programs (Net)	75%	69%	60%	70%
Outplacement Services (includes individual, online or remote and group programs)	72%	53%	42%	60%
Retirement Planning	6%	18%	20%	13%
Financial Planning	5%	13%	11%	9%
Retraining	3%	14%	10%	8%
Relocation Assistance	3%	9%	16%	8%
Secretarial Services	2%	5%	3%	3%
Continued Benefits (Net)	70%	38%	36%	53%
Health Related Benefits (subnet)	69%	31%	22%	46%
Continuation of Medical Benefits	66%	23%	16%	42%
Continuation of Life Insurance	25%	19%	12%	20%
Continuation of Disability Insurance	13%	13%	10%	12%
Monetary Benefits (subnet)	14%	15%	22%	16%
Continuation of Stock/Share Options	7%	9%	13%	9%
Continued Bonus/Incentive Plans	8%	8%	13%	9%
Continued Tuition Reimbursement	4%	7%	5%	5%
Company Resources Provided (Net)	5%	17%	6%	9%
Use of Automobile	2%	14%	5%	7%
Use of Office Space	3%	5%	2%	4%
None of the Above	12%	20%	31%	18%

**Table 9.** *Benefits Included in Severance Packages—Technical/Professional Employees Involuntarily Separated*

	Americas	Europe	Asia Pacific	Total
Professional/Technical Eligible for Benefits	619	460	292	1,371
Assistance Programs (Net)	70%	64%	59%	66%
Outplacement Services (includes individual, online or remote and group programs)	67%	48%	41%	55%
Retirement Planning	6%	12%	20%	11%
Financial Planning	5%	10%	11%	8%
Retraining	3%	15%	10%	8%
Relocation Assistance	3%	9%	10%	6%
Secretarial Services	1%	5%	4%	3%
Continued Benefits (Net)	68%	34%	33%	49%
Health Related Benefits (subnet)	66%	27%	20%	43%
Continuation of Medical Benefits	64%	19%	14%	38%
Continuation of Life Insurance	25%	15%	11%	19%
Continuation of Disability Insurance	13%	11%	10%	12%
Monetary Benefits (subnet)	10%	13%	18%	13%
Continuation of Stock/Share Options	4%	8%	10%	7%
Continued Bonus/Incentive Plans	6%	6%	10%	7%
Continued Tuition Reimbursement	4%	7%	5%	5%
Company Resources Provided (Net)	4%	10%	5%	6%
Use of Automobile	1%	7%	4%	4%
Use of Office Space	3%	3%	1%	3%
None of the Above	14%	25%	32%	22%

**Table 10.** *Benefits Included in Severance Packages—All Other Employees Involuntarily Separated*

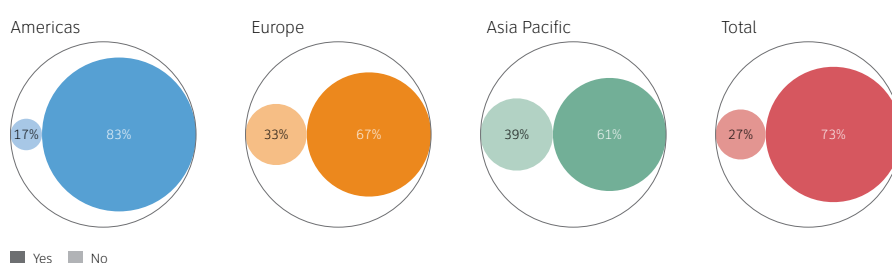
	Americas	Europe	Asia Pacific	Total
All Other Employees Eligible for Benefits	596	442	286	1,324
Assistance Programs (Net)	64%	60%	56%	61%
Outplacement Services (includes individual, online or remote and group programs)	60%	45%	36%	50%
Retirement Planning	4%	12%	20%	10%
Financial Planning	5%	11%	10%	8%
Retraining	3%	17%	11%	9%
Relocation Assistance	3%	10%	11%	7%
Secretarial Services	1%	4%	3%	3%
Continued Benefits (Net)	65%	31%	31%	46%
Health Related Benefits (subnet)	64%	24%	19%	41%
Continuation of Medical Benefits	62%	18%	15%	37%
Continuation of Life Insurance	23%	14%	11%	17%
Continuation of Disability Insurance	12%	10%	9%	11%
Monetary Benefits (subnet)	9%	12%	15%	12%
Continuation of Stock/Share Options	3%	7%	7%	5%
Continued Bonus/Incentive Plans	6%	7%	9%	7%
Continued Tuition Reimbursement	4%	5%	2%	4%
Company Resources Provided (Net)	2%	8%	3%	4%
None of the Above	17%	29%	33%	25%

Nearly three-quarters (73%) of companies around the world require separated employees to sign a waiver or release to access severance benefits, compared to 66% in 2002. This signals that companies today have more formalized processes in place regarding the provision of severance. Significantly more companies in the Americas require the waiver (86%) than in Europe (65%) or Asia Pacific (58%). The Americas is influenced by the United States, where 96% of separated employees are required to sign a waiver, reflecting the litigious culture of that country.

## The Role of Outplacement

Outplacement is offered where not legally required by most companies (73%) worldwide. Today, outplacement is a strategic workforce management initiative and standard business practice to help organizations undergoing restructuring and employees affected by change. Companies in the Americas typically offer outplacement where it is not legally required (83%), significantly more often than companies in Europe (67%) or Asia Pacific (61%). Similarly, countries in developed markets more frequently (76%) provide outplacement than in emerging markets (58%).

**Figure 7. Provision of Outplacement Where Not Legally Required**



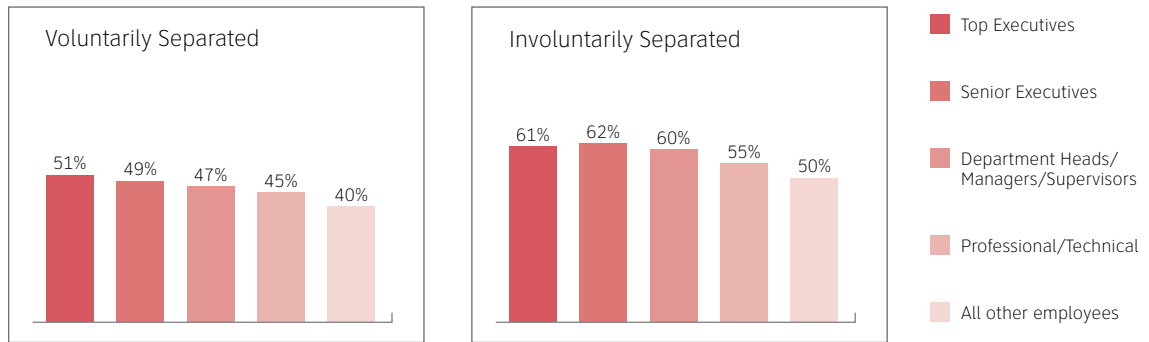
Most employers (71%) offer outplacement where it is not legally required because “it’s the right thing to do,” followed closely by “it sends positive signals to remaining employees” (69%) and “it ensures that former employees receive the skills and training to transition to a new career quickly and successfully” (67%). One-in-two (49%) employers also believe that outplacement “makes good business sense.” Employers in the United States (70%) and Australia (48%) most frequently cite that outplacement “makes good business sense.”

**Table 11. Reasons for Providing Outplacement When Not Legally Required**

	Americas	Europe	Asia Pacific	Total
It’s the right thing to do	83%	56%	63%	71%
It sends positive signals to remaining employees	76%	60%	69%	69%
It ensures that former employees receive the skills/training needed to transition to a new career quickly and successfully	78%	54%	60%	67%
It helps reduce the threat of litigation	59%	41%	35%	49%
It makes good business sense	66%	28%	36%	49%
It is good for the public image of the organization	51%	43%	45%	48%
It provides older employees with special career transition help	40%	49%	51%	45%
Other	2%	4%	1%	3%

Outplacement services, whether they are individual programs or group workshops, are a staple component of severance packages and are provided to most employees, regardless of level. There is an increase in the provision of outplacement services for involuntarily separated employees compared to those voluntarily separated.

**Figure 8.** *Outplacement Included in Severance Package*



The overwhelming majority (75%) of respondents do not offer cash in lieu of outplacement. Few employers (12%) in the Americas offer cash in lieu of outplacement, notably less than in Europe (35%) or Asia Pacific (23%).

**Continued Benefits and Company Resources**

Continued benefits are also a staple component of most severance packages for all levels of employees. These include such items as health benefits (like continuation of medical, life insurance and disability benefits) and monetary benefits (like continuation of stock/share options, bonus/incentive plans and tuition reimbursement). Continuation of health related benefits are more frequent than continuation of monetary benefits.

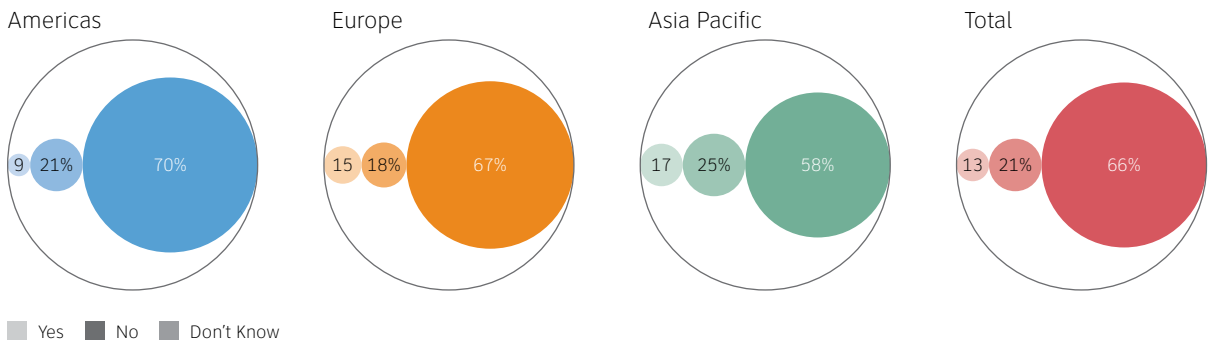
Similarly, company resources are frequently included, but not as often as the other benefits on offer.

## CHANGES IN SEVERANCE

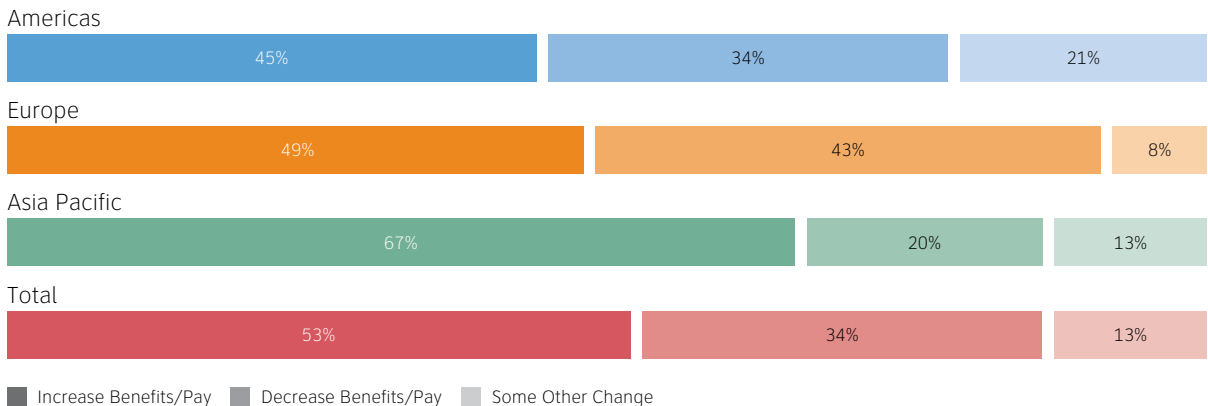
Consistent with our earlier research in this area, most companies globally (61%) report no change in their severance policies over the past three years. More organizations in Europe (28%) reported that they had increased benefits in the past three years compared with the Americas (23%). Organizations in France (42%), the United Kingdom (31%) and Belgium (30%) reported the highest incidence of increased benefits in the past three years.

The majority of companies worldwide (66%) are not planning to change their severance plans in the next 12 months. Of the companies that indicated there would be a change in their severance plan, about half (53%) thought they might increase benefits. Employers in the Asia Pacific region are significantly more likely (67%) to increase severance benefits than the Americas (45%) and Europe (37%). This was particularly true in Australia (86%) and China (83%).

**Figure 9.** Planning to Change Severance Plan in the Next 12 Months



**Figure 10.** Changes to be Made to Severance Plan in Next 12 Months



## RETENTION BONUSES

Retaining key talent and sustaining employee engagement during organizational change are top business priorities. Half of the companies surveyed or more, overall, do not offer any retention bonus under any circumstance. These findings are consistent with our earlier research. Fifty-five percent of developed markets and 51% of emerging markets do not offer retention bonuses. The industries that most frequently do not use retention bonuses include Wholesale Trade (68%), Retail Trade (55%), Healthcare/Social Assistance (55%) and Arts/Entertainment/Recreation (54%). Industries most likely to offer retention bonuses include Transportation/Warehousing (74%), Construction (63%) and Utilities (63%).

Of those who do offer retention bonuses, they are most frequently provided in the event extended notice is required, in the instance of a plant/office closure or downsizing, or if sustained performance is required, such as in the situation of a merger or sale. This finding is consistent for all regions. Intuitively, as the position drops from Top Executive down to all other positions, a drop in the amount of retention bonus available is also seen. Most retention bonuses are negotiated on a case-by-case scenario.

**Table 12.** *Components Included in Calculating Retention Bonus*

	Top Executives	Senior Executives	Department Heads/Managers/Supervisors	Professional/Technical	All Other Employees
Voluntarily Separated					
Percentage of salary	44%	39%	37%	38%	34%
—Mean percentage	38%	35%	31%	32%	27%
Months added to severance	33%	33%	31%	30%	31%
—Mean months	6.9	6.4	5.6	5.7	5.0
Negotiated case-by-case	51%	50%	45%	43%	42%
Contingent upon years of service	22%	25%	25%	26%	27%
Contingent upon performance	13%	13%	14%	14%	13%

	Top Executives	Senior Executives	Department Heads/Managers/Supervisors	Professional/Technical	All Other Employees
Involuntarily Separated					
Percentage of salary	35%	33%	34%	33%	35%
—Mean percentage	40%	38%	30%	27%	28%
Months added to severance	25%	25%	24%	26%	26%
—Mean months	6.5	5.6	4.8	4.8	4.7
Negotiated case-by-case	57%	56%	51%	50%	43%
Contingent upon years of service	18%	19%	21%	23%	24%
Contingent upon performance	16%	17%	18%	16%	17%

# Implications and Advice

Having an established severance policy and practice serves a variety of essential business purposes. While a formal practice is a means to comply with legally mandated standards, severance can also be an effective strategic tool. Severance practices can be used to maintain goodwill with those departing, to retain remaining employees by assuring them that their colleagues have been treated with dignity, fairly and equitably, and to maintain a positive brand image—should you want to rehire separated employees or attract new talent to your organization.

## GLOBAL EMPLOYMENT TRENDS IMPACTING WORKFORCE MANAGEMENT STRATEGIES

- Aging Population—more people leaving employment and fewer people entering
- Worker Mobility—more virtual and borderless workforces to manage across multiple geographies
- War for Talent—more people being rehired by past employer or seeking contract workers as “stop gaps”
- Highly-volatile Labor Markets—increased efforts in emerging markets to attract and retain talent

The concept of severance has changed a lot from the days when it was simply used to provide compensation/benefits for employees whose positions were eliminated. Now severance practices are used to bridge an employee from his/her current job/company to another or even into partial or full retirement. The action/decision is still initiated by the company not the employee, as in a resignation. But as the workforce ages and we are challenged to retain and attract the needed talent to compete effectively, separation agreements may not mean a full separation of the employee, but rather a way to continue the relationship on an as needed basis. It can be a win/win for both the employee and the employer. Consideration should be given to how to leverage severance as a strategic tool and perhaps extend related benefits to contingent workers.

## IMPLICATIONS FOR GLOBAL WORKFORCE MANAGEMENT STRATEGIES

The complex nature of operating in a global economy means that our information needs are even more intricate, requiring resources to help navigate the labyrinth of local laws and cultures. While results across all three regions converge frequently on the numerous severance and termination policy issues studied, wide and varied results can still be found between them. Even within regions, such as Asia Pacific, findings can contrast greatly between market economies, such as Japan, and countries with heavy governmental controls, such as China.

In developed markets, companies continue to seek highly-skilled workers to strengthen their competitive advantage while also gearing up to address the implications from their aging workforces. In emerging

markets, organizations are challenged to conform to stricter severance regulations. These markets often provide more severance to departing employees, perhaps as an intentional workforce management strategy. Emerging markets are known for their highly-volatile workforces as they fight over a much smaller pool of highly-skilled workers to staff their operations. As a result, both labor costs and turnover among highly-skilled workers are rapidly increasing, making retention even more difficult. To win the war for talent, companies need to customize their human resource policies to local realities.

Despite an increasingly homogenous world, broad-sweeping severance and termination policies that govern employees across continents are still not viable. Even comparing economically and politically similar countries reveals societal differences that have an effect on these policies. There is a difference between being a multinational company and a truly global organization. The best organizations understand how severance needs to change in different locations and create equitable practices that span all of their geographies. A truly global firm, while respecting legal and cultural differences, should view their policies as an integral part of their overall workforce management strategy and a branding differentiator. In a competitive marketplace, an organization's brand, as supported by these kinds of practices, is a key attraction to high-value talent.

Differences exist between policies governing benefits for each of the positions examined—Top Executives, Senior Executives, Department Heads/Managers/Supervisors, Professional/Technical Employees and All Other Employees. Changing the structure of benefits to fewer tiers may be an option to simplify administration or reduce company costs. However, results show benefit differences are common throughout the world across these positions. Therefore, offering a smaller tier structure may not be competitive with what other companies are offering. The question remains: is the provision of benefits overly or unnecessarily complex or are companies truly using it as a strategic tool for competitive advantage?

Companies in the United States lead the way with regard to the practice of releases—meant to cut down legal claims against employers by separated employees. Countries outside the United States do not require releases as frequently, due at least in part to their cultures not being as litigious and the rights of terminated employees are more defined by statutes and regulations. As a practice, employees who are offered severance benefits in any country should be asked to sign a general release of all claims against their employer—regardless of societal norms. At the very least, it may cut down on the few cases that are brought against employers outside the United States; at best, it pre-empts a pattern of litigation in these areas before it even starts. Managing borderless workforces in a global economy may increase the provision of releases, as many United States practices tend to gain global acceptance over time.

It is positive to note that most organizations do not offer cash in lieu of outplacement. It has been the experience of Right Management that not offering an option results in the least amount of problems. Separated employees who take the cash option often do so without realizing the realities of how long it takes and what is involved in learning the skills and training required to land a new position, nor the tax implications of the cash payout. When provided with a comprehensive overview of outplacement/career transition services, most individuals understand the full value and will elect to receive the services. When offering outplacement, best practice indicates that employers should give candidates a limited time to initiate the service or forfeit.

If you are managing a borderless workforce, there may be implications for increasing costs associated with relocation as a result of your employees being more mobile or having a desire for employees to “go home” upon termination. There could also be associated implications for trailing spouses/partners and the career transition support provided to both parties. As the workforce continues to be more mobile and organizations deploy contingent workforce strategies (where part of the employee-base is employed on a fixed term contract basis), consideration needs to be given to the cost of severance and how it may need to change given new workforce structures.

Based upon the results of this study and consistent with our earlier findings, employers worldwide intend to maintain the status-quo of their severance policies. With the exception of countries in the Asia Pacific region, employers generally are not considering any increases in benefits over the next year. Those countries planning to increase benefits, such as in an emerging market like China, will likely do so to ensure their workforce strategies keep pace with their growth.

Companies in the Americas tend to offer severance benefits with few limitations, whereas countries in Asia Pacific and Europe generally require a year of service first.

## **IMPLICATIONS FOR HUMAN RESOURCE PROFESSIONALS**

Human resource professionals are best positioned to drive global, regional and local severance policies in their organization. The policies need to reflect local laws and customs while also blending with the organization’s culture and values in how it treats its people.

When creating severance policies and practices, consideration should be given to the varied needs of employees of different ages and how the provision of benefits may need to be more flexible to address this. With such a mix of generations working together—Mature Workers, Baby Boomers, Generation Y and Millennials—they all have different needs within organizations and we should assume therefore that their needs will differ when exiting an organization.

Human resource professionals can use the benchmarking data and analysis in this report for the following workforce management initiatives:

### **To Attract Talent**

Operating in a global economy comes with increased risks associated with local cultures, traditions, norms and legal climates. Create employment contracts to better manage and control your termination and severance practices and lessen exposure to litigation. Develop a value-based talent management strategy that aligns compensation, rewards and severance practices and positions you as an employer of choice. Leverage this strategy in your recruitment efforts to attract the best and brightest candidates in the market. Your severance practices are yet another way to differentiate your organization to attract people in the increasing war for talent.

### **As a Retention Tool**

Demonstrating fairness and concern and providing equitable severance for those leaving your employ sends a positive message to those who remain. Should they find themselves in a similar position in the

future, they know that the organization will treat them with dignity and respect and support them with the appropriate benefits needed to transition to a new opportunity. Consider whether your key talent, whom you want to retain, view your termination and severance practices as fair and equitable. Recognize that brand building happens in bad times and in good times. Use your severance and termination practices to differentiate yourself as a place where top talent wants to work.

Employee separations have a strong impact on those employees who remain with the company. Many are watching the company, their leaders, and managers to note how they treat separated employees. How the separation is handled not only involves the pay and the terms of agreement but, perhaps, even more important is the communication to others who remain. When separation policies and practices are published so all employees are aware, there leaves little room for conjecture and misinformation to spread and a better chance for all employees to have confidence and trust that their company will treat them fairly, consistently and in good faith.

### **To Transition Employees**

While globalizing your human resource policies, it is important to make sure that severance practices fit the laws and cultures of local countries. Partner with a firm that has global resources and local knowledge to help with the nuances required for each market. Understand the needs of the different employee levels leaving your organization and provide the appropriate benefits (outplacement, financial planning, etc.) beyond normal years of service calculations (such as the economy, unemployment rates and industry trends). Make your severance benefits consistent with the values and culture your organization espouses. Employees will remember not only what you did, but how you did it.

Trade Unions and Staff Representatives are often very much part of the communication and negotiation process in severance discussions and agreements. All parties want to see that members and employees are treated appropriately. By having a robust plan and policy on severance pay and benefits, these discussions can be more based on working in partnership, leading to a successful change and transition program for the organization and its employees.

To best assist employees in successfully transitioning, develop a plan to ensure employees are educated and informed of all the benefits and advantages being offered with the provision of outplacement. Sometimes this is overlooked as employees may not have a thorough grasp of the competitiveness of the job market, best practices for landing a new opportunity, or even changes in how to look for new employment. Right Management's methodology is designed to give your departing employees the most effective guidance to attain their desired outcomes in the most efficient manner.

Severance is a complex issue for human resource professionals to manage, no matter where in the world you operate. It is an essential responsibility to get right because it has a dramatic impact on the lives of the individuals who have been in your employ as well as those who might be attracted to your organization in the future. As a trusted partner and thought leader, we at Right Management hope that the vital information contained in this report will help you in attracting, retaining and transitioning your workforce.

# Best Practice Recommendations for Separating Employees

Letting people go requires sensitivity, tact, preparation, practice and a formal process. The most influential factor in the decision to seek legal or other redress against an ex-employer can almost always be traced back to the way the separation process was handled.

Based on Right Management's nearly 30 years of experience and expertise in helping organizations and individuals in transition, we recommend the following best practices to successfully manage a workforce restructure and employee separations:

- Create the Transition Plan
- Consider Redeployment
- Notify and Separate Employees
- Manage Change for Remaining Employees

## CREATE THE TRANSITION PLAN

Creating a transition plan enables you to assess and outline the big picture for the whole organizational restructure, before you get into the detail of specific employee separations. Consider the legal requirements in your country, the timeframe for the restructure, and most importantly, the objectives. Perhaps there's an opportunity to redeploy some of your workers instead of separating them from the organization. Perhaps you could offer voluntary separations before enforcing involuntary separations, as a tool to manage employee morale while also meeting your business objectives.

By working with a trusted partner like Right Management to create your transition plan, you will be able to objectively define the positions to be let go, while leveraging benchmarking severance data to create equitable benefits packages for all levels of employees.

## CONSIDER REDEPLOYMENT

Redeployment can be an alternative to separation, or conducted simultaneously with employee separations. It is a way of leveraging the skills and talents of existing employees and reassigning them to new roles within the organization. It provides an opportunity to retain valued talent, reduce the cost of turnover and leverage knowledge transfers within the company. While redeployment can be a complex process, the benefits also include increased employee engagement and morale during a difficult or tumultuous organizational change.

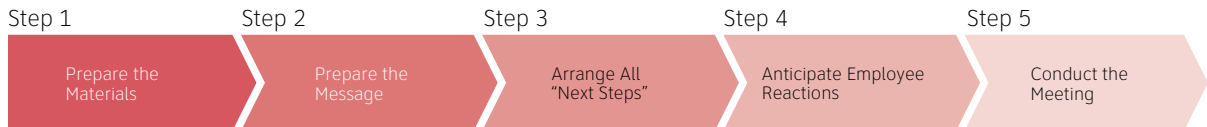
## NOTIFY AND SEPARATE EMPLOYEES

If your restructure calls for employee separations, you need to ensure that your managers are prepared to conduct the notifications. The manager's role is paramount. A well-handled separation meeting means that the manager achieves the following objectives:

- Communicates a decision
- Provides facts clearly and sensitively
- Presents the decision as irrevocable
- Offers support and compassion
- Encourages the employee to take positive actions

Conducting the separation can be an anxiety-filled experience, both for the person being let go and also for the manager responsible for delivering the news. Right Management recommends the following five-step process for separating employees:

**Figure 11.** *Five-step Process for Separating Employees*



### **1. Prepare the Materials**

Assemble all supporting written documentation. This would include the notification letter, severance package, benefits, provision of outplacement/career transition services and other pertinent information. It could also include performance reviews and warning notices, if the separation is involuntary and performance related.

### **2. Prepare the Message**

Script out in writing what needs to be said during the meeting. If the separation is due to a restructuring or downsizing, be prepared to explain the rationale. List some factual reasons behind the change. Be brief and concise and develop a statement that can be repeated as necessary. Follow your country's legal requirements and recommendations for what to include or not include in your message to departing employees.

### **3. Arrange All "Next Steps"**

Schedule in advance who should join you at the separation meeting and also the meetings that will need to take place immediately after the news has been communicated, such as meeting with an outplacement consultant, financial advisor, and human resources representative. The manager should be able to direct the departing employee to specific next steps, such as the date of departure, the procedures that need to be completed to finalize the separation (like returning keys or computers, what should be done with personal belongings, "good-byes" to colleagues, transition of work responsibilities, etc.), and outlining the severance package on offer.

### **4. Anticipate Employee Reactions**

While no two people react to the loss of a job in the same manner, most employees experience denial, shock or even anger when the news is conveyed. Acknowledge these reactions and learn to recognize them so that you are prepared to handle it in a professional and supportive way. The notification meeting is where things can go awry. Managers must be trained to recognize and respond appropriately to employees' reactions and stay focused on the task at hand.

### **5. Conduct the Meeting**

Define the separation clearly and succinctly. Present the decision as definite and final in a statement that may be repeated as necessary and includes reasons so that the statement can be clearly understood and absorbed. Keep the meeting to less than 15 minutes. Listen and support but return attention to the next steps in the separation process. Outline the benefits on offer and connect the person with a representative from human resources and an outplacement consultant to review the career transition assistance to be provided.

## **MANAGE CHANGE FOR REMAINING EMPLOYEES**

Managing change for those who remain is an essential component for a successful restructure. Right Management's organizational change experts work with clients to design and implement large-scale interventions, ensuring that these strategic shifts lead to improved business performance. While a traditional view of change management attempts to guide an organization from point "A" to point "B," our approach takes organizations from point "A" to Agility. In addition to leading and implementing a specific change successfully, we help our clients develop an ongoing ability to change, by learning from experience.

Organizational Agility is having the attitudes, processes, and energy to execute new business strategies quickly and effectively. An agile organization can accomplish its intended strategic objectives more quickly, confidently, and productively, leading to better business results sooner. Personal Agility is the ability to stay focused and productive during times of change, and to be flexible enough to adapt strategies and plans to new events and conditions. It also involves being proactive and facilitative, assisting colleagues who are struggling with change. These competencies allow people to move through the change process faster each time it occurs.

## **CONCLUSION**

Navigating a workforce restructure is a complex responsibility. As a trusted partner and expert in this field, Right Management stands ready to help you. Handling separations with dignity and respect, while also ensuring the utmost preparedness, protects your organization from litigation, damaged morale and negative brand image. We encourage you to consult with our experts to learn more about how we can help to manage organizational restructures and employees affected by change.

# About Right Management

Right Management ([www.right.com](http://www.right.com)) is the world's leading provider of integrated human capital consulting services and solutions across the employment lifecycle. Right Management helps clients maximize the return on their human capital investments while assisting individuals to achieve their full potential.

Right Management is a wholly owned subsidiary of Manpower Inc. (NYSE: MAN), a world leader in the employment services industry, creating and delivering services that enable its clients to win in the changing world of work.

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