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17 June 2002

c.c.

[REDACTED]  
Secretary, Government SCO Association – for information  
(Please incorporate any of my comments which you think appropriate)  
Fax : [REDACTED]

[REDACTED]  
Chairman, Clerical Officer Branch  
Hong Kong Chinese Civil Servants' Association  
(Please incorporate any of my comments which you think appropriate)  
Fax : [REDACTED]

To : Task Force on the Review of Civil  
Service Pay Policy and System  
Fax : 2877 0750

Dear Task Force on the Review of Civil  
Service Pay Policy and System,

**Consultation Paper (Phase I Study)**  
**on the Review of Civil Service Pay Policy and System**

I would like to append hereto, as per the attached paper containing 11 pages, my personal views (a small part of which might differ from those of my peers), in the form of answers seriatim to the questions raised in paragraphs 19-23 of the captioned document.

Yours sincerely,

[REDACTED]  
Senior Clerical Officer

**Consultation Paper (Phase I Study)  
on the Review of Civil Service Pay Policy and System**

Answer to Question

**19. On Pay Policies, Pay System and Pay Structure -**

- (a) **Should there be a major overhaul of the civil service pay policy and system, should more emphasis be put on performance-pay, clean wage policy (i.e. paying "all cash" wages in lieu of allowances, housing and medical benefits, etc)?**

Yes. The Civil Service pay policy and system should be reviewed to ensure its fitness for use to meet pragmatic circumstance. As regards whether more emphasis be put on : (i) performance-pay and (ii) clean wage policy, consideration should be given to the following observations :

**(i) performance-pay**

Consistent with Management By Objective (MBO), reinforcement theory, and expectancy theory, staff need to make rewards contingent on performance. Performance pay is one of the viable systems applicable to motivated staff whose performance are properly managed, otherwise there is no direct link between how well they work and how justifiably they are paid. Consistent with the Civil Service Mission "Serving the Community", it is rational to put more emphasis on performance-pay to motivate people to raise the standards of organisational and individual performance.

**(ii) clean wage policy**

Clean wage enables the staff to tailor their take-home pay to their individual needs, and in some cases allows working couples to enjoy 2 sets of similar benefits (i.e. so called "enjoying double-benefit", as benefits form part of the base salary of the individual staff). While clean wage can alleviate administrative cost for processing claims of allowances and fringe benefits, it incurs long term added expenses on staff pension under the Pensions Ordinance Cap 89 and Cap 99. Thus, clean wage policy is no more than appropriate for contract staff.

- (b) **Should senior civil servants be subject to a pay policy which is different from that of the middle-ranking and junior ranks, placing more risk/award factors on the former?**

The appropriate ranking or pay level for any job reflects its worth. A job's relative worth is determined by its ranking through the job evaluation process and by what the labour market pays for similar jobs. Therefore, the phrase "placing more risk" in this question is not understandable, because consistent with expectancy theory, higher pay is contingent on higher level performance criteria. To cultivate an equity culture and minimize rank difference in a team for staff motivation purpose, it is not advisable to place more award factors on senior civil servants than others.

- (c) **Should the disciplined services' pay be treated differently from the rest of the civil service?**

Yes. Disciplined services' pay should be treated differently from the rest of the Civil Service. Because staff of the disciplined services are subject to different sets of conditions of service as well as conduct and discipline which are distinctively separate from other groups of civil servants.

- (d) **Should we continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains comparable with that of the private sector?**

Yes, the Government should continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains comparable with that of the private sector. Also, it should have a policy of paying a premium slightly above the prevailing market rate to minimise turnover and/or to recruit the best staff.

- (e) **Or should Government's affordability to pay be an over-riding consideration in pay adjustments?**

No. The terminology "affordability to pay" used here is somewhat amazing! It is essentially a controversy dependent upon how effective is the Government in optimising the correct appropriation of resources. Likewise business companies must make a profit to survive and attract sufficient investors to remain competitive, Government being a good employer must act in consistent with social policies such as equal pay and comparable worth during the period of ups, as well as with contractual commitment to ensure maintenance of its own image and the stability and morale of the civil service during the downs. If staff are to be recruited and retained, pay levels have to keep up with the market rates, and market rates are probably the biggest single determinant of the overall scale of pay adjustments.

- (f) **What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service?**

Retention of the following features will help ensure stability and morale of the civil service:

(i) The "tiered-pays" system should be retained : the existing practice is that whenever there is a pay revision entailing a cut in the starting point of a pay scale, current staff in the rank are allowed to retain their serving pay point and pay scale whereas new recruits joining the rank are normally offered a lower rate to start. This system will eventually allow recruits to catch up to the rates of previously hired staff after some years. These savings are temporary but considerably helpful to Government during the period when it is facing extreme fiscal constraints.

(ii) The conventional practice of "pay adjustment frozen/upward – no downward" should be retained as far as feasible. This is particularly important in the case of junior/low rank officers who are on the maximum point of their pay scales, in that any downward pay adjustment may cause chaos on their domestic plans and hence adversely affect their morale as civil servants.

**20. On Replacing Fixed Pay Scales with Pay Ranges -**

- (a) **Would the introduction of flexible pay ranges bring benefits in terms of better rewarding performance and enhancing a performance-oriented culture in the Hong Kong context?**

Flexible pay ranges might be one of the effective motivator for better performance in the short run, but this system cannot necessarily foster a performance-oriented culture. The problem with flat rates for each job class, like those currently for the non-civil service contract staff, is that exceptional performance cannot be rewarded. But, except those for some senior directorates (e.g D5 and above), the pay-scales for civil servants are not flat rates (there are incremental points within ranges) and award of incremental points are a merit raise governed by performance appraisals. Furthermore, the concept of flexible pay ranges approach is in fact to a certain extent being adopted in the Hong Kong Civil Service for some class of jobs (e.g. Data processor and Typist for rewarding good key punching speeds .....)

**(b) Would flexibility in pay progression lead to potential divisiveness among civil servants?**

Unless performance is generally perceived as achievable and scientifically measurable and the performance appraisals are properly managed, flexibility in pay progression would lead to potential divisiveness among civil servants. Given the following observation:

Performance appraisers are usually the supervisors or team leaders. It is not uncommon that team leaders are good process managers but poor people managers. They lack the ability to differentiate the precise contribution of each subordinate, perhaps because of the numbers involved. This type of appraisers tend to be easy going and never report "poor performance" as it is definitely not a pay issue; they used to give indifferent grading for their staff to secure steady pay increase. To another extreme, since flexible pay progression is dependent on performance appraisal, the potential for bias and subjectivity might increase and be translated to favoritism and victimization. Should this become apparent, the system loses its value as a motivator. Unless appraisal standard is seen to be justifiably consistent, personal antagonism between employees and supervisors leading to potentially damaging confrontations can be helplessly expected.

**(c) Should flexible pay ranges be applied to the entire civil service, or only to senior civil servants, who typically have heavier management responsibilities?**

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**(d) Should flexible pay ranges apply both to civilian grades and the disciplined services?**

Flexible pay ranges, if adopted, should ideally apply to the entire civil service eventually irrespective of the civilian or disciplined subject to justifications. We shall call this "fair".

**(e) Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges?**

To support the introduction of flexible pay ranges, appropriate performance management system, guiding principles, and cultural change programs must be formulated and implemented, in which a series of goals, targets and standards are identified and action plans produced to secure their achievement.

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- (f) **Would a performance management system directly linked to pay be the most effective way of nurturing a performance culture?**

Yes, in the short term parameter, it is generally a shared belief that a performance management system directly linked to pay would be the most effective way of nurturing a performance culture. The thinking is that pay linkage recognises and rewards good performance and thus provides motivation for improvement.

**21. On pay Adjustment System and Mechanism -**

- (a) **Should the principle of broad comparability with the private sector continue to be adhered to ?**

For the pay component of compensation progress to be appropriate, wages or salaries must be internally and externally equitable. Therefore the principle of broad comparability with the private sector should continue to be adhered to.

- (b) **Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? Would another mechanism serve this purpose just as well, or better?**

Given the reason in (a) above, the existing pay adjustment system is still regarded as fair by both civil servants and the public. However, since no one single system is omnipotent and invincible, we should not rule out the possibility that some other mechanisms would serve the same purpose just as well, or even better. See (c) below.

- (c) **Is there a need for changing or introducing more flexibility in the existing adjustment mechanism?**

To regain the confidence or help alleviate the restlessness of civil servants following the incident of pay adjustment downwards "October 2002", there is a need for changing or introducing more flexibility in the existing adjustment mechanism. For example, freeze the pay scales as at October 2002, instead of giving full up-ward pay adjustments that would permanently raise staff cost, Government may consider converting a portion of the increase into lump-sum bonuses. These bonuses are not part of the base pay. If year-end fiscal surplus falters the following year, bonuses are less or not given thus providing a cushion of lower staff costs in hard years. Since lump-sum bonuses do not raise base pay, the incident of "October 2002" should not happen again.

**(d) Should fiscal constraints be an over-riding factor in determining pay adjustments?**

No, not fiscal constraints. The over-riding factor in determining pay adjustments can be market forces which influence the stability and morale of civil servants. In this approach, labour is a commodity that commands its own price in accordance with the classic market laws of supply and demand. The incident of "October 2002" can be cited as a dangerous example.

**(e) Depending on whether, and to what extent, pay administration should be decentralised to departments, what would be the right balance for Hong Kong in terms of central control/guidance versus autonomy/flexibility for individual departments?**

For those grades, where the entry requirements between each other are more or less the same and of comparable value to the Government as a whole, pay administration should be centralised. For professional/specialist posts which are unique to particular departments, pay administration should be decentralised to bureaux or departments, because the user bureaux/departments are in a better position to strike a balance between pay satisfaction and organizational competitiveness : the departments which employing these talents might be prepared to pay a premium while demand is outstripping supply, or to revert down to market rate when the supply catches up with demand.

**22. On Introducing Performance-based Rewards -**

**(a) Do we see the merit for Hong Kong to incorporate elements of performance pay in civil service salaries?**

The merit is multi-fold. Elements of performance pay will bring about improvements in the commitment and capability of staff. Staff training and development needs can be identified more easily. They also contribute to improved job satisfaction and sense of achievement, in that the incentive would make people respond positively and contribute with enthusiasm. One distinctive contribution of performance pay is its potential improvement in communication, both upward and downward through regular and effective performance appraisals whereupon productive ideas may also generated.

However, civil servants make different kinds of contributions, some are easily observed/measured, while others may be difficult to assess. For example, it is difficult to rationalise a reward system to motivate such things as initiative, enthusiasm or loyalty.

- (b) **Apart from pay ranges which already have performance – related elements, do we need to consider other forms of performance-based rewards?**

PBR schemes attempt to relate some proportion of pay not just to individual output but also to other indicators of performance such as equality, flexibility, contribution to teamworking and ability to hit targets. Reward strategies must link to organizational aims therefore apart from pay ranges other forms of reward, like target-based schemes, competence-based schemes, gainsharing or team-based performance rewards.... etc which can help achieve the department's aims should be developed as appropriate.

It is very important to define what the objectives/aims of the department are and where it is trying to go if we are to choose, among the various developed reward systems, the right ones to take it there.

- (c) **Should team-based performance rewards be used and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?**

Team-based performance rewards can be used in departments running sales or production business where the objectives and the motives for the new system could be easily set out and where the viability of the business could be scientifically measured. If this system is used, it should largely apply on shopfloor levels staff because they are frontline contacts for customers and their contributions will essentially influence the whole department's well-being. Heads of departments, using PBR system need to respond promptly to problems the shopfloor wish to bring up, rather than follow a supervisor or management agenda.

The reward should be made on the basis of productivity, quality, and customer satisfaction.

- (d) **Should individual performance rewards be introduced and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?**

It is ideal to link criteria for individual performance reward to factors critical to the success of a project or business of a Department. However, in the wrong hands, this may do more harm than good, instead of contributing to a productive and motivated workforce, the system may achieve the exact opposite of what are intended. Before moving further, consideration should be given to the existing or other payment systems which do not seek to directly link individual performance and reward may be more suited to the aims of the individual Department. For example, in some departments whose values are described in somewhat abstract terms, it can be difficult to reflect them when targeting and monitoring performance. Furthermore, the present climate of deflation, high unemployment rate and Government's prevailing fiscal constraint may, ironically, leave precious little room for performance



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rewards. Thus, at this point in time, perhaps the more traditional approach of collective, across-the-board increases may reassert itself.

After all, questions must be posed about the feasibility to talk about the long-term future of performance-based rewards.

Individual performance rewards, if introduced, should be extended to all levels including those who plan activities and programs as well as those who carry them out, those who design new systems as well as those who implement them. The achievements that are recognised and rewarded must be consistent with the values of the department.

- (e) **Some improvements to staff appraisal system have been introduced in recent years. What further changes are needed to support the introduction of performance-related pay?**

The so-called improvements to staff appraisal system in recent years are often criticised by appraisers as no more than making the existing streamlined appraisal form more complicated and tedious to complete. Solely modification to the design of the performance appraisal form without changing the mindset of people is not an improvement to performance management. Rather, it is an unnecessary overkill raising expectations which could not be met. In fact, what we need beyond a well designed appraised form is good, competent first-line supervisors with strong interpersonal skills to handle Performance-related pay. Similarly, we also need to educate the workforce the way to score high in the performance appraisals. In short we need to foster a learning culture to support the introduction of performance-related pay. To this end more investment in training is needed.

It is often the case that introducing a new remuneration system in an organization requires complementary changes in other systems and procedures. For example, replacing an incentive scheme based on output with a merit-based system will required more and better trained supervisors to take over the management of performance feedback and monitoring. A performance-related payment system may require better recording and training in the skills of performance counselling, to assess performance and to apply those skills in a consistent manner, otherwise more strife than improved performance are expected.

23. On Simplification and Decentralisation of Pay Administration –

- (a) **Should consideration be given to introducing decentralisation of civil service pay administration of a city like Hong Kong?**

There is no one right answer to this question. Decentralisation of civil service pay administration is a complex issue for a city like Hong Kong where the Government has inherited many contractual commitments to a majority of civil servants, and where the size of the civil service is relatively small as compared to those in other countries. However, decentralisation in some areas of civil service pay administrative is not impossible if Government can strike a balance to optimise the relative potential advantages between centralised systems and decentralised systems as follows :

(i) **Centralised systems**

Centralised systems must be those which could optimise the use of limited resources to generate such advantages as access to central expertise homogeneity, internal equity. The feeling of working under the same administration could help strengthen the corporate culture.

(ii) **Decentralised systems**

Decentralised system are particularly, but not exclusively, suitable for those departments operating under such provisos as company-styled management, privatised formate, or trading fund model. These systems should be those which could amend practices to suit specific circumstances, encourage local creativity, and develop strategies for targeted businesses, market places and life cycles of products.

- (b) **If decentralisation of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments?**

If need be, the administration of performance-based rewards and authority for grading of junior departmental posts may, but not necessarily should, be devolved to departments.

- (c) **Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management?**

Some of the current/common grades staff should be departmentalised. This can make transfers easier to meet contingencies, strengthen sense of belonging and ensure fairness in terms of rewards for substantial contributions.

- (d) **If civil service pay administration is to be decentralised, there may be a rather long transition period. How can the standard of service and staff morale be maintained during that period?**

The purpose of decentralisation of civil service pay administration is to enable effective management of compensation schemes to meet service needs; there should not be the least intention to penalise staff or to revoke any contractual commitments. If Government actually moves towards this direction, to remove civil servants' apprehension which will do harm to staff morale and hence adversely affect the standard of service, it should cultivate adequate opportunities to communicate the issue to the staff during the transition period.

- (e) **In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organisations with wider span of management control and fewer rank layers?**

**Flatter organisation, wider span of control, fewer rank layers**

From accounting point, the wider the span of management control, the more efficient the staff cost. But the query is whether wider spans are as effective, and whether the narrower the management span, the more direct attention a supervisor can give to his staff's dealings. Flatter organisation will reduce rank layers and hence staff's career progression and effective accountability: this will punch the morale of staff.

Nevertheless opportunity must also be taken to find out whether the layers in each department is appropriate and whether there are actually some departments having problems with bureaucracy stemming from excessive rank layering and, if so, whether they are superfluous managerial layers failing to add real value to supervision of staff, but instead they are slowing the transmission of information, impeding decision-making and cramping accountability. If the layer gap between ranks is too small, employee stress will be high as all layers would feel uneasy with their supervisors breathing down their necks.

### Amalgamation of existing grades

The implication of the phrase "in terms of simplification" in this question is unclear. It is no more than chasing a fad if we were to amalgamate existing grades within broader occupational categories only for simplification purpose. The existing grades function as division of labour. Division of labour creates specialists because members of each grade receive different but limited scopes of training. Amalgamation of grades will increase training costs and inhumanely add stress and uncertainties to staff.

No single method of simplification is the best. The method used should reflect the grouping of people that would motivate staff morale, hence performance, and hence best contribute to the objectives of each department/bureau.

In short, there is scope for amalgamation of existing grades into broader categories. But how? Would there be any problems in supervision and command? We need careful consideration in each case.

- (f) **Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level?**

### Introduction of formal job evaluation system

Formal job evaluation system should be introduced to enable comparisons between internal and external pay, and it should be operated centrally, so that consistent standard in comparison and internal equity across jobs in different departments could be secured. This will strengthen the perception of "fairness across the board" and reduce unnecessary rivalries. The following observations are important:

Decentralisation of job evaluation has the advantage of enabling some departments to strive to be leading payers, outperforming the labour market and other government departments, to attract and retain high performers to ensure quality and productivity enabling people to feel privileged to belong to an elite organisation: this encourages divisions between elite groups and others. Some departments may pay highly for some skills but much less for other skills, whilst some departments go the opposite direction to suit their individual situation. It is obvious, therefore, decentralisation will bring about chaos and needs justifications as to why civil servants of the same caliber and of the comparable ranking or status should be treated differently.