



Effective Cost-Saving Measures During the Crisis

Employment Law Options for Companies

Speakers



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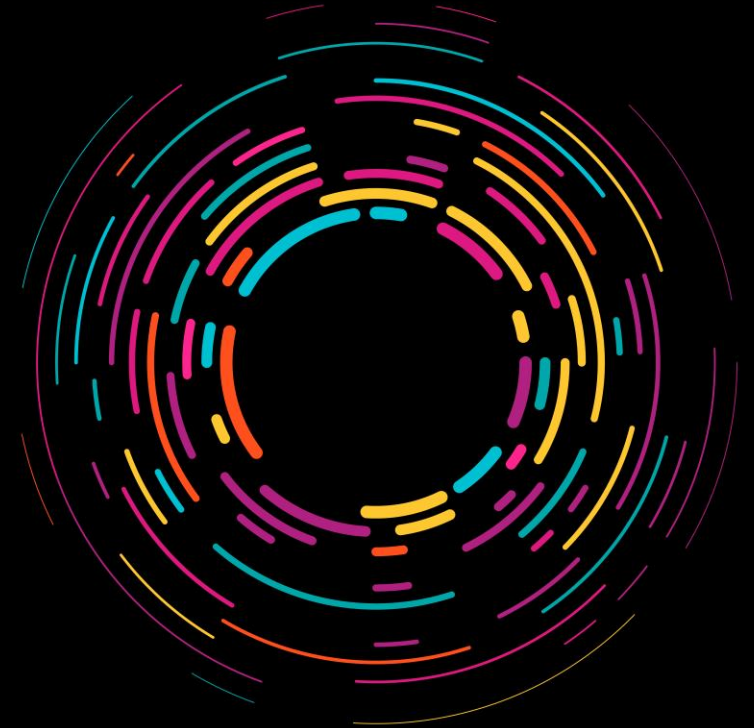
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Topic Overview

- I. Overview of Cost-Saving Measures
- II. Dealing with Sick Leave Rates—Legal Instruments and Company Strategies
- III. Short-time work as a temporary crisis measure
- IV. Workforce Reduction as a last resort



01. Overview of Cost-Saving Measures

I. An Overview of Cost-Cutting Measures

The Right Measures at the Right Time

The trade-off:

Short-term measures provide quick relief; their impact may be limited.

Long-term measures are intended to provide sustainable relief, but they require planning and legal review.

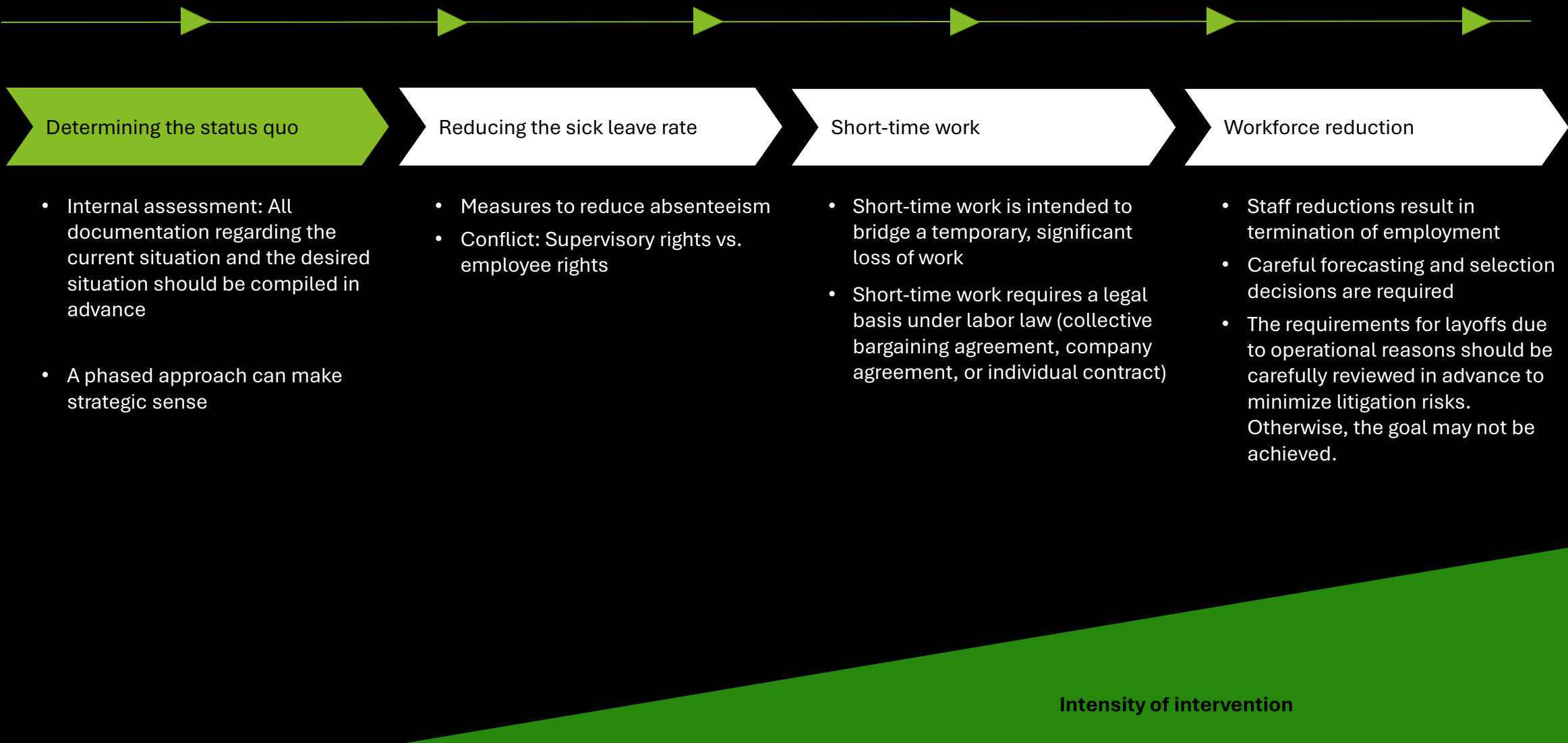
Examples of short-term measures

- Hiring freeze
- Reduction of overtime
- Temporary compensation measures, such as suspending voluntary employee benefits
- Reduction of external resources (such as freelancers)
- Salary cuts
- Short-time work

Examples of long-term measures

- Optimizing compensation and benefits structures
- Reducing the sick leave rate
- Workforce reduction/restructuring
- Outsourcing of non-core functions / shared services

A strategic roadmap organizes measures according to a logic of escalation—in general, it is advisable to aim for the least possible intervention





02. Managing Sick Leave Rates—Legal Tools and Workplace Strategies

An Overview



Employer's Duty of Care Arising from the Employment Relationship (Section 241 of the German Civil Code (BGB))



Obligation to design working conditions with a focus on prevention → Occupational Safety and Health Act



Work organization as a key factor influencing sick leave rates



Reasonable management of the workload; compliance with the Working Hours Act



Early intervention (e.g., monitoring, raising awareness among managers) to prevent structural causes → „BEM“



The works council's rights of co-determination (Sections 87 et seq. of the Works Constitution Act (BetrVG)) must be observed (e.g., health programs, rules of conduct)

Absences generate costs and, especially in times of crisis, reduce productivity and efficiency within the company

It is important to distinguish between the following:

01

The healthy employee

Prevention as the primary approach—ensuring working conditions, work organization, and workload management comply with legal requirements

02

The sick employee

The focus is on analyzing causes and implementing structural measures; sanctions under individual labor law are subject to strict requirements in practice

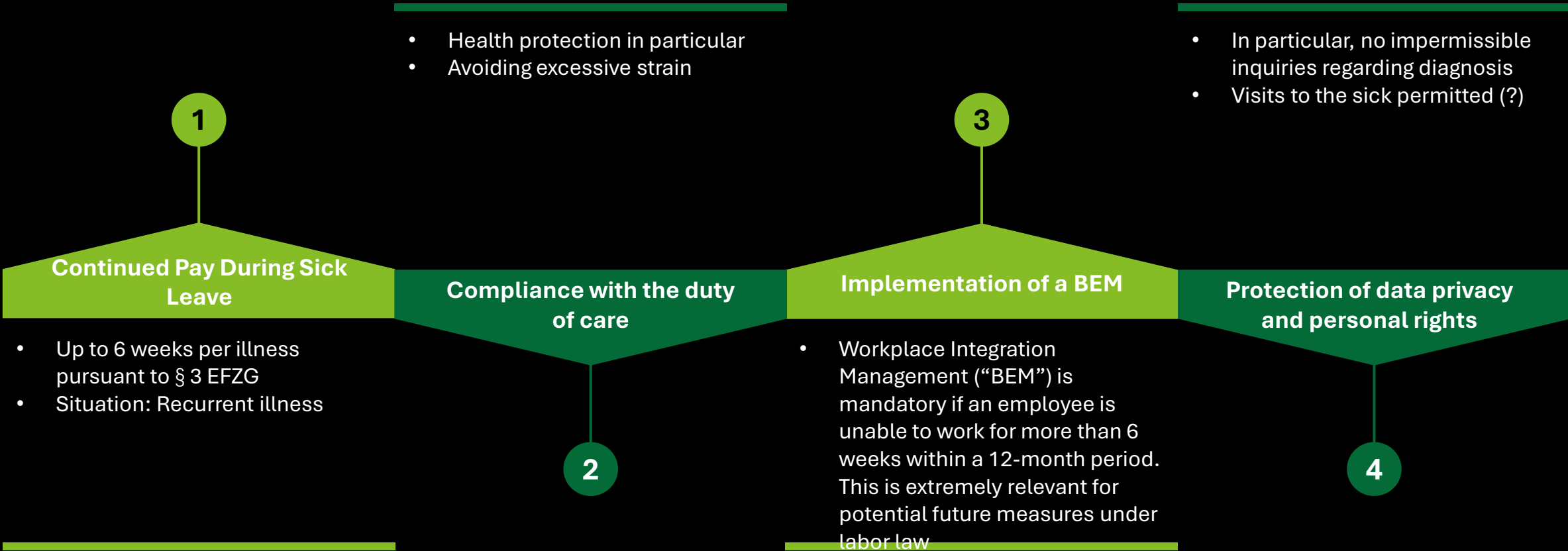
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The Employee Suspected of Feigning Illness

Suspected cases require a thorough investigation of the facts; hasty measures carry significant litigation risks.

Employees Unable to Work—Employer Obligations

In the event of illness, employers have extensive obligations but only narrowly defined rights to information—prevention is more effective than reaction



Employees Unable to Work - Employee Responsibilities

Immediate Notification of Inability to Work

The employer must be notified immediately of the inability to work → generally at the start of the first day of illness.

Failure to comply with the duty to notify may justify disciplinary action.

Obligation to Provide Proof via a Medical Certificate

Current standard practice: Starting on the 4th day; earlier submission is possible upon instruction → possible as early as the first day of illness (Section 5 EFZG). ***In practice, clear requirements for providing proof should be communicated to the workforce!***

Refrain from behavior that hinders recovery

Activities that delay recovery must be avoided. The employee may continue to perform other activities without violating their obligations under labor law.

→ It is important to distinguish this from permitted behavior.

Duties of Consideration and Loyalty

To be observed toward the employer.

Under the “EFZG” (Act on Continued Payment of Remuneration), employees who are responsible for their own incapacity to work forfeit their right to continued remuneration.

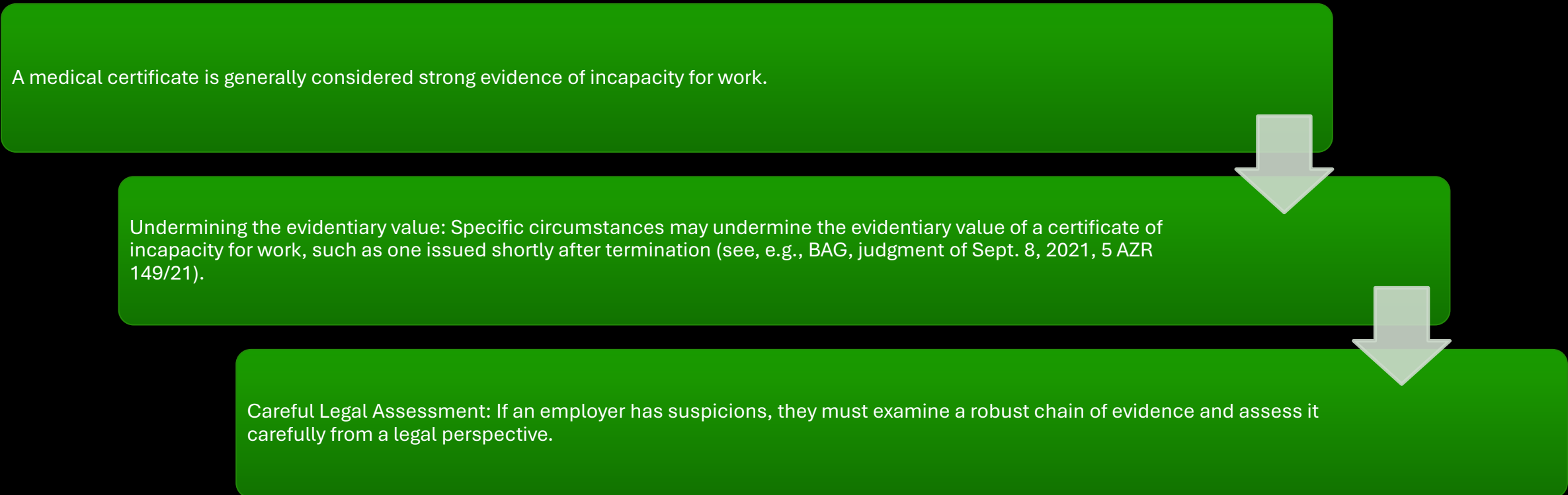
Legal Leverage from the Employer’s Perspective

INSTRUMENT	LEGAL CORE	RISK/LIMIT
Conduct an Absence Review	Permissible clarification of causes within the context of work-related questions	Stick to work-related questions. Asking about specific diagnoses or medical findings is not permitted.
Certificate of incapacity for work starting on Day 1	Section 5(1), Sentence 3 of the EFZG; see, among others, BAG 5 AZR 886/11	The request can be made for individual employees or for the entire workforce. If it applies to the workforce generally, check whether mandatory works council involvement is required.
Stop continued pay	Section 7(1)(1) of the EFZG in the event of a missing or late sick note	Action requires a proven breach of duty — doubt alone is insufficient. → <i>Common mistake in practice: stopping the process too early without a strategy.</i>
Workplace Integration Management (“BEM”)	Section 167(2) of SGB IX; an open-ended search process	If BEM is not carried out, or is carried out incorrectly, the employer faces a higher burden of proof.

Federal Labour Court (“BAG”) Box: Evidentiary Value of the Certificate of Incapacity for Work

The certificate of incapacity for work generally carries significant probative value—it can only be refuted through a carefully constructed, robust chain of circumstantial evidence

A medical certificate is generally considered strong evidence of incapacity for work.



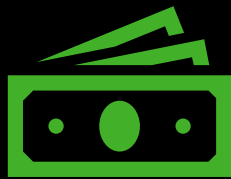
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Careful Legal Assessment: If an employer has suspicions, they must examine a robust chain of evidence and assess it carefully from a legal perspective.

Guideline on Incapacity for Work Issued by the Joint Federal Committee

The Sick Leave Guideline sets forth the requirements for a medical determination—and thereby indirectly determines the evidentiary value of each sick leave certificate



What is the Sick Leave Guideline?

It specifies when and under what conditions contract physicians must certify incapacity for work.

It is binding on contract physicians; it is not directly binding on the employer—but it has indirect relevance through the evidentiary value of the sick leave certificate.



Method of determination:

Principle: In-person medical examination prior to certifying incapacity for work.

Determination by telephone: permitted in exceptional cases for known patients with clearly minor illnesses and no severe symptoms.



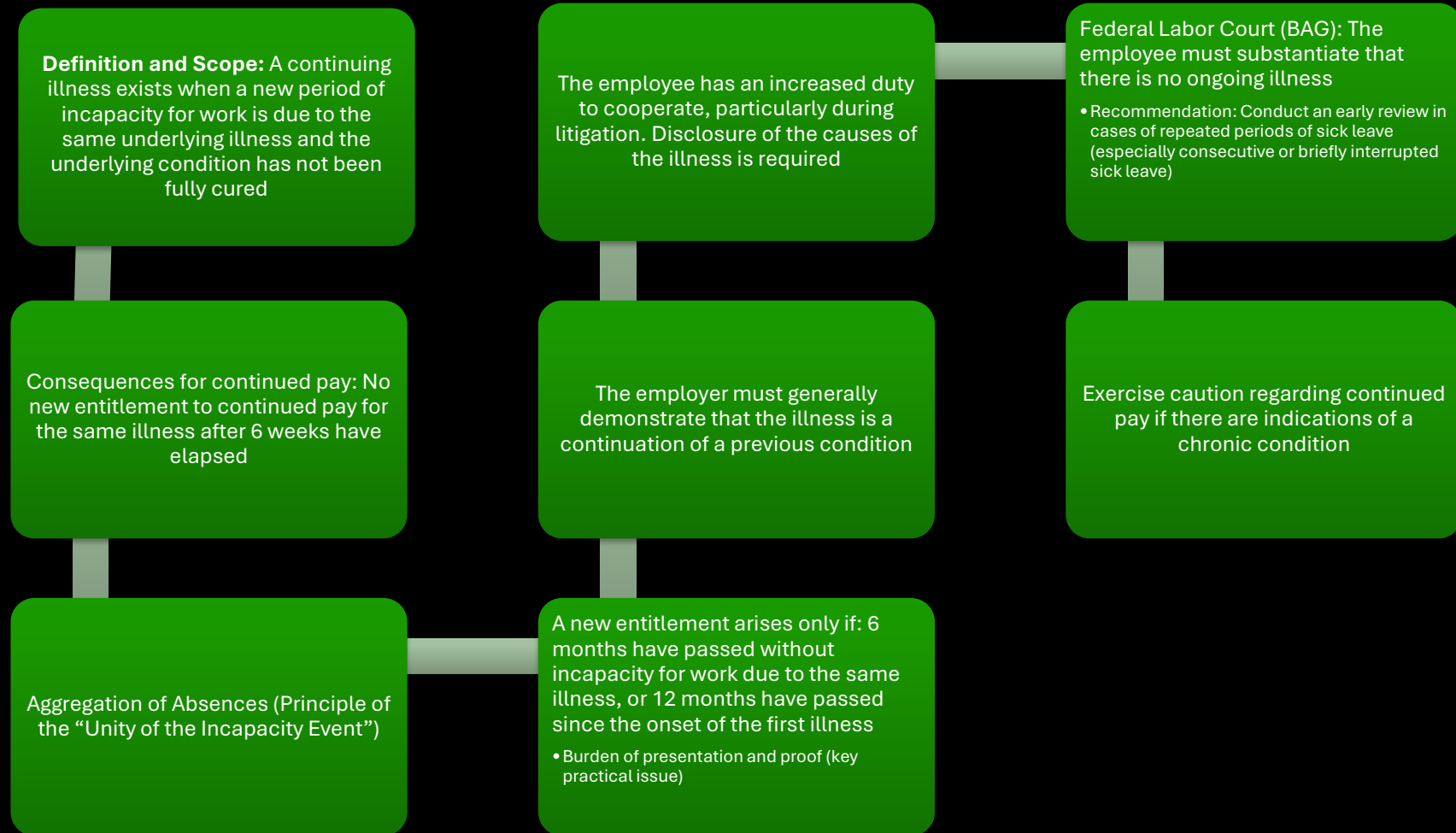
Practical relevance:

Evidential value generally remains high; it can only be undermined by a concrete, reliable chain of evidence.

Sick leave certificates issued over the phone provide more grounds for challenge in the event of a dispute (the lack of a physical examination as a possible basis for a chain of evidence).

Side Note: Continuation of Illness

“Same vs. New Illness”



Side Note: Workplace Integration Management („BEM“)

BEM aims to **help employees overcome their inability to work** and retain their jobs through individualized accommodations and support.

The obligation to conduct a BEM arises if **an employee is unable to work for more than 6 weeks**—either consecutively or repeatedly—within a 12-month period (Section 167(2), sentence 1, SGB IX).

BEM is not a mere formality, but an **open process** of exploring suitable reintegration measures.

Legal significance: The BEM is not a voluntary social benefit, but a statutory obligation to provide support—the consequences of failure to comply fall exclusively on the employer.

Ongoing Review: The BEM is not a one-time event but must be reviewed and documented anew in the event of further absences.

Other parties involved must be taken into account (such as the works council and the company physician).

Errors or omissions in the BEM **make it more difficult** to demonstrate proportionality in an unfair dismissal lawsuit. → A common mistake in practice! Terminations due to illness are often not adequately prepared.

The employer's scope of action

The range of options extends from visiting a sick employee to termination—the choice of measure depends on the economic and legal assessment of each individual case—the logic of escalation as a guiding principle

1. Tighten the burden of proof

Submission of a certificate of incapacity for work may be required starting on the first day (Section 5(1), sentence 3, EFZG). This request may be made without stating reasons—the employer is not required to present grounds for suspicion (BAG, judgment of Nov. 14, 2012 – 5 AZR 886/11).

2. Return-to-Work Interviews

Permissible, not a legal obligation, but an established management tool

3. Suspension of continued pay

Possible in the event of a breach of the duty to provide evidence or the duty to report, as well as in cases where the employee is at fault for the illness

4. Visiting an employee on sick leave

There is no legal basis governing visits to a sick employee—they are neither prohibited nor required. Such visits reflect the employer's duty of care (Section 241(2) of the German Civil Code (BGB), Section 618 BGB) and may also serve to gather information. Legally, this is simply a visit in a social sense—the employee may refuse it; there is no obligation to open the door or to engage in conversation

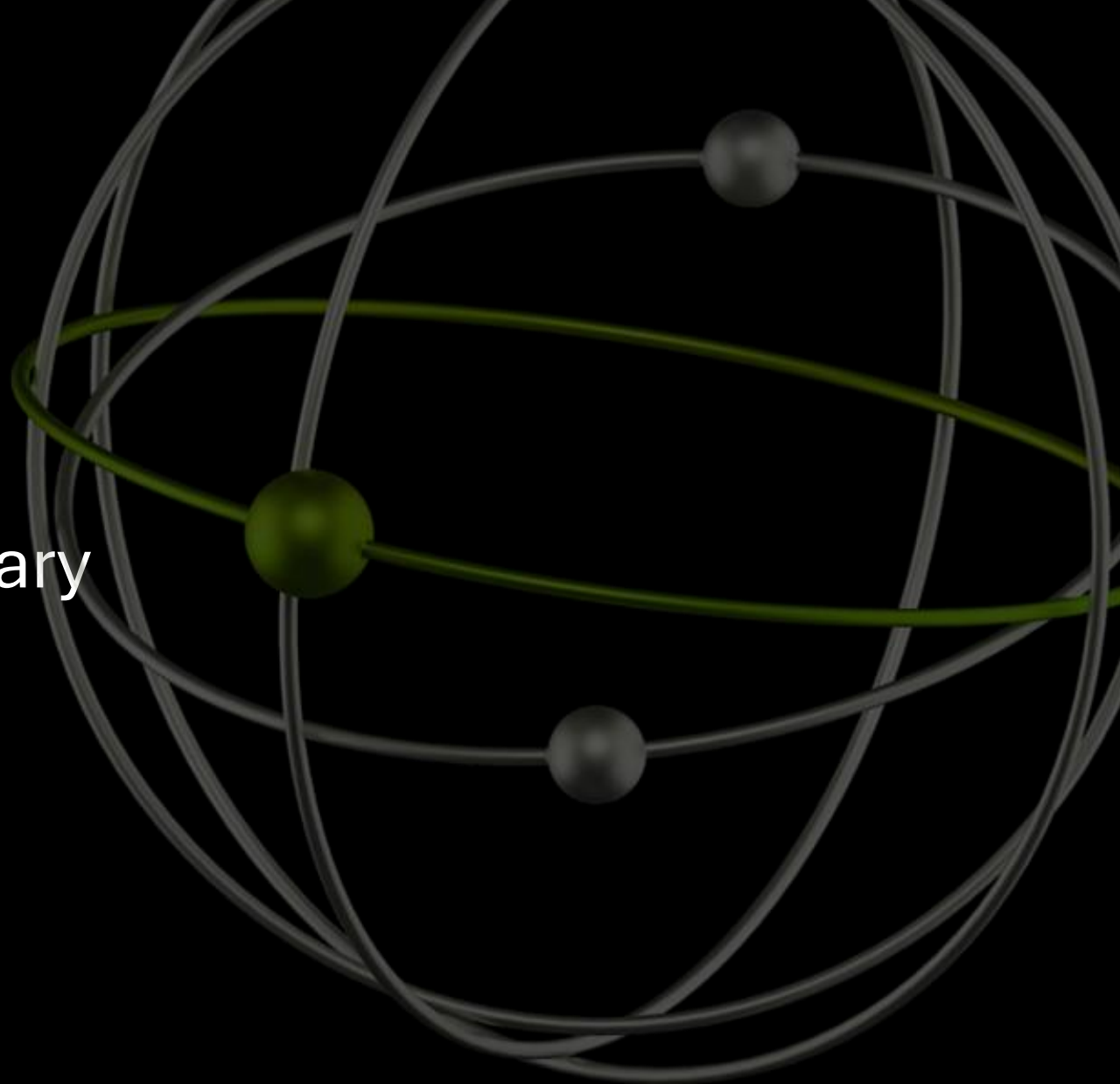
5. Termination Due to Illness

Only under very strict conditions (termination for personal reasons, three-step test by the Federal Labor Court (BAG))

6. Termination for feigning illness

Possible as termination for cause

03. Short-time work as a temporary crisis measure



Overview

- Short-time work is not a precursor to layoffs, but a separate measure.
- Short-time work is a response to a temporary loss of work, whereas termination for operational reasons requires a permanent loss of the need for employment.



Definition:

A temporary reduction in the hours of work regularly required, accompanied by a corresponding reduction in the right to compensation



Legal Requirements:

Short-time work requires a specific legal basis in a statute, a collective bargaining agreement, a company agreement, or an employment contract, as well as the participation of the works council



Advantages:

Opportunity to reduce personnel costs while retaining the company's know-how



Disadvantages/Risks:

High administrative burden and high risk of errors, with the danger that financial benefits may not be realized due to reversal of the arrangement

Legal Basis

- Short-time work cannot be imposed unilaterally by virtue of management authority.
- If short-time work is ordered unlawfully, this does not result in a reduction in working hours; the full wage entitlement remains in effect.

Sections 19 et seq. of the Employment Protection Act (KSchG)

Collective Bargaining Agreement

Company agreement

Employment contract / notice of termination with the option to modify the contract

- In the case of mass layoffs, upon application to the Federal Employment Agency
- For the period between the end of the notice period and the end of the waiting period
- Compliance with provisions in the collective bargaining agreement and the works council's right to co-determination
- Little practical significance
- Possible only if both parties are bound by a collective bargaining agreement (union membership, declaration of general applicability, reference clause in employment contract)
- The collective bargaining agreement governs the circumstances, duration, and scope of short-time work, the notice period, and, if applicable, compensation
- Possible only if there is no collective bargaining agreement in place or if the collective bargaining agreement does not contain a short-time work clause
- Directly results in a reduction of the agreed scope of work with a corresponding loss of the right to compensation
- Must specify the start date and duration of short-time work, the selection of employees, the scheduling and distribution of working hours, and the notice period (requirement for specificity)
- Experience shows that employment contracts rarely contain short-time work clauses
- For standard-form contracts: review of the general terms and conditions, particularly regarding reasonableness and the transparency requirement
- The works council's right to co-determination must be observed in any case
- Termination for cause involves significant legal hurdles and is not practicable

Co-determination right of the works council

Short-time work = temporary reduction of the standard working hours at the company, Sec, 87(1)(3) of the Works Constitution Act (BetrVG)



Collective matter: The reduction in working hours is due to operational reasons affecting the collective interests of employees



Scope of the right to co-determination: Whether, in which departments, to what extent, and by which employees or groups should short-time work be implemented? No co-determination right regarding mitigation of the financial consequences (Federal Labor Court)



Co-determination is a prerequisite for the validity of the introduction of short-time work; failure to comply results in no reduction in working hours and full entitlement to pay



If no agreement is reached, the conciliation board must be convened; the works council has the right to take the initiative to prevent layoffs for operational reasons through short-time work

Short-Time Work Allowance (1)

The employer must notify the competent Employment Agency in writing of the short-time work, enclosing a statement from the works council (Sec. 99 Social Code III)

Significant loss of work: due to **economic reasons** (e.g., lack of orders, sales difficulties) or an **unavoidable event** (e.g., unusual weather conditions or government measures)

Temporary loss of work: when the business can resume full operations within the foreseeable future (the duration of short-time work benefits is not exceeded, and the business is not closed)

Unavoidable loss of work: when the business has taken all reasonable precautions to avoid a loss of work (e.g., internal reassignments, cleanup and repair work, production for inventory)

A loss of pay **exceeding 10% of the monthly gross pay** affects **at least one-third of the employees of the business** in the respective calendar month

Business requirements: **A business or business unit located in Germany with at least one employee**

Personal requirements: Continuation of **employment under social security law after the start of the work stoppage** (no termination, no dissolution)

Short-Time Work Allowance (2)

Notice of Approval/Rejection: Confirmation from the Employment Agency that, provided personal eligibility requirements are met and the application is submitted properly, short-time work benefits will be granted for the duration of the work stoppage up to the maximum benefit period



Benefit Procedure: Approval of subsidies for affected employees for the respective benefit periods (calendar months); application by the employer within a 3-month deadline



Amount of short-time work allowance: **60% of the difference between the flat-rate net pay calculated from the contractual pay and the actual pay**—i.e., the pay actually earned during the eligibility period (67% for employees eligible for an increased unemployment benefit rate)



Duration of benefits: **12 months**

Legal Consequences of Effectively Ordered Short-Time Work

Suspension of the primary obligations under the employment contract



Reduction down to “short-time work zero” is possible

Impact on vacation entitlement:

- If short-time work is introduced for individual days of the week: pro-rata reduction of vacation entitlement (vacation must be calculated on a year-to-date basis)
- If short-time work is introduced with a reduction in daily working hours: no change in the number of vacation days, but entitlement to pay only for the reduced working hours

Case Law Box: Vacation During “Short-Time Work Zero”

- If an employee falls ill during the period for which “short-time work zero” has been effectively implemented, the days of work missed shall not be treated as equivalent to periods during which the employee was required to work for the purpose of calculating the amount of vacation time.
- If an employee receives sick pay (in the amount of the short-time work allowance) instead of the short-time work allowance because he or she was already ill before the start of short-time work, this does not preclude the valid agreement on short-time work.
- (Federal Labopr Court, Dec. 5, 2023 – 9 AZR 364/22)



Illness during short-time work does not automatically result in a change of vacation entitlement.



Short-time work must be properly implemented; otherwise, there are risks regarding pay and vacation.



Transparent vacation calculation and clear communication with employees are essential.

Summary

Short-time work as a temporary solution

Short-time work is based on a temporary loss of work; it is intended to secure employment and enable a return to the contractual work schedule.

Difference from Layoffs for Business Reasons

Layoffs for operational reasons require a permanent loss of the need for employment and must be plausibly justified on a case-by-case basis.

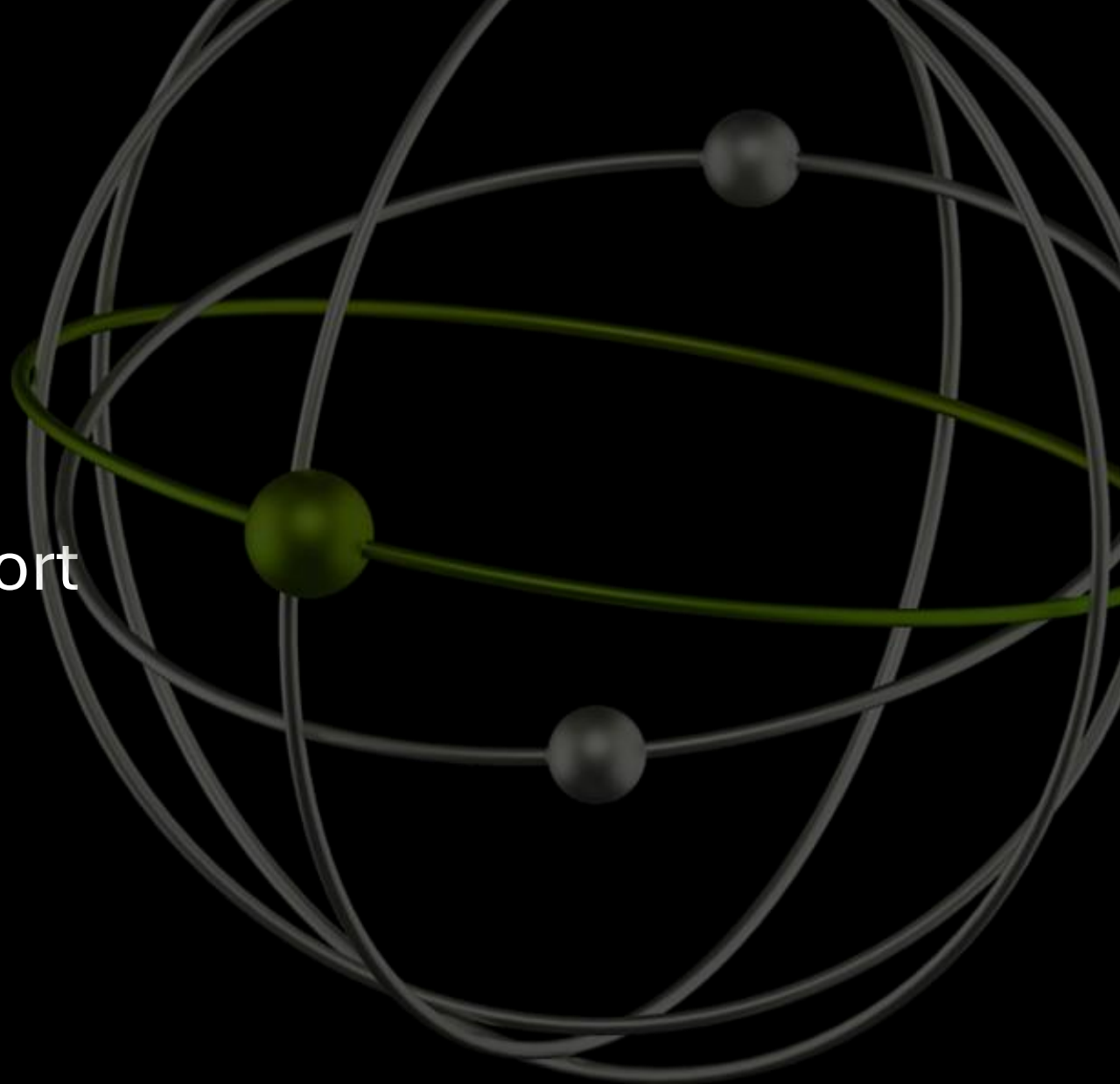
Avoiding a Break in Forecasts

Companies must document assumptions and changes regarding the employment situation to avoid conflicts in forecasts.

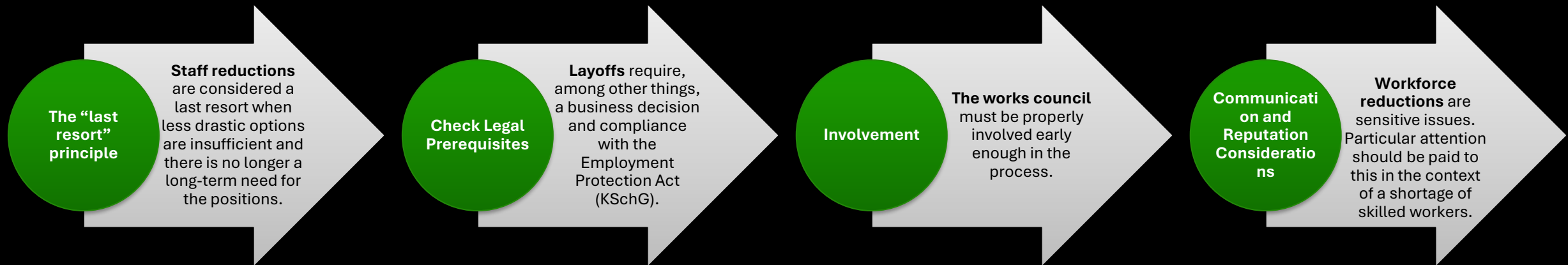
Relevance for companies in crisis

Short-time work and layoffs for operational reasons often go hand in hand during crises, which requires a consistent labor law strategy.

04. Staff reductions as a last resort

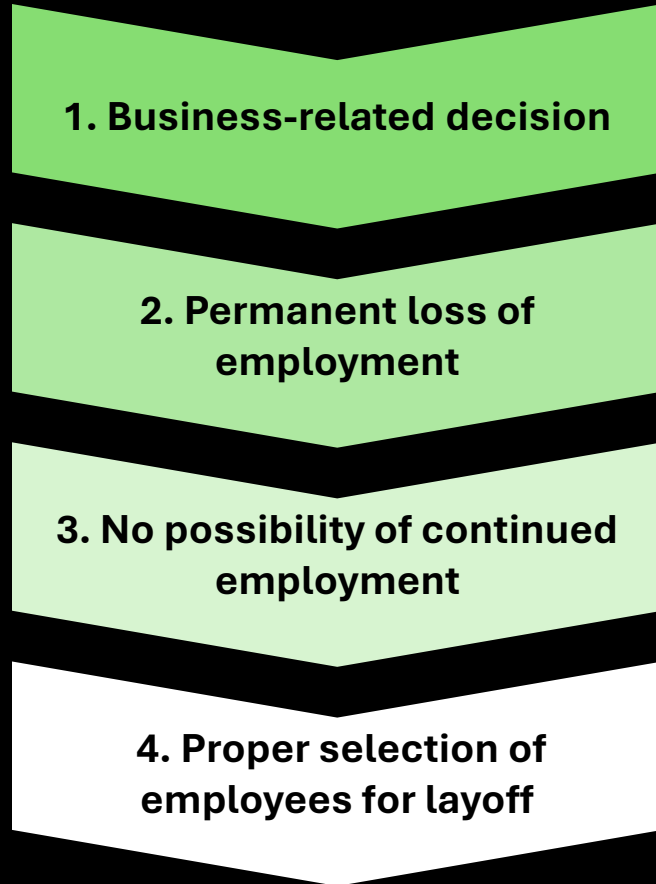


Workforce Reduction as a Last Resort – An Overview



The legal requirements are discussed in greater detail on the following pages.

Requirements under the Employment Protection Act



- Urgent business needs (e.g., decline in revenue, restructuring) lead employers to implement organizational changes such as department mergers or process automation—at the corporate or operational level (such as the closure of a business or part of a business, the relocation of a business abroad, or pure workforce reduction).
- The position must be permanently eliminated—not merely for cost reasons, but due to changes in the volume or structure of work.
- It must be verified that there are no vacant, suitable positions within the company—opportunities for retraining must be taken into account.
- The selection of employees for layoff must be based on the criteria of length of service, age, dependents, and severe disability.

If applicable, notice of mass layoffs pursuant to § 17 of the German Employment Protection Act (KSchG) is required if the relevant thresholds are exceeded → if a works council exists, its statement must be included.

The Role of the Works Council - What the Employer Must Specifically Do

Following a few key formalities can significantly reduce the effort involved in preparing for redundancies on operational grounds.

If a works council exists, it must be determined whether a simple reduction in staff or other changes at the company level trigger co-determination rights under §§ 111 ff. BetrVG.

- Consultation prior to each individual termination pursuant to § 102 BetrVG or approval pursuant to § 103 BetrVG → Termination is invalid without proper consultation
- The consultation must be comprehensive (a common mistake in practice!): The employer must set forth the underlying reasons; vague or incomplete justifications render the subsequent termination vulnerable to challenge (so-called “subjective determination”— BAG case law); details regarding the social selection process (comparison group, selection criteria, scoring system); if applicable, details regarding the possibility of continued employment (why there is no alternative)
- Submission of the hearing notice to the works council (dated, preferably with acknowledgment of receipt): The works council has 1 week to submit comments (for extraordinary terminations: 3 days)
- The works council may: express concerns (termination is still possible); file an objection pursuant to § 102(3) BetrVG (termination is still possible, but the employee is entitled to continued employment until the judgment becomes final); give its consent; or remain silent (silence = consent after the deadline has expired) → Termination may only be issued after the consultation period has ended
- Documentation: Fully document the handover, content, and response of the works council

IN THE CASE OF MASS LAYOFFS: CONSULTATION PROCEDURE, RECONCILIATION OF INTERESTS, AND SOCIAL PLAN

In the case of **mass layoffs**, the works council must be involved from the outset (Section 17 of the German Employment Protection Act (KSchG))

Negotiations on the reconciliation of interests (Section 111 of the Works Constitution Act (BetrVG))

- Mandatory for companies with more than 20 employees eligible to vote
- Subject: “Whether,” “When,” and “How” of the workforce reduction
- Content: Planned measures (scope, timeline), measures to mitigate hardship, and, if applicable, a list of names of employees to be terminated (Section 1(5) of the German Employment Protection Act (KSchG)) → significantly facilitates the judicial review of the social selection process (only gross errors are subject to review)
- No enforceable right to co-determination: If no agreement is reached, the employer may proceed—but the works council may refer the matter to a conciliation board

Important: If the employer deviates from the reconciliation of interests without a compelling reason, employees may be entitled to claims for compensation for disadvantages (§ 113 BetrVG)

Negotiations on the social plan (Section 112 of the Works Constitution Act (BetrVG))

- Mandatory in the event of operational changes that entail significant disadvantages for the workforce
- Purpose: To compensate for and mitigate economic disadvantages (in particular, severance pay, outplacement, training measures, and extended notice periods)
- Enforceable right to co-determination: If the parties cannot reach an agreement, the conciliation board makes a binding decision
- Typical elements of a social plan: Severance pay formula (e.g., 0.5 to 1.5 months’ salary × years of service), hardship provisions for particularly affected groups (older employees, severely disabled employees), outplacement offers

A procedural error in the works council process can render all terminations invalid—regardless of whether the substantive requirements were met. The procedure is at least as important as the substantive justification.

Employers often fall into one of these three pitfalls when downsizing

1
2
3

Lack of a Basis for Decision-Making

- Without a clear basis, staff reductions appear to be purely a cost-cutting measure. The position must have actually been eliminated
- A mere decline in revenue alone is not sufficient



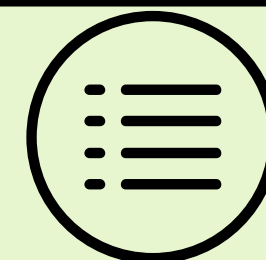
Errors in the selection of employees for layoffs

- Formation of comparison groups that are too narrow or too broad
- Inconsistent selection decisions



Inadequate involvement of the works council

- Inaccurate and incomplete information provided to the works council
- Failure to comply with mandatory co-determination requirements

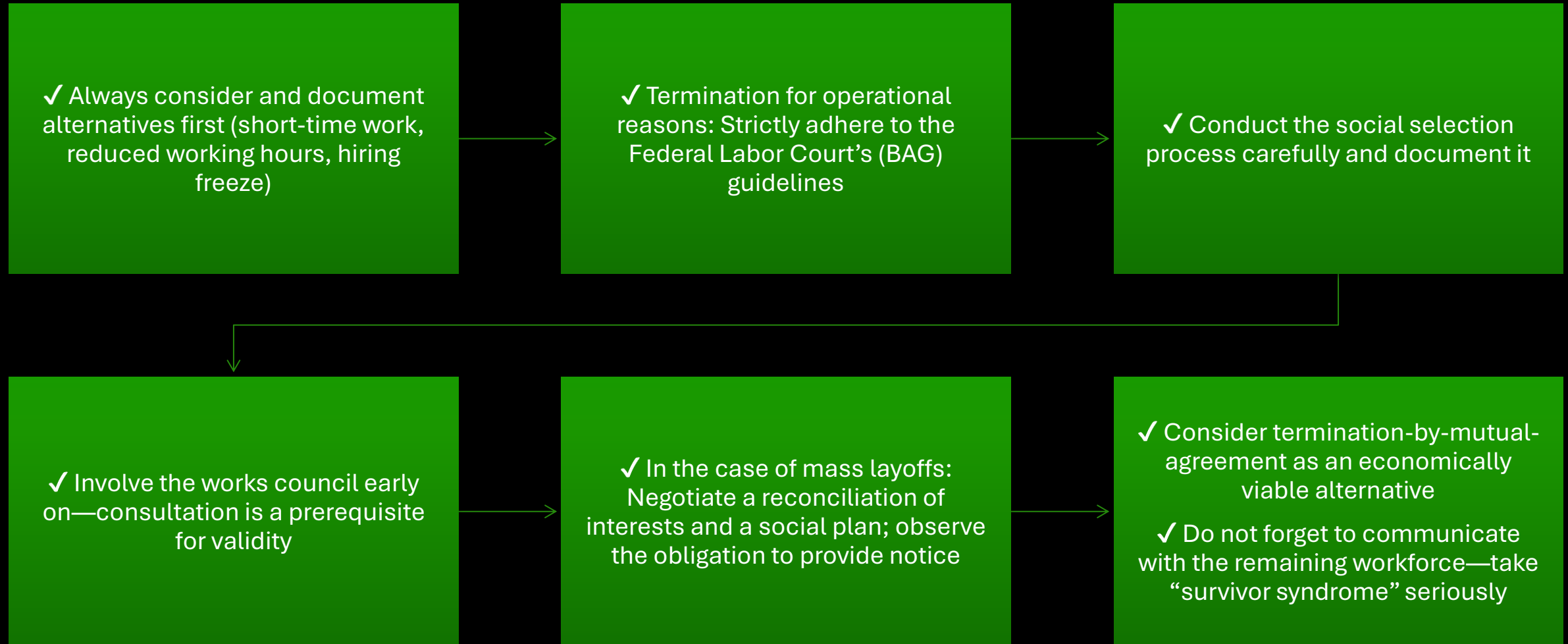


Staff reductions involve costs

Direct costs	Indirect costs
Severance pay: Common rule of thumb: 0.5 to 1.5 times the gross monthly salary per year of employment;	Loss of knowledge and experience: Long-term employees take implicit knowledge, customer relationships, and process know-how with them.
Social plans: In the case of mass layoffs (Sections 112, 112a of the Works Constitution Act (BetrVG)), these can be enforced by the conciliation board; contents: severance pay formulas, transfer company, outplacement	Reputational damage: Negative press coverage and reviews on platforms such as Kununu or LinkedIn; in times of a skilled labor shortage, a poor employer image can increase recruiting costs and deter qualified applicants.
Consulting costs: HR consulting, external consulting fees; costs of the conciliation committee; procedural costs	Loss of motivation (so-called “survivor syndrome”): Remaining employees react with uncertainty, mistrust, and an increased willingness to leave; sick leave among the remaining workforce is measurable by
Legal disputes: It is not uncommon for layoffs for operational reasons to end up in labor court; legal costs plus resources	Replacement costs: Recruiting and onboarding when hiring resumes after the crisis

Recommendations & Takeaways

Your Roadmap for Legally Sound Workforce Reduction



Q&A



**Thank you very
much**
for your attention

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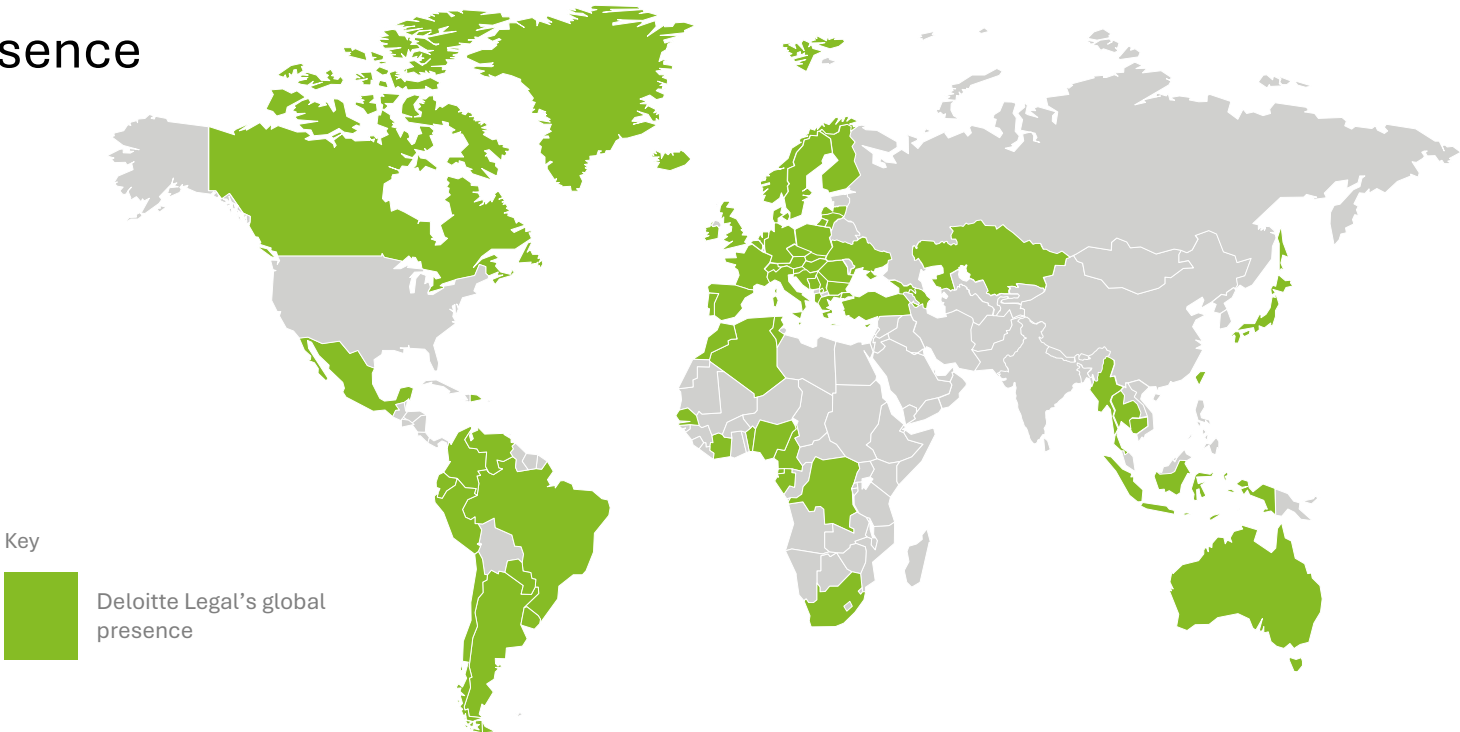
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