



Navigating the FIEs'
restructuring under new
economic landscape: strategies
for labor cost management
and employee relocation

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As China's economic growth slows and market competition intensifies, a growing number of foreign-invested enterprises (FIEs) in the country are considering or undergoing restructuring. A pivotal challenge for decision makers and management during this process is determining how to effectively relocate employees while balancing corporate interests with employee rights.

This article explores FIEs' practical challenges of employee relocation during restructuring, analyzes potential contingencies and response strategies and provides a systematic approach to optimize the process. By addressing these key steps, the article provides guidance to help FIEs navigate associated challenges and achieve their restructuring objectives.

► Examples of challenges faced by FIEs in the current economic landscape

Volatility in the global landscape

- China-US trade friction
- Global economic and political volatility
- Rising trade protectionism
- Great power rivalry hindering global cooperation

China's domestic economic dynamics

- Profit decline in the real estate and auto sectors
- Rising competition from the local firms
- Slowing production growth of FIEs in China
- Government contract in financial support

Strengthened compliance supervision

- Improvement and adjustment of Chinese laws and regulations
- Penalties such as fines, business suspensions or mandatory reorganization
- Protective policies for women and extension of retirement age, etc.

Rising labor costs

- Rising average wages, social security contributions and housing provident funds
- Rising risk of liability for past underpayments
- Higher negotiation costs associated with layoffs

Practical challenge 1: How to mitigate the impact of restructuring and employee relocation on the overall business of FIEs?

Since the 1990s, China has attracted numerous foreign investors to invest and build factories given its competitive labor costs and vast market opportunities. Over time, many of these FIEs have been evolving into large conglomerates through expansion in sales, research and development and other areas. When developing a restructuring plan, FIEs must conduct a comprehensive assessment to avoid disruption to the group's overall business operations.

For instance, if a foreign investor decides to discontinue a product line due to rising production costs in China while retaining other product lines and sales functions, the restructuring plan must address several key factors. These include business continuity during the transition period, loss prevention of critical talent and evaluation of the potential impacts on personnel management, overall business strategy and long-term development plans.

Response strategies

Before initiating a restructuring program, it is crucial to clearly define objectives and develop a comprehensive plan. This should include creating a detailed timeline, coordination plans for both internal and external stakeholders, milestones and key task checkpoints to ensure the smooth execution of all activities. Depending on the restructuring scenarios, particular attentions should be given to the following factors:

Liquidation and withdrawal scenario: Clearly define the closure date, the start of liquidation and the timeline for employee notifications. Plan the entire cycle from closure to liquidation and deregistration, ensuring clear communication with affected employees regarding potential work extensions. Accurately estimate costs to avoid delays in the liquidation process due to mass employee resignations or insufficient handovers.

Business transfer scenario: Clearly confirm the due date for transitioning business operations and labor relations from the old business to the new one. Develop a detailed transition plan to equitably allocate operating and labor costs between the two entities. Ensure a smooth transfer of business functions to avoid operational disruptions caused by a poorly managed transition.

Merger or demerger scenario: In most cases, employment contracts won't be impacted and the company has no legal obligation to pay severance. However, if the restructuring involves changes to job roles, working conditions, relocation (especially cross-regional transfers) or significant adjustments to personnel policies, employees may choose not to accept the changes. In such cases, the company must bear the legal responsibility for economic compensation.

Practical challenge 2: How to accurately assess the potential impact of historical issues on employee relocation programs?

As FIEs operate in China over the years, historical issues often accumulate. These may include irregularities in the management of labor dispatch and outsourced employees or insufficient contributions to social security and housing provident funds. Such issues may remain dormant and not lead to immediate disputes under stable labor relations, however, they are more likely to emerge during corporate restructuring due to the recently strengthened workforce protections, increased awareness of labor laws and heightened employee rights consciousness. Failure to identify and address these risks at the planning stage of employee relocation programs may lead to disruptions that significantly hinder the restructuring process.

Response strategies

To effectively address these historical issues, it is crucial to identify the scope and root causes, which may stem from factors such as corporate management practices, as well as changes in policies and regulations. A systematic review of the historical context, legal framework and current status can provide a more accurate assessment of their potential impact on employee relocation programs.

Taking social insurance as an example, frequent changes in contribution requirements and related regulations often pose challenges for FIEs, such as missed or underpaid contributions. Rectifying these discrepancies is often a time-consuming process. Therefore, we recommend FIEs to calculate the total amount of missed or underpaid contributions in advance, fully assess the potential impact and include the corresponding amounts in the economic compensation considerations within the employee relocation plan. This comprehensive compensation approach can effectively avoid the disruptions of individual employee claims for overdue payments to impact the smooth progress of the overall restructuring project.

In addition, historical issues may lead to a decline in employee trust or dissatisfaction arising from perceived losses of rights and interests. Therefore, thorough and transparent communication with employees is crucial when presenting the relocation plan. By clearly explaining the causes, current status and proposed solutions for these historical issues and implementing transparent communication and reasonable compensation measures, companies can significantly strengthen employee trust and foster cooperation.

Practical challenge 3: How to address emergencies such as collective slacking off and mitigate negative impacts on corporate reputation?

When a company prepares for restructuring, the leakage of false information can easily trigger employee anxiety and panic about their future. This uncertainty may lead to drastic measures by employees to protect their perceived rights and interests. In extreme cases, collective slacking off or strikes may occur, disrupting daily operations and severely harming the company's public image. Therefore, it is critical to develop a comprehensive contingency plan in advance to effectively handle potential emergencies, alleviate employee anxiety and maintain workplace stability and harmony.

Response strategies

Firstly, to prevent the leakage of inaccurate information prior an official announcement, companies should implement robust measures to restrict employees from accessing undisclosed details through informal channels, thus avoiding a potential crisis of confidence. Effective strategies may include establishing a confidentiality protocol for internal document transfers and selecting a core team for discussions, strictly limiting information dissemination within this team to minimize the risk of leaks.

Additionally, tailored and detailed emergency response plans for large-scale crises should be developed based on the specific characteristics and circumstances of FIEs. These plans should clearly define the roles and responsibilities of the emergency response team, including departmental heads and security personnel, and outline a well-defined response process. This ensures a swift and coordinated reaction, minimizing potential disruptions and losses.

To mitigate potential reputational risks, companies should establish an efficient public opinion monitoring system. Accurate information must be rapidly disseminated through official channels to prevent the spread of false information. Furthermore, to prevent unauthorized disclosure or leaks by employees that could damage the company's brand image, it is advisable to have employees sign confidentiality agreements in advance. These agreements should explicitly outline exclusions and emphasize the importance of information confidentiality.

Practical challenge 4: How to reduce labor costs while improving business efficiency?

Achieving a harmonious balance between reducing labor costs and improving business efficiency is often a critical challenge for FIEs during a restructuring process. Effectively integrating these conflicting goals becomes a key focus in planning and implementing employee relocation strategies.

Response strategies

When advancing corporate restructuring, FIEs' should prioritize and optimize the organizational structure by carefully identifying and eliminating redundant departments. This enables an efficient allocation of resources. For roles with overlapping or similar functions, a prudent merger and retrenchment strategy should be employed. Decisions regarding employee reductions should be based on a thorough cost-benefit analysis of layoffs and their anticipated cost-saving outcomes. Instead of relying solely on numerical targets, more flexible and humane approaches should be adopted, such as offering a fair and transparent compensation package to encourage voluntary resignations. While soliciting voluntary resignations, screening criteria must be carefully established to balance the need for downsizing with talent retention, avoiding the unintended loss of key talents and maintaining the enterprise's core competitiveness.

Simultaneously, employee compensation should be appropriately adjusted based on a thorough evaluation of market conditions and the company's financial performance, thereby driving innovation in the compensation reform. Developing an evaluation and bonus incentive mechanism that incorporates both quantitative and qualitative measures ensures that salary levels remain competitive while curbing excessive spending.

Optimize the workplace and reform work styles

Promote value creation activities in line with the trends and changes of the times and adjust work styles and mindset accordingly

- ▶ Encourage working styles in the digital era (e.g., remote work, hybrid work, part-time jobs, etc.)
- ▶ Labor and health management
- ▶ Formulate labor and environmental policies and build operational systems
- ▶ Internal supervision on the labor management and operational activities

Construction of the personnel system

Reform the compensation system by implementing a differentiated reward mechanism to recognize and incentivize employees with exceptional performance, while maintaining control over total labor costs

- ▶ Construct a grading and evaluation system
- ▶ Adjust employee titles in conjunction with organizational restructuring
- ▶ Adjust the remuneration system (establishment of remuneration policies, remuneration benchmarks)
- ▶ Introduce incentive system (including short-term and long-term incentives, equity incentive design)

Adjustment of organizational structure and reporting lines

Streamline organizational structure and reporting lines to accelerate on-site decision-making

- ▶ Reassess and adjust departmental and personnel responsibilities
- ▶ Merge departments with overlapping or similar functions
- ▶ Optimize organizational structures (departments) and simplify management positions (introduce the internal retirement system for management positions)



To further improve operational efficiency, a comprehensive review of existing workflows should be conducted to eliminate redundancies, streamline processes and refine the organizational structure. Improving the timeliness and accuracy of information reporting, fostering effective teamwork and accelerating decision-making top the agenda. These measures will ultimately lead to significant improvements in overall business efficiency and enable effective management of operational costs.

Conclusion

Given China's distinctive characteristics of labor management that vary by region, FIEs need to have a deep understanding of the local policies, judicial precedents and industry practices while undertaking a restructuring. Leveraging extensive program management experience, the EY team can offer comprehensive or targeted support at crucial junctures of FIEs' employee relocation plan during restructuring. This includes assessing and screening potential labor and employment compliance risks, developing relocation plans (including detailed compensation schemes, implementation strategies, contingency plans and on-site action guidelines), estimating implementation costs and assisting in the execution of employee relocation plans (such as on-site explanations to employees). We also facilitate necessary communication with government departments.

For more information, please contact us:



Jiajun Wan

Partner
Regulatory & Compliance Advisory Services
Ernst & Young (China) Advisory Limited
+86 21 2228 8374
jjajun.wan@cn.ey.com



Annie Li

Senior manager
Regulatory & Compliance Advisory Services
Ernst & Young (China) Advisory Limited
+86 21 2228 8888
annie-hp.li@cn.ey.com



Bracey Yu

Manager
Regulatory & Compliance Advisory Services
Ernst & Young (China) Advisory Limited
+86 21 2228 8888
bracey.yu@cn.ey.com



Lindsay Si

Senior
Regulatory & Compliance Advisory Services
Ernst & Young (China) Advisory Limited
+86 21 2228 8888
lindsay.si1@cn.ey.com

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