

CHAPTER 4

PAY TREND SURVEY SYSTEM

4.1 The pay trend survey system produces annual indicators of the average pay movements of full-time employees of selected private sector companies in the survey field. Based on information of changes in salaries due to general pay increases, bonuses, merit payments and in scale increments collected by the Pay Survey and Research Unit from these companies, gross pay trend indicators are produced for three different salary bands for verification and agreement by the Pay Trend Survey Committee, prior to release for public information.

4.2 In accordance with the recommendations of a Committee of Inquiry in 1988, the Administration deducts the value of civil service increments at their payroll cost (expressed as a percentage of the total payroll cost for each salary band) from the gross pay trend indicators to produce the net pay trend indicators. In adjusting civil service pay, the Administration takes account of the net pay trend indicators plus other factors such as budgetary considerations and the prevailing social and economic conditions.

Pay Trend Survey Committee

4.3 The Pay Trend Survey Committee (PTSC) is an independent body established by the Government on our advice in 1983. Its main function is to commission the annual pay trend survey and agree to its results. Insofar as the conduct of the annual pay trend survey is concerned, the PTSC is the only and final authority. Membership is given at Appendix H. The Pay Survey and Research Unit (PSRU), under the guidance of the Secretary General, continued to provide support to the PTSC.

4.4 On 1st January 1996, Mrs Janie Kaung, JP, who is a Member of the Commission, was appointed Alternate Chairman of the PTSC in lieu of Mr K N Tang, JP, upon Mr Tang's retirement from the Commission. We would like to take this opportunity to thank Mr Tang for his valuable contributions.

4.5 The PTSC held four meetings during the year: the first in January to commission the 1995/96 pay trend survey; the second in May to examine and validate the findings of the survey; the third in September to review the survey methodology in preparation for the 1996/97 survey; and the last one in

October to consider the question of including two additional companies from the Community, Social and Personal Services sector to the survey field in the pay trend survey for 1997/98.

1995/96 Pay Trend Survey

4.6 The 1995/96 pay trend survey took place between February and May 1996. The PSRU collected information on pay adjustments in 75 participating companies over the twelve-month period from 2nd April 1995 to 1st April 1996 and analysed the data in accordance with agreed criteria. After considerable debate, the PTSC validated the results and published the gross pay trend indicators on 20th May 1996. A summary of the results of the survey is at Appendix I. Revised pay scales with effect from 1st April 1996 are given at Appendix J.

Review of Pay Trend Survey Methodology Sampling Methods

4.7 The existing companies in the pay trend survey field are selected on the basis of criteria approved by PTSC, the Commission and the Government. At the Commission's meeting in November 1995, the question of whether probability-based sampling methods should be adopted in the selection of companies for inclusion in the pay trend survey field was raised. The Secretary General approached the Commissioner for Census and Statistics for advice and PSRU staff conducted research on this issue.

4.8 The Commissioner's view was that if probability-based sampling methods were employed, survey results would, generally speaking, be more reliable and, given the firmer scientific basis of the methodology, they tended to be more credible. However, he was also of the view that "a survey does not necessarily produce inaccurate results even if the sample is not probability-based, especially on those occasions when variations among study units are small". For probability-based sampling to be applied to the pay trend survey, an appropriate sampling frame and a sampling scheme would be required. This would in turn require decisions on sample size as well as sampling design.

4.9 There were a number of problems to be resolved -

- (a) Sampling frame - one of the criteria for selecting companies for inclusion in the pay trend survey requires that the company normally employs 100 employees or more. However, the Central Register of Establishments (CRE) of the Census & Statistics

Department uses geographical location as the base for defining establishments. Thus, a list of establishments with 100 employees or more extracted from the CRE would exclude companies with branches in different geographical locations where the branch employs, say, 20-30 persons. Further, where a company has several branches each employing over 100 persons, duplications will arise.

- (b) Sampling frame - an investigation or assumption needs to be done to establish "good and steady" employers.
- (c) Sample size - the CRE currently has over 2,300 establishments. A suitable sample size will have to be worked out based on decisions on (a) and (b) above.
- (d) Response rate and accuracy of results - the statistical approach will probably net many companies who are not willing to supply data to the Government. If this is the case, the reliability of the survey results would be called into doubt.
- (e) Resource implications - considerable staff resource would be required.

4.10 Apart from seeking the advice of the Commissioner for Census and Statistics, the Secretary General also consulted human resource professionals and actuarial companies. Their unanimous view was that the selection of companies in a pay trend survey should have regard to the objective of the exercise. Acceptance by relevant parties would be essential, and concern for statistical purity of secondary importance.

4.11 At the Commission's meeting on 1st February 1996, we considered the research findings very carefully. Having regard to the professionalism achieved by the pay trend surveys so far, the sensitivity of the survey exercise and the small variation in pay awards for the vast majority of companies in the survey field, we considered that the current methodology used in the selection of companies for inclusion in the pay trend survey field should remain unchanged.

Comprehensive Review of Methodology

4.12 In August 1996, the Secretary General and PSRU, in consultation with the Staff Sides and the Administration, conducted a thorough review of the methodology for the pay trend surveys. The salient features of the review are listed below.

A. The Survey Field

4.13 The PSRU reviewed the 78 companies in the present survey field and was of the view that all of them satisfied present criteria.

4.14 The established practice was to review the survey field every three years. In view of Hong Kong's economic transformation in recent years, there was justification to review the survey field more frequently. A more frequent review would mean that changes to the survey system would be brought along gradually and incrementally. The PTSC agreed to review the survey field annually in future.

4.15 Since Hong Kong's focus of economic activity has gradually shifted over the years from manufacturing to services, it was considered that two companies from the Community, Social and Personal Services sector should be included to enhance the representativeness of the survey field. The PTSC endorsed the proposal and decided that action should be taken by the PSRU to identify two new companies from this economic sector for inclusion in the pay trend survey for 1997/98.

B. Criteria for Individual Companies to be included in the Survey Field

4.16 Some PTSC Members were previously of the view that drastic downsizing of a company indicated that it was not a good and steady employer. After much debate, it was agreed that whether a company increased or decreased its workforce was mainly dictated by the business environment in Hong Kong and might not be directly related to whether the company was a good and steady employer. The PTSC agreed therefore that the present definition of "good and steady employer" should remain unchanged.

C. Salary Bands

4.17 The following three salary bands have been used for the collection of survey information -

- Lower band : Below Master Pay Scale (MPS) Point 10 or equivalent (currently \$13,415 per month)
- Middle band : MPS Points 10-33 or equivalent (currently \$13,415 to \$41,140 per month)
- Upper band : Above MPS Point 33 to General Disciplined Services (Officer) Pay Scale (GDS(O)) Point 38 or equivalent (currently \$41,141 to \$81,785 per month)

The cut-off point of MPS Point 10 between the lower and middle bands was considered logical as it was the matriculation benchmark, whereas MPS Point 33 between the middle and upper bands coincided with the traditional "senior officer" salary point. The upper limit of the upper band included all top non-Directorate officers in the civil service. Since the existing classification of three salary bands had been well accepted by the surveyed companies, its continuation was important to enable a firm basis for the comparison of data. No change was therefore recommended.

D. Employees Covered

4.18 According to criterion 5 of the survey methodology, the pay trend survey should cover all employees in the participating companies with the exception of -

- (a) employees whose basic salaries are above the dollar term of GDS(O) Point 38 or equivalent (currently \$81,785 per month);
- (b) craft and technician apprentices;
- (c) employees working less than 75% of the normal weekly working hours in the companies concerned on the last day of the survey period; and
- (d) employees remunerated at piece-rates.

4.19 It was pointed out that criterion 5(c) might well exclude persons who were normally full time employees but who happened to work less than 75% on the last day of the survey period. For the sake of clarity and in keeping

with the spirit of the criterion, it was suggested that criterion 5(c) be reworded to read: "part-time employees who are certified by the company concerned to work less than 75% of the normal weekly working hours in that company; and". An additional exclusion sub-group 5(e) "All imported labour" was also suggested to reflect the situation that the pay trend survey has never included imported labour and would not do so in future. Arising from these changes, corresponding changes would be made to calculation criterion 9(3).

E. Components of Pay Adjustment

4.20 Salary increases on account of the following factors have been included in the calculation of the gross pay trend indicators -

- (a) cost of living;
- (b) general prosperity and company performance (including year-end bonuses);
- (c) general changes in market rates; and
- (d) in scale increment and merit.

4.21 The PSRU draws a distinction between pay elements which are part of general remuneration and those which are particular to individuals. The PTSC agreed to the practice that adjustments arising from promotion/transfer and internal/external relativities should continue to be excluded from the calculation.

F. Additional Payments of a Temporary Nature

4.22 The PTSC re-confirmed the PSRU's current practice of including additional payments of a temporary nature in the calculations of the gross pay trend indicators.

G. Monetisation of Fringe Benefits

4.23 Among the companies in our survey field, one company paid monetised benefits in the form of allowances. Such allowances were not taken into account in the calculation of the gross pay trend indicators. There was another company in our survey field which incorporated monetised benefits into the basic salaries of its senior employees but advised the PSRU that it was

not possible to "fit" these employees into our three specified salary bands. Since any artificial apportionment would be inappropriate, the category of employees in question was excluded from the 1995/96 pay trend survey. On the whole, the PTSC was satisfied that the current methodology was effective in ensuring that only relevant data would be included in the calculations.

H. Exclusion from the Survey Field

4.24 Criterion 9(1)(d) of the survey methodology provided that "companies participating in the survey will be included in the calculations provided that their economic activities, company size or salary structure has not changed to such an extent that it is no longer appropriate for the data provided by them to be compared with the data provided in the previous year". The key issue is, therefore, comparability of data. In the past three years, there were several companies whose company size changed by 40% or more due to automation, process re-engineering, greater efficiency of staff, transfer of manufacturing functions elsewhere and reduction of consumer demand.

4.25 The issue of whether or not downsized companies should be excluded from our survey field was a sensitive one. The Secretary General and PSRU were most reluctant to disregard valid data which could be compared with those of previous years. They also pointed out that the majority of private sector employers would not accept that downsizing of a company would automatically discredit its data. The Secretary General urged that action should not be taken to damage the strong foundations of cooperation with the private sector over the operation of the pay trend survey.

4.26 After considerable debate, the PTSC agreed that, in future, in the case of significant changes in the size of a company's full-time employees, the comparability of its pay data should remain the key criterion on the question of whether that company should be included or excluded from the survey field. However, the pay trend survey timetable would be advanced so that the PTSC could, if necessary, meet and consider the circumstances of individual cases.

I. Pay Adjustments Based on Factors not Pertaining to Hong Kong

4.27 According to the spirit of selection criterion 3(b)(iii), "individual companies in the survey field should determine pay on the basis of factors and considerations applying to Hong Kong rather than factors applying in another country". The PSRU recommended, and the PTSC agreed, that provisions be

included in the calculation criteria so that, in future, employees whose salary adjustment was based on overseas factors would automatically be excluded.

J. *Inclusion of Data Relevant to a Survey Period*

4.28 Calculation criterion 9(5) stated that "Data on salary and additional payments for company employees in a particular band are included in the calculation of the pay trend indicators only if by a specified date the company has announced adjustments for not less than 75% of the employees in that band to take effect in the survey period". In the 1995/96 pay trend survey, one company, which used to pay bonuses to its employees annually in January, adjusted the payment date to 2nd April 1996. Having regard to all circumstances, the Secretary General ruled that the payments on 2nd April 1996 should be deemed to have been made in the survey period. This was accepted by PTSC and the Commission subsequently.

4.29 To make clear the spirit of the criterion, the PSRU recommended, and the PTSC agreed, that the phrase "to take effect in the survey period" in calculation criterion 9(5) be replaced by "relevant to the survey period".

K. *Non-disclosure of Information*

4.30 During the course of the pay trend survey, some companies declined to provide information on a small number of employees. The PSRU was of the view that to facilitate cooperation, the desire of some companies to keep a small amount of pay data confidential should be respected, provided that the purpose of the pay trend survey was not jeopardised. The PTSC agreed.

L. *Rounding of Decimal Places of the Pay Trend Indicators*

4.31 One Legislative Council Member suggested that the gross pay trend indicators should be rounded to one decimal place instead of two as has been the practice. However, the PTSC thought that the use of two decimal places had distinct advantages over the use of one decimal place.

Preparation for the 1996/97 Survey

4.32 At its meeting on 10th September, 1996, the PTSC considered that the current pay trend survey methodology had basically worked well and

recommended that, apart from minor amendments to criteria 5 and 9(3), the methodology should remain unchanged.

4.33 At the Commission's meeting on 7th November 1996, we endorsed the PTSC's recommendations. The Commission's letter to the Governor tendering advice on this subject is reproduced at Appendix K. Our advice was accepted by the Administration on 16th December 1996.

Fringe Benefit Survey

4.34 The Fringe Benefit Survey (FBS) is commissioned by the Administration and undertaken by PSRU to keep track of the pattern of fringe benefit provisions in those private sector companies participating in the pay trend survey. It is not the aim of the FBS to find out the total package of individual jobs; the PSRU's focus is rather on the pattern of benefits available to local employees in three different salary bands.

4.35 In 1995/96, the FBS covers 75 companies spread over a wide cross section of economic sectors, employing some 130,000 persons. It shows the position for staff earning a basic annual salary of not more than \$980,000 (i.e. broadly equivalent to the "non-Directorate" civil service).

4.36 According to the survey findings, benefits which are widely available in the private sector include superannuation benefit, housing benefit, as well as medical consultation and hospital benefit. However, other benefits such as dental benefit, leave passage, and educational allowance for children are less common.

4.37 On the whole, most employees covered in the survey enjoy more favourable terms for annual leave, sick leave, maternity leave, etc., than the statutory provisions for leave under the Employment Ordinance. Furthermore, most companies provide their staff with marriage leave and compassionate leave.

4.38 It is worth mentioning that many fringe benefits in the private sector serve the purpose of retaining employees. These include -

- (a) employer's contribution and vesting scale in provident fund plans increasing in step with length of service;

- (b) housing assistance such as housing loans, interest subsidies and rental allowances;
- (c) leave earning rates increasing in step with length of service; and
- (d) share purchase scheme at a discount.

4.39 A summary of the findings of the 1996 FBS is attached at Appendix L.

4.40 At our meeting on 5th September 1996, we were briefed on the findings of the 1996 Fringe Benefit Survey. As a result, we asked for a report from the Administration on the Government policy regarding quantum, eligibility rules and the mode of dispensation of civil service fringe benefits. We consider that such a report should also explain the rationale behind the benefit packages, the intended coverage, the actual coverage achieved, total expenditure in each area and any attempt by the Administration to relate civil service benefits to those in the private sector. We understand that the Administration is in the process of compiling a comprehensive report as we have requested.