

# **SALARY REDUCTION: AN ALTERNATIVE TO REDUNDANCIES REFORMS - BDO**

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**In 2012, the Spanish Labour Law Reform modified both methods of redundancy and internal flexibility. However, companies in crisis are not always aware of the most adequate measures available to help them surpass their current difficulties.**

Taking into account that all redundancies imply an important economic cost for companies and a drastic internal reorganisation of the company as a result of the reduction of workforce, the Legislator's objective was to reinstate internal flexibility measures as the first choice for companies, avoiding dismissal by systematically recognising its unfairness.

In this way, the possibility of salary reduction could be the first valid alternative to a major restructuring of the company. This option is a less drastic measure, and furthermore one that is much more accepted by the employees in times of crisis. Employees usually prefer the lesser evil of a reduction in their salary than losing their jobs altogether, bearing in mind the current economic climate and the hard times in which we are living. All of the above particularly in view of the fact that the last data collected by the National Statistical Institute indicates that in Spain there are 2.4 million unemployed who will need a minimum one to two years to be reincorporated into the labour market.

At the same time, it is worth pointing out that salary reductions are a suitable option to restructure companies in very different situations, for example: those facing serious liquidity problems and have no money to pay severance compensation to their employees; those experiencing an important reduction in profit margin or suffering a serious decrease in revenues, leaving them unable to maintain the salaries of their employees.

Finally, this restructuring procedure can also be used to adjust employees' salaries to the labour market, taking into account that before the economic crisis, arbitrary periodic salary increases that did not assess the real productivity of the employee were commonplace, meaning that currently there are many companies paying salaries over and above those offered by their competitors.

All of the above highlight the value of this measure given that salaries are one of the most important costs of any company, sometimes even the first item of expenditure, and something that must be properly managed in order to assure the success of a business.

In order to perform a salary reduction with the maximum legal guarantees, the planning and study process of each individual case is very important. Consider, for example, the importance of the study of salaries, which is the basic stage in order to be able to differentiate all likely scenarios that could coexist within a company, from top level managers' salaries, to low and middle employees' salaries, which are usually paid according to the applicable collective bargaining agreement or even slightly above it.

These previous studies can indicate the most adequate legal instrument to use in the restructuring of the company through salary reduction (substantial modification or the non application of the salary stated in the applicable collective bargaining agreement), and can even draw attention to the possibility of adapting salaries outside legislative restrictions (*absorción/compensación*). During the study and analysis stage, it is also important to determine if the substantial modification would be definitive or temporary, and to identify the parameters that could be used as salary catch-up clauses (*clausulas de recuperación salarial*), where there is a posterior increase of revenue, or share market, or even increase of profits, among others.

In conclusion, in the current economic climate it is advisable to bear in mind salary reduction as a real alternative to redundancies. This way we safeguard labour relations and assuring minimum cost for the employer.

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