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Early retirement incentive programs as a human resources restructuring strategy in public sector

Theoretical perspective

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Abstract

Purpose – The purpose of this paper is to analyze the conceptual framework about human resources downsizing and restructuring and how organizations of the public sector can do that effectively and efficiently. These facts drive to the conclusion that the implementation of early retirement incentives requires the most elaborate planning and execution to be effective, predictable and safe in the long term.

Design/methodology/approach – This paper adopts an analytical, descriptive methodology approach to describe the basic features of the data by using the descriptive research design. Data have been collected through different sources, which include secondary data, to introduce the theoretical literature of the subject as books, journals, articles, published working papers and referred previous studies related to the same subject.

Findings – Downsizing process is a deliberate administrative process that includes, but is not limited to, workforce reduction and is primarily aimed at achieving efficiency in public organizations. The definition of workforce downsizing may be narrowed to reducing the number of workers, or more likely to refer to general efforts to restructuring human resources in public organizations. Early Retirement Incentive Programs (ERIP) represents a viable alternative for organizations seeking to reduce staff. For the ERIP to be successful, the program coordinator must understand the business objectives and goals that the organization is trying to obtain.

Originality/value – Human resources strategies concerning downsizing public administration workforce should be more appropriate to those who leave the organization and those who stay at work, reducing the negative psychological, administrative and economical effects. This could be achieved through a strategy called early retirement incentive programs.

Keywords Human Resources, Retirement, Downsizing, Restructuring, Older worker, Early Retirement Incentive Programs (ERIP)

Paper type Research paper

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1. Introduction

Human resources restructuring depends on a broader perspective that focuses on the alignment of many considerations such as the economic conditions experienced by governments in facing the economic problems related to workers during and after restructuring, the harmonization of social considerations of workers and the arising parallel social norms such as unemployment rates and creation of new opportunities. When starting human resources restructuring, it is important to maintain the effective elements within the government sector. Reducing work force is not the main objective of such programs. It is necessary to match the desired work force with the skills to be maintained within the government sector.

The term “restructuring human resources” is frequently used, as it addresses many variables, including labor costs’ reduction, determining the right size of employment in the state’s institutions and responding to economic and social conditions.

Retirement is considered an essential element in the strategic plans because it involves many financial, social, economic and other problems. Early retirement is one of the important issues, at the local and global levels, affecting the economic, social and administrative structures of the countries, and, thus, it needs to adopt effective reform programs.

Identifying incentives for early retirement is one of the most important strategies aimed at reducing workforce, expenses and social problems, which the communities suffered from, such as reducing unemployment rates of young experts and ensuring provision of jobs with efficiency and effectiveness, which ultimately achieves community satisfaction.

When companies turn to downsizing, their primary objective is not to reduce employees but to improve productivity, reduce costs and increase value in the long term. Therefore, restructuring human resources through specific strategies is the best solution to produce the desired results. This study focuses on early retirement incentive programs as a strategy for restructuring human resources showing that restructuring human resources is not limited to workforce reduction and that successful workforce reduction can be achieved through early retirement incentive programs.

2. Material studied

This research paper has its theoretical roots in several disciplines. Generally speaking this paper shares views with the political societal economy of voluntary early retirement incentives for downsizing. The central argument is how to motivate employees in public sector to retire early in a way that realizes benefits for the employees themselves, society and organizations.

Existing literature on downsizing by using early retirement incentives programs is reviewed in this part through three sections, as follows: Section I, which introduces comprehensive conceptual framework; Section II, which highlights human resources restructuring strategies’ causes and results; and Section III, which introduces challenges and opportunities of Early Retirement Incentive Programs in public sector with recommendations for application in the Egyptian case.

3. Section I: the conceptual framework of the study

This paper will cover the conceptual framework of the study variables through different studies by the author’s introducing her own thoughts. The meaning of downsizing should be clear because a variety of terms are commonly used as substitutes for downsizing in organizations, which sometimes lead to confusion about what is being implemented or investigated. At least one senior manager in at least one organization has used one of the

following terms instead of downsizing: reshaping, resizing, rightsizing, restructuring or re-engineering.

Each of these terms shares at least some common meanings, but each also has its own unique features. Downsizing is not something that happens to an organization, but it is something that the organization members undertake purposively. This implies, first of all, that downsizing is an intentional set of activities (Cameron, 1994).

3.1 Historical background

The historical background considers the measurement of cost reduction and sees that the main reason for downsizing was cost reduction as a means of sustainability. Therefore, it is important to know that one of the main reasons for this reduction was the events that occurred from the early 1970s to this day, where there was excessive demand on crude oil and by-products, with imposed tariffs on domestic resources.

Owing to several factors, such as inflation, political instability, wars, unrest and the rising price of commodities, it was not surprising that those countries relied heavily on oil, and that this trade led to a decline in those profits, especially in the manufacturing sector, and, therefore, those countries resorted to reducing staff as a means until management took various measures to reduce costs (Siddiq, 2017).

Diaz and Stefano (2005) stated that the term downsizing was used in the 1980s to describe labor force reduction by government and private sectors as a response to the economic pressures. The use of that term became less accurate than before as it referred not only to employment reduction but also to work systems improvement or organization redesign as a whole.

3.2 Concepts and definitions

Siddiq (2017) and Cameron (1994) focused on the fact that using the term “downsizing” within organizations and states caused anxiety; stated that downsizing almost always results in reducing an organization’s workforce. While layoffs can be very painful for all involved parties – the person who is losing his or her job, the managers making the decision and the surviving employees – a common initial recovery step is to offer buy-outs or early retirement packages. This action eliminates much of the unpleasantness of layoffs and other drastic measures by offering the employees a benefit to leave voluntarily. Offering early retirement packages is a quick and clean way of reducing labor costs in a short period of time. However, Cameron (1994) shows that they are tantamount to:

Throwing a grenade into a crowded room; closing the door and expecting explosion to eliminate a certain percentage of the workforce. It is impossible to determine what institutional memory, and what critical skills will be lost to the organization when employees leave.

Downsizing also has been defined by Freeman and Cameron (1993) as a set of activities, undertaken on the part of the management of an organization, and designed to improve organizational efficiency, productivity and/or competitiveness; it represents a strategy implemented by managers that affects the size of the firm’s workforce and the work processes used. The key element of this definition is the fact that downsizing represents a conscious decision by management. Downsizing does not happen to an organization; managers opt for it.

It is now common to use the word “Rightsizing,” that is to say, the organization has the right size. The term goes beyond the number of workforce and number of jobs or processes to include all formal and informal modes of interaction. The term “downsizing” means elimination of specific tasks, reduction of costs and redesign of systems and policies or the

number of workforce in other areas. It may also include the elimination of unnecessary work, and developing and improving mechanisms for work (Siddiqi, 2017).

Workforce reduction or restructuring workforce is “a set of strategies, plans, programs and policies set by a Department to reduce costs and to improve performance efficiency, and, thus, labor force reduction and managing surplus labor are considered some of the inputs to these goals” (Khattab, 1999).

Literature about the concept and strategies of downsizing suggests that restructuring human resources in a sector or organization is a downsizing strategy, as downsizing strategies can be categorized into a workforce reduction strategy, a redesign strategy and systemic strategy.

Unfortunately, most downsizing initiatives are not effectively managed. Top leadership faces unique challenges during downsizing. One study of downsizing companies indicates that less than half of them met their cost reduction goals through restructuring. Poorly managed downsizing can also result in severe decrements in employee’s engagement and morale, and, ultimately, decrease the company’s performance, which is a general climate characterized by lack of trust in management and reduced loyalty to the company. Effective management requires leaders to address the needs of those employees who are asked to leave, as well as those who are to stay behind.

Delta and Oliver (2011) explained that there are significant long-term risks related to downsizing, including the probability that the process used to make reductions in workforce may itself constrain the organization’s future growth through expertise loss, lack of motivation and inability to take risks. To counteract this threat, leaders should design a game plan to go through reductions in a way that actually “builds” for the future. This is a time to invest in those who are leaving and to simultaneously strengthen the understanding, skills, morale and work climate of those who will stay.

Organizations can do that through early retirement incentives. Early retirement can be influenced by the so-called push and pull factors. Push factors are defined as negative circumstances that lead to early retirement, such as poor health or lack of job satisfaction, pull factors are defined as positive factors that attract an individual towards early retirement (Hyde, 2013).

While organizations can consider a number of voluntary programs, this article will focus on one program: Early Retirement Incentive Program (ERIP). An ERIP is a carefully designed program which provides incentives geared towards encouraging employees who are approaching or at the retirement age to voluntarily retire earlier than they might do otherwise (Ovitz, 2001).

Luce *et al.* (2002) found that early retirement incentives may have significant payroll costs reduction potential. They may have various negative implications that must be carefully considered before the implication of an early retirement strategy for employees’ reduction and realignment.

Hence, early retirement incentives may be a complex management strategy, which may have mixed results, conceal many threats and require elaborate analysis on a case by case basis. On the other hand, early retirement incentives should not be used as a “quick solution”; it should be applied with sufficient care and consideration to avoid substantial unintended consequences.

To recap what is mentioned above, all the previous terms seek to achieve the same objectives, but the main difference is the results of implementing each term. Early retirement incentive programs are the modern implementation of downsizing strategies, and the great result of the effective implementation of these programs is the human resources restructuring. Therefore, it is important to focus on how organizations can realize human

resources restructuring through voluntary early retirement incentive programs, which will be elaborated through the following section. Early retirement
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4. Section II: highlighting human resources restructuring strategies – causes and results

4.1 Strategies of human resources restructuring

[Khattab \(1999\)](#) found that human resources restructuring can use a lot of different policies and strategies such as marketing perspective, involuntary retirement (layoff) and voluntary retirement:

- *Marketing strategy*: It provides new products, improves the quality of products and sales services, opens new branches and new markets and, thus, makes the best use of available human resources so as not to be considered a surplus until the idea of getting rid of workforce begins to appear.
- *Compulsory termination of service*: It requires consideration of labor laws, trade union systems, linking the compulsory termination plan to the needs of the policy and setting policies that help to maintain the morale of remaining employees.
- *Privatization policies*: They refer to the transfer of ownership of public sector companies to the private sector through the sale of the company to a major investor or integration of it with another company. The employees of these companies have to entrust some activities or companies of the private sector to manage them.

A large number of researchers agree that labor force reduction approach besides other complementary approaches leads to restructuring human resources in the organization. Employment reduction includes all related policies such as natural attrition, early retirement, voluntary redundancy, redeployment, retraining, recruitment freeze, reduced working hours and overtime reduction.

[Maheskumar \(2009\)](#) showed the cases of voluntary retirement (leaving work optionally) such as change in market, loss of skills - and thus using the means of natural decline and non-substitution such as (death - retirement - resignation) in the following cases:

- Organization's conditions do not require rapid reduction of the labor force, and, therefore, the organization can absorb the cost of excess labor through early retirement incentives: bonuses with pension.
- Retraining, moving out and redistribution of labor force are policies used to absorb surplus labor if the organization has wide and diversified activities.
- Freeze or reduction of wages: This is when the cost of the product rises with low competitive position of the organization. Work Participation: Multiple forms of work participation, including the following: Reduction of working hours excluding work additional hours, reducing the number of working days per week, termination or reduction of temporary contracts and public service contracts.

The main focus of this study will be on the third strategy of human resources restructuring: early voluntary retirement.

The main reasons for restructuring workforce are represented in the last economic recession consequences that swept the world in the 1980s as studied by [El-Behery \(2002\)](#). However, there was a reduction in size even before the last economic crisis. Some of the common reasons for the labor force downsizing are the changes that have affected the structure of human resources at the present time and since the beginning of the 1980s, as

many countries have been led to restructure their workforce and their institutions because of the changes that accompanied this period as follows:

- *Change in the structure of the labor force:* The first steps of this process began in fact since the late 1980s through the relative reduction of workforce (stop appointments with the natural exit of retirement)
- *Unemployment:* It was not only the change in the structure of the working class and the changed relative weights of different sectors, but there was an increase in relative weight of the number of unemployed people within the total labor force.
- *Administrative arbitrariness and tightening of working conditions:* While the proportion of private sector workers to the total labor force is steadily increasing, they are subject to harsh conditions and labor relations, where they work without legal or union protection and are forced to sign their resignations and terminate their service before receiving the work in response to the conditions of employer.
- *Compulsory pension:* These practices combine the possibility of a worker's voluntary retirement, but he/she is forced to do so as a result of tightening labor conditions and other economic conditions.
- *Social security and the right to services:* Exit of work led to the collapse of various forms of social support and services that the worker could have obtained.
- *Social Transformations:* The emergence of social issues such as gender, labor rights and others.

4.2 Human resources restructuring advantages and disadvantages

The overall outlook for human resources restructuring is perceived to have several advantages and disadvantages. [Gandolfi \(2008\)](#) found that the main benefit is to reduce costs during recessions, and that productivity increases can occur by eliminating specific jobs owing to the belief that lower levels of management lead to greater achievement of organizational objectives, and that communications are improved with fewer layers in the organization. As it is believed that by workforce downsizing expenditures will decrease and this results in a permanent reduction in fixed costs. Other companies have experienced advantages such as changing the skill mix to implement new business strategies. There is also another advantage of reducing costs by replacing full time with temporary workers or contractors.

[Tsai et al. \(2007\)](#) found, in terms of disadvantages, that workforce restructuring resulted in implementing workforce reduction because the expected benefits were not achieved in reality. The expected financial stability of the workforce reduction did not occur.

[Schiro \(2009\)](#) also focused on the fact that the remaining staff of downsizing process, referred to as "survivors," were not supported to maintain production, labor and morale, as was the case before the restructuring process. Moreover, they suffered from a series of physical and mental health conditions known as "survivor syndrome" which includes anxiety, low morale, low productivity, high levels of mistrust and excessive caution, but [Chipunza and Sameul \(2013\)](#) saw that the organization needs to have effective contacts with employees who try to keep their information related to justice and lack of job security hoping to secure their position on downsizing workforce. These downsizing survivors are concerned with such issues.

However, many boards and senior leaders believe that workforce downsizing will achieve its objectives, especially if there is a framework for downsizing through a series of

decisions where management should ensure that future sources of savings are available and carefully weigh those savings for all costs, including increased costs associated with post-employment expansions when economic conditions improve (Cascio, 2002).

4.3 Human resources basics and considerations

4.3.1 *Principles and basics.* Cascio (2002) saw that when a public organization decides to restructure its human resources, there will be some important basics; it may be through the principle of dispensing the workforce or according to the principle of avoidance of dispensing employees which includes the use of natural attenuation methods (pension referral, resignation, death, freezing appointments, early retirement incentives, rewarding retirement benefits, training and retraining, relocation and redistribution of labor and improving the competitive position of the company to accommodate surplus labor).

Many companies that undertake downsizing are pushed into it by serious economic conditions when confronted with a crisis this is what mentioned by Patton (2000) many look for the quick fix. In this scenario, employees are easy targets as they often represent a large cost of an organization's expenses. However, cut tactics can lead to the problems as previously highlighted concerning layoffs.

Restructuring labor force decision is an ethical decision; the ethical aspects of this decision have been discussed through the way the employees in an organization are treated. Are they treated as assets of the organization or are they represented as targeted debt and cost to the organization in which they work? According to the recent common view, employees are considered long-term assets, and workforce downsizing strategies are looked upon as responsible strategies (Davis and William, 2013).

So, as highlighted in the literature review on downsizing through early retirement incentives, for example, Concordia University Montreal in Canada could determine the acknowledged elements required to do that successfully including:

- resisting across-the-board cuts and thinking strategically;
- determining the savings and costs of downsizing before the process;
- communication;
- employee participation;
- care of remaining employees; and
- the consideration of other options before reducing personnel (Patton, 2000).

4.3.2 *Considerations.* Lefebvre (2013) studied that human resources restructuring can be reconsidered from the supply and demand perspectives, in labor supply prospective it is a response to early retirement incentives coming from social security schemes. It has been shown that social security provides incentives to the workers to exit the labor market early. However, a growing literature has started to focus on the labor demand for older workers. Indeed employers have been active in forcing older individuals out of work. Because of the wage-productivity gap or labor market rigidities, the demand may be low and employers who wish to separate from older workers may use early retirement schemes as a workforce management tool.

Critical management considerations have been discussed[1] concerning restructuring human resources in an organization as follows:

- *Top leadership commitment.* Both the organization's top leadership and the line managers support the proposed restructuring effort, to include any management-directed reassignments or reductions in force (RIF) that may occur. The commitment

of the agency's top leadership to the restructuring effort is critical to its overall success. The principal reason for the restructuring effort may be budgetary shortfall, privatization of work, change in program priorities; mission transferred to another organization and sometimes the purpose is both mission-related and budget-driven.

- *Scope:* It is the size of the restructuring effort in terms of the number of positions affected by management's actions. The size and reasons for the restructuring effort will directly affect the agency's options for minimizing the impact on employees. For example, closure of a large activity will result in more disruption to the organization and may require more extensive outplacement efforts than reorganization within a division, which may result in a few involuntary reductions in grade.
- *Timing:* The more time an organization has to implement its workforce restructuring, the less likely is the need to conduct a formal reduction in force (RIF)
- *Strategies:* Is management prepared to offer a variety of strategies (e.g., voluntary and management-directed reassignments, cross-training, voluntary early retirement authority (VERA) and voluntary separation incentive pay (VSIP) to avoid a RIF? These decisions should be considered well in advance of the announcement of the restructuring effort, and should take into account the costs of such strategies.
- *Communication:* It is important to address all levels of the organization (i.e., leadership, unions, and employees). There are several ways this can be accomplished – "town halls", staff meetings, emails, agency website, and letters mailed to the employees' homes.
- *Labor-management relations:* While management has the right to reshape its workforce, including running an RIF, many aspects of the impact and the implementation of such efforts are negotiable. Management must fulfill any collective bargaining obligations and should consult labor relations staff prior to announcing a restructuring effort.

Hence, the considerations that should be taken into account when restructuring human resources can be summed up as follows: the use of labor force reduction approach in addition to other approaches, the advanced planning of labor force reduction strategy, avoiding the use of policy of redundancy, developing participation and communication among all the organizations' parties during Restructuring period, informing employees of the restructuring decision long before the decision being implemented, and if available providing financial benefits and incentives, which affects the workers' economic security, providing education and retraining programs, providing job search assistance, which, consequently, maintains the morale of the remaining individuals.

4.3.3 Preconditions. For human resources restructuring in public sector, Office of Personnel Management – USA (2017) summarized these preconditions as follows:

- The staff records of the institution should be up-to-date and available.
- Human resources staff is ready to support human resource restructuring efforts as they are one of the most necessary resources for successful restructuring.
- Ensuring that performance appraisals have been developed. Will it be released in the near future? Are they properly filed in the official file of employee? Is the agency planning to freeze the evaluation before restructuring efforts, especially if it has already begun restructuring?
- Do institutions have the budget by which they can spend early retirement incentives or voluntary separation incentive pay (VSIP) incentives?

- What are the competitive areas for restructuring labor force at the moment? The competitive areas of restructuring must be clearly defined through a variety of means (such as departmental guides and corporate policy report) to be clear to all staff and managers alike.

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Siddiqi (2017) showed that many methods and policies can be used by organizations to restructure their workers; the organization can choose the most appropriate method for its conditions according to the principle of dispensing with the workforce and this principle includes termination of the service of low-performance and temporary workforce, doing away with a functional level and eliminating a specific proportion of employees in each department, canceling some entire sections completely, canceling all the sections where canceling some entire sections and all the sections where the annual increase in employees is higher than average, closing a production line, ending work and terminating the service of all workers in all departments and production lines. The methods of reduction in accordance with the principle of avoidance of dispensing with the workforce include the use of natural attenuation methods (pension referral, resignation, death, freezing appointments, early retirement incentives, rewarding retirement benefits, training and retraining, relocation and redistribution of labor and improving the competitive position of the company to accommodate surplus labor.

Organizations can be divided into two very different groups in terms of their vision to their employees as Cascio (2002) classified, some of whom see staff as costs to be reduced. The other smaller group sees staff as assets to be developed. Staff as costs should be reduced – focus on the minimum staff required to run the organization, and reduce this number only in the core number of staff required by the business performance. Employees as assets must be developed and focus on changing the way they work, so that people can be used more effectively. Based on this view, an appropriate downsizing strategy can be selected according to this vision.

Results of human resources restructuring

Thus, results concerning human resources restructuring in an organization can be summarized as follows:

- *Increasing the workload of the remaining workers:* They are required to do more work in less time and often in new ways. They become more critical of what happens and bear greater responsibility while not gaining direct gain and are expected to be more productive.
- *Mismanagement of the remaining labor:* It refers to the lack of attention paid to the human element during and after the reduction process, because managers pay more attention to the objectives of reduction and see them as the first and final reason of success of any organization, including maintaining the same level of productivity and improving the financial position and competitiveness of the organization without paying attention to the human elements and their psychological and physical demands.
- The managers of the organization may ignore the employees who have not been laid off, show no interest in them or the problems they may suffer which would decrease their productivity. Therefore, the administration panel must prioritize the human element and work on reducing the negative effects of the reduction process to achieve its goal of reduction.
- Studies carried out into the impact of reduced workforce on job satisfaction show that employment reduction policies significantly affect the degree of job satisfaction

within the organization, including the degree of job security and the available promotion opportunities.

- The impact of restructuring workforce on promotion opportunities –implementing employment reduction policies – will lead to a decline in some of the advantages that individuals had before implementing these policies, considering promotion and career progression opportunities to be one of these advantages.

[Reddington and Williamson \(2010\)](#) agreed that there is a very high degree of risk resulting from the unwise workforce reduction process, and, therefore, this has to be handled with great caution, especially because their effects are related primarily to the human element, which controls many variables distinguishing it from other elements of production.

The impact of workers' reduction policies on the degree of job security is very important. Job security means the extent to which an individual perceives the stability of his/her job or it is a situation that threatens the individual to lose his job or a specific loss of the job. This negative impact on the individuals can be attributed to the restructure process affecting the nature of the employment relationship explained by [Blyton et al. \(2001\)](#), where workers face different degrees of possibilities, such as exclusion and separation from work. Hence, having a job is no longer a source of security and stability as before, and this causes one to have the desire to leave the job, low organizational loyalty and increases individual desire to leave organization.

As [Rama \(2002\)](#) said that reforms aiming at transforming the economy from central planning and self-reliance to market orientation and exposure to international markets should improve women's opportunities for paid employment, and, thus, women may experience a greater reduction in total compensation due to downsizing. The gender gap in labor returns is often smaller in the public sector, and women are more likely to withdraw from the labor force after downsizing. Many displaced women have no income at all. However, the withdrawal of women from the labor force is sometimes voluntary.

5. Section III: challenges and opportunities of early retirement incentive programs in public sector and recommendations for the application in the Egyptian case

Some organizations think beyond traditional layoffs and seek other innovative ways to reduce costs. These programs, such as job sharing, reduction of hours, furloughing, and wage freeze often do not have the desired financial impact that the organization may require. The disruption and adverse effects on morale often outweigh any positive benefits.

Early retirement incentive programs became increasingly popular in the 1990s and were utilized by such prominent companies as General Motors, IBM, Polaroid, Sears and Unisys Corp ([Koeppen et al., 1990](#)).

[Tomasko \(1991\)](#) explained that early retirement incentives, as a form of workforce reduction, are used to achieve immediate, short run savings in labor costs. A primary distinction of early retirement incentives from layoffs is that a layoff reduction approach is a "push" strategy, while early retirement incentives are a "pull" strategy of workforce reduction.

Thus, in the current business environment, we need to be smarter and find solutions to minimize risks and support business initiatives. When thinking about reducing staff, we should begin to turn towards an approach that would support not just the organization but also its employees, such as the use of voluntary programs which may not work in all circumstances that warrant a reduction in staff. There are many other circumstances in which such approaches could be successfully used.

5.1 *Advantages and disadvantages of early retirement incentive programs*

First, it should be clear that Early Retirement Incentive Programs have advantages and disadvantages for employers and employees as well. The factors influencing design and acceptance of early retirement incentives may vary greatly and so do their outcomes for both employees and employers. Therefore, it is impossible to conclusively determine who benefits more from early retirement incentive programs; the company or its employees.

Gough (2003) underlined at least two themes with respect to the reasons why individuals exit the labor market through “early retirement.” These factors can be viewed as being “pushed” out of the labor market. This group is characterized by having enough money to retire and work offers them new opportunities. The second group could be described as being “jumped” in that the overall retirement package is good.

Andrade and Kaplan (1998) agreed that many find early retirement incentives to be much less harsh than layoffs, as they reduce the impact on morale of both leaving and remaining personnel, as well as of the decision-makers. Another perceived benefit of the early retirement incentives is the alignment of productivity with pay rates, by reducing the amount of lower-efficiency, higher-paid senior employees and improving career opportunities for the younger, more productive employees.

5.1.1 *For employees.* Cline and Mason (2009) suggest that major advantages of early retirement incentives for the employers are cost reductions with voluntary approach and demographic change in workforce. Not only are younger employees likely to be cheaper, but they may also improve morale and make positive shifts in the company’s culture. Nevertheless, the lack of focus and the voluntary nature of early retirement incentive programs may result in multiple unintended, negative consequences, and, therefore, pose serious challenges to managers.

Retirees may need more post-retirement income just to maintain their standards of living. Retirement is usually reduction in income and exposure to more medical costs which brings the stress of financial insecurity. Kohl (2009) addressed this concern to improve finances to retirees.

About employees, many of the advantages and disadvantages of the early retirement incentives were explained by Adams (1999); they were related solely to their personal perceptions, which may vary greatly from individual to another. These personal variations make mutually exclusive definitions of advantages and disadvantages of early retirement incentives impossible.

For example, Canada and Denmark have offered rather numerous pathways of exit for the ageing population during the 1990’s. The early retirement policy does not only aim to battle unemployment among the ageing, but it is also to maintain well-being among early retirees who do not for any reason participate in the labor force. The experience of early retirement in Finland and Denmark in this context aims to check if the institutional similarities reflect early retirees’ experiences represented in similar pathways of exit, ordinary disability pathway, relaxed disability pathway, unemployment pathway, and full-and part-time early pathways. Also, unemployment has been a common concern in these two countries, and, therefore, these experiences concentrate basically on the welfare of early retirees (Laura, 2004).

Hence, a voluntary program takes time to develop and while it may involve a lengthier process than involuntary programs, it has some distinct advantages: employees who voluntarily leave their jobs are less likely to raise claims and if the program is structured properly, these individuals shall be required to sign a release of claims that would protect the organization from litigation. This approach may also reduce or eliminate the need of involuntary layoffs, which would support positive employee morale. Overall, voluntary

programs are a cooperative way for organizations to achieve their goals and objectives while supporting those employees who desire to move into retirement, giving them a sense of control over their futures. The notion that employees make well-informed decisions empowers them to take responsibility for their futures. This puts both the employer and employee in a much less adversarial relationship at the time of the employees' departure.

5.1.2 For organizations. An early retirement incentive is a complex management strategy, which may have mixed results, conceals many threats and requires elaborate analysis on a case-by-case basis. Such analysis should enable decision-makers to assess potential benefits of such programs, as well as associated risks, and compare them to alternative solutions. Early retirement incentives should not be used as a "quick" solution, but they should be applied with sufficient care and consideration to avoid substantial unintended consequences.

Several factors make early retirement incentive programs an attractive human resources restructuring strategy for organizations. First, managers view such plans as a lever for organizations to reduce headcount, cut costs and streamline operations (Polisner, 1996). Second, they are much less harsh than firing people. Thus, these programs spare the managers and those leaving their jobs of the trauma and negative outcomes of layoffs. Managers do not lose sleep over firing people and those who opt for the program are making the decisions themselves. These programs are seen as a humane way of reducing the workforce and relatively painless (Patton, 2000). Third, companies traditionally pay older employees more than younger ones, while there is a common perception that an older worker's rate of pay may not be congruent with their current productivity. Early retirement incentives allow long service employees to take advantage of the opportunity with a minor penalty, or with full retirement benefits. A formula for eligibility is typically based upon a combination of years of service and age; the sum to meet a minimum qualifier to be eligible for full retirement benefits. Fourth, in relation to the previous reason, these programs often open up new career opportunities for younger people and they are often less expensive and they also reduce benefit costs especially in the area of health care (Waseem, 2014).

In Canada, ERIPs are adopted as a means to:

- contain the costs occasioned by the aging of the work force;
- cut the size of the work force without having to resort to mass redundancy;
- change the age profile of organizations and favor the career prospects of younger workers; and
- create new mechanisms to regulate the departure of workers at the end of their career (Firbank, 1992).

5.1.3 For the public sector. Early retirement incentive programs achieve a lot of advantages for the sake of the public sector such as reducing costs of employees and savings, moreover early retirement can be held responsible for a reduction in the order of 5-7 per cent of potential annual GDP in OECD countries, with even higher figures for EU countries as Lefebvre (2013) highlighted. Here, we argue that an additional effect exists, as the generous incentives to retire early induce workers to accumulate less human capital.

5.2 Incentives of early retirement programs

Larsen and Pedersen (2008) stated that early retirement programs contain early retirement option. Some of these can be chosen freely if objective conditions for eligibility are fulfilled, while others are open only after visitation on either medical or social criteria. The different programs are as follows:

- *Social disability pension (SDP)*: Eligibility for SDP depends on an application being decided according to a set of medical and social criteria. SDP is thus not an individual option such as eligibility; for instant, a labor market pension from a specific age. The SDP system is quite complex as the rules differ with regard to tax treatment and whether the different components and amounts that made up the programs were tested.
- *Voluntary early retirement program (VERP)*: In contrast to the SDP, the VERP scheme introduced can provide the possibility to retire early without having to fulfil any health criteria. To become eligible for VERP, an individual is required to have an unemployment insurance fund for a fixed number of years.

This may be though lump refund when the insured cannot meet the requirements of other types of annuities as (special old-age pension, early old-age pension, active old-age pension, reduced old-age pension and full old-age pension) which implemented in Korea as outlined by [Yuan \(2007\)](#). The retiree receives a lump-sum refund of the total contributions made by him/her and his/her employer, plus a three-year-deposit interest rate, but this is not a real motivator to early retirement.

Public employees' pension scheme (PEP) and labor market pensions (LMP): These occupational pensions are available with an actuarial discount at an earlier age.

In this regard many nations with support from the World Bank have moved away from a public defined benefit pension system toward a private defined contribution one. Important reforms in this direction have occurred in Public employees' pension scheme, among other places, Argentina, Bolivia, Columbia, Hungary, Kazakhstan, Latvia, Peru, Poland, Sweden and Uruguay as discussed by [Orszag \(1999\)](#).

Sweden recently went through a major reform of its public old-age pension system. The old system was a pay-as-you-go defined benefit pension system, whereas the new system is a mixture of a notional defined contribution pay-as-you-go pension system and a fully funded pension scheme with individual accounts this is what outlined by [Laun and Palme \(2014\)](#).

In Australia, there are generally four pathways to exit the labor force into retirement: the old-age pension, early retirement, the disability pension and partial retirement. For old-age pensions, the statutory retirement age is 65 for men and 60 for women. Eligibility additionally requires 15 years of contributory service, 4 or 15 years of insurance coverage in the past 30 years or 25 years of insurance coverage over the whole working life, whatever applies first ([Raab, 2008](#)).

Private pensions saving: Finally, there is a broad coverage with private pension plans, mostly in categories of savings arrangement that until recently have been treated quite favorably by the tax rules.

Income compensating programs.

Most retirement systems around the world were intended to provide the elderly with a reasonable income during the final stage of their lives, and, hence, most people who retire receive an income from one of the programs described briefly below:

- *Unemployment insurance benefits (UIB)*: Eligibility for UIB is conditional on at least one year's membership of an unemployment insurance fund, and on a minimum period of former work.
- *Social welfare benefits (SWB)*: Recipients of SWB are of two groups; unemployed people not eligible for UIB and individuals receiving SWB owing to problems other than unemployment. In principle, the duration of SWB is unlimited. Benefits amount to 60-80 per cent of the ceiling for UIB.

- *Sickness benefits (SB)*: SB correspond to earnings subject to the same ceiling. Literature has a lot of challenges and criticisms concerning early retirement incentive programs. Many have challenged the notion that early retirement programs are a humane or painless way of reducing workers and that whoever participates in such programs is always better off.; they are retirees who often face serious issues such as financial problems, psychological problems relating to self-image, values, power and security.

Burin (2010) discussed that in Netherlands there are different types of pension incentives (pension facility) consists of three pillars. These pillars are basic-facilities, pension-facilities and individual capital-facilities, for pension facilities - the first pillar set up to serve as a safety net for the Dutch social system. This is also the reason why everyone can claim these benefits, as long as they live in The Netherlands. An example of a basic facility is the Work and Welfare Act. Pension-facilities consist of pension facilities for the employee, which is taken care of by the employer. In this pillar the employer keeps in mind what an employee receives out of the first pillar which implies that when an employee participates in a pension-arrangement from the employer. In this pillar there are three types of pension funds: the professional fund, the sector fund and the company pension fund. The third-pillar is individual capital- facilities, in contrast to the first two pillars; saving money in the third pillar is a totally voluntary and individual option. This pillar is open to everyone; employed or not, married or single, Dutch inhabitant or not, it does not matter. Also, how to save the money and the amount of money in this pillar is completely up to the individuals themselves.

5.3 Criticisms of early retirement incentive programs

Despite the voluntary nature of these incentive programs, many individuals who opt for early retirement feel it is involuntary. Therefore, contrary to the belief that early retirement incentives are a pull strategy for reducing workforce numbers, many who accept them view them as push factors. Also, there is a danger that although the programs are advertised as “voluntary,” the individuals offered to go for the packages might feel that the message is that they are not wanted. For individuals with low self-esteem, this involuntary perception is particularly likely and many such retirees experience their new life situation in much the same way as individuals affected by involuntary job loss resulting from layoffs (Gowan, 1998).

Others have criticized early retirement incentive programs as a form of age discrimination; the specific reason older workers are targeted for downsizing is based on the life cycle theory of employment. This theory is based on the fact that in an employee’s career salary increases with age and not by productivity. Hence, when an employee is young and new to the organization, his or her pay will be lower than his or her productivity as the person’s career progresses, and salary and productivity will become better aligned. As a worker becomes older, productivity declines while salaries continue to rise. Consequently, employers lose out once salary level becomes higher than relative productivity. It is precisely at this point where some authors recommend serving ties with older workers. On the other hand, while the life-cycle theory may be valid, it is unfair to cut older workers once productivity is lower than salary level as this period makes up for the years where productivity was higher than salary. It is important to note that there is another perception that confirms that there is a relationship between the performance and the age and that productivity increases while age increases (Minda, 1997).

From the previous criticisms it may be clear that voluntary early retirement programs, as a tool of downsizing, differ in that they are a strategy for restructuring workforce as the main objective not only to get rid of the number of workers represented in the older workers because of their low productivity, but also to decrease the number of workforce as well as low-performance and low-productivity workers whether they were older or not. This will ensure that there are no discriminations towards the older workers or that they are the only targeted group of such programs and also give individuals the chance to take their decisions freely. This will depend on the age of eligibility to retire which will be announced within the programs.

Stein *et al.* (2000) directed other criticisms to the early retirement incentive programs, as these programs run contrary to the social reality. There is a need for society to recognize all the costs of supporting a non-working population that is living healthier and longer lives, as they desire to promote later retirement. Thus, the social costs of these programs should be taken into consideration.

5.4 Dangers of voluntary early retirement programs

The previous literature discussed a lot of dangers related to the voluntary early retirement programs that must be taken into consideration before the restructuring process. Because these packages are offered to groups, Worrell (1996) focused on three certain dangers. First, not enough people can opt for the packages. Second, too many people can opt for them. Third, the wrong people can opt for them and an organization could see they are the best and brightest and accept the package while those they would really like to leave decide to stay. The stakes can be high for companies that get early retirement incentive programs wrong. If too many people – or the wrong people – leave, organizations have to go through a costly and time-consuming effort to replace or even rehire them; if too few take the packages, then the company's financial or other targets will not be met, and their problems will still exist.

Thus, who will leave is a necessary requirement for successful programs before performing strategic planning. Also, the negative outcomes related to the remaining employees are considered a danger as these individuals can become overworked and their morale may decrease.

According to what have been mentioned here, it would be clear that early retirement provides challenges and opportunities for both employees and managers. For the employees, the challenge is to evaluate the benefits and the costs of early retirement decision. As for the managers, the challenge is to design a program that affects personal strategies and needs to define the ultimate organizations' objectives to be achieved through these programs.

5.5. Considerations of the early retirement incentive programs

Organizations should take into account some important considerations when they decide to implement voluntary early retirement incentive programs and that is what Courtney (2015) suggested. The most important consideration is the economic one, as the retirement decision is a complex and multifaceted one, involving considerations of health, family, work and leisure opportunities, and retirement income. Retirement is one of the most financially significant decisions an individual makes during his or her lifetime, as it typically marks the end of labor earnings and the beginning of the drawdown of retirement resources accrued over the worker's career. A worker's calculation of whether he or she has saved enough to be able to retire at a particular age is complicated by uncertainty about longevity, out-of-pocket medical expenditures, and investment returns. Yet, retirement has important nonfinancial consequences as well, as it may bring relief from the strain of working while in declining

health as well as the opportunity to spend more time with a spouse or grandchildren or to engage in leisure activities. When aggregated, the retirement decisions of individual workers have important consequences for the economy as a whole.

Typically, early retirement incentive plans are built on the defined benefit philosophy where the size of a pension depends on a person's age and the number of years he or she has worked for the company. Average salary figures over the past few years of employment before retirement also often influence pension amounts. Under an early retirement incentive plan, an employer will generally invite employees to retire in return for increased benefits over a longer period of time and a lump sum payment. Therefore, early retirement incentive programs reduce payroll costs in terms of salaries, social security taxes and unemployment taxes, and most of the costs of such programs take the form of increased pension benefits, and, thus, are borne out by the pension plan and do not affect a firm's operating funds. The only direct cost to the organization is often the total of the lump-sum amounts. Once a plan is announced, there is typically two-to-three month's window during which employees can ponder their decision (Patton, 2000).

Heidi (2005) focused on another consideration which is the legal consideration, whether you use voluntary or involuntary approaches to restructuring human resources in public administration. These events come along with a number of legal considerations. It is prudent to look at any additional laws or regulations on a state and local levels that may be applicable to an organization. For example Employee Retirement Income Security Act (ERISA) – ERISA should be announced to govern employee benefit plans as an ongoing administrative scheme to pay benefit. It is one of the characteristics of an ERISA plan and, in general, a severance arrangement that would be considered an ERISA plans if the arrangement was ongoing. As it is a one-time severance program providing a limited window for participation in conjunction with a reduction-in-force, an ERIP may not be subject to ERISA, depending on all the facts and circumstances. Also, it there should be regulations and acts about the health care and pension salary for early retirees.

These legal considerations are important to keep in mind when developing and implementing an ERIP. It should be in the organization's interest to seek advice from an employment and/or benefit during the formulation and announcement of such program.

There is another consideration related to the kind of organizations' business and activities. Linda (2006) explained that to ensure these programs work well, the management must determine which goals the organization will need to achieve from implementing these programs if they are immediate needs or long-term goals.

The ERIP is a one-time opportunity for eligible employees to apply for separation and entire retirement at an earlier date than might otherwise have been planned. ERIP participants will be required to sign a separation agreement that contains a release of all employment rights and claims, described later in this document (A Voluntary Separation Plan, 2013).

Hence, early retirement incentives have the same focus as layoffs: the quick reduction of personnel costs. However, layoffs are "push" strategies which are more direct, while early retirement falls under the "pull" category of workforce reduction strategies. The main problem with these programs is that it is almost impossible to predict who will decide to opt for the packages.

It is impossible to determine what relevant knowledge, what institutional memory, and what critical skills will be lost to the organization when employees leave as Cameron (1994) studied. Voluntary early retirement incentive programs are targeted at groups and not individuals. While the group can be fine-tuned by age or union, all of the people in the group are free to opt in or out of the plan. No one can be coerced into staying or leaving nor can the

group be manipulated to only include people who the organization would like to leave without risking very expensive lawsuits. Therefore, early retirement programs are less harsh than layoffs, by nature.

5.6 Useful recommendations for the Egyptian case

The Egyptian public sector started to implement the concept of voluntary early retirement in accordance with article (70) of the Civil Service Law[2] that allows administrative staff members to retire early voluntarily when they reach the age of fifty in return for some benefits, such as getting promoted plus five years if they retire at the age of 55 or add the remaining period to reach the age of pension if the employee decides to retire after the age of 55.

Because the executive regulation of the civil service law was issued on May 27, 2017, and until October 1, 2018, the number of early retirees was 9,027 according to data basis prepared by the Central agency for Organization and Administration concerning early retirees during the mentioned period[3].

In the Egyptian case, especially at the beginning of adopting this early retirement incentive program whose duration is still about a year and a half should offer a system of incentives that takes into consideration three important problematics; First, the balance between the exit of a reasonable number of excess workforce and at the same time motivating efficient employees to remain in service. Second, the balance between realized economic savings from the exit of this number of early retirees, who are a burden on the state public budget, compared to the need for the availability of cash amounts of money provided to early retirees as incentives to their preference to retire early. Third, the balance between realizing the goal concerning decreasing an unemployment rate among youth and the probability of increasing the number of unemployment in the society because of adding the number of retirees to the unemployment rows.

6. Area description

Human resources is the objective scope of the research as the main focus of this study will be on the third strategy of human resources restructuring; Early Voluntary retirement. Organizations' conditions do not require the rapid reduction of the labor force. Thus can absorb the cost of excess labor through early retirement incentives: bonuses with pension. So, there are a lot of advantages and disadvantages, opportunities and weaknesses, requirements and criteria concerning adopting such as important human resources restructuring strategy. There is no time limitation as the study adopts theoretical perspective with some empirical results for updated case studies.

7. Methodology and approach

This paper adopts an analytical, descriptive approach to describe the basic features of the data by using the descriptive research design. Data have been collected through different sources. So, Research methodology depends on reviewing previous theoretical studies published as books, journals, articles, published working papers and previous studies related to the subject on how restructure human resources in public sector so as to get advantages to motivate incentives provided by ERIP and to know to what extent Egyptian case could benefit from these advantages.

8. Results

Downsizing occurs in all private or public sectors. There are no universal solutions to successfully restructure workforce; organizations have to develop programs addressing the

concerns of all stakeholders (employers, employees and organizations). Clear communication with employees is critical to the success of any restructuring exercise and employees should be given the freedom to make informed decisions that best suit their needs. To this end, access to reliable information is necessary. Organizations across in all fields mitigate the impact of workforce downsizing through the implementation of voluntary programs prior to involuntary terminations. The presence of a collective agreement requires additional consultation with the representative union prior to implementing staff reduction strategies. However, the methods used to accomplish objectives are similar regardless of the presence of these unions.

Human resources restructuring in a company must examine the current workforce composition of skills, knowledge and abilities and determine future requirements. Inevitably, these future demands rarely match the current supply. This creates a need to pursue actions which correct the imbalance, while ensuring that scarce resources are efficiently distributed. Any planning should be aligned during all phases with four key factors for success: first, developing a clear vision of the organization's future, supported by careful analysis and planning; second, maintaining respect and fairness in dealings with employees; and third, exerting significant efforts to eliminate work and align the organization around new strategic directions; forth, providing a great concern to communication.

To this end, there are four basic approaches that a downsizing company can pursue to realign both human and capital resources. By combining these approaches into a cohesive downsizing program, an organization is more likely to achieve the established short and long-range objectives.

The literature on downsizing and restructuring workforce through voluntary early retirement programs leads to clear conclusions as follows:

- The most significant conclusion is that managers should undertake a very thoughtful approach to downsizing or restructuring workforce, and it should be clear for the employers and organizations that miscommunications with employees and mishandling of remaining employees can lead to failure. A more systematic, thoughtful approach to downsizing workforce is recommended where the initiative takes into account the long term goals, and health of the organization in terms of early retirement incentive programs. Employing less harsh means of achieving significant savings caution is strongly recommended because these programs are, by definition, representing less focused method of reducing personnel and can lead to very serious problems. As the choice to retire is a very complex individual decision.
- It is difficult for organizations, employers and even managers to control the side effects of these programs because organizations and employers must perform a thorough analysis which groups of employees who will be offered these packages, setting contingency plans to deal with the multiple possible outcomes of these plans and consequently, apply programs that have proven to be critical interventions to manage the major issues associated with the early retirement, downsizing workforce and restructuring issues. Training and people will help in developing others, transferring knowledge, and using technology. Training and development that prepare for the next job for the early retired employees is called employment bridge after retiring, which also helps the organization to maintain its performance and productivity with the developed and trained survivors.
- The development of an ERIP is a lengthy process that takes a good deal of thought and effort. Practitioners often overlook the opportunity to implement an ERIP based on the mistaken belief that it is difficult and costly. Approached in a methodical and

analytical manner, the ERIP represents a viable alternative for organizations seeking to reduce staff.

- In order for the ERIP to be successful, the program coordinator must understand the business objectives and goals that the organization is trying to obtain, provide a desirable incentive package to eligible employees and perform a thorough cost-savings analysis.
- If all of these steps are implemented, a careful crafted announcement and positive communication with eligible employees ensure its success. At the end of the day, the organization will succeed in empowering employees to take control of their futures and reducing the potential for litigation while meeting business objectives.

9. Discussion

Downsizing is one of the most known types of cost-cutting initiatives during economic downturns. However, even in a growing economy, downsizing may be the primary tool used for organizational efficiency improvement. Early retirement incentive programs are often considered by managers to be one of the most effective forms of downsizing. Many researchers criticize early retirement incentive programs and downsizing as a performance improvement strategies and report multiple risks and inefficacy of such strategies this is what most of the literature agreed upon.

It is important to keep in mind that retirement programs in most European countries often started out as social protection programs, which had to fix labor market failures with what governments had confronted. On the one hand, the government felt responsible for protection of the unemployed youth who had limited opportunities in the labor market. On the other hand, it also had a responsibility for protecting older workers who had difficulties keeping up with the changing job demands. Increasing unemployment puts pressure on governments to protect the unemployed with low employment opportunities and to support measures that facilitate the exit of older workers via different early retirement schemes.

From the previous results, it can be cleared that organization should be more attentive when implements voluntary early retirement incentive program to their employees as There may be unintended consequences that have significant impact on a company. For many organizations, downsizing has not been overly successful and has even led to serious problems. Early retirement incentive program, being a form of downsizing; have many significant differences from other more common Forms of downsizing such as layoffs. Some of these differences may be beneficial, as compared to layoffs; however, some of the differences represent a specific set of negative implications, In light of mixed results, it is important to study reasons behind success or failure of downsizing and early retirement to understand whether such strategies are beneficial and how to implement them effectively. Also it is important to determine which incentives to which groups in which time to avoid that failure and its negative effects.

10. Conclusion

In conclusion, workforce downsizing strategy is one of the downsizing strategies in general. The three downsizing strategies are systemic strategy, redesigning work strategy, and workforce downsizing strategy. The last strategy depends mainly on reducing workforce number through voluntary and involuntary means and the main goal is to reduce the number of workers. This strategy is often achieved from up to down and it is a quick way,

but it cannot predict who will remain and who will leave. The organizations adopt this strategy when they have no time for deciding and they do not communicate with employees concerning the implementation of it.

Therefore, the new trend this paper provides is “restructuring human resources” using voluntary early retirement incentive programs. Its goal is to reduce the workers’ number in a way that eliminates the negative effects of workforce downsizing on both the remained employees (their skills, performance and productivity) and the employers. At the same time it ensures financial security and good social life after retirement. Thus, reducing the number shouldn’t be the main objective for the recent and modern workforce downsizing in public organizations.

As previously mentioned, the Egyptian case should consider all these points while developing its program through offering various schemes for early retirement so as not to face the exit of staff competencies or increase the unemployment rate in the Egyptian society. Besides, it should extend the bridges of employment to post-retirement stages so that retirees can be converted to a productive force within the community and outside the administrative apparatus.

It is important for the Egyptian case to have its own effective means to communicate with the probable retirees and the public sector organizations to ensure the best results of implementation.

Notes

1. *Workforce Reshaping Operations Handbook: A Guide for Agency Management and Human Resource Offices* March 2017, USA, Office of Personnel Management.
2. The executive regulation of the civil service law: www.eip.gov.eg/News/PressReleaseDetails.aspx?id=539
3. www.caoa.gov.eg/

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