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Report on 2009 Updated Pay Comparison Study for the Directorate Grades

HayGroup



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1. Introduction

- 1.1 On 10 July 2009, Hay Group Limited (HayGroup) was appointed by the Standing Committee on Directorate Salaries and Conditions of Service (the Directorate Committee) as the Consultant to conduct a follow-up study to update the findings of the 2008 study on pay practices and remuneration of senior management in the private sector with responsibilities comparable to the directorate grades in the civil service.
- 1.2 This Report aims to provide valid reference to the Directorate Committee to facilitate it in considering whether any refinement should be made to the recommendations of the grade structure review it has conducted on the civil service directorate grades in 2008.
- 1.3 The background of the 2009 study, its methodology, the survey field and the actual conduct of the survey and pay comparisons are described in sections 1 to 3 of this Report, followed by the key findings and analysis in section 4; related observations in section 5, and finally HayGroup's conclusions and recommendations in section 6.

2. Background of the 2009 Study

- 2.1 In 2008, the Directorate Committee, on behalf of the Government of the Hong Kong Special Administrative Region (the Government), commissioned HayGroup as its Consultant to conduct a study, using 1 April 2008 as the reference date, on pay practices and remuneration of senior management in the private sector with responsibilities comparable to the directorate grades (the 2008 study). HayGroup completed the 2008 study and submitted the “Report on Pay Comparison Study” to the Directorate Committee in September 2008. The Directorate Committee, having regard to the findings of the study, made its key observations and recommendations on the grade structure review of the civil service directorate grades in a report submitted to the Government on 27 November 2008.
- 2.2 The objective of the current consultancy study in 2009 (the 2009 study) is to update the findings of the 2008 study on pay practices and remuneration of senior management in the private sector with responsibilities comparable to the directorate grades in the civil service, using 1 April 2009 as the reference date. There are concerns that pay practices and remuneration of directorate-equivalent positions in the private sector might have been substantially adjusted since the onset of the financial tsunami in late 2008.
- 2.3 HayGroup is tasked to conduct the 2009 pay comparison study and analyse the findings with particular reference to the findings, analysis and recommendations contained in the “Report on Pay Comparison Study” in September 2008. The study has to be completed within a tight timeframe on the following specifications:
- The 2009 study should use 1 April 2009 as the reference date.
 - The same methodology, including pay components, survey field and data consolidation methodology, of the pay comparison study in 2008 should be adopted.
 - The 2008 study had also looked into non-cash elements including fringe benefits and long term incentives in terms of their prevalence and typical policies. For updating the pay comparisons, the 2009 study focuses on cash compensation and will not cover non-cash benefits.
 - The survey field in the 2009 study should be the 61 private sector organizations that have participated in the survey in the 2008 study.

3. Methodology, Survey Field and Data Collection

Methodology

- 3.1 The methodology for the 2009 study follows the same as that used in the 2008 study. To briefly recap, the 2008 study used the HayGroup Guide Chart® methodology to determine the job size of the different ranks in the civil service directorate. The agreed banding in the 2008 study as follows will continue to be used:

Level of Work of Civil Service Directorate	Hay Reference Level
D5/ D6	24/25
D3/ D4	22/23
D2	21
D1	20

For details, please refer to sections 3 and 4 of the “Report on Pay Comparison Study” in September 2008.

- 3.2 The 2009 study uses the same job mapping results for collection of pay information of senior positions in the private sector survey field that are comparable in scope and complexity to each directorate broad band.
- 3.3 As mentioned in the 2008 study, D1 and D2 have been separated as D1 includes many senior professional and executive positions, while D2 includes Assistant Directors of Departments.

Typically, the gap from one level of the directorate scale to the next is a “just noticeable difference”. Between D1 to D6, there are 6 steps. Hence, there are no “big jumps” between jobs at successive levels in the directorate pay scale.

Same as in the 2008 study, D3/ D4 and D5/ D6 have been banded together (that is, there are two levels of jobs within one broad band), and the positions falling within the broad band would be managed similarly in the pay comparison study. Moving from one scale or broad band to the next, there is no overlaps in terms of Hay Points as each level/ broad band is seen as a distinct level as shown in the Hay Point range. No Hay point range was proposed for external comparison for levels above D6.

Survey Field

- 3.4 On survey field, the 2009 study focuses on the 61 private sector organizations that have participated in the survey in the 2008 study. As set out in section 5 of the “Report on Pay Comparison Study” in September 2008,
- These organizations:
 - are generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis;
 - are regarded as typical employers in their respective industries employing 100 employees or more;
 - have a sufficient number of senior management positions comparable to the proposed directorate broad bands;
 - determine pay based on the basis of factors and considerations applying to Hong Kong rather than factors applying outside Hong Kong; and
 - collectively cover wide range of industries in Hong Kong.
 - If several selected organizations are subsidiaries in the same group of companies in Hong Kong, they are treated as separate companies if their pay practices differ based on market conditions particular to their respective industries.
 - These private sector organizations are not using the Government’s pay adjustment or civil service pay scales as the main factor in determining pay adjustments or setting pay levels. Expatriate salaries have been excluded from the analyses but other positions in the organization that are compensated based on Hong Kong market practices will be included regardless of nationality of the jobholder.
 - Public sector organizations that track their pay against the private sector have been included, similar to the civil service pay level survey.
 - Professional firms, such as accounting firms, law firms and engineering firms were also included. However, senior level positions in these organizations are often held by partners who are compensated entirely or substantially based on partnership profits, and these jobholders are excluded in the study because their pay data is not relevant to setting the pay of directorate officers.

- 3.5 HayGroup exerted much effort to ensure the participation of as many of these 61 organizations as possible. HayGroup consultants followed up with either the chief executive officer or the director of human resources of the companies to answer any questions and at the same time sought their confirmation of participation. The challenge of the data collection process in this study was the short timeframe for completing the survey. Nevertheless, with our effort, we successfully obtained the participation of 55 organizations in the 2009 study among the 61 organizations that had participated in the 2008 study.

Data Collection

- 3.6 In carrying out the study, a data collection pack containing a questionnaire and pay data sheet adapted from that used in the 2008 study was sent to these 61 private sector organizations together with an appeal letter from the Chairman of the Directorate Committee and an explanatory letter from HayGroup. The data collection pack serves to collect information on the organization, its senior executives, their pay data, changes in pay policies and practices etc. The data spreadsheet and the questionnaire specified 1 April 2009 as the reference date for the survey and the data spreadsheet asked for itemised pay details for each of the senior executive employees and their position level for analysis in the pay comparison study.
- 3.7 As in the 2008 study, a spreadsheet is used for updating/entering cash pay information for each jobholder. This looked at in-depth information on fixed pay, including base salary, guaranteed 13th month bonus, guaranteed cash allowances (such as housing allowance, transport allowance, leave passage allowance and allowances in-lieu of car), variable pay payments etc.

Action was taken to ensure that the data collected reflected the actual payout of the senior executives for the period. For instance, the participating organizations were asked to indicate in the data collection pack about any “no-pay leave” or “special leave” (sabbatical, secondment, etc.) among their senior executives, and for these organizations, although only a few, they were reminded specifically that such had to be reflected in updating their pay data spreadsheets.

- 3.8 HayGroup consultants exercised extra care in the execution of each survey step, and reconciled all data received, especially any special areas noted, to ensure that the data and the analyses are in order. We are satisfied that the data and analyses truly reflect the actual situation of the participating organizations on their senior executives.

Pay Comparisons

3.9 The pay data collected from the private sector organizations were analyzed according to the same process as in the 2008 study.

- *Grouping of jobs into levels* -- All jobs in each organization were analyzed and grouped into broad bands of Hay point ranges and their corresponding civil service directorate levels (the table in section 3.1 on correlation of directorate levels and Hay point ranges refers).
- *Pay data consolidation* -- Hay Group calculated an average value of Base Salary, Guaranteed Cash, Guaranteed Cash and Variable Pay, and Total Cash for each broad band for each organization. All positions in the same broad band are given equal weight regardless of the function or the position. That is, each organization has one vote for each broad band so that no one organization dominates the data sample or the results of the analyses.
- *Pay market statistics* -- Pay data statistics, including average, quartiles and median were calculated for each broad band. For analyzing the private sector data, the 2008 study used comparisons against the market median (P50) and third quartile (Q3 or P75) to follow common market practice to provide an understanding on the gaps and issues at the different positioning in the market. The same is used in the 2009 study.
- *Number of participating organizations and positions* -- A total of 55 organizations among the 61 provided data to the 2009 study, representing over 90% of the pool. These 55 organizations altogether provided 1531 employees of senior positions as the database of this survey. Based on our professional experience in similar surveys, HayGroup considers this sample size of the 2009 study reasonable and adequate for the purpose of updating the findings of the 2008 study. The detailed list and profile of these organizations can be found in Annexes 1 and 2.

3.10 In this approach, there is no weighting or bias of function or size of private sector organization. This allows the analyses to determine a reasonable, broad comparison of directorate pay scales to private sector pay. As in the 2008 study, there is no compelling reason to provide one particular function of job more weight than another in the private sector. As the emphasis is to develop an indicator of market practices, this approach avoids skewing the sample towards large organizations by giving each an equal weight.

- 3.11 We noted minor changes of some of the jobs and/or job-holders or in the senior executive headcounts (increase or decrease) in individual participating organizations in the past twelve months. We paid special attention to the updated data received and found no significant changes to the jobs and their levels that may impact on the overall conduct of the survey and the findings.
- 3.12 The resulting statistics are compared to the Notional Annual Mid-point Salary (NAMS) of civil service directorate pay scale and the average value of the actual cost to government of the provision of relevant allowances.
- 3.13 The 2008 study has looked into the pay components for comparison. The private sector has different practices in pay components comparisons and the situation remains largely the same in 2009. In gist, most of the organizations continue to manage their remuneration system by Guaranteed Cash which is the most controllable component. They use Guaranteed Cash to compare with the market and review Total Cash as a secondary comparison. Some manage their remuneration systems through Total Cash to support a more aggressive pay market strategy, and these organizations will likely compare mainly with Total Cash, and review Guaranteed Cash as reference.
- 3.14 As in the 2008 study, data of all four common components viz., Base Salary, Guaranteed Cash, Variable Pay and Total Cash are collected and analyzed. These comparisons provide a broad overview of whether the directorate pay scales at each broad band are broadly comparable to private sector, in terms of base pay and total cash.

4. Key Findings and Analysis

4.1 *Private Sector Pay For Comparison* -- This section aims to present the pay survey data and findings of the 2009 study. Key analyses performed on the respective broad band are the same as that in the 2008 study, which are:

1. **Base Salary Comparison:** Basic Salary + Fixed Bonus + Other Professional Fees (e.g. Director's fees etc.)
2. **Guaranteed Cash Comparison:** Base Salary + Fixed Cash Allowances (Housing Allowance + Car/ Transport Allowance) + Other Fixed Cash Allowances
3. **Guaranteed Cash and Variable Pay Comparison:** Guaranteed Cash + Variable Pay including all non-guaranteed bonuses and performance pay.
4. **Total Cash Comparison:** Guaranteed Cash and Variable Pay + Cash Benefits (Club Cost + Leave Passage + Children Education)

The above definitions are identical to that used in the 2008 study. To recap:

- “Base Salary” is defined as basic salary plus contractually guaranteed bonus.
- “Guaranteed Cash” is a common term in the private sector representing all unconditional cash remuneration, and is comparable to the civil service directorate's base pay plus major allowances (primarily housing).
- As variable pay is common in the private sector, analysis of “Guaranteed Cash and Variable Pay” highlights the difference of no variable pay in the civil service directorate.
- “Total Cash” represents all cash remuneration including cashable benefits (leave passage, children education and club membership).

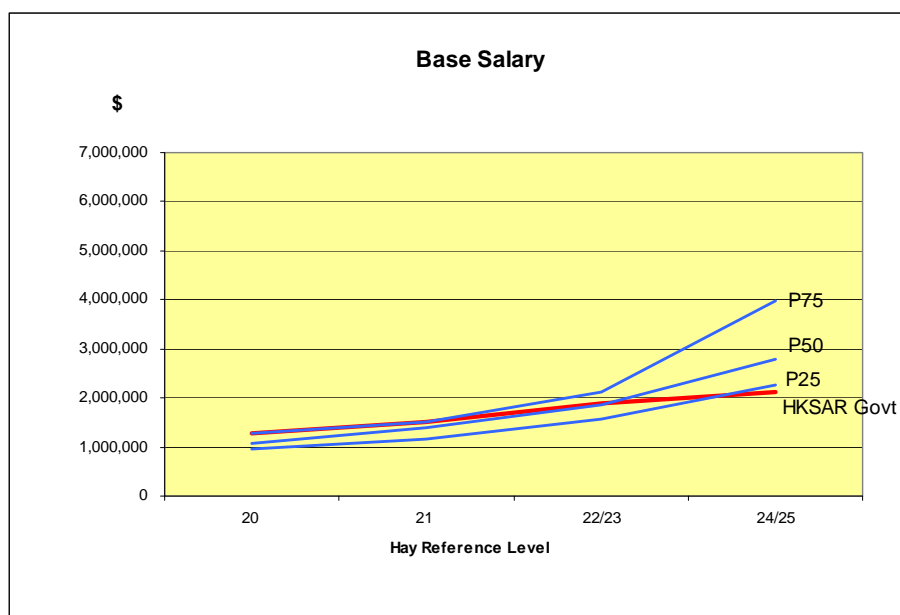
4.2 *Civil Service Directorate Pay Comparison* – In line with the methodology in the 2008 study, HayGroup uses NAMS of the civil service directorate pay scale as at 1 April 2009 and the average value of the actual cost to government of the provision of relevant allowances to the directorate officers for analyses purposes. As explained in the 2008 study, using NAMS for the purpose provides a sense of the policy that the civil service has adopted, as using actual average base pay may skew the outcome of the survey depending on the sample and profile of officers in the respective bands.

- 4.3 *Pay Data Reference Date* -- The data collected is as at 1 April 2009. The following table shows the current pay scale for civil service directorate officers:

Point	HK\$ per month
D8	202,000
D7	195,900
D6	181,450
D5	172,000
D4	161,950 – 166,900
D3	142,700 – 151,200
D2	122,700 – 130,300
D1	103,400 – 109,700

- 4.4 *Significant Variance* -- As mentioned in the 2008 study, often in the private sector, a variance of more than 15% would be a concern to an organization as this reflects a significant gap between the current pay level and the target level. Although the civil service directorate does not have a definite target pay position, it will be appropriate, for analysis purpose, to take a 15% and above variance against the market median, or third quartile as appropriate, as a general guideline for initiating further action.

4.5 Base Salary Analysis



In terms of Base Salary comparison, the civil service directorate is slightly above market median (P50) for D1 to D4, but falls below median from D5 upwards. These 2009 Base Salary comparisons at median are similar to that in the 2008 study. The civil service directorate remains close to the market third quartile (P75) for D1 and D2 in Base Salary, and falls below par for D3 through to D5/D6 with the pay gap being more significant at the senior levels. These findings are also similar to that in the 2008 study.

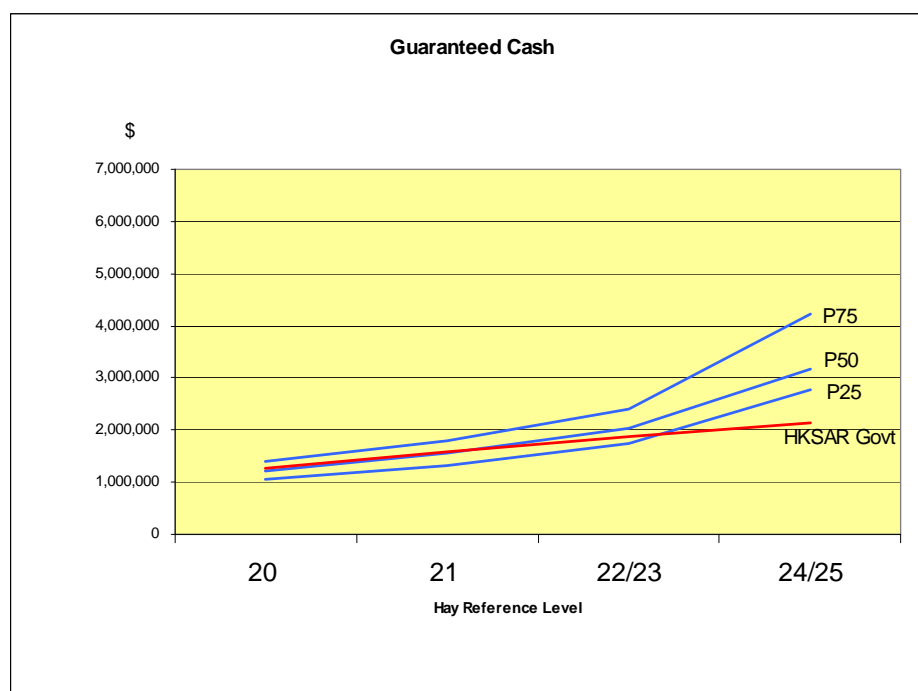
Whilst there may be common perceptions that there have been mostly reductions of base salaries in the private sector, data collected in the 2009 study show that some private sector organizations have awarded modest increases in Base Salary for their senior executives. On close examination of the small increases in Base Salary for some levels among the data, we have the following observations:

- The survey's reference date is 1 April 2009 when adjustments reflected both company and individual's performance of the prior year. Most of the organizations had relatively satisfactory business results in the first half of 2008/09, and economic downturn only happened in the second half of the year. In this light, it is reasonable to see a modest increase in base salaries reflecting the performance in the first half of the year.

- The 55 participating organizations are diverse in their businesses and operations. Similar to the 2008 study, they can be broadly grouped under the different economic sectors as set out in Annex 2. We observed that different sectors showed dissimilar patterns with some sectors having modest positive adjustments in base pay whilst others tended to have pay freeze or reductions.
- In our communication with clients during the last quarter of 2008 when they sought our advice on salary adjustment for 2009, most of them had planned moderate increases of base salaries for 2009. Pay freeze consideration was not the majority at that time. In fact, a substantial number of the private sector organizations have annual salary adjustments in January. It is also a common commercial practice that high performance senior executives are awarded with modest base salary increases selectively.

Based on the above and our professional knowledge, we believe the survey finding reflecting modest increase of base salaries in the 2009 study is valid and reasonable, and these increases do not have any overwhelming impact on the comparison with the civil service directorate salaries.

4.6 Guaranteed Cash Analysis

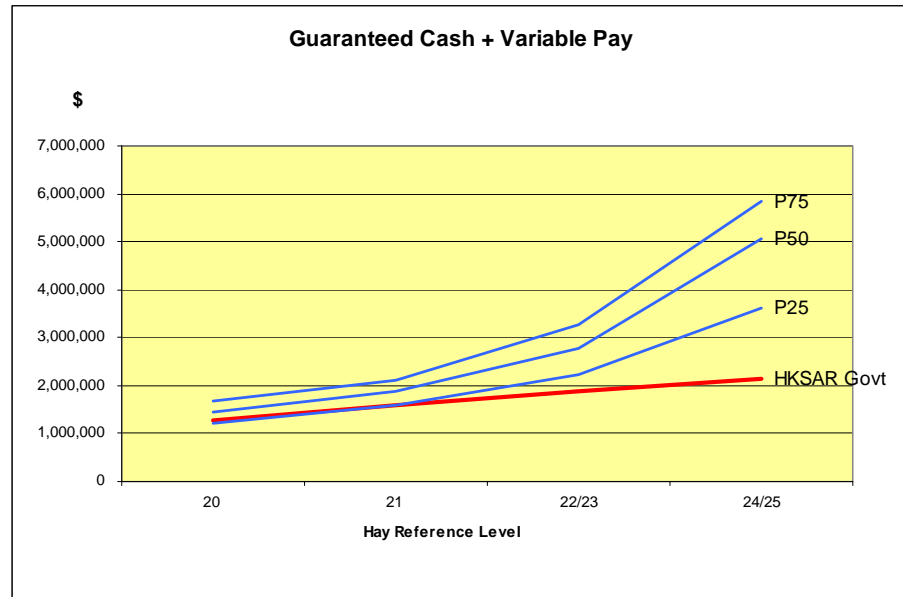


On Guaranteed Cash, the civil service directorate is on par with market median (P50) for D1 and D2, D3 upwards are below market median with the pay gap much larger in D5/D6. At the third quartile (P75), all directorate levels are below par compared to the private sector, with the variance for D1 and D2 within 15%, while D3/D4 and D5/D6 are significantly below the market P75. The 2009 comparison results are largely similar to those in 2008.

Comparing with the position in the 2008 study, the 2009 figures reflect that cash allowances have been reduced among some of the organizations in the 2009 study. In fact, the majority of the organizations reported no change or reduction of cash allowances, with only a few reporting increases.

Overall, the civil service directorate's Guaranteed Cash comparisons with private sector pay data in the 2009 study show broadly similar results as that in the 2008 study. The variances between the 2008 and 2009 studies are not unreasonable. Individual circumstances of certain data are also noted, e.g. a few organizations offered new/ additional allowances in D2-equivalent positions (including newly appointed senior executives) or in D5/D6-equivalent positions.

4.7 Guaranteed Cash plus Variable Pay Analysis

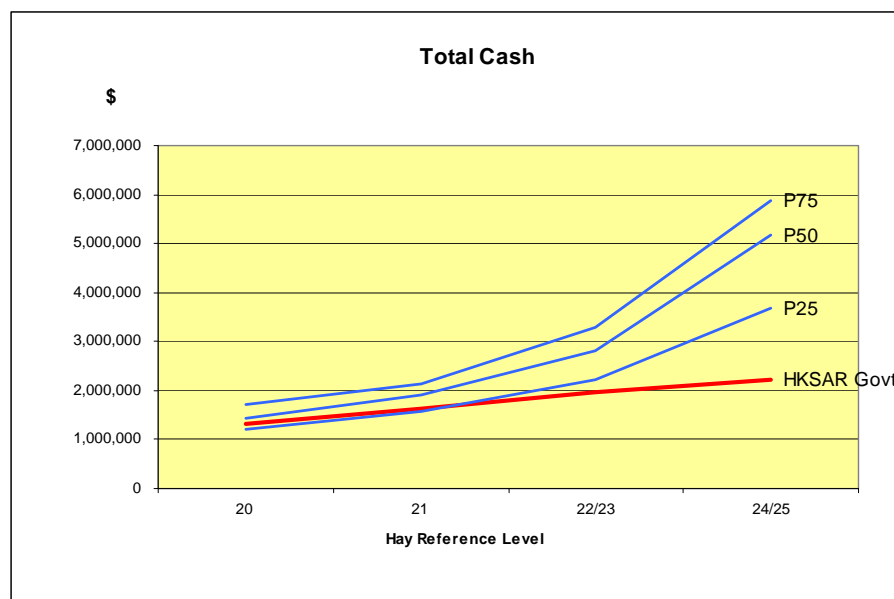


As explained in the 2008 study, there is no Variable Pay in the civil service, whilst such form of payment is a common feature of a senior executive's compensation in the private sector. Variable Pay in the private sector reflects the link between job-based pay and the degree of pay risk thereby holding senior executives accountable for the performance outcome of the organization.

With the inclusion of Variable Pay, civil service directorate's pay competitiveness falls further below the market, both at median and the third quartile. Nevertheless, such gaps between the civil service directorate and the private sector noted in the 2009 study have slightly narrowed when compared to that in the 2008 study. This is due to reduction of Variable Pay in the private sector in 2009. That said, the majority of the organizations indicated that they did pay bonus in 2009 to senior executives, rewarding them for the good first half of 2008.

Specifically comparing with the findings in the 2008 study, the 2009 study shows decreases in Guaranteed Cash and Variable Pay in D1 to D3/D4-equivalent positions for the market median, and all levels for third quartile. This is a direct result of reduction of Variable Pay in the private sector.

4.8 Total Cash Analysis



As remarked in the 2008 study, the analyses on Total Cash + Benefits need to be used with caution as the cost of benefits like Leave Passage; Children Education etc. vary by employee. The benefits have been calculated based on the actual average cash benefits of the different groups of officers.

In terms of Total Cash (which includes cash benefits) comparison, civil service directorate pay falls behind market median at all levels and the gaps of pay are most significant at the higher levels. As mentioned in the report last year, we see that the housing allowances system (conditional and 10-year entitlement) and the absence of variable compensation in the civil service directorate are main attributing factors of its lower-than-market-pay position in Total Cash.

Similarly, the pay gaps between all directorate levels (at both median and third quartile) and the market Total Cash have been narrowed in the 2009 study when comparing data with that in the 2008 study. This is a direct result of the reduced Variable Pay and decrease of cashable benefit of leave passage, children education etc. in the private sector.

The changes in Total Cash comparison in 2009 are mainly caused by the reduction of Variable Pay in the private sector, although the situation and magnitude vary among the surveyed organizations, with variable pay reduction found to be relatively more prominent among the surveyed data in certain sectors.

Overall, the percentages of Variable Pay to Total Cash for the different bands noted from the findings in the 2009 study have dropped as compared to that in the and 2008 study, as shown in the table below –

Hay Reference Level (Civil Service Directorate)	HKSAR Govt Variable Payment	% of Variable Pay versus Total Cash in the Market (P50)	
		2009 Study	2008 Study
20 (D1)	-	18.05%	22.11%
21 (D2)	-	19.35%	24.03%
22/23 (D3/D4)	-	25.38%	28.29%
24/25 (D5/D6)	-	30.75%	35.79%

4.9 *Details of the pay analyses of the various directorate and equivalent levels are in Annex 3.*

5. Related Observations

5.1 *Private Sector's Handling of Senior Executive Pay*

The 2009 findings have demonstrated that in the private sector, pay reductions are done selectively by levels, even in a severely declining economy. Most organizations are keen to retain performing senior executives by continuing to reward them with modest base salary increases and variable bonus based on business performance. From the study, it is also evident that the private sector uses non remuneration-related development initiatives for retention of executives.

5.2 *Market Trend and Other Supplementary Measures*

From the data collected, we also have a few observations about the latest and near-future trend in the market.

- Generally speaking, we noted a positive business outlook among the surveyed organizations. The majority expected their financial performance would improve in the next 12 months. Some felt things would stay the same, while the minority judged things would continue to deteriorate. That said, many of the organizations are still cautious on pay trend, indicating that they would expect no increase in base salary, and no change in cash allowances or long time incentive in their senior executives remuneration package in the next 12 months.
- Relating to the economic downturn since 2008 third quarter, a few organizations indicated that they had taken/ would consider implementing no-pay leave on voluntary basis, turning to part-time role and re-classification of senior executives; and a few others reported that it was too early to determine such measures. However, no organization indicated plans to down-size its senior executive headcount, nor implement early retirement; a sign that businesses generally wish to keep its talent strength at the senior level. At the same time, some organizations replied that they would consider reviewing their pay system and components in the next 12 months, signalling their wish to make their pay system more flexible and equitable.
- There are also evidences that the private sector have turned to talent and leadership development for staff retention. Leadership development initiatives, programmes to develop high potential staff, promotion and succession planning are among the initiatives quoted by the organizations to motivate and retain talent in the difficult time. Only a small minority indicated the use of reward-related measures such as profit sharing or special recognition for retention of executives.

6. Conclusions and Recommendations

6.1 *Study Findings and Need for Review*

The objective of the 2008 study was to determine whether civil service directorate pay is broadly comparable vis-à-vis their counterparts in the private sector, and in this regard, the Directorate Committee has, having regard to the findings of the 2008 study, made its key observations and recommendations on the grade structure review of the civil service directorate grades and submitted a report to the Government on 27 November 2008.

The 2009 study serves to update the findings of the 2008 study by using 1 April 2009 as the survey's reference date. Broadly speaking, the findings in the 2009 study reflect similar situation as that noted in the 2008 study. Our analyses of the 2009 findings are as follow:

- 6.1.1 Base Salary – The civil service directorate is close to the third quartile of the market for D1 and D2, and close to median for D3 and D4. For D5 and above they are paid below market median.
- 6.1.2 Guaranteed Cash Compensation – The civil service directorate is close to the median of the market for D1 to D4, but paid below market median at the senior levels of D5 and above. D1 and D2 pay are below third quartile on variance within 15%.
- 6.1.3 Total Cash Compensation – The civil service directorate pay is below median of the market across all levels, and the gaps are significant at the senior levels of D2 and above. The larger gap against the market is mainly due to the variable pay (bonus) common to the private sector but not provided in the civil service. Although variable pay in 2009 is less than 2008, but the reductions by and large have not significantly affected the previous gaps between civil service and the private sector.
- 6.1.4 As mentioned in the previous study, with inherent differences in pay structure and practices, pay gaps between the public and private sector have always existed and it might not be necessary or practical to fully address such gaps. Also, the civil service directorate does not have a defined target market pay position; therefore the gaps are not “official” per se. In the market, it is common for companies to take action if the size of the gap is over 15% (more at the higher levels) and/or when the talent market situation is competitive. We suggest the civil service take these into account as guidelines in reviewing the pay gaps.

6.2 *Measures and Pay Market Positioning*

6.2.1 Measures – We maintain our recommendation for the civil service to adopt a Guaranteed Cash position as its current framework focuses on the ‘guaranteed’ elements of pay and performance/variable pay plays a minimal role its current context.

6.2.2 Market Positioning – We maintain our stance that the civil service could use a tiered market position, as it is more balanced and flexible and its tiered targets provide more objective market assessment. The suggested tiered market position for the directorate starts with a target pay position of P75 for the entry levels at D1 and D2 for a more competitive target position of Q3 using Guaranteed Cash as basis for measure; median for D3 and D4, and gradually progressing to below market median for the senior levels of D5 and above.

- At the entry levels to the directorate i.e. D1 and D2; in order to entice and reward these officers in “making the grade”, it is important to send signals to officers that they have “arrived” and made it into the directorate. This can be reflected through a “closer to market” more competitive target position of Q3 using Guaranteed Cash as basis for measure.
- At the senior levels (D5 and above), it should be recognised that these levels have a larger civic role of serving the community and cannot be closely compared to the private sector. In addition, job security and the effect of a defined benefit pension are also important considerations at these levels. Therefore the market positioning should be lower than median.

6.3 *Addressing the Gaps* – In the 2008 study, we looked at issues in considering how to address the gaps. Please refer to section 10 of the “Report on Pay Comparison Study” in September 2008 for details. We do not see any need to change our views and suggestions in the 2008 study as a result of the findings of the 2009 study. For ease of reference, key highlights are summarised below.

6.3.1 Housing Allowance and Benefit

We have suggested the civil service consider, in any future reviews on allowances and benefits, revamping the framework of the housing allowance and the manner in which the eligibility is determined so as to bring it more in line with the private sector practice.

6.3.2 Variable Pay

We note there are difficulties in setting clear performance outcomes and key criteria in the design for a good variable pay plan. But there are countries that already began introducing such variable pay scheme from the top down. The subject was discussed in the 2008 study, including inviting comments from Focus Group members and mixed views were received. Nevertheless, we observed that in the event that the civil service might pursue the variable pay plan for the directorate, this could be done in phases, starting with a broad based plan that is tied to economic indicators of Hong Kong for D5 and above officers, gradually extending to the other levels when other supporting mechanisms were in place.

6.3.3 Increments

In view of the pay gaps of the directorate levels with market pay, we suggest that the civil service may consider using increments in the pay framework to narrow the gaps.

6.3.4 Pay Structure (step difference between levels)

Looking at the market data, the pay differential between each level gets larger as one advances upward in career. In the civil service however, the pay variance between directorate levels is stable. This step difference reflects the internal relativity of jobs and in considering any changes to the pay scale, the civil service must exercise care so as not to disturb the established relativity between levels.

6.3.5 Base Salary Ranges

It is important to recognise that it is not possible or appropriate to base any pay revisions solely on market figures. In the market, the point-to-point increase between the different levels is likely to vary and could fluctuate at different points. Given the wide pay gaps at the top levels, there are also practical constraints for the civil service to narrow the pay gap by providing significant increases to the directorate pay. A practical approach would be to provide increases within typical acceptable ranges instead of trying to peg it close to the target position.

6.4 *Other Considerations*

- 6.4.1 The civil service terms of employment for those employed in and after June 2000 enjoyed a reduced package e.g. from defined benefit pension scheme to defined contribution mandatory provident fund scheme. Looking ahead, this younger generation of officers who will eventually make it to the directorate levels will receive a smaller total package as a result of the changes in these benefits. We have pointed out in the 2008 study that given the keen and global competition for talent in today's world, this group of officers may be perceived as ideal targets for the private sector. As monthly basic salary remains to be a key component in a civil service directorate's pay package, its base pay (especially at entry directorate levels) should be sufficiently attractive to encourage potential directorate officers to 'make the grade'.
- 6.4.2 It is important to take account of the fundamental differences between the civil service and the private sector in pay strategy and hence their structure and practices. As seen from the survey results in the 2008 study and reaffirmed by the 2009 study, the private sector usually has explicit pay strategy of motivating performance and attracting talent, therefore executive pay varies greatly by level, reflecting the job value; and by performance, both corporate and personal. On the other hand, the civil service has the implicit purpose of retaining and developing staff through the provision of stability, steady career progression, employment security and better than average benefits (e.g. leave and pension). Such vast differences have made it difficult for civil service pay to follow closely market trends, unless radical changes are made.

Annex 1: List of Participating Organizations

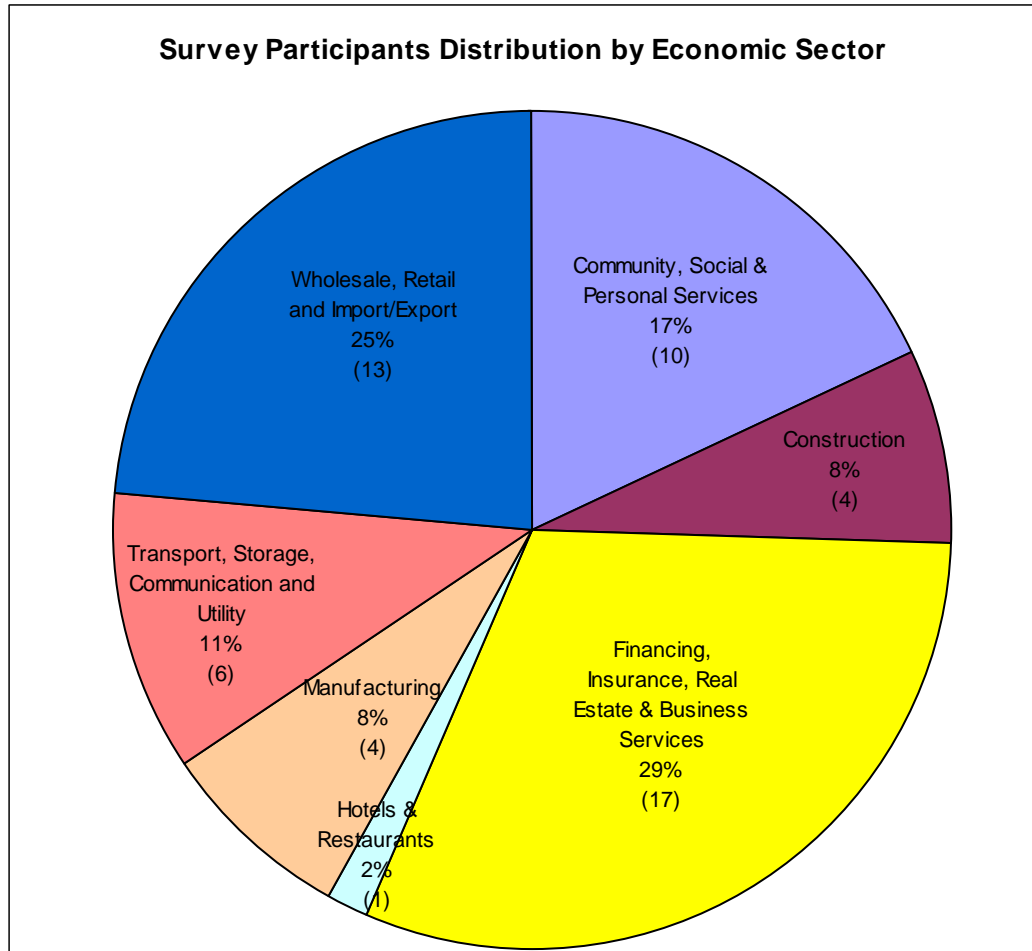
1. Airport Authority Hong Kong
2. Bank of China (Hong Kong) Limited
3. Bossini Enterprises Limited
4. Carlsberg Brewery Hong Kong Limited
5. Cathay Pacific Airways Limited
6. Centaline (Holdings) Company Limited
7. Chen Hsong Holdings Limited
8. Chevron Companies (Greater China) Limited
9. China Construction Bank (Asia) Corporation Limited
10. Citic Pacific Limited
11. CLP Holdings Limited
12. Dah Chong Hong Holdings Limited
13. The Dairy Farm Company Limited
14. DBS Bank (HK) Limited
15. DKSH Hong Kong Limited
16. Du Pont China Limited
17. Esquel Enterprises Limited
18. Hang Seng Bank Limited
19. HKR International Limited
20. Hong Kong Aero Engine Services Limited
21. Hong Kong and China Gas Company Limited
22. Hong Kong Convention & Exhibition Centre (Management) Limited
23. Hong Kong Exchanges and Clearing Limited
24. Hong Kong Housing Society
25. Hong Kong Trade Development Council
26. Hopewell Holdings Limited
27. The Hong Kong and Shanghai Banking Corporation Limited
28. HSBC Insurance (Asia) Limited
29. Hsin Chong Construction Group Limited

Annex 1: List of Participating Organizations (Cont'd)

30. InterContinental Hong Kong
31. Johnson Electric Industrial Manufactory Limited
32. K. Wah International Holdings Limited
33. Kerry Properties Limited
34. KPMG
35. Lai Sun Group
36. Lane Crawford (Hong Kong) Limited
37. Li & Fung Group
38. Modern Terminal Limited
39. Mandatory Provident Fund Authority
40. MTR Corporation Limited
41. Ocean Park Hong Kong
42. Otis Elevator Company (Hong Kong) Limited
43. PricewaterhouseCoopers
44. Sa Sa International Holdings Limited
45. SAE Magnetics (Hong Kong) Limited
46. Schindler Lifts (Hong Kong) Limited
47. Securities and Futures Commission
48. Shell Hong Kong Limited
49. Shui On Construction and Materials Limited
50. Sing Tao News Corporation Limited
51. Standard Chartered Bank (Hong Kong) Limited
52. Whirlpool Hong Kong Limited

Note: The total number of surveyed participant organizations is 55, including three other unnamed organizations.

Annex 2: Participants Sector & Data Distribution Summary



Equivalent to Directorate Rank	Number of Incumbents	% of The Total Pool	Number of Organization
D1	700	46%	41
D2	376	25%	46
D3/4	361	23%	48
D5/6	94	6%	38
Total	1531	100%	55

Annex 3: Cash Analysis

Hay Reference Level 20

	Market Data (Level 20)				No. of Cos.	No. of Incumbents
	P25	P50	P75	Avg.		
Base Salary	957,855	1,073,002	1,265,126	1,096,928	41	700
Guaranteed Cash	1,052,551	1,221,268	1,387,517	1,220,307		
Guaranteed Cash + Variable Pay	1,220,755	1,441,659	1,690,957	1,479,272		
Total Cash	1,220,755	1,441,659	1,725,227	1,490,838		
Variable Pay to Total Cash %	14	18	26	20		

Hay Reference Level 21

	Market Data (Level 21)				No. of Cos.	No. of Incumbents
	P25	P50	P75	Avg.		
Base Salary	1,163,010	1,406,080	1,516,021	1,389,576	46	376
Guaranteed Cash	1,316,940	1,546,842	1,800,000	1,527,443		
Guaranteed Cash + Variable Pay	1,577,293	1,868,131	2,123,100	1,885,217		
Total Cash	1,581,708	1,908,969	2,136,276	1,905,342		
Variable Pay to Total Cash %	15	19	25	22		

Annex 3: Cash Analysis (Cont'd)

Hay Reference Level 22/23

	Market Data (Level 22/23)				No. of Cos.	No. of Incumbents
	P25	P50	P75	Avg.		
Base Salary	1,556,820	1,861,500	2,109,372	1,846,651	48	361
Guaranteed Cash	1,747,100	2,027,511	2,401,403	2,108,458		
Guaranteed Cash + Variable Pay	2,233,101	2,769,144	3,266,413	2,885,651		
Total Cash	2,233,101	2,797,562	3,284,052	2,926,914		
Variable Pay to Total Cash %	18	25	35	29		

Hay Reference Level 24/25

	Market Data (Level 24/25)				No. of Cos.	No. of Incumbents
	P25	P50	P75	Avg.		
Base Salary	2,280,027	2,796,912	3,966,188	3,070,695	38	94
Guaranteed Cash	2,775,490	3,180,950	4,232,700	3,396,602		
Guaranteed Cash + Variable Pay	3,614,548	5,066,488	5,841,080	5,046,041		
Total Cash	3,688,653	5,165,552	5,870,090	5,157,159		
Variable Pay to Total Cash %	19	31	45	32		

Annex 3: Cash Analysis (Cont'd)

Variable Pay to Total Cash Ratio

Hay RL	Variable Pay to Total Cash Ratio (%)			
	P75	P50	P25	Average
20	26.13	18.05	14.21	19.93
21	25.14	19.35	15.37	22.28
22/23	35.24	25.38	18.39	29.31
24/25	44.74	30.75	18.62	32.48

Notes:

- Base Salary = Basic Salary + Fixed Bonus + Other Professional Fees (such as director's fees)
- Fixed Cash Allowances = Housing Allowance + Car/Transport Allowance + Other Fixed Cash Allowance
- Guaranteed Cash = Base Salary + Fixed Cash Allowances
- Variable Pay = Actual Variable Bonus paid in the last 12 months