

**2013 Study on Impact of
Revised Statutory Minimum Wage Rate on
Pay Hierarchies in the Retail and
Restaurant Sectors**

Study Report

Introduction

1. Statutory Minimum Wage (SMW) came into force on 1 May 2011. The initial SMW rate was set at the level of \$28 per hour. During consultation conducted by the Provisional Minimum Wage Commission (PMWC), stakeholders from the business community indicated that instead of only raising the wages of low-paid employees to the SMW rate or even beyond, they might also need to raise the wages of employees earning above the SMW rate for maintaining staff morale and preserving wage differentials in the hierarchy. This knock-on effect was likely to be particularly pronounced in those sectors and enterprises with multi-layered grade structures and small pay differences between adjacent ranks. Large and medium restaurants and retail shops were examples frequently quoted by stakeholders.¹

2. Based on views expressed in various submissions from stakeholders, PMWC recommended conducting tracking studies for low paying sectors (with special reference to the retail and restaurant sectors) to monitor the empirical magnitude of knock-on effect on pay hierarchies (knock-on effect) after the implementation of SMW, so that due consideration could be given in this regard in the reviews of the SMW rate in future. The Government adopted the recommendation and commissioned a consultant to conduct the “Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors” (the previous study) in 2011 to assess the impact of the implementation of SMW on pay hierarchies in the retail and restaurant sectors through a retrospective survey.

3. The revised SMW rate (i.e. \$30 per hour) has come into effect from 1 May 2013. In comparison with the implementation of the initial SMW rate, this adjustment might bring different impact of knock-on effect on the relevant sectors. Taking into account the views of the Minimum Wage Commission (MWC), the Government undertook relevant procurement procedure in 2013 and commissioned Policy 21 Limited to conduct the “2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors” (the Study) so as to assess the impact of the revised SMW rate on pay hierarchies in the retail and restaurant sectors.

4. The objectives of the Study are as follows: (i) to examine the empirical changes in the rank and pay structures, remuneration packages and fringe benefits, wage and its distribution, working hours, etc (collectively known as “organisational structures”) of the retail and restaurant sectors in Hong Kong through a retrospective survey; (ii) to examine whether the changes were caused by the implementation of the revised SMW rate; and (iii) to

¹ Provisional Minimum Wage Commission, 2010. *Report of the Provisional Minimum Wage Commission*.

assess the impact of knock-on effect of the revised SMW rate on pay hierarchies of enterprises in different sub-sectors and of different sizes in the retail and restaurant sectors.

Survey Methodology

5. The selected sectors covered in the statistical survey (the statistical survey) of the Study were the retail sector and the restaurant sector. Sub-sectors under the retail sector included supermarkets and convenience stores² and retail stores other than the two aforesaid sub-sectors (other retail stores), while sub-sectors under the restaurant sector included Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes. Enterprises sampled in the statistical survey were classified by employment size into small enterprises (with 3 to 9 employees), medium enterprises (with 10 to 49 employees) and large enterprises (with 50 or more employees). At the same time, the statistical survey covered both full-time and part-time employees. The terms and definitions used in the Study (including the definition of “employee”) are set out in the Appendix.

6. The statistical survey adopted a retrospective survey methodology to collect data covering two reference periods before and after the implementation of the revised SMW rate, which were September 2012 and September 2013 respectively. A face-to-face interview approach was adopted in the statistical survey. Representatives (e.g. personnel, accounting and administrative staff) of enterprises participating in the Study were interviewed so as to collect the required information and data in greater details, including those of enterprises and employees during the two reference periods (e.g. number of outlets and number of employees of the enterprise, as well as working hours and wage level of each target employee, etc). The statistical survey solicited the required information and data from enterprises. Interviews with individual target employees were not required.

7. Besides, the statistical survey also collected wage information on each target employee of the enterprises to examine whether there were any changes in the wages and other employment conditions of the employees between the two periods before and after the implementation of the revised SMW rate. Since a large number of data items of individual employees were covered and two reference periods were involved, the statistical survey focused on collecting information on employees with wages below a “specified wage level” so as to reduce the reporting burden of responding enterprises. In this respect, “specified

² As the sample sizes of supermarkets and convenience stores were smaller than those of the other sub-sectors and by making reference to the Annual Earnings and Hours Survey compiled by Census and Statistics Department, these two sub-sectors were combined to form “supermarkets and convenience stores” for analysis purpose in this survey.

wage level” referred to in this statistical survey was \$12,500 per month (and \$15,000 per month for Chinese restaurants and other retail stores) so as to cover about 70% of employees in the sub-sectors. In case there were one or more employee(s) in a particular rank with wages below the “specified wage level” in September 2013, enumerators identified all employees in the same rank in the responding enterprises or outlet(s) as “target employees”³ and collected information for the two reference periods.

8. Data collected at enterprise level was used mainly for data analysis with enterprises as the unit of analysis. For data collected in respect of target employees, the Study team filtered for “matched target employees”⁴ and conducted tracking data analysis with employees as the unit of analysis. Matched target employees refer to target employees working at the same rank, with the same employment nature (i.e. full-time or part-time) and in the same outlet in September 2012 and September 2013, as well as with wages below the “specified wage level” in September 2012.

9. In designing the questionnaire, the Study team made reference to the experience from the previous study and continued to take into account the practices adopted by the Census and Statistics Department (C&SD) in their earnings and manpower surveys, which are based on international practices and recommendations, relevant legal provisions on wages and fringe benefits, and international standard classifications of occupations and industries. Besides, the Study team also invited views from stakeholders (including trade associations, labour organisations, etc) on the information that should be covered in the questionnaire, and briefed MWC on the research methodology as well as the major content and design of the questionnaire, and provided MWC with the draft questionnaire. The Study team took on board the comments from stakeholders and MWC covering different aspects. To ensure the feasibility of the questionnaire, a Pilot Survey was also conducted to test the questionnaire design. Experience and feedback gathered from the Pilot Survey were fully considered, and relevant parts of the questionnaire were refined accordingly.

10. The statistical survey collected both quantitative and qualitative information. The questionnaire was designed based on the principle of gathering objective data. Apart from information on the enterprise itself and the target employees, the questionnaire also collected views of enterprises on the impact of the revised SMW rate. To facilitate matching of

³ To facilitate identification of “target employees” by the responding enterprises, wage level of the more recent reference period (i.e. September 2013) was used as the basis of collecting statistical information.

⁴ The Study tracked changes of “organisational structures” in selected sectors before and after the adjustment of the SMW rate. The Study team used the wage level of “target employees” in September 2012 (i.e. before the adjustment of the SMW rate) for identifying “matched target employees” so as to cover more employees for data analysis.

occupations across different enterprises, the Study team classified occupations of the retail and restaurant sectors into six broad occupational groups (which were managers and professional staff; supervisors; clerical workers; service workers; technicians/operators; and elementary workers) with reference to the relevant job description lists adopted in the previous study, C&SD's Labour Earnings Survey (which covers jobs up to supervisory level only) and the Vocational Training Council's Manpower Surveys.

11. The statistical survey adopted a disproportionate stratified sampling design. The sampling units at enterprise and outlet levels were selected randomly by C&SD from the Central Register of Establishments (CRE). Factors taken into account in stratification included industry of the enterprises as well as their employment size and location of outlets. CRE is the most up-to-date, complete and authoritative sampling frame on business establishments available in Hong Kong. In the Study, each sampled enterprise was required to complete one copy of the questionnaire. To reduce reporting burden of responding enterprises, for enterprises with more than one outlet, only some of the outlets were selected for interview⁵. Raw data had been appropriately weighted when compiling statistical results.

12. The statistical survey also adopted overlapping samples. The sampling frame was divided into two replicates. The first replicate comprised enterprises selected in the statistical survey of the previous study, and the second replicate covered the remaining enterprises (i.e. enterprises which had not been selected in the statistical survey of the previous study). On the whole, about one-third (large, medium and small enterprises inclusive) of the enterprises selected in the present statistical survey had been selected in the statistical survey of the previous study while the remaining two-thirds were newly selected enterprises. Usage of overlapping samples would lead to more precise estimations while the proportion of overlapping samples has taken into account the reporting burden on enterprises which were selected in both statistical surveys.

13. Except enterprises selected in both statistical surveys, the organisational structures of enterprises selected in the previous statistical survey and those selected in the present statistical survey might be different. Furthermore, for enterprises selected in both statistical surveys, the outlets selected from these enterprises might also be different in the two survey

⁵ Details of the sample selection method were as follows:

- (i) Small or medium enterprises: one outlet was randomly selected (for supermarkets and convenience stores, all outlets were selected).
- (ii) Large enterprises: for enterprises with 3 or more outlets, 3 outlets were selected and as far as possible, 1 outlet each from Hong Kong Island, Kowloon and the New Territories. For enterprises with less than 3 outlets, all outlets were selected.

rounds. Therefore, the results of the two statistical surveys were not strictly comparable even though overlapping samples were adopted in this statistical survey.

Survey Findings

14. The statistical survey was mainly conducted from November 2013 to February 2014. Of the 790 sampled enterprises covered by the statistical survey, the Study team successfully enumerated 539 enterprises in different selected sectors and sub-sectors and with different sizes. The response rate was 68.2% (69.5% and 67.7% for the retail sector and the restaurant sector respectively), covering 57 848 employees (38 272 and 19 576 employees in the retail sector and the restaurant sector respectively). Of the 823 outlets selected from the 539 responding enterprises, the Study team successfully collected wage information on 5 972 employees; of which information on 4 850 matched target employees was used for “analysis by matched target employee”.

Analysed by Enterprise

15. The statistical results, analysed by responding enterprise, covered all employees of the responding retail and restaurant enterprises.

Change in the number of ranks in enterprises

16. On the whole, the number of ranks in the responding restaurant enterprises was greater than that in retail enterprises. Comparing September 2013 with September 2012, analysed by size of enterprises and by sub-sector, the average number of ranks in both the retail sector and the restaurant sector did not register noticeable change.

Change in the number of employees by occupational group

17. Since different rank titles were used by enterprises, in the statistical survey, ranks were grouped together and classified based principally on the duties of employees and with reference to the job descriptions lists adopted in the previous study and local statistical surveys. As there was only a relatively small number of employees in certain occupational groups, occupational groups for the retail sector were re-grouped into four occupational groups (viz. shop managers/supervisors and other related staff; sales and other related service workers; elementary workers; and technicians/operators); and occupational groups for the restaurant sector were re-grouped into another four occupational groups (viz. restaurant

supervisors, managers and other related staff; waiters/waitresses, cooks and other related service workers; dishwashers, kitchen general workers and other related elementary workers; and technicians/operators).

18. For the retail sector, with reference to the four occupational groups, 84.0% to 91.6% of the responding enterprises indicated that there was no noticeable change in the number of employees in different occupational groups when comparing September 2013 with September 2012. At the same time, 8.0% of the enterprises employed more sales and other related service workers, but 11.4% of the enterprises employed fewer elementary workers. Responding retail enterprises indicated that the main reason for employing more employees was increase in business turnover. On the other hand, the main reasons for employing fewer employees were staff turnover together with recruitment difficulty and decrease in business turnover.

19. For the restaurant sector, with reference to the four occupational groups, 88.8% to 93.1% of the responding enterprises indicated that there was no noticeable change in the number of employees in different occupational groups when comparing September 2013 with September 2012. Regarding the occupational group of waiters/waitresses, cooks and other related service workers, 6.3% of the enterprises employed more related workers; at the same time, 4.8% of the enterprises employed fewer related workers. Responding restaurant enterprises indicated that the main reason for employing more employees was increase in business turnover. On the other hand, the main reason for employing fewer employees was staff turnover together with recruitment difficulty.

Change in the proportion of full-time and part-time employees

20. In September 2013, the percentages of full-time and part-time employees in the responding retail enterprises were 82.4% and 17.6% respectively which were broadly the same as the corresponding percentages of 82.1% and 17.9% in September 2012. Analysed by sub-sector, when comparing September 2013 with September 2012, the percentages of full-time and part-time employees in each sub-sector did not register noticeable change.

21. In September 2013, the percentages of full-time and part-time employees in the responding restaurant enterprises were 75.7% and 24.3% respectively which were broadly the same as the corresponding percentages of 75.9% and 24.1% in September 2012. Analysed by sub-sector, the proportions of full-time and part-time employees varied. The percentages of part-time employees in Chinese restaurants in September 2013 and September 2012 were 13.0% and 13.7% respectively, much lower than the corresponding percentages for other

restaurant sub-sectors. Over the same period, the proportion of part-time employees in fast food cafes was 35.7% (September 2013) and 33.4% (September 2012). Responding restaurant enterprises indicated that the main reason for hiring more part-time employees was labour shortage in the sector. The proportions of full-time and part-time employees in other restaurant sub-sectors did not register noticeable change when comparing September 2013 with September 2012.

Change in the monthly wages range of full-time employees

22. Analysed by the lower quartile of minimum monthly wages and the upper quartile of maximum monthly wages in each occupational group, the monthly wages ranges of full-time employees in all occupational groups in the responding retail and restaurant enterprises generally recorded slight increases in September 2013 as compared with September 2012. Owing to differences in the magnitude of increases for the minimum and maximum monthly wages across occupational groups, wage ranges were widened or narrowed to different extent, i.e. the differences in monthly wages between lower-paid employees (represented by the lower quartile of minimum monthly wages) and higher-paid employees (represented by the upper quartile of maximum monthly wages) in occupational groups increased or decreased.

23. For the retail sector, the monthly wages ranges of full-time sales and other related service workers and technicians/operators were slightly compressed. The monthly wages ranges of full-time shop managers/supervisors and other related staff and elementary workers remained unchanged.

24. For the restaurant sector, the monthly wages ranges of full-time restaurant supervisors, managers and other related staff, waiters/waitresses, cooks and other related service workers and dishwashers, kitchen general workers and other related elementary workers were slightly widened.

Analysed by Matched Target Employee

25. The statistical data analysed by matched target employee covered the matched target employees of the responding retail and restaurant enterprises (see paragraph 8). There were a total of 1 189 matched target employees from the responding retail enterprises. The majority of them were sales and other related service workers (70.5%); followed by technicians/operators (11.0%); with the remaining being shop managers/supervisors and other related staff (10.6%) and elementary workers (7.8%). There were a total of 3 661 matched target employees from the responding restaurant enterprises. The majority of them were

waiters/waitresses, cooks and other related service workers (74.0%); followed by dishwashers, kitchen general workers and other related elementary workers (15.4%); with the remaining being restaurant supervisors, managers and other related staff (7.5%) and technicians/operators (3.0%).⁶

Change in the monthly wages of matched target employees

26. The monthly wages of full-time matched target employees in the responding retail and restaurant enterprises were generally adjusted upwards in September 2013. The respective median monthly wages of full-time matched target employees in the retail sector and the restaurant sector were both raised from \$9,800 and \$9,500 in September 2012 respectively to \$10,000 in September 2013, representing increases of 2.4% and 5.3% respectively.

27. Comparing September 2013 with September 2012, an overwhelming majority of the matched target employees in the responding enterprises recorded increases or no change in monthly wages (retail sector: 97.8%; restaurant sector: 98.2%). Only a small proportion of matched target employees (retail sector: 2.3%; restaurant sector: 1.8%) recorded decreases in monthly wages in September 2013 when compared with September 2012, with the monthly wages of some of these employees decreased owing to reduction in monthly contractual working hours.

Change in the distribution of hourly wage of matched target employees

28. For the retail sector, analysed by occupational group, the hourly wage distributions of all occupational groups in the responding enterprises adjusted upwards generally in September 2013 when compared with September 2012. The hourly wage distributions of elementary workers and technicians/operators were widened, i.e. the differences in hourly wage between lower-paid employees (represented by the lower quartile of hourly wage) and higher-paid employees (represented by the upper quartile of hourly wage) in occupational groups became larger. The hourly wage distributions of shop managers/supervisors and other related staff and sales and other related service workers did not register noticeable change.

29. For the restaurant sector, analysed by occupational group, the hourly wage distributions of all occupational groups in the responding enterprises adjusted upwards

⁶ In the restaurant sector, as the number of employees sampled in technicians/operators was relatively small, the relevant findings might be subject to larger sampling errors and the figures should be interpreted with care.

generally in September 2013 when compared with September 2012. The hourly wage distributions were slightly compressed for restaurant supervisors, managers and other related staff, i.e. the differences in hourly wage between lower-paid employees (represented by the lower quartile of hourly wage) and higher-paid employees (represented by the upper quartile of hourly wage) in occupational groups were narrowed. The hourly wage distributions of dishwashers, kitchen general workers and other related elementary workers were slightly widened while that of waiters/waitresses, cooks and other related service workers remained unchanged.

Change in the monthly contractual working hours of matched target employees

30. In responding retail enterprises, the monthly contractual working hours of over 90% of the matched target employees remained unchanged in September 2013 when compared with September 2012, with only a few of them (3.1%) had reduction in monthly contractual working hours. Analysed by occupational group, amongst the matched target employees with changes in monthly contractual working hours, the percentage of employees with reduction in monthly contractual working hours was higher for shop managers/supervisors and other related staff, at about 6.4%. The median of reduction in monthly contractual working hours of these employees was 12 hours. Nonetheless, the monthly wages of over 70% of them either increased or remained unchanged. The responding enterprises indicated that the main reason for reducing monthly contractual working hours was business needs, i.e. cutting of business hours for cost saving purpose.

31. In responding restaurant enterprises, the monthly contractual working hours of over 90% of the matched target employees remained unchanged in September 2013 when compared with September 2012, with only a few of them (1.8%) had reduction in the monthly contractual working hours. Analysed by occupational group, amongst the matched target employees with changes in monthly contractual working hours, the percentage of employees with reduction in monthly contractual working hours was higher for dishwashers, kitchen general workers and other related elementary workers, at about 3.1%. The median of reduction in monthly contractual working hours of these employees was 10 hours. Nonetheless, the monthly wages of about 60% of these employees either increased or remained unchanged. The responding enterprises indicated that the main reason for reducing monthly contractual working hours was business needs, i.e. cutting of business hours for cost saving purpose.

Change in the basis of wage calculation of matched target employees

32. Most of the matched target employees in both the retail and restaurant sectors were paid on monthly basis, amongst whom the proportions of employees paid on monthly basis were higher for managers/supervisors and technicians/operators and other related staff than those for other occupational groups. In the retail sector, the proportions of matched target employees paid on monthly and hourly basis in September 2013 were 76.8% and 22.3% respectively. On the whole, the basis of wage calculation for matched target employees in the responding retail enterprises did not register noticeable change in September 2013 compared with September 2012. For the restaurant sector, the proportions of matched target employees paid on monthly and hourly basis in September 2013 were 60.5% and 38.0% respectively. On the whole, the basis of wage calculation for matched target employees in the responding restaurant enterprises did not register noticeable change in September 2013 compared with September 2012.

Change in matched target employees with paid rest days

33. The percentages of matched target employees entitled to paid rest days in the retail sector in September 2013 and September 2012 were similar, and the respective figures were 76.8% and 77.1%. The monthly wages of all matched target employees who were no longer entitled to paid rest days in September 2013 increased as compared with September 2012. Analysed by occupational group, the percentages of matched target employees entitled to paid rest days in different occupational groups in September 2013 and September 2012 were similar.

34. For the restaurant sector, the percentages of matched target employees entitled to paid rest days in September 2013 and September 2012 were similar, and the respective figures were 58.9% and 59.1%. For those matched target employees no longer entitled to paid rest days in September 2013 and with decrease in monthly wages, they represented only 0.2% of all matched target employees. Analysed by occupational group, the percentages of matched target employees entitled to paid rest days in different occupational groups in September 2013 and September 2012 were similar.

Change in matched target employees with paid meal breaks

35. The percentages of matched target employees entitled to paid meal breaks in the retail sector in September 2013 and September 2012 were the same, at 78.3%. Analysed by occupational group, the percentages of matched target employees in the retail sector entitled

to paid meal breaks in different occupational groups in September 2013 and September 2012 were the same.

36. For the restaurant sector, the percentages of matched target employees entitled to paid meal breaks in September 2013 and September 2012 were similar, and the respective figures were 87.0% and 87.1%. The monthly wages of all matched target employees no longer entitled to paid meal breaks in September 2013 increased when compared with September 2012. Analysed by occupational group, the percentages of matched target employees in the restaurant sector with paid meal breaks in different occupational groups in September 2013 and September 2012 were similar.

Change in other fringe benefits of matched target employees

37. As regards other fringe benefits employees generally entitled to (including guaranteed year-end payment/bonus, meal benefit in kind, other non-cash benefits (e.g. birthday leave) and non-guaranteed bonus and allowance), percentages of matched target employees entitled to these other fringe benefits did not register noticeable change in September 2013 compared with September 2012. Larger proportion of matched target employees in the retail sector was entitled to guaranteed year-end payment/bonus (28.9% in September 2013 and 28.1% in September 2012 respectively) and smaller proportion of matched target employees was entitled to the other kinds of fringe benefits (i.e. meal benefit in kind, other non-cash benefits and non-guaranteed bonus and allowance, and the figures were 12.7%, 2.3% and 11.5% in September 2013 and 12.5%, 2.3% and 10.9% in September 2012 respectively).

38. In the restaurant sector, percentage of matched target employees entitled to other fringe benefits did not register noticeable change in September 2013 compared with September 2012. Larger proportion of matched target employees was entitled to meal benefit in kind (89.1% in September 2013 and 89.0% in September 2012 respectively) and smaller proportion of matched target employees was entitled to guaranteed year-end payment/bonus, other non-cash benefits and non-guaranteed bonus and allowance (11.9%, 5.2% and 6.5% in September 2013, as well as 12.0%, 4.7% and 4.7% in September 2012 respectively).

39. Most of the responding enterprises indicated that meal breaks, shift breaks and training time offered in September 2013 were broadly the same as in September 2012. In the retail sector, around 99% of enterprises indicated that meal breaks/training time offered

remained unchanged. In the restaurant sector, around 99% of enterprises indicated that meal breaks/shift breaks/training time offered remained unchanged.

Change in the hourly wage of matched target employees (by hourly wage of employees in September 2012)

40. All matched target employees with hourly wage below \$30 in September 2012 in the retail and restaurant sectors (accounting for 12.6% and 9.9% of the matched target employees in the respective sectors) had wage increases in September 2013. The median hourly wage of the employees concerned in the retail sector and the restaurant sector increased by 7.4% from \$28.2 to \$30.3, and by 6.6% from \$28.7 to \$30.6 respectively. Responding enterprises indicated that the main reason for wage increase was to comply with the adjustment of the SMW rate from \$28 to \$30 per hour.

41. For matched target employees with hourly wage at \$30 or above in September 2012 in the retail and restaurant sectors, 73.4% and 70.6% of these employees in the respective sectors had wage increases in September 2013. The respective median hourly wage also increased by 7.3% from \$35.7 to \$38.3 and by 8.6% from \$35.0 to \$38.0. Responding enterprises indicated that the main reason for wage increases was increased business turnover.

Change in the monthly contractual working hours of matched target employees (by hourly wage of employees in September 2012)

42. Amongst the matched target employees in the retail and restaurant sectors with hourly wage below \$30 in September 2012, 3.1% (retail sector) and 0.7% (restaurant sector) of them had their monthly contractual working hours reduced. But at the same time, 3.4% (retail sector) and 0.1% (restaurant sector) of matched target employees recorded increases in monthly contractual working hours.

43. Amongst the matched target employees with hourly wage at \$30 or above in September 2012, 3.1% (retail sector) and 2.0% (restaurant sector) of them had their monthly contractual working hours reduced respectively. But at the same time, 2.7% (retail sector) and 0.5% (restaurant sector) of matched target employees recorded increases in monthly contractual working hours.

Outlook for March 2014 as Compared with September 2013 Anticipated by Responding Enterprises at the Time of Enumeration and Other Opinions

44. In the retail sector and the restaurant sector, 99.8% and 99.1% of the responding enterprises respectively anticipated at the time of enumeration⁷ no change in wages in March 2014 as compared with September 2013 for employees with hourly wage below \$30 in September 2012. On the other hand, 0.1% and 0.9% of the responding enterprises in the retail sector and the restaurant sector respectively anticipated further increases in wages in March 2014 as compared with September 2013 for these employees. The main reasons were increased business turnover, and staff turnover together with recruitment difficulty.

45. For employees with hourly wage at \$30 or above in September 2012, 86.7% and 87.3% of the responding enterprises in the retail sector and the restaurant sector respectively anticipated at the time of enumeration no change in wages for these employees in March 2014 as compared with September 2013. On the other hand, 13.0% and 12.7% of the responding enterprises in the retail sector and the restaurant sector respectively indicated that they envisaged wage increases for these employees in March 2014. The main reasons were increased business turnover, and staff turnover together recruitment difficulty.

46. In both the retail and restaurant sectors, an overwhelming majority (over 90%) of the responding enterprises anticipated no change in March 2014 as compared with September 2013 in all aspects of work arrangements for employees, including the number of employees in each rank, contractual working hours, meal breaks, shift breaks and training time offered. However, in respect of the number of employees in each rank, 6.0% and 3.8% of the responding enterprises in the retail sector and the restaurant sector respectively indicated that they would increase the number of employees in each rank. The main reason was increase in business turnover.

47. The responding enterprises in the retail and restaurant sectors indicated that other major impacts of the implementation of the revised SMW rate included difficulties in recruitment (for instance, labour shortage in the sector and employees switching to other sectors with better working conditions), increase in operating costs (for instance, causing price increase indirectly) and concern over difficulties in business operation (for instance, difficulty in passing-on the costs to customers in times of economic downturn).

⁷ The survey was mainly conducted from November 2013 to February 2014.

Analysis on Knock-on Effect

48. The method for computing the distribution of median hourly wage of matched target employees was to sort the hourly wages of matched target employees in September 2012 in ascending order and then divided the matched target employees into 10 groups according to the percentiles of the hourly wage distribution. The respective median hourly wages in September 2012 and September 2013 were then calculated for each decile group.

49. For matched target employees in the retail sector, the median hourly wages of the first decile group in September 2012 was \$28.2, which was below \$30. After the implementation of the revised SMW rate (i.e. \$30 per hour), the median hourly wages of this group in September 2013 increased to \$30.2. For matched target employees in the restaurant sector, the median hourly wages of the first decile group in September 2012 was \$28.7, which was below \$30. After the implementation of the revised SMW rate, the median hourly wages of this group in September 2013 increased to \$30.6.

50. In both the retail and restaurant sectors, with respect to the median of the rate of change in hourly wage of matched target employees in September 2013 over September 2012, as the first decile group benefited from the adjustment of the SMW rate directly, the hourly wages within this group increased from below \$30 to \$30 or above, and the percentage increase (about 7%) of this decile group was therefore larger than those of other decile groups. The percentage increases of the ensuing nine decile groups were in the range of around 4% to 6% only, which were similar to the general wage adjustment amongst enterprises in 2013. Thus, there was no evidence indicating that after the adjustment of the SMW rate, knock-on effect had significant impact on employees with hourly wage at \$30 or above in September 2012.

51. The initial SMW rate came into force on 1 May 2011 amidst a buoyant domestic economy, which provided a very favourable environment for enterprises to adapt to this new policy. Although the Hong Kong economy decelerated visibly since the second half of 2011 to only a meagre growth in 2013 due to a worsening external environment, the labour market stayed tight, while wages kept rising steadily on the back of resilient domestic demand. Moreover, as the adjustment of the SMW rate from \$28 to \$30 per hour since 1 May 2013 was relatively modest, the Study considered that there was no obvious hourly wage cut-off point to identify matched target employees who were affected by the knock-on effect and the corresponding knock-on effect is relatively mild.

Conclusion

52. The Study monitored the impact of knock-on effect of the revised SMW rate on pay hierarchies in the retail and restaurant sectors. A retrospective survey covering two reference periods before and after the implementation of the revised SMW rate (September 2012 and September 2013 respectively) was conducted to examine the changes in “organisational structures” (including rank and pay structures, remuneration packages and fringe benefits, wage and its distribution, working hours, etc) in the retail and restaurant sectors in Hong Kong, and whether the changes were caused by the implementation of the revised SMW rate. The Study also assessed the impact of knock-on effect of the revised SMW rate on pay hierarchies of enterprises in different sub-sectors and of different sizes in the retail and restaurant sectors.

53. Analysed at enterprise level, the statistical survey in the Study covered all employees in the responding enterprises in the retail and restaurant sectors in order to examine the number of ranks in enterprises, the number of employees by occupational group, the proportion of full-time and part-time employees, and the monthly wages range of full-time employees. According to the statistical survey findings, Table 1 sets out the major observations:

**Table 1 : Major observations from analysis by responding enterprise
(September 2013 as compared with September 2012)**

	Retail sector	Restaurant sector
Number of ranks	➤ No noticeable change	➤ No noticeable change
Number of employees by occupational group	<ul style="list-style-type: none"> ➤ Some enterprises reported increases or decreases in the numbers of employees in occupational groups ➤ The main reason for increase was increase in business turnover ➤ The main reasons for decrease were staff turnover together with recruitment difficulty and decrease in business turnover 	<ul style="list-style-type: none"> ➤ Some enterprises reported increases or decreases in the numbers of employees in occupational groups ➤ The main reason for increase was increase in business turnover ➤ The main reasons for decrease were staff turnover together with recruitment difficulty

Proportion of full-time and part-time employees

- The overall proportion was broadly the same in both reference periods
- The proportion of part-time employees in each sub-sector did not register noticeable change in September 2013 and September 2012
- The overall proportion was broadly the same in both reference periods
- The proportion of part-time employees in each sub-sector did not register noticeable change in September 2013 and September 2012; there was an increase in the proportion of part-time employees in fast food cafes mainly owing to labour shortage within the sector

Monthly wages range of full-time employees

- Monthly wages ranges of all occupational groups were generally slightly adjusted upwards
- Monthly wages ranges of all occupational groups were generally slightly adjusted upwards

54. The statistical survey in the Study also analysed statistical data covering 4 850 matched target employees. The analyses by matched target employee enabled us to examine the changes in the monthly wages, the distribution of hourly wage, the monthly contractual working hours, the basis of wage calculation, the proportion of employees with paid rest days and paid meal breaks and other fringe benefits, as well as the changes in the wages of employees with hourly wage below \$30 and those at \$30 or above in September 2012, etc. Table 2 sets out the major observations based on the statistical survey findings:

Table 2 : Major observations from analysis by matched target employee (September 2013 as compared with September 2012)

	Retail sector	Restaurant sector
Monthly wages	<ul style="list-style-type: none"> ➤ An overwhelming majority of the employees had their monthly wages increased or remained unchanged ➤ Monthly wages of full-time employees were generally adjusted upwards 	<ul style="list-style-type: none"> ➤ An overwhelming majority of the employees had their monthly wages increased or remained unchanged ➤ Monthly wages of full-time employees were generally adjusted upwards

	Retail sector	Restaurant sector
Distribution of hourly wage	➤ Analysed by occupational group, generally adjusted upwards	➤ Analysed by occupational group, generally adjusted upwards
Monthly contractual working hours	➤ Monthly contractual working hours of over 90% of the employees remained unchanged	➤ Monthly contractual working hours of over 90% of the employees remained unchanged
Basis of wage calculation	<ul style="list-style-type: none"> ➤ No noticeable change ➤ In September 2013, about 76.8% and 22.3% of employees were paid on monthly and on hourly basis respectively 	<ul style="list-style-type: none"> ➤ No noticeable change ➤ In September 2013, about 60.5% and 38.0% of employees were paid on monthly and on hourly basis respectively
Proportion of employees with paid rest days	<ul style="list-style-type: none"> ➤ Broadly the same ➤ The monthly wages of all employees who were no longer entitled to paid rest days in September 2013 increased 	<ul style="list-style-type: none"> ➤ Broadly the same ➤ Those matched target employees no longer entitled to paid rest days in September 2013 and with decrease in monthly wages represented only 0.2% of all matched target employees
Proportion of employees with paid meal breaks	➤ Analysed by occupational group, the percentages of employees with paid meal breaks in September 2013 and September 2012 were the same	➤ Analysed by occupational group, the percentages of employees with paid meal breaks in September 2013 and September 2012 were similar
Other fringe benefits	➤ No noticeable change	➤ No noticeable change
Employees with hourly wage below \$30 in September 2012	<ul style="list-style-type: none"> ➤ All had increases in wages ➤ The median hourly wage in September 2013 was \$30.3 	<ul style="list-style-type: none"> ➤ All had increases in wages ➤ The median hourly wage in September 2013 was \$30.6
Employees with hourly wage at \$30 or above in September 2012	<ul style="list-style-type: none"> ➤ 73.4% of them had increases in wages ➤ The median hourly wage in September 2013 was \$38.3 	<ul style="list-style-type: none"> ➤ 70.6% of them had increases in wages ➤ The median hourly wage in September 2013 was \$38.0

55. Regarding the assessment of the impact of knock-on effect of the revised SMW rate, for both the retail and restaurant sectors, the first decile group of matched target employees benefited from the adjustment of the SMW rate directly. The median rate of increase in hourly wages of these employees was about 7%. The median rates of increase in hourly wage of employees in the ensuing nine decile groups were in the range of around 4% to 6%, which were similar to the magnitude of general wage adjustment amongst enterprises in 2013. It was therefore inferred that employees in the first decile group benefited from the implementation of the revised SMW rate directly as a larger median rate of increase in hourly wage was recorded in this group; while the impact of knock-on effect on employees with hourly wage at \$30 or above in September 2012 was rather mild. All in all, enterprises have adapted to the changes brought about by the implementation of SMW. The tight labour market conditions amidst the resilient domestic demand had also resulted in widespread increases in wages of all industries between the two reference periods. Furthermore, as the magnitude of the SMW rate adjustment was relatively modest, the Study considered that there was no obvious hourly wage cut-off point to identify matched target employees who were affected by the knock-on effect and the corresponding knock-on effect is relatively mild.

Appendix | Glossary

The major terms used in this Study and their definitions are listed below.

1. Employee

This refers to employee covered by the Employment Ordinance, which applies to all employees with the following exceptions:

- (i) a family member who lives in the same dwelling as the employer;
- (ii) an employee as defined in the Contracts for Employment Outside Hong Kong Ordinance;
- (iii) a person serving under a crew agreement under the Merchant Shipping (Seafarers) Ordinance, or on board a ship which is not registered in Hong Kong; and
- (iv) an apprentice whose contract of apprenticeship has been registered under the Apprenticeship Ordinance.

An employee is regarded as a **part-time employee** if one of the following conditions is met:

- (i) the number of usual days of work per week is less than 5 (for a person with a fixed number of working days per week); or
- (ii) the number of usual hours of work per working day is less than 6 (for a person with a fixed number of working days per week); or
- (iii) the number of usual hours of work per week is less than 30 (for a person without a fixed number of working days per week).

However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.

If an employee cannot be classified as a part-time employee according to the above criteria, the employee is treated as a **full-time employee**.

2. Target Employee

If there is (are) one or more employee(s) in a particular rank with monthly wages below a “specified wage level” in September 2013, all employees of this rank in the responding enterprise or outlet(s) will be treated as target employees. The “specified wage levels” are as follows:

- | | |
|--|----------|
| ➤ Chinese restaurants or other retail stores | \$15,000 |
| ➤ Other sub-sectors in the selected sectors (including supermarkets, convenience stores, non-Chinese restaurants, fast food cafe and Hong Kong style tea cafe) | \$12,500 |

3. Matched Target Employee

Matched target employee refers to target employee who works at the same rank, with same employment nature (i.e. full-time or part-time), in the same outlet in September 2012 and September 2013, and with wages below the “specified wage levels” in September 2012.

4. Monthly wages

Monthly wages are the sum of the following items:

(i) Basic wage

Basic wage refers to contractual/agreed wage before deducting employee’s contribution to provident fund/Mandatory Provident Fund; but not including bonus, commission, overtime allowance, good attendance bonus, tips and service charges, and other allowances.

Some employees who are paid on hourly/daily basis may only have contractual/agreed hourly wage/daily wage. Their wages in a month will depend on the actual number of working hours/working days in the month. Under such circumstances, wages actually paid to the employee in the reference month will be treated as monthly basic wage.

(ii) Guaranteed bonus and allowance

Guaranteed bonus and allowance refers to guaranteed bonus and allowance (e.g. shift allowance, meal allowance, grooming allowance, and good attendance bonus not of gratuitous nature) paid to an employee on top of basic wage, regardless of the gain or loss of the enterprise.

(iii) Commission and tips (non-gratuitous nature)

Commission refers to the guaranteed payment for sales and related personnel in accordance with their sales volume achieved, either individually or as a group, regardless of the gain or loss of the enterprise as a whole. (Note: Commission is different from profit-sharing bonus, which is the amount paid to employees depending on the amount of profit of the enterprise.)

Tips refers to the amount gathered by the enterprise and then distributed amongst the service or related personnel. The amount paid directly by customers to service or related personnel, apart from those recognised by the employer as part of the employee’s wage, should be excluded.

(iv) **Overtime allowance**

Overtime allowance refers to the allowance paid to an employee for his/her work outside contractual/agreed working hours, and such attendance at the place of employment is made in accordance with the contract of employment or with the agreement or at the direction of the employer.

(v) **Additional remuneration paid to an employee to meet the minimum wage requirement**

This refers to the balance paid to an employee by the enterprise if wages payable to the employee in respect of the wage period are less than the minimum wage according to the Minimum Wage Ordinance.

5. Guaranteed Year-end Payment/Bonus

Guaranteed year-end payment/bonus refers to guaranteed payment to an employee at the end of a year, regardless of the gain or loss of the enterprise.

6. Non-guaranteed Bonus and Allowance

Non-guaranteed bonus and allowance refers to bonus and allowance paid to an employee of gratuitous nature (e.g. good attendance allowance of gratuitous nature) on top of basic wage.

7. Contractual Working Hours

Working hours include any time when the employee is, in accordance with the contract of employment or with the agreement or at the direction of the employer:

- (i) in attendance at a place of employment, irrespective of whether he is provided with work or training at that time; or
- (ii) travelling in connection with his/her employment, excluding travelling (in either direction) between his/her place of residence and his/her place of employment, other than a place of employment that is outside Hong Kong and is not his/her usual place of employment.

A place of employment means any place at which the employee is, in accordance with the contract of employment or with the agreement or at the direction of the employer, in attendance for the purpose of doing work or receiving training.

Contractual working hours refers to the working hours specified in the employment contract or agreed with the employer. This will not be affected by factors such as absence, overtime work, inclement weather, on strike, on leave, etc. In other words, it is assumed that the employee is on duty every working day in the month, and does not

take annual leave, maternity leave, sick leave, etc. If the employee has no fixed contractual working hours, the actual working hours in the month will be treated as contractual working hours.

8. Hourly Wage

Hourly wage is derived by dividing the monthly wages (after deducting the payment for rest days and payment for meal breaks that are not regarded as working hours) by the total monthly working hours. Total monthly working hours include contractual working hours of the month (covering meal breaks that are regarded as working hours) and overtime hours.