



The Ins and Outs of Buyouts: Should Companies Offer Them? Should Employees Accept Them?

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When General Motors last month offered buyouts and early retirement packages to 113,000 hourly workers, the move focused new attention on a key aspect of the continually evolving relationship between employers and employees.

Buyouts are essentially management's attempts to trim costs and make their operations more efficient -- usually when the company is in a slump or under attack -- by offering workers incentives to voluntarily leave their jobs. Buyouts are a clear alternative to layoffs, in which management gets to choose who heads for the door rather than give employees the opportunity to make that decision for themselves.

But layoffs leave managers facing sticky legal issues, especially with regards to union contracts, and also require the companies to pay unemployment compensation. In addition, layoffs can create bad will among the remaining employees.

Buyouts, frequently described as a "humane" way to handle employment reduction, show up in a variety of industries. In 2003, Verizon offered buyouts to 152,000 employees. Ford is trying to eliminate 30,000 jobs through buyouts by 2012. Federal agencies have increased the buyout offers to government employees, resulting in more than 22,000 federal workers leaving their jobs over the last two years. Insurance company Allstate announced this month that 1,000 employees had accepted a voluntary buyout offer extended to 6,800 members of the workforce. Pulitzer Prize-winning reporters at *The New York Times*, *Boston Globe* and *Philadelphia Inquirer* are among those journalists who recently took buyout offers at their newspapers.

While members of a company's human resources department and general counsel's office are often consulted about a buyout's structure and terms, the final agreement usually comes from the very top of the company, says Daniel P. O'Meara, an employment law attorney with Montgomery, McCracken, Walker & Rhoads in Philadelphia, Pa. "When I worked through a buyout at a hospital, we presented the CEO with all the pluses and minuses, and he made the decision." The same is true when smaller operations are involved, such as a facility with 250 employees. The general manager may take part in, and announce, the buyout, but he is most likely working on directives from headquarters.

According to Ethan Kra, a Mercer Human Resources Consulting chief actuary for retirement, the thinking behind buyouts can go like this: "Figure out what it will cost you to get an individual to walk out the door. It will take a combination of cash, benefits such as health insurance or pension enhancement, and severance." Then consider "the flip side: What is it going to cost you to keep the person? If this employee leaves, will I replace him or her with someone cheaper or eliminate the position? How much do I shave off costs by replacing him with a cheaper person? How much do I save by not paying him, against what would I gain by having him around? If I lose no revenue by losing this employee, then everything I save is a benefit."

Employers can be nervous when they announce a buyout. Will they have enough takers? And will they be the "right" takers? The most valuable workers could end up leaving because they are confident that they can easily line up another job elsewhere. What employers don't want is to offer a buyout to those who are



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planning to leave or retire anyway. "Then it's wasted money," says Kra. "You must make it rich enough that others take it, too. Otherwise, it's penny-wise, pound foolish."

Kra's colleague, Mercer senior consultant Steve Gross, says employers generally target a range of economic savings with an assumption that a buyout's payback will never be exactly as planned. Structuring a buyout -- and letting employees self-select -- is an inexact equation. "No one likes to do this," says Gross. "An employer is trying to make the best of a bad situation. It's not [from a manual] in their back pocket."

As imprecise as they may be, buyouts are also accompanied by certain legal requirements. Workers must have at least 45 days to respond to a buyout offer. Management must provide employees with a breakdown by age of all those offered the package. Typically, non-compete restrictions are not part of a broadly offered buyout package.

O'Meara's clients often ask him what constitutes fair severance pay, but there are no standards for this. Offering a certain number of weeks or even months of pay for each year of service is a common equation for a big company. GM, for example, is offering hourly workers packages to retire or leave that range from \$35,000 to \$140,000 depending on their length of service with the company and their retirement eligibility. But there are other methods as well. "You can look at the skill set and determine how long it will take a person to get a comparable job," says O'Meara. "You can set the buyout package based on that, too." O'Meara notes that while an employer must advise an employee to consult an attorney, "if an agreement is straight forward," a lawyer might not be needed.

New Direction, New Workforce

All the technicalities associated with buyouts don't get at a key issue associated with these types of staff reductions. Buyouts involve the loss of workers who walk out the door with years of institutional knowledge. In addition, their departure could significantly affect the morale of those who choose to stay.

According to [Peter Cappelli](#), director of Wharton's [Center for Human Resources](#), buyouts can reflect management vision as well as poor financial performance. "The process, which is more art than science, is driven by assumptions about the direction the business is headed in. When [managers] shift strategy, they want to be a different kind of company. They think: 'We are trying to change our capabilities in important ways.... We don't need the old workers.'" Because these managers "don't care about institutional memory, there is a prejudice against workers from the old regime who have been there a long time. They are seen as hampering" the process of moving forward.

This mindset -- that a change in direction requires a change in workforce -- did not exist in the previous generation of managers, Cappelli adds. "Twenty years ago, the feeling was that we owe [employees]. Now the feeling is, 'We need to get something new.'" That attitude arose from the faster pace of business. A company can, relatively quickly, radically change its strategy and start off in a new direction with the help of better technology and a new set of workers.

Those workers, however, now recognize that they are replaceable parts. A buyout -- when management, in essence, says, "We don't care who goes just as long as enough of you go" -- drills the message home. "Even though we think we have a new generation of employees not as concerned about job security, most of that is baloney," says David Sirota, co-author of *The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want* (Wharton School Publishing).

"People can say that job security is not that important in a booming economy," Sirota adds. "But after the implosion of the high tech portion of the economy, security went to the top of the list. These days, in fact, it is terribly important to people to have [steady] paychecks." Yet at the same time, "many large corporations are shifting from offering workers a lifetime career in one place to a more transactional form

of management. 'On Friday, we paid you. Now we are even. We owe nothing more to you.'"

Watching co-workers who voluntarily choose to walk away can be disheartening for those left behind. Management, however, can counter falling morale with a well-crafted, post-buyout plan acknowledging that the workload may change, notes Sirota. "Companies that have done it best make sure that, as they prepare for downsizing, they are pushing decisions down to the lowest possible levels. For example, they are organizing self-managed work teams and delegating responsibility to them. If the company is seen as one that cares about its employees, teams are likely to assume these new responsibilities because they feel that they are not being exploited."

Sirota, an industrial psychologist and founder of Sirota Consulting of Purchase, N.Y., says companies that spread out responsibility post-buyout are telling those employees who remain that they are valuable. "No place is utopia, but the fundamental culture [should be] to treat people generously when you are buying them out," and to consider the people who remain as "assets" to your company.

That generous treatment at buyout time can extend to helping employees find another job. Sirota suggests that where possible, companies contact their suppliers about hiring staff members who leave. "It's dealing with employees as partners," he says, "and that thoughtful action is not lost on those who remain."

Anxiety and Ambivalence

For some workers, trying to decide whether to walk out the door is agonizing. They need to assess how easily they can find another job or whether they are financially able to retire. Middle-aged workers may see the buyout as an opportunity to change careers or start a new business with a bankroll of buyout money; others may worry that the buyout will lead to a dead end of unemployment. According to a notary at one mid-sized company, whose job includes witnessing the signatures of workers signing buyout acceptance forms, 50 employees last fall had lined up at her desk for the notary stamp in the last hour of the last eligible day of a buyout which had been announced months earlier. Their 11th hour appearance, she said, indicated not just anxiety but continuing ambivalence over their decision.

The pressure on employees to take the buyout can be huge. From the first day of the buyout announcement, employees are often warned to "grab it now" because, if not enough people apply for it, layoffs will follow. When management states that it must reach a certain number of departing employees, workers wonder if they are being scared into doing something they will regret. And they also wonder if layoffs really are going to happen. In other words, is the threat real?

"Yes, those threats are real," says Kra. "Sometimes layoffs will begin and an employee will say, 'I now accept that offer you made four weeks ago,'" says O'Meara. "But that offer is gone."

Adds Cappelli: "If the supervisors hint, 'I think you should take the buyout,' take it."

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