Do’s and Don’ts – When Wage Reductions and Retrenchments are Unavoidable
Introduction

1.1 Economic adversities will often drive employers to cut operating costs in order to stay in business. Wage reduction or retrenchment, however, is not the only way to save costs. Employers should first consider other cost-saving alternatives such as bringing down overheads and negotiating reductions in costs with suppliers. Revenue-generating measures should also be considered, for example, developing new products and expanding new markets.

1.2 Even if staff reduction has become unavoidable, employers should try to do so through natural wastage or voluntary exit schemes. Retrenchment should only be the last resort. Furthermore, when dealing with wage reduction or retrenchment, it is important that employers should communicate clearly to their employees the gravity of the organisation’s financial problems and the reasons for adopting such measures.

1.3 This leaflet provides a list of practical do’s and don’ts for employers and employees in handling wage reduction and retrenchment.

(A) When Wage Reductions are Unavoidable

2.1 DO’s for employers

 Be prepared to offer employees a range of options, for example, partial reduction of fringe benefits combined with a smaller amount of reduced wages.

 Be prepared to consult and listen to employees’ views and feedback.

 Obtain the prior consent of employees before implementing any wage reduction.

 Allow a reasonable period of time for employees to consider whether to accept the wage-reduction proposal. While the period of consideration will depend on the circumstances of each organisation, try to give between 7 and 14 days for employees to consider the proposal.
If financial circumstances permit, assure employees that severance pay will be calculated at the employee’s wage level before the wage reduction took effect.

Consider increasing the wages of your employees when the financial situation of your company improves.

Consult the Labour Relations Division (LRD) if you have doubts on your employees’ statutory entitlements.

2.2 DON’Ts for employers

Do not adopt a ‘take it or else’ attitude when entering into discussions with your staff.

Do not unilaterally introduce wage reductions without securing agreement of the involved employees because it would contravene the provisions of the Employment Ordinance with respect to timely payment of wages and would adversely affect staff morale, productivity and quality of service.

Do not reduce wage with retrospective effect, as it would also contravene the provisions with respect to payment of wages under the Employment Ordinance.

2.3 DO’s for employees

Clarify with your employer details of the proposed wage reduction and, if necessary, explain to him your personal difficulties.

Consider all relevant factors before deciding whether to accept the proposed wage reduction.

Consult the LRD if you are in doubt of your statutory entitlements under the Employment Ordinance.

(B) When Retrenchments are Unavoidable

3.1 DO’s for employers

Ensure that the retrenchment criteria are objective, fair, non-punitive and non-discriminatory.
Make sure that the termination package is no less favorable than that provided in the Employment Ordinance and the employment contract and try to be as generous as possible with ex-gratia payments.

Be prepared to explain to your affected employees how the termination compensation is calculated.

Be ready to provide your employees with reference letters to certify that the termination of their employment was due to the company’s economic adversity rather than their job performance.

Provide counseling and assistance to retrenched employees. Help them find alternative jobs or introduce to them the employment services of the Labour Department.

Try to consider re-employing as many of your retrenched employees as you can afford when your company’s financial position improves.

Be sensitive and caring towards the remaining staff in order to keep up their morale and productivity.

3.2 DO’s for employees

Work out your statutory and contractual entitlements under the Employment Ordinance and your employment contract.

Consult the LRD if you are in doubt of your statutory and contractual entitlements.

Seek the service of the Job Centres of Employment Services Division if you need job assistance.

Be prepared to adjust your salary expectations in finding alternative employment.

Take the opportunity to equip yourself and upgrade your skills to prepare for your next job.

3.3 DON’Ts for employees

Do not lose confidence in your ability to find another job even in the face of a retrenchment experience.
Appendix

Enquiry Hotline : 2717 1771 (the hotline is handled by “1823”)

Labour Department’s Homepage Address: http://www.labour.gov.hk

Offices of the Labour Relations Division:
http://www.labour.gov.hk/eng/tele/lr1.htm

Job Centres of the Employment Services Division: