

3 October 1987

His Excellency Sir David Wilson, K.C.M.G.,
Governor of Hong Kong.

Your Excellency,

Methodology for the 1987/88 Pay Trend Survey

In a letter to His Excellency the late Sir Edward Youde dated 20 October 1986, we recommended improvements to the methodology to be used for the 1986/87 Pay Trend Survey. His Excellency subsequently accepted those recommendations.

2. We have now reviewed the methodology to be used for the 1987/88 Pay Trend Survey. In formulating the recommendations outlined in the following paragraphs we have taken full account of the advice of the Pay Trend Survey Committee.

Timing

3. We recommend that the 1987/88 Pay Trend Survey should cover the period from 1 February 1987 to 31 January 1988. Furthermore, since Lunar New Year Day will fall on 17 February 1988, and to enable the data on Lunar New Year bonuses to be included in the calculations, the cut-off date for data collection should be set at 23 February 1988.

Survey Field

4. Following our recommendation in Report No. 9 that the list of companies used in future surveys should be made more representative, thirteen new companies were added to the survey field for the 1986/87 Pay Trend Survey, giving a total of 71 companies. While we would like to see continued efforts being made to improve the representativeness of the survey field, we consider that the size of the survey field should not be increased too frequently in order not to distort the trend. We propose therefore that the companies which were included in the 1986/87 Pay Trend Survey be used again.

Industrial Weighting

5. There has been some criticism, by the Employers' Federation of Hong Kong, concerning the use of industrial weighting. They argue that since the sample of companies used is not random, weighting serves only to distort the result. We do not agree with this view. We consider that the practice of weighting is necessary to even out discrepancies between the distribution of the surveyed population and the total working population.

Salary Bands

6. The number of salary bands to be used was again debated by members of the Pay Trend Survey Committee. The question of splitting both the upper and middle bands into two in order to obtain a more accurate picture was, as in previous years, discussed. However, having considered the matter further, Staff Side agreed to withhold their proposals on this point.

7. Representatives of the Model Scale 1 Staff Consultative Council proposed that separate information should be collected for Model Scale 1 since they considered that the current practice of combining this band with the lower band of the Master Pay Scale had been to their disadvantage. Whilst we consider that this argument has merit and should be examined further, we feel that in the light of the limited time available, the practice of using three salary bands should continue for the purposes of the 1987/88 Pay Trend Survey. A recommendation on whether Model Scale 1 should be split from the lower band should be made in time for any possible changes to be included in the methodology for the 1988/89 Pay Trend Survey.

Gross Pay Trend Indicators

8. Although the proposal to use Gross Pay Trend Indicators has been accepted in principle by members of the Pay Trend Survey Committee, they have again, as in previous years, been unable to arrive at an agreed formula to discount an acceptable amount, equivalent to merit payment in the civil service, from the Gross Pay Trend Indicators.

9. Their difficulty remains, firstly, the fact that the sizes of increments in the civil service vary, making it difficult to establish a standardised amount, and, secondly, the need to take into account the sizeable proportion of the civil service who are on the maximum pay point for their rank and therefore receive no annual increment.

10. We therefore recommend that, because of the technical difficulties involved, the present system of calculating Pay Trend Indicators should continue to be used until a suitable method of deducting an average overall incremental increase from civil service pay is devised. We shall keep this aspect of the methodology under review.

Additional Criteria

11. Under Criterion 1(a) for the calculation of the Pay Trend Indicators, participating companies would be included if they can provide and confirm survey data for not less than 75% of their total employees before the cut-off date for data collection.

12. When this criterion was reviewed by the Pay Trend Survey Committee this year, a number of representatives proposed that the 75% requirement should be raised to 100% as they noted that some companies had omitted to report the salary adjustment data for some of their senior staff and expatriate staff in the upper band.

13. We have considered this proposal carefully, but feel that if Criterion 1(a) becomes too restrictive, many survey companies may be excluded since there is a possibility that these companies might leave out a few employees from their report for a variety of reasons. Should this happen the sample size for the survey would be too small to be statistically reliable.

14. Because of this, and because it appears that the failure by some companies to report on their senior staff has not had any material effect on the findings of previous Pay Trend Surveys, we recommend that the existing 75% requirement under Criterion 1(a) should remain unchanged.

15. Under Criterion 4, survey data on apprentices and trainees are excluded. Recommendations have been made by the Pay Trend Survey Committee that the term "apprentices and trainees" should be re-stated as "craft and technician apprentices" in order to differentiate them from executive or other office trainees who should be included. We are in agreement with this proposed amendment to Criterion 4.

16. Members of the Pay Trend Survey Committee also agreed that temporary employees should be excluded from the survey. There were however different opinions as to how a temporary employee should be defined. One suggestion was that since it is the practice to take into account factors where 75% of staff are involved, it seems reasonable and logical that employees of a participating company should be included only if they have worked at least 75% of the normal weekly working hours in the company. We agree with this

suggestion. We further suggest that the actual time frame for the reference period should be fixed in order to facilitate the provision of statistics by the participating companies, and we recommend that the month of January, i.e. the last month of the survey be taken as the reference period since companies are required to provide for the survey the total number of their employees in that month.

17. It is recommended therefore that Criterion 4 be amended to read :

"Data on salary and additional payments relating to the following employees will be excluded from the calculation of the Pay Trend Indicators -

- (a) employees earning more than \$29,910 per month (above MPS 51 or equivalent);
- (b) craft and technician apprentices; and
- (c) employees who work less than 75% of the normal weekly working hours in the companies concerned in January."

Exclusion of Participating Companies

18. The suggestion was put forward at the Pay Trend Survey Committee that the Staff Side should be given the discretion to exclude, without question, up to three companies from the survey. It was argued that this was necessary because there could be instances where the Staff Side were not satisfied with either the information provided by, or the general pay policies of, these companies.

19. We consider that in order to preserve the credibility of the Pay Trend Survey, the criteria governing the exclusion of companies from calculation should be clearly defined and agreed upon in advance of the survey. If the criteria were to be decided only after examination of the survey information, the credibility of the survey would be compromised. We therefore recommend that this proposal should not be supported.

Conclusion

20. We believe that implementation of the foregoing proposals will serve to improve the methodology for the Pay Trend Survey, and we hope that they will be considered acceptable.

We have the honour to be
Your Excellency's obedient servants,

(S.Y. Chung)
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