GMAT   Argument   PDF

33. The author of Perks Companys business plan recommends that funds currently spent on the employee benefits package be redirected to either upgrade plant machinery or build an additional plant. The author reasons that offering employees a generous package of benefits and incentives year after year is no longer cost-effective given current high unemployment rates, and that Perks can attract and keep good employees without such benefits and incentives. While this argument has some merit, its line of reasoning requires close examination. To begin with, the author relies on the reasoning that it is unnecessary to pay relatively high wages during periods of high unemployment because the market will supply many good employees at lower rates of pay. While this reasoning may be sound in a general sense, the particular industry that Perks is involved in may not be representative of unemployment levels generally. It is possible that relatively few unemployed people have the type of qualifications that match job openings at Perks, if this is the case, the claim that it is easier now to attract good employees at lower wages is ill-founded. Secondly, the argument relies on the assumption that the cost-effectiveness of a wage policy is determined solely by whatever wages a market can currently bear. This assumption overlooks the peripheral costs of reducing or eliminating benefits. For example, employee morale is likely to decline if Perks eliminates benefits. as a result, some

employees could become less productive, and others might quit. Even if Perks can readily replace those employees, training costs and lower productivity associated with high turnover may outweigh any advantages of redirecting funds to plant construction. Moreover, because the recommended reduction in benefits is intended to fund the retrofitting of an entire plant or the building of a new one, the reduction would presumably be a sizable one. consequently, the turnover costs associated with the reduction might be very high indeed. In conclusion, this argument is not convincing, since it unfairly assumes that a broad employment statistic applies to one specific industry, and since it ignores the disadvantages of implementing the plan. Accordingly, I would suspend judgment about the recommendation until the author shows that unemployment in Parks industry is high and until the author produces a thorough cost-benefit analysis of the proposed plan.

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