

# Cost Cutting Measures

## Managing Human Resource During Crisis

The Covid-19 pandemic has already or would certainly affect the bottom line of many businesses. Thus, it is natural that business owners would embark on cost cutting measures. While retrenchments may be one option, the [Tripartite Guidelines on Managing Excess Manpower](#) state:

When managing excess manpower, retrenchment should always be the last resort, after other options have been considered and found to be unworkable. In this way, businesses will retain and inspire loyalty in their workforce, and be well positioned to emerge stronger in the recovery.

Though these guidelines are not legally enforceable, generally stated, they seem reasonable. Thus, instead of retrenchment, businesses may consider other options which include cutting the salary of employees while still requiring them to work or cutting salaries without requiring them to work (that is, placing them on no pay leave) assuming the generous government wage subsidies are still insufficient.

Despite the uncertainty in the present climate, it would always be good to keep in mind the legal implications behind such measures.

## Varying The Employment Contract

Cutting salaries amounts to a clear variation of the contract of employment. Generally, once an employment contract is entered into, one party cannot unilaterally make changes for the obvious reason that this might result in abuse.

However, the law does provide for exceptions. For instance,

- If the contract expressly and clearly allows for changes to be made, such changes may be upheld.
- Similarly, if the changes are agreed to by both parties and there is consideration for said changes (that is, both parties gain something from the change), the changes may be enforceable.
- Further, if one party introduces changes without fraud or dishonesty and the other party agrees to it and as a result, avoids some problem or disbenefit, this too may validate the variation.

Applying these principles, if the contract provides that the salary stated in the contract is subject to a variable component (for instance, 10%), it would be permissible for the employer to reduce the pay as provided in the contract.

What if there is no such clause or if an amount greater than that which is provided in the clause needs to be cut?

As stated above, even then the changes may be enforceable, but first, both parties need to agree. Given the gravity of the situation and provided the government subsidies are genuinely insufficient, it is unlikely an employee would not accept such changes in these circumstances.

Next, if the employer decides to place the employee on no pay leave, it could be argued that the employee would be getting something in return (that is, the leave) and hence, that may constitute consideration.

Even if the employee is expected to work, the third principle highlighted above may be applicable in that

the employee would have avoided the problem or dis-benefit of being retrenched which could have been the alternative.

### Approval And Need To Inform

In the case of foreign workers working on work permits, it has always been a requirement that reductions of stated salary require the approval of the Controller of Work Passes under the Employment of Foreign Manpower (Work Passes) Regulations.

However, as of 12 March 2020, any employer wishing to reduce the salary of any employee would also have to inform the Ministry of Manpower. This is probably to ensure that employers act reasonably especially given the generous government subsidies.

### Conclusion

Thus, generally stated, given the current circumstances, embarking on cost cutting measures as described above seem to have the support of the law, though practically speaking, the employer would also need to liaise with the Ministry of Manpower as detailed above.

*In light of the constantly changing circumstances, this is a general overview and should not be treated as legal advice.*

*Author -*

*Ravi Chandran graduated from the Faculty of Law, National University of Singapore in 1991. He did his pupillage at Lee & Lee and was called to the Bar in 1992. He obtained his Masters in Law from Queens' College, Cambridge University. He teaches various subjects at the School of Business, National University of Singapore, including employment law. He has published widely in the area of employment law, both locally and internationally, and his work has been cited in court judgments, books and journal articles. His opinion on employment law matters has been sought by, among others, law firms, government-linked organisations and the International Labour Organization. He is also an editorial board member of the International Labor Rights Case Law Journal and the former President of the Asian Society of Labour Law Scholars.*

*Also by this author -*

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