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Should executives be entitled to large severance packages?

It is accepted in today's society that the more effort one puts in and the longer one stays with a company, the more significant the benefits are when an employee is asked to leave a company or is let go. While this may be the case with some companies, others are rewarding their terminated employees but not for the reasons above. It has now become common practice for executive employees that were "let go" to receive severance packages or a golden parachute of obscene amounts of money. Again, this is not the case in every business, but it has become a prevalent practice with large corporations. So is this method right? Should these executives be receiving these large sums of money for their time with the company? There are pros and cons to both sides of this dilemma in human resource's realm of issues. In the end, from an outsider’s perspective, the disadvantages outweigh the advantages, and these practices need to be revised. Severance packages are not merely a lump sum of money given to a terminated employee, but a combination of different types of benefits. By definition, severance is "the amount of money paid to an employee upon the termination of their employment" (“Severance”). Furthermore, a severance agreement is, “any contact that is entered into between an employer and a departing employee, usually providing some form of compensation to the departing worker in exchange for something,” such as time spent with the company or effort with the company (“Pros and Cons”). An executive severance package usually consists of a severance of one and a half to two times the executive's salary, plus target bonuses and health benefits for up to two years (“Executive”). If an executive has had the opportunity to buy stock from the company, they are also entitled to receive that after termination as well (“US: Visteon”). Another form of a severance package is known as a golden parachute. This benefit is an agreement to compensate executives "in the event that they lose their job or quit because they suffered a reduction in power or status following a change of ownership of their employer's corporation" (“Golden”). The criteria that these agreements are based on are typically the salary of the executive prior to termination, performance within the company, and the duration of their employment (Devine). Many companies have policies in place that define the terms in which a departing executive may receive a severance package. The two most common situations for a departing employee are known as “without cause” or for “good reason.” An executive leaving without cause refers to the fact that the person in question is not being terminated due to a felony, financial fraud, violation of the company code of ethics, or poor performance. This form of termination is involuntary. Termination for a good reason refers to a voluntary termination due to a requirement to relocate, a significant reduction in pay, or a material diminution of ties or authority (“Executive”). In both scenarios, executives can receive severance pay. While there are pros and cons to these agreements, it should be noted that employers are not required to offer terminated employees severance packages if not negotiated before the start of employment (“Severance Pay”).

Whether an executive receives a regular severance package or a golden parachute, they both were created to not only benefit the company but the executive as well. Golden parachutes offer the unique benefit of attracting top executives to stay with a company that may be a target for a takeover. These large packages can have the effect of discouraging takeover bids because they are a high added cost for any business to take on after a takeover. (“Golden”). In terms of general executive severance packages, many companies look at them as a way to avoid any possible legal action taken by the dismissed executive in the future. These packages make it so that an executive cannot come back and sue a company for wrongdoing (Devine). For example, the CEO of Visteon, Don Stebbins was awarded a severance package of 12.7 million dollars for his many years with the company and three years as CEO. He was let go due to the potential fact that the company would split into parts and terminate his position (“US: Visteon”). From a company standpoint, giving an executive a lump of money to leave quietly is worth the expense compared to a lengthy, public, and potentially damaging lawsuit. While these agreements may benefit a company in the future, they are damaging companies in the present.

Severance packages and golden parachutes have some drawbacks for both the company and the executive involved. The main drawback to the executive is that if they are receiving one of these exit bundles, they sign a document that essentially releases the company from any legal liability (“Pros and Cons”). This means that if there was any wrongdoing that an executive became aware of after departing and received their package, they do not have any legal right to go back to the company and sue them (Devine). The most obvious drawback to the companies is the expense of the packages. CEO Douglas Ivester from Coca-Cola received a 119 million dollar severance package (“US: Coke”). CEO Trevor Fetter received a 42.3 million dollar severance package for his time with Tenet (“Tenet’s”). These packages are enormous sums of money coming out of stockholder’s pockets. The main issue that is coming to light in many large corporations is that the stockholders want to have a say in awarding severance packages over a certain dollar amount (“Staples”). Another drawback is that these tend to reward executives for failing or for poor performance. Other times, executives have done something unethical and yet are still awarded a hefty severance package or golden parachute (Reh). The sheer size of these packages alone is enough for stockholders to finally ask for a say in awarding them. While there are some advantages to these agreements, these disadvantages are huge points for companies to debate about.

In rather plain terms, the severance packages and golden parachutes awarded to executives are simply congratulating them on a job not done well or not done period. Compared to the severance package for any other employee, an executive severance package is monumental. Not only are these packages being received unfairly, but the amount that is being collected does not correlate with the amount of time and effort these executives put into these companies (Reh). For example, in correlation to time and effort put into a firm, the former president of Disney received a severance package of 140 million dollars for working only 14 months. Former co-president of Morgan Stanley, Stephen Crawford, received 30 million dollars for just three months in the position (London). Last but not least, former CEO of Coca-Cola, Douglas Ivester, received a severance package of 119 million dollars for a measly three years in the position (“US: Coke”). These timeframes do not come anywhere near matching up to the amount they received in severance from their respective companies. The above people mentioned received more than four times their salary, if not more, compared to the standard severance package of two times one's salary for an executive position. Due to the growing commonality of these massive severance packages, some companies’ stockholders are demanding the right to be able to vote on severance packages above a certain amount of money. Stockholders argue that these packages are a waste of corporate assets and demand a say (“Golden”). Staples stockholders are demanding stockholder approval for any severance package above 2.99 times the sum of an executive’s base salary (“Staples”). This requirement should be standard throughout all companies to try to minimize a number of enormous packages that are given to executives. Not only are severance packages and these golden parachutes a significant expense for companies, but they are sending the message that for little work or work not finished, you can still succeed in this world.

While golden parachutes and severance packages have some advantages regarding legality for corporations, this does not outweigh the disproportionate use of corporate funds being used to let these executives go quietly. If executives are being let go, they are being terminated for a reason and should not be rewarded with millions of dollars for not doing the job that they were hired to do. This problem is not the case with every corporation, but this has become a trend in today's business world. There are many pros and cons to severance packages and golden parachutes, but, from an outsider’s perspective, it would appear that a business would benefit by limiting the amount of packages they award.

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