

Do's and Don'ts When Wage Reductions and Retrenchments are Unavoidable



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Labour Department

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.
- Pay attention to the definition of lay-off under the Employment Ordinance for the possible liability of paying severance payment to eligible employees if no pay leave have to be arranged for employees due to special needs of the business.
- 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 or not. The period of consideration will depend on the circumstances of each organisation, but in any case, try to give between 7 and 14 days for employees to consider the proposal.
- Assure employees that if the organisation's situation further deteriorates, and retrenchment has to be considered, severance payment will be calculated at an employee's wage level before the wage reduction.
- Consider increasing the wages of your employees when the financial situation of your company improves.
- Consult the Labour Relations Division 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 not only contravene the provisions of the Employment Ordinance with respect to timely payment of wages and unreasonable variation of employment terms, but also 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.
- Pay attention to the definition of lay-off and employees' eligibility for the entitlements of severance payment under the Employment Ordinance if employer has to arrange no pay leave for you due to special needs of the business.
- Consult the Labour Relations Division 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 Labour Relations Division if you are in doubt of your statutory and contractual entitlements.
- Visit the Job Centres and the Industry-based Recruitment Centres of the Labour Department, or browse the Interactive Employment Service website (www.jobs.gov.hk) and its mobile application if you need employment services.
- 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.
- If you encounter emotional problems, tell your family members and friends, or seek assistance from professionals.

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.

24 hour Enquiry Hotline : 2717 1771
(The hotline is handled by “1823”)

Labour Department’s homepage: www.labour.gov.hk

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

Job Centres and Industry-based Recruitment Centres of the
Employment Services Division:
www.labour.gov.hk/eng/tele/es3.htm