

APPENDIX IV

20 October 1986

His Excellency Sir Edward Youde, G.C.M.G., M.B.E.,
Governor of Hong Kong.

Your Excellency,

Methodology for the Pay Trend Survey

In a letter to Your Excellency dated 5 November 1985, we had the honour to recommend improvements to the methodology to be used for the 1985/86 Pay Trend Survey. Your Excellency subsequently accepted these recommendations.

2. This year, although a Pay Level Survey is also being carried out at the same time, we thought that the 1986/87 Pay Trend Survey should still be conducted firstly as a safeguard in case the Pay Level Survey could not be completed in time and secondly, to ensure continuity in the comparison of pay trend survey results. Having decided that both surveys should be carried out, we proceeded with a review of the methodology for the Pay Trend Survey, as we did last year. 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 1986/87 Pay Trend Survey should cover the period 1 February 1986 to 31 January 1987. Furthermore, the cut-off date for the submission of data should be 4 February 1987, to enable relevant data on Lunar New Year bonuses in the private sector to be included in the calculations. (Lunar New Year's day falls on 29 January 1987.)

Survey Field

4. In our Reports Nos. 7 and 9, we drew attention to the inadequacy of the existing survey field to reflect accurately the spread of Hong Kong's economic activity or the actual distribution of its workforce. We further recommended in Report No. 9 that, the actual list of companies used in future surveys should be made more representative of the major areas of economic activity in Hong Kong. Accordingly, we now recommend that thirteen companies should be added to the existing survey field. These thirteen companies belong either to the manufacturing sector or to the wholesale, retail, import/export, restaurant and hotel sector, which are, at present, under-represented in the survey field.

5. A company in the construction sector was excluded from the 1985/86 Pay Trend Survey because it had been unable to identify separately the various salary adjustment component factors for the previous three years. However, the company has recently indicated that it is now in a position to provide the information required and we therefore recommend that it be included once again in the survey field.

6. The inclusion of the thirteen additional companies and the re-inclusion of the company mentioned in paragraph 5 will raise the total number of companies in the survey field from 57 to 71. This expanded survey field should be more representative of the current employment distribution in Hong Kong as a whole. The data collected in the survey should continue to be weighted to reflect the major categories of employment in Hong Kong.

Salary Bands

7. During Pay Trend Surveys carried out over the past two years, we recommended that the question of whether the number of salary bands used should remain at three or be increased to four should be left to the Administration for a decision, since we considered that the arguments for and against such a change were evenly balanced. When the subject was brought up for consideration again this year, we felt that to split the upper band into two in order to obtain a more accurate picture of pay movement at this level, as suggested by some members of the Pay Trend Survey Committee, would cause additional work for the participating companies,

which might not be willing to provide further breakdowns on the existing salary bands. Although an increase in the number of bands would bring the Pay Trend Survey methodology closer into line with that of the Pay Level Survey, we do not think that the present three-band structure of the Pay Trend Survey warrants any changes. This is because, whilst it is necessary for the Pay Level Survey to take into account the considerable differences in entitlement to fringe benefits at different salary levels, a consideration which has resulted in a five-band system being used in that survey, this is not the case for Pay Trend Surveys, which are surveys of pay only and which do not take into account fringe benefits. We therefore recommend that the number of salary bands for use in the Pay Trend Survey should not be increased, but should remain at the existing three.

Gross Pay Trend Indicators

8. The proposal to use gross pay trend indicators, which would include increases attributed to all factors, including merit, promotion, transfer and others, was made by Staff Side representatives on the Pay Trend Survey Committee during discussion of the 1985/86 Pay Trend Survey methodology. The advantages of such an approach are that it entails a much simpler data collection process and affords the opportunity to include those companies which would otherwise be excluded because of their inability to separate merit payments from other factors. In view of a seemingly growing trend amongst companies to provide information which does not distinguish sufficiently between general increases and merit increases, such improvements to the methodology would be extremely useful. However, the chief difficulty inherent in such an approach lies in identifying an acceptable amount, equivalent to merit payment in the civil service, which could then be deducted from the gross pay trend indicators. Firstly, given that the sizes of increments vary within as well as between different pay scales, it is extremely difficult to establish a standardized amount to be deducted from civil service pay. To deduct an overall average incremental increase from the pay scales may result in substantial changes in the relativities between the pay scales. Secondly, it is difficult to take account adequately of the sizeable proportion of the civil service who are on the maximum pay point for their rank when calculating the overall average incremental increase, as these civil servants do not receive an annual increment.

While we do not object in principle to the use of gross indicators, because of the technical difficulties involved, we recommend that 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

9. One of the companies in the Pay Trend Survey field recently changed the nature of its business to such a degree that it had to be re-classified under a different sector in the survey field and, due to a corporate restructuring exercise, its size and salary structure also changed considerably. To cope with such situations, and in view of the fact that it may not be meaningful to follow the "trend" of companies which undergo such drastic changes, we recommend that a new criterion should be added, which will provide for the deletion of such companies from the calculation of the pay trend indicators.

Survey Fields for Pay Level and Pay Trend Surveys

10. At present, it is estimated that 70 companies will participate in the Pay Trend Survey, of which only about 50 will also take part in the Pay Level Survey. The main reason for this difference is that some of the companies included in the Pay Trend Survey have refused to participate in the Pay Level Survey. Whilst it is desirable for the same companies to participate in both surveys, we feel that it would be premature, at this stage, to delete from the Pay Trend Survey field those companies which have refused to take part also in the Pay Level Survey. Instead, we recommend that these companies be allowed to remain in the Pay Trend Survey field until the next Pay Level Survey is conducted in about five years' time, by which time they may be convinced of the value of participating in Pay Level Surveys. If not, the Pay Trend Survey field could be suitably reduced to bring it into line with the Pay Level Survey field before the second Pay Level Survey begins.

Conclusion

11. We believe that implementation of the foregoing proposals will serve to improve the methodology for the Pay Trend Survey. They are offered with due regard to recommendations made in previous Reports, notably Reports Nos. 7 and 9, and we hope that they will be considered acceptable.

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

(Gordon M. Macwhinnie)
Acting Chairman

Kim Y.S. Cham

Therese H.C. Chan

Sunny Choi Shun-shing

Stanley G. Elliott

Victor K.K. Fung

Vincent H.C. Ko

Alice Lam

Poon Chi-fai

Andrew K.W. So

(Note : Sir S.Y. Chung, Chairman
of the Standing Commission,
is on sick leave)