Vietnam's Overtime Trap:
Managing Compliance, Productivity and Commercial Risk

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Excessive overtime is more than just a labour-law compliance issue for manufacturers and their investors

The Hidden Cost of Overtime Dependency

For Vietnam's manufacturers, overtime is often treated as the quickest answer to a late order, a production bottleneck or a shortage of skilled workers. Yet when extended hours become routine, the problem goes beyond payroll. Employers can find themselves exposed to labour-law breaches, declining productivity, customer audit findings and complications when seeking investment or selling a business.

The critical question is not how to make excessive hours appear compliant after the event. It is how to organise production, workforce incentives and management controls so that unlawful overtime is not necessary in the first place. That requires a commercial response as much as a legal one.

Vietnam's Labour Code generally limits overtime to 40 hours per month and 200 hours per year, with a 300-hour annual limit available in specified circumstances and sectors, subject to applicable conditions and procedures. Daily limits, employee consent, rest requirements and premium-pay obligations also matter. The higher annual ceiling is not a general exemption, nor does it displace the monthly limit. Employers should assess the rules applicable to their activities and working-time arrangements before setting production schedules.

Planning for the Peak Before it Arrives

Most manufacturers can identify their busy seasons, demanding customers and recurring production constraints. Too often, however, workforce planning begins only after the pressure has arrived.

Sales forecasts, production capacity and staffing requirements should be reviewed together well before peak periods. Once orders are confirmed, management should know the labour

hours and skills required by line and by week. Early identification of capacity gaps creates options: recruitment, cross-training, additional shifts, subcontracting or renegotiated delivery schedules.

Commercial teams also need a clear rule: a delivery commitment that depends on unlawful overtime is not a sustainable commitment. The realistic cost of compliant production should be reflected in pricing and customer negotiations.

Design Shifts Around Sustainable Capacity

Where operations run continuously or for extended periods, rotating teams, staggered starts and structured handovers can distribute demand more effectively than repeatedly extending the same employees' working days. Shift patterns should be communicated sufficiently early for employees to plan their lives, with statutory rest periods and working-time limits built into the roster.

Employers should be cautious about informal "time banking" arrangements that seek to offset long hours in one period against shorter hours later. A later reduction in hours does not automatically erase overtime already worked or remove statutory pay and hour-limit obligations. Any flexible scheduling model should be checked against Vietnam's rules on normal working time, overtime and rest.

Build a Workforce That Can Expand With Demand

A resilient labour plan combines cross-training, appropriately structured seasonal or fixed-term recruitment, and reliable external production or staffing capacity. Cross-training reduces dependence on a few bottleneck positions; early recruitment allows new workers to become productive before orders peak; and qualified partners can provide additional capacity where commercially and legally appropriate.

The comparison should be made against the full cost of overtime, not just the wage premium. Fatigue, mistakes, material waste, absenteeism, turnover, safety incidents and compliance exposure all affect the true economics of production. Labour supply and subcontracting arrangements should themselves be reviewed for licensing, employment and customer-code requirements.

Break The Culture of Overtime-Dependent Earnings

In some factories, regular overtime has become an informal part of the remuneration model. Workers may budget around the extra income and supervisors may assume that a longer shift is the normal route to meeting targets. Over time, this can create a difficult incentive: employees may see limited financial benefit in completing work efficiently during ordinary hours, while management becomes reluctant to reduce overtime for fear of dissatisfaction or weaker output.

This is not simply a question of workers requesting more hours. It is a workplace culture that can develop through years of scheduling, wage expectations and production practices. Removing overtime abruptly, without addressing earnings and incentives, risks damaging retention and morale. Equally, permitting excessive hours because employees consent or prefer the income does not relieve the employer of its legal obligations.

The more sustainable response is to shift the emphasis from hours worked to productive performance. Employers can consider transparent productivity, quality, skills and team-based incentives, alongside a review of base pay and allowances. Measures should reward usable output, lower defect rates, safety and attendance where appropriate, rather than merely time spent on site. Targets must be realistic and should not encourage unsafe work, skipped breaks, unpaid work or concealed overtime.

This transition needs careful implementation. Management should model the effect on take-home pay, consult employees and their representatives where required, explain how incentives are calculated and test the scheme before a wider rollout. Remuneration policies must comply with minimum wage, overtime premium, payroll, social insurance and other applicable requirements. The objective is not to replace statutory overtime payments with bonuses; it is to reduce reliance on overtime by rewarding better productivity within lawful working hours.

Commercial Exposure: Customer Audits, Inspections and Transactions

Excessive overtime is also a commercial risk. International buyers, brands and supply-chain partners commonly assess labour practices through supplier codes of conduct, factory audits and periodic compliance reviews. Inaccurate time records or repeated breaches can

be more damaging than an isolated issue, particularly where they suggest that management systems cannot be relied upon.

Depending on the customer relationship and contractual terms, adverse findings may lead to corrective-action plans, intensified monitoring, delayed onboarding, restrictions on new orders or loss of preferred-supplier status. A factory that depends on excessive overtime to meet delivery promises may therefore jeopardise the very customer relationships that generated the demand.

The same issue can surface during investment, financing or M&A due diligence. A prospective buyer or investor may review payroll, attendance records, employment policies, production capacity and prior inspection findings to assess whether reported margins are sustainable under compliant working conditions. If profitability relies on hours that cannot lawfully be repeated, normalised earnings and future capacity assumptions may need to be revisited.

Unresolved labour compliance issues can also result in remediation costs, additional diligence, contractual warranties and indemnities, purchase-price adjustments or delays to completion. These outcomes are transaction-specific, but they illustrate why overtime records should be treated as evidence of operational quality, not simply an HR administration matter.

Employers should periodically test their own records as a buyer or customer auditor would: compare clock-in data, shift rosters, payroll and production reports; document exceptions; and ensure that corrective actions are genuine and traceable. Retrospective approvals or altered timesheets are not a credible solution.

Monitor The Numbers Before They Become Breaches

Overtime should be managed as an operational risk with clear ownership. Reviewing totals only at month-end is too late. Weekly monitoring during busy periods, by employee and by production team, can reveal emerging pressure while alternatives are still available.

Internal warning thresholds should sit comfortably below applicable daily, monthly and annual limits. Once triggered, supervisors should follow an agreed escalation process: redistribute tasks, change the production plan, engage additional capacity or refer the issue to senior management. Overtime requests, employee consent where required, approvals and actual attendance must be accurately documented, with payroll reconciled to the underlying records.

Management reporting should also include productivity, quality, absenteeism and labour turnover. A falling overtime total is not a success if work has simply been shifted off the clock or output quality has deteriorated.

A Compliance Strategy That Improves The Business

"There is no paperwork solution that turns unlawful overtime into lawful overtime."

The durable answer lies in realistic production commitments, compliant shift design, a flexible labour model, better incentives and reliable management information.

For Vietnam's manufacturers, this is an opportunity to strengthen productivity and employee relations while protecting customer relationships and enterprise value. The businesses best placed for growth, investment or sale are those able to demonstrate that their output and margins are sustainable without relying on excessive hours.

Alitium supports businesses in Vietnam with practical employment compliance, workforce planning and transaction-related reviews. A targeted assessment of overtime practices, remuneration structures and underlying records can help identify issues before they become legal or commercial problems.

Reach out to the Alitium's Vietnam HR & payroll advisory team at vietnam@alitium.com to assist with your payroll and overtime strategy.

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