

香港海關
香港中環統一碼頭道 38 號
海港政府大樓 9 樓



CUSTOMS AND EXCISE DEPARTMENT
HONG KONG
9/F., Harbour Building
38 Pier Road, Central
Hong Kong

Ref. (16) in CER/APP/60 Pt.2

Tel. [REDACTED]

Fax [REDACTED]

28 June 2002

Mr Lee Lap-sun
Secretary General
Joint Secretariat for the Advisory Bodies on Civil Service
and Judicial Salaries and Conditions of Service
Room 701, 7th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Dear Mr Lee,

**Task Force on Review of
Civil Service Pay Policy and System**

I refer to your letter of 2.5.2002 and attach our submissions as follows –

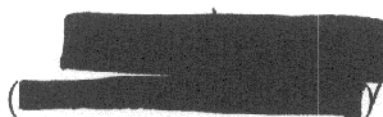
- (a) Departmental Position on the Review of Civil Service Pay Policy and System at Appendix I;
- (b) the submissions from the Hong Kong Customs & Excise Staff General Association and Hong Kong Customs Officers Union at Appendices II and III respectively; and

/(c)

- (c) a submission from the representative of Clerical Officer grade in our Departmental Consultative Committee at Appendix IV.

You may wish to note that the Association of Customs & Excise Service Officers has already sent their views to you direct.

Yours sincerely,

A black rectangular redaction box covers the signature of the Commissioner of Customs and Excise.

for Commissioner of Customs and Excise

c.c. Secretary General, Standing Committee on
Disciplined Services Salaries and Conditions of Service

**Customs & Excise Department
Departmental Position on Review of
Civil Service Pay Policy and System**

Our views on the Task Force's interim findings on Review of Civil Service Pay Policy and System and the observations listed out in the consultation paper of their Phase I Study are set out in the ensuing paragraphs -

I. 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)?*

In principle we agree that more emphasis should be put on performance-pay and clean wage policy particularly as the latter offers flexibility and saves administrative costs. However, instead of having a major overhaul at one go, implementation of changes should be incremental. If performance-based pay and clean wage policy are to receive a fair trial, substantial time and effort must be devoted to designing, testing and adjusting the system. Besides, to ensure that the policy would not bring unfairness to the different grades in the civil service, other mechanisms/HRM initiatives such as a performance-based appraisal system, a formal job evaluation system and a fair job selection system should be put in place.

- (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?*

We are of the view that senior civil servants should be subject to a pay policy which is different from that of the middle-ranking and junior ranks because salaries should be commensurate with responsibilities and accountability, especially when more risk/award factors are placed on the senior levels.

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

We agree that the pay of disciplined services should be treated differently as the job nature of the disciplined services normally carries a higher level of risk. In recognition of the special job nature of disciplined services such as exposure to risk, danger, stress, strict disciplinary rules and irregular and long working hours, there has been long-established and well-accepted separate pay scales (the Police Pay Scale and the General Disciplined Services Pay Scale) for the disciplined services. The use of separate pay scales will be able to justify the unique role of the disciplined services in preserving security, stability and the well-being of Hong Kong.

- (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?*

While we agree to do so to keep up with the changing socio-economic circumstances in Hong Kong, the Government should place more emphasis on professionalism, integrity, loyalty and service continuation with the least disruption. To provide quality services to the public, it is of paramount importance that the Government should maintain a professional and stable civil service. Pay is generally recognized as one of the major motivating factors for high performance. To compete with the private sector for capable personnel, the Government has to provide competitive remuneration packages that are attractive enough to recruit and retain staff. Pay trend survey is an effective device to ensure that civil service pay moves broadly in line with that of the private sector and at a sufficiently high level for disciplined services given their special job nature. As such, we agree that regular pay trend surveys should continually be conducted.

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

The government's affordability to pay should only be one of the factors in considering pay adjustments.

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

While we have an open mind on the review, we consider it crucial to pitch civil service pay in a manner regarded as fair and balanced by both civil servants and members of the public. To ensure stability and morale of the civil service, annual increment and other fringe benefits such as vacation leave, housing, medical and overtime allowance, and pensions/mandatory provident fund should be retained.

II. 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?*

In general, we expect that the introduction of flexible pay ranges would bring benefits in terms of better rewarding performance and enhancing performance-oriented culture in the Hong Kong context provided that the performance indicators used can be measured objectively, fairly and accurately. Otherwise, it would bring in a flattery culture in the civil service. Also it is felt that the successful introduction of flexible pay ranges will only work in organizations with a supportive culture for performance-based rewards.

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

Flexibility in pay progression would inevitably affect staff morale and may give rise to office politics and potential divisiveness among civil servants. Since not all government services can be quantified, it will be difficult to find a benchmark to assess the related performance.

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

If flexible pay ranges are to be introduced, they should be applied to senior civil servants at the directorate level as they are entrusted with heavier management responsibilities. A performance-oriented culture should then be developed in the entire civil service to prepare for its extension.

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

Yes, but they should start with senior officers at the directorate level at the outset.

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

We, in general, agree that changes are required but existence of a fair, open, objective and transparent appraisal system is essential to the successful implementation of the flexible pay range policy. It is noticed that the existing performance appraisal system operated in most government departments is clearly not adequate to serve the objectives and an overhaul is required to tie in with the changes.

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

Linking performance management with pay may not necessarily nurture a performance culture. Under such an arrangement, there is a danger for staff to boost short-term results by ignoring long-term targets which may result in deterioration in the quality of the overall service. Hence a performance management system must be operated fairly and objectively, to be supported by an effective and efficient process to take under-performers or non-performers to task.

III. Pay Adjustment System and Mechanism

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

Yes, unless there are other new or better means/mechanisms, the principle of broad comparability with the private sector should continue to be adhered to. However, other factors such as the maintenance of stability, morale and integrity of the civil service should still be regarded as important factors in the pay adjustment system.

- (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?*

The present pay adjustment system works quite well with no major problems being encountered. Unless there is a new system acceptable to civil servants and the public at large, the existing system should remain as the mainstream, to be supplemented by other mechanism or factors.

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

While we agree that the present pay adjustment mechanism works quite well, we also welcome any desirable and appropriate changes, subject to a thorough review of the existing system.

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

No. Other factors, such as overall economic condition, changes in costs of living, staff morale and pay trend should also be considered in determining pay adjustments.

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

As geographically Hong Kong is a small place with uniform demographic and economical environment, the pay administration of the civil service should better be placed under central control/guidance so as to maintain fairness and stability as well as for effective budgetary control. Also, it will be easier and more cost-effective for the central government to conduct the pay surveys. Besides, the individual departmental administrations may not have the expertise and staffing resources to do the work.

Comments given in Part V(a) below are also relevant.

IV. Introducing Performance-based Rewards

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

We see the merit to incorporate elements of performance-pay in civil service salaries. It will make the government smaller in size but more efficient. Those who perform well will be encouraged to do even better and those who under-perform will be motivated to improve or be dropped out. However, there must be other mechanisms in place to ensure fairness and objectivity in measuring the performance of individual civil servants.

However, having studied the experiences of performance-pay in the civil service of other countries, it is noted that one of the critical success criteria for individual performance-pay is that the employee is capable of performing the desired service work, and the employee perceives that the reward is valued and is contingent on performance. Many foreign governments such as the US, UK and Korea have experimented with performance-based rewards during the last two decades. The results of these experiments have fallen short of expectations. Several academic reviews have provided insights into the most common problems surrounding performance-based pay. The three most significant problems are the invalid performance appraisals, dysfunctional competition, and lack of adequate financial rewards as elaborated below -

(i) Invalid Performance Appraisals

- Standards and evaluation criteria for many civil service jobs, whether they are of general/common grades or of disciplined services, are vague and unquantifiable, especially for managerial work. Subjective assessments are common.
- The design of performance-based rewards should be contingent on situational factors rather than follow a “one-best-way” orientation.
- Once performance assessments are directly concerned with remuneration, the purpose of appraisal interviews becomes conflictual : employees are much more concerned with justifying a wage increase than they are thinking about their needs for development as indicated by their performance.

(ii) Dysfunctional Competition

- Being focused on individual performance, the system does little to integrate members of the workforce. With limited budgets for merit pay increases, employees must compete for larger shares of this limited amount. Competition among employees is counterproductive if teamwork is essential for successful completion of the project. It may discourage cooperation in which employees' performance is interdependent. Individual monetary incentive may result in better performance by those engaged in simple task but unfavourable performance on a relatively complex task.
- Performance-based rewards tend to categorize employees into two classes, "good" and "bad". Unfortunately, far more employees will fall into the "bad" category simply because of the need to limit the number of employees to be rated outstanding. As a result, performance-based pay may damage the employee's self-esteem and loyalty to the service, and it may also reduce the employees' willingness to take up extra duties or higher responsibilities. When people perceive competition as a personal war, it will become counterproductive for workplace relationships.

(iii) Lack of Adequate Financial Rewards

- Where merit pay budgets are fixed and one employee's gain will lead to another's loss, performance-based pay will become very demotivating. Employees may receive merit increases even if their performances do not warrant because supervisors want to avoid creating conflicts among employees. Poor performers may receive the same pay increase as exemplary performers, and they may also regard performance-pay as an entitlement. Consequently, exemplary performers may question the value of striving for excellent performance.
- Unlike private organizations that have some flexibility in the amount of funds allocated, the government must live within budgetary limits. There exists an inherent contradiction between the objective of performance appraisals and the manipulation of ratings to control the amount of money paid out. In fact, the manipulation of ratings not only undermines the validity of performance appraisals, but also makes it even more

difficult to get employees to respond to performance-based rewards in future.

- Rating drift may occur. In fact, there are two ways in which organizations try to prevent this happening—forced distribution systems and budgets. A forced distribution simply insists that there be a fixed proportion of the section's employees in each rating category. However, there might be a “straitjacket” effect, a supervisor might legitimately have a high proportion of good performers.

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

We, in principle, agree that a bonus scheme, which is pegged to economic growth and which rewards good performance, is worth consideration. However, a fair and objective mechanism to measure performance should be put in place.

The complexity of motivational problems in the civil service precludes reliance on a single, dominant motivational programme. The rationale behind performance-pay lies in the assumption that money as the primary motivator may ignore the importance of the job itself. Departments may therefore design flexible reward systems that recognize a range of contextual factors, such as the types of individuals attracted to the organization, the job itself, the work environment and changes in the external environment that influence motivation. Also, we may consider awarding Honours and Commendations to outstanding performers as a non-monetary form of rewards.

(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?

Given the problems of measuring individual performance in many government jobs, and the potential for more accurate and objective performance measurement at a group or organisation level, one would expect to find more group-level or organisation-level plans than presently exist.

Team-based performance rewards are more desirable than individual-based performance rewards when the work process is such that the individual cannot see a close link between efforts and outcome. Team effectiveness is maximized when the process requires the co-operative effort of all members owing to the interdependence of work operations or functions. A team plan should ensure that all team members have the expertise and ability to perform the tasks to completion, and that they have control of the tasks, events and metrics that form the basis of the plan. Team plans are usually the most appropriate under conditions where direct supervision is not readily feasible, exact measurement of individual work performance is difficult, and where teamwork and co-operation are essential to success.

Although team-based performance rewards serve the purpose of encouraging team spirit and cooperation, they should be applied with extreme caution and care as otherwise there could be conflicts among work teams/groups. In a large organization such as the Hong Kong Customs, supports among teams or divisions across the department are indispensable in normal functioning or performance of duties by individual units or teams. Team-based performance reward may lead to divisiveness of units or teams. In addition, we consider that it would be more appropriate to offer the rewards in non-monetary forms to avoid the possible dispute among team members over the apportionment of the rewards.

- (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?*

The opinion on performance-based rewards expressed in Part IV is relevant to this question. We consider it inappropriate to introduce performance-pay to the disciplined services because of their law enforcement responsibilities which should be apolitical, impartial and not be linked to rewards. Besides, the introduction of individual performance rewards will give rise to unfairness unless individual performance rewards apply to each and every post and a fair job placement system is in place. However, if this is the case, administrative costs will be very high.

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

Job analysis is vital to organisations that wish to establish consistent compensation systems internally. This approach may help reduce supervisors' arbitrary decisions about merit increases by clarifying the standards against which employees' performances are assessed.

To overcome some of the problems of single-appraiser bias or over-lenient assessments, we opine that a formal policy on multiple rater appraisals should be introduced. As part of the trend towards multiple-rater systems, subordinate appraisal is introduced in the Civil Service system of certain countries. This trend is most marked in the US and the UK but has also been documented in Canada and South Africa. There is no evidence of the extent to which these organizations are moving towards subordinate appraisal systems but they are likely to become more popular as employee involvement programme develops. Another way of eliminating the bias of supervisory appraisal is for people to appraise themselves – self-appraisal. Self-appraisal has received support in recent years as more organisations have become involved in participative performance planning. Peer appraisal may also help providing excellent insight into the appraisee's behaviour demonstrated at the workplace.

We are also of the view that to avoid the problem of over-grading, there should be indicative percentages for contributions for assessment of performance at top level, medium level and bottom level so that performance-pay rate can be determined with reference to the level of performance rating.

V. Simplification and Decentralisation of Pay Administration

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

We do not support the decentralization of civil service pay administration because the administrative costs for implementing decentralization of civil service pay administration may outweigh the benefits. For some departments, they may even need to hire consultants to establish a pay and grading system based on their specific business needs.

Our observations concur with the findings of academic reviews on decentralization of pay administration in the UK civil service. Under the British Government's plan, the devolution of authority for civil service pay had to be completed in 1996, with all departments and agencies receiving control over the pay of their employees. However, the reform was neither as rapid nor as coherent as the government intended. Despite some changes, the pace did not keep up with the government's schedule, and its form was only partially in line with the government's stated objectives. There were several factors accounting for the slow progress, most importantly : the internal inconsistencies among the government's pay reform objectives; the uncertain environment in which many agencies were operating such as their agency's future role, downsizing or restructuring; agencies' lack of resources; and a failure to take account of the institutional context. We believe that centralized payment administration would make things simple, consistent, and effective. Unity and coherence among disciplined services is a crucial factor for the maintenance of law and order.

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

Since our answer to (a) of this Part is "no", we have no comment on this question.

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

Given that to some extent, junior general/common grade officers are already "departmentalized" for reasons that they are seldom transferred out of departments during their course of career, we are of the view that some of the general grades staff such as clerical grade staff should be departmentalized to facilitate department-based management and enhance staff's sense of belonging. Though it may hinder the staff's prospect of promotion in general and have HR management problems, departmentalization of clerical grade staff will help enhance their sense of belonging.

However, we do not support that Executive Grade Officers should also be “departmentalized”. Instead they should continually be posted to different departments to gain wider exposures to knowledge and expertise of different fields. Regular postings may help enhance “check-and-balance” as areas of weakness or unsatisfactory elements of a department can be more readily identified.

- (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?*

There should be a central mechanism to minimize potential inequalities and divisiveness within civil service.

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

The current rank structure of the Service grade and the Trade Controls Officer grade is simple and easy to administer. The know-how, problem solving and accountability of each rank are clear-cut and differential. The need to have a flatter organization is not necessary.

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

Yes. To achieve consistency, it is more appropriate to have the broad principles for introducing the system developed centrally. The details could be developed at the departmental level according to the job nature. A pay committee with representatives from departmental management should be set up to help in leveling and moderating the views of different disciplined forces.

Other comments -

In recent years, the traditional role of the Hong Kong Customs as an enforcement agency has expanded significantly. The Department is emerging prominently as a business partner to build a strategic partnership with the industry. We are an enforcement agency with a specific control mandate tasked with the responsibility of guarding against any illegal activity that might bring damage to the well being of our society.

On top of enforcement duties at all entry and exit points, the Hong Kong Customs, like the Hong Kong Police Force, is empowered and required to conduct inland and street level enforcement operations under a wide range of ordinances and regulations and are required to carry firearms whilst on duty. Enforcement actions include anti-drug operations, money laundering investigation, anti-smuggling operations, anti-piracy investigation, anti-counterfeiting investigation and anti-illicit cigarette operations. In most of these operations, officers are required to confront with criminals and to use force. This is particularly the case during raids and when effecting arrests.

Our disciplined staff are subject to the strictest discipline and the highest standard of integrity. In addition to the Civil Service Regulations, they have to observe also a distinct set of disciplinary rules codified as a subsidiary legislation, i.e. the Customs & Excise Service Discipline Rules (Cap. 342 Sub. Leg. B). Discipline offences are stipulated in the Rules, the contravention of which would lead to disciplinary action, with the most severe penalty being dismissal.

Compared with other customs jurisdictions, the range of customs duties performed by the Hong Kong Customs is much more diverse and stressful. For countries such as Australia, New Zealand and the UK, it is noted that the pay for Customs is identical to that of other civil servants. One must not, however, forget that many of the enforcement duties of the Hong Kong Customs are either not performed by these Customs organizations or their scale is so restrictive as to confine to the frontiers only. For example, in the UK, anti-piracy and infringement of trade mark/trade description investigation are the core duties of the Trading Standards Officer. In New Zealand, anti-narcotics investigation and money laundering investigation of the Customs are confined at importation/exportation level. While carrying and practising the use of arms are common for Hong Kong Customs & Excise Service members, none of the Customs in the UK, Australia and New Zealand requires their officers to carry firearms whilst on duty. Our position is more on the par with the Customs administration in the USA which does not, however, shoulder as wide a range of responsibilities as in our case. For example in the case of USA, anti-narcotics investigation is a

core duty for Drug Enforcement Administration (DEA) while money laundering investigation rests with DEA and the Federal Bureau of Investigation.

In performing the twin roles as both trade facilitator and guardian of the community, the Hong Kong Customs has to always juggle its way to find a proper balance between these parameters. In addition, we are under constant pressure to devise new ways to discharge our duties in such a globalized economy. Electronic commerce, efficient customs procedures, cyber crimes and fraud, as well as transnational crimes are the new challenges that impact our work today. Hence, it is the Department's concern that throughout the civil service pay policy review exercise, the Task Force should take account of the increasingly complex responsibilities of the Hong Kong Customs. It should also consider enlisting the help of experts with knowledge and background of disciplined agencies in the process of the review.

- END -