

CHAPTER IV : FINDINGS

Pay Trend Survey Methodology

4.1 Task (a) of our terms of reference requires us to review the methodology employed in the 1987-88 Pay Trend Survey and the interpretation of its findings. For the purposes of this interim report, as we have explained in paragraph 1.6, we regard such a review not as an end in itself but as the necessary preliminary to the "operational" task of advising on the 1988 pay settlement. Our point of departure has to be the information provided by the survey as it was in fact conducted. We see no purpose therefore in considering comprehensively in an interim report those issues of methodology which it may be important to solve for the future but which cannot affect our conclusions on the 1988 pay adjustment. We have therefore concentrated mainly on those issues where some change in methodology or some re-interpretation of the findings is both possible and seems to us desirable in the interests of obtaining a result which more closely reflects what has actually happened in the survey field.

4.2 All the evidence we have received points to the retention of the pay trend survey system as the basis for civil service annual pay adjustment. We are unlikely to dissent from this view, although we reserve judgement until our final report. There is, however, a need to re-examine and, where appropriate, to redefine, the elements to be included or excluded in the calculation of the pay trend indicators. We take it as axiomatic that any system of pay comparison which is to have the confidence both of civil servants and the general public must distinguish as carefully as possible between pay elements which are formally or effectively part of general remuneration and those which are particular to the circumstances of individuals and reward exceptional effort or compensate for special inconvenience; and that wherever possible any special factors which might unfairly distort the calculation of annual pay trends should be excluded.

4.3 But while every effort should be made to distinguish such elements, the difficulty of doing so in Hong Kong is considerable. Private sector companies have their own widely varying pay practices often far removed from the tightly structured civil service pay system. It would be unreasonable to suggest that they should modify their practices simply to accommodate the pay trend

survey system. This system depends crucially on the co-operation of the firms which provide the information. An over-detailed or inquisitorial approach would risk forfeiting their goodwill and thus endangering the survey system itself. Nor could the dissimilarities of pay structure and practice be reduced by selecting only firms whose pay regimes were not too unlike that of the civil service. The field of possible survey firms is itself severely limited and it would be counter-productive to reduce the coverage by such a restriction.

4.4 No one has suggested to us that the elements at present included in the calculation of the net pay trend indicators (cost of living, general prosperity and company performance and general changes in market rates) should not continue to be included, and we for our part have no doubt that they should. The problems lie with the factors at present excluded under the headings of promotions, transfers, internal and external relativities, merit payments and in-scale increments. At this point we should make clear that we think it unlikely, as the Staff Side have asserted, that the companies participating in the pay trend survey are reporting pay increases other than in accordance with their standard pay practice. There is, for example, a worldwide trend towards rewarding staff for

individual merit and it would be surprising if Hong Kong were exempt from it. If pay adjustments in the civil service are being adversely affected by this trend, then it is not because the figures are being manipulated but because the pay trend survey system has failed to keep up with developments in private sector pay practice.

Promotion and Transfer

4.5 It is right that pay increases arising from promotions and transfers should be excluded from the calculation of the pay trend indicators. Genuine promotions and transfers produce one-off payments which have nothing to do with general pay awards; and, taking one year with another, any effect on pay costs balances out. To include such increases in the pay trend indicators would therefore distort the figures which are designed to show the general movement in pay.

4.6 The concern of the Staff Side is that promotions given to a large number of staff may be in effect no more than another means of providing a pay increase for the same job. They have therefore suggested that promotion should be defined as what happens when an individual takes on a new job with increased responsibility and the vacated post

is filled by another person. We accept that promotions should normally comply with this definition. But we cannot rule out that, as in the civil service, they may occur as a result of restructuring within an organisation. We see no reason, however, why this definition should not be conveyed to the surveyed companies as being the standard assumption for survey purposes and why they should not be asked to explain any promotions not in keeping with it, for example, where promotions or job reclassifications have been given to unusually large numbers of staff. In such circumstances, it should be open to the Staff Side to request, and be given, an explanation for any apparent deviation from the definition and, if they are not satisfied, to ask that the survey results for that particular company be excluded from the calculation of the pay trend indicators. Where a company promotes a significant percentage of its staff over a number of years, even though such promotions are made on an entirely genuine basis, it is for consideration whether the pay practices of that company are not such as to make it unsuitable for inclusion in the survey field.

Internal and External Relativities

4.7 Pay increases arising from internal and external relativities are intended to cover the situation where there is a need to adjust the pay of a particular job or jobs rather than the pay of staff generally. They are justly regarded as mirroring individual grade pay adjustments in the civil service. As with promotions and transfers, we believe these should continue to be excluded. If they are not, then the overall movements in pay will be distorted in the year in which such adjustments are made.

4.8 We nevertheless accept that widespread pay increases for internal and external relativities within a single company may be difficult to distinguish from pay increases reflecting general market rates. When there is real doubt about the correct classification and where the exclusion of increases under this heading would materially depress the pay trend indicators we consider that, as with promotions and transfers, the Staff Side should be entitled to an explanation for any unusual level of increases ascribed to internal and external relativities, and if they are dissatisfied with that explanation, to request that the company concerned be omitted from the calculation of the pay trend indicators in that particular year.

4.9 In this connection we emphasize the need here, as elsewhere, for commonsense and goodwill in the interpretation of the data. It is important to maintain the principle of excluding these increases from both sides of the comparison. An extreme example of the need to do so is that if they were included the pay increases recommended for the Disciplined Services in a recent report would have the effect of depressing the pay trend indicators for the whole of the civil service. In our view it would be wrong to operate the pay trend system in such a way as to achieve this result. So important is the principle of exclusion here that we urge those concerned not to challenge particular exclusions under this head unless there are particularly weighty reasons for doing so.

Merit Payments

4.10 We think there can be no dispute about the principle of excluding from pay comparisons individual payments which reward special effort provided always that they can in practice be so identified. The essential feature of such payments is that the performance they reward should be outstanding rather than, for example, merely satisfactory or good. In other words, it should be well above the average of the group or of peer employees;

and it should normally have to be continuously earned. We are aware that merit payments so defined shade off into a variety of broader arrangements incorporating the merit concept in varying degrees. One obvious example is range pay where progression may be selectively based on comparative merit though an "average" rate for the job can be deduced.

4.11 The Pay Survey and Research Unit's questionnaire to the surveyed companies defines merit pay as "an adjustment to the salary of an individual employee which reflects his or her personal performance. Where companies make merit payments they must be able to demonstrate that some individual employee within the same group has received a discretionary addition to the general increase and that it is based on a staff appraisal system". We agree with this definition so far as it goes though we note that it refers to "performance" rather than to outstanding or above-average performance and that it does not make clear whether, to qualify as merit, a payment should be "one-off" and renewable only by sustained excellence of performance.

4.12 In any event, it is apparent from the survey information that in the private sector of Hong Kong some merit schemes appear to go well beyond the concept of

rewarding outstanding individual merit. It is apparently not uncommon for merit payments to be made to the majority or even to all employees of a particular company. Some seem to reward merely satisfactory performance; or even simply to identify, by exclusion, those employees whose work is unsatisfactory. We do not in any way suggest that such arrangements are not perfectly valid in the circumstances of the companies which devise them. But they make it very difficult to justify the total exclusion of all merit payments from the pay indicators or to decide how best to treat these elements of outside pay increases with fairness to all concerned. We are clear, however, that on any commonsense view some of the increases classified as merit payments must be regarded as indistinguishable from general pay increases for the purposes of producing a realistic net pay trend indicator.

4.13 Merit payments make up a significant part of the annual pay increases of some companies in the private sector so that the way they are dealt with is very important. It is not surprising therefore that the Staff Side's main concern in the present dispute has been about their total exclusion from the calculation of the net pay indicators. The Official Side also recognises that there is a problem in this regard. The question is whether it is

possible on present information to disentangle the various types of merit pay in the survey firms and to reach an informed judgement on which payments should be accepted as being effectively part of a general pay increase, and which should not.

4.14 Unfortunately, it is not possible to separate different types of merit payment from the available pay trend survey data to the extent needed for such a judgement. Moreover, it is in our view doubtful whether sufficiently accurate and detailed information to make such an identification could be provided in future surveys. We have been impressed by the emphasis which virtually all those who gave evidence placed upon the differences between the pay practices of the private sector and those of the civil service. Nor can there be any doubt that the more detailed the attempted analysis the more scope there will be for argument and dispute about the interpretation of the data. These considerations lead us to question whether the whole concept of net pay trend indicators is the right one for pay trend surveys.

4.15 It may well be therefore that the best solution to the problem of merit payments is to by-pass it by adopting, if not gross pay trend indicators, at least pay

trend indicators which include private sector merit payments and in-scale increments. Civil service increments would also have to be taken into account in one way or another. This is not because we see any relationship between merit payments and civil service increments. The latter are granted automatically, except on very rare occasions when they are withheld on disciplinary grounds. They are not, by any definition, a form of merit payment.

4.16 But in our opinion the argument whether or not increments and merit payments are related is a red herring and has tended to obscure the real problem to be addressed. The purpose of a pay trend survey is to establish the comparative movement in pay between two distinct and dissimilar pay packages. The fact that certain of the components of those packages do not exist in the private sector or the civil service does not necessarily mean that they should not be taken into account. If merit pay is to be added to movements in pay in the private sector there is a respectable case for making allowance for increases due to civil service increments.