

Views and Comments  
On the Task Force's Interim report  
and  
On the questions in Paragraphs 19-23

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VIEWS AND COMMENTS ON THE INTERIM REPORT

**On the selection of countries for study**

The five chosen countries studied are not entirely suitable as models, on the following grounds:

2. The similarity of government to Hong Kong, namely the so-called 'Westminster' model of government was purported to be the criterion for choosing Australia, Canada, New Zealand, Singapore and the UK for study. However, Hong Kong has never been governed after the Westminster model, after the UK. Hong Kong was set up as a British colony. It does not have a fully empowered legislature. There are very few similarities between the Civil Service in Hong Kong and Westminster. Even the term 'civil servant' is not interchangeable between the two places. The Hong Kong Police was not modelled on any of the British home county police forces. The difference between those five countries as a group and Hong Kong is wide. Any attempts to draw parallels must be regarded with scepticism.
3. It is also surprising that those five countries have been selected for study, and to be modelled, after taking away the 'Westminster' commonality. In terms of economic performance, the five were not the top economic performers. It is suggested that studies of the USA and Japan, and possibly also Switzerland should prove more perceptive.
4. USA is of course a premier economic power. 'The federal Office of Personnel Management (OPM) has estimated that, on average, federal civilian wages and salaries are 22.3 percent below that of comparable private employees this is referred to as a "pay gap." But wages and salaries represent less than 75 percent of federal non-military employee compensation. Moreover, academic studies often find federal pay premiums rather than a pay gap.' Since Hong Kong is to become a world-class city, study of the US pay reform efforts is recommended to be essential.
5. In Japan, a great deal of the ideas for public sector reform originated from the US. In Japan, its 'Law for Decentralization Promotion', setting up a series of reform packages, became in force in 2001. It is being heatedly debated. We could learn by monitoring its progress of happening. There are similarities between Japan and Hong Kong in terms of its lack of industrial disputes, and the economic stagnation both have faced.
6. Switzerland, with a similar population size to Hong Kong, enjoys the highest living standard in the world and is the longest surviving democracy in the

world. The efficiency of their government workers should not be in doubt, or are at least on a par with those in the five countries studied. Civil Service reform, not just pay reform, is also in progress there. Since 1990, it is reported, that the 2,880 Swiss municipalities have reached their performance limits in carrying out their tasks. By 2001, 100 reform projects have been in progressed. Useful references would not be complete without studying related reports.

7. The United Nations has also a dedicated organization on public administration and reform. Import of the private sector performance-based pay adjustment system, though has a long history, suffers from intrinsic defects that cannot be ignored. One such defect is the impracticality of substituting profit with the supervisor's opinion as the criterion for bonus. Reference should also be made to those reform attempts.

8. Australia, Canada, New Zealand and the UK had been plagued by industrial actions in the past and the bulk of their pay reforms targeted almost exclusively the past stranglehold of the unions. Union influence is still pervasive there. We enjoy a different kind of society and work culture.

### **On the socio-cultural perspective for review**

9. In the summary table, there is no column for Hong Kong given side-by-side with the five countries studied. There should be a column for Hong Kong, if only to highlight misconceptions.

10. The whole socio-cultural aspect of pay policy and systems has been left out. The report neglects to make explicit the socio-cultural perspective for review. It should be realized that all drives behind reforms have their roots in the socio-cultural elements. Without these, democratic countries could not possibly justify reforms of any kind.

11. The Civil Service in Hong Kong is still the largest organization in Hong Kong, dwarfing the next largest organization by a factor of at least ten. Civil servants' tax contributions are the source of the best part of the income tax revenue for the Treasury. Together with their families, they form the bulk of the middle-class in Hong Kong. With their ties to property ownership, purchasing power and collective civic responsibility, they have a heavy influence on the society we live in. It is important to weigh the risk with respect to maladjustment of Civil Service pay, for it would send a shockwave through the whole consumer economy.

### **On the justifications for reform**

12. The backgrounds for the pay reforms in the countries studied are in most cases quite clear and explicit. It is difficult, however, without a stretch of imagination, to relate the socio-cultural background in those countries to Hong Kong. The Task Force should contrast the basis in those countries with the justifications for reform in Hong Kong. Questions raised in the following should be answered.

## **Australia**

13. The Hawke Labour Government drove the first phase of Australian public sector reform, from 1983 to 1996 with an explicit public service policy, designed to ensure that Ministers were firmly in control of the public policy agenda. Is there similar concern locally?

14. When the Howard Government came to power in 1996, it was confronted by major legislative and administrative inflexibilities. It showed that the Hawke reform was not successful in those aspects at least. Are there similar problems locally and that pay reform is the only solution?

15. Certified Agreements govern the pay level of 94% of Australian Public Service employees. An Act of Parliament stipulates such agreements, because staff unions take a key role in wage negotiations. The Australian government took the option to introduce fundamental pay reforms, to fragment the power the collective bargaining. It did so by devolving the power to adjust pay levels to the departments and agencies. Locally the situation is quite dissimilar. Why should pay reforms that strike at the heart of employer-employee relationship be contemplated when we do not have motives as compelling as those facing Australia?

## **Canada**

16. Like in Australia, unionization and the practice of collective bargaining pervaded in the Public Service there. The Treasury Board Secretariat negotiates nationwide pay adjustments directly with the unions and based on the agreements reached, promulgates directives for the departments and agencies to formulate their own pay guidelines. In other words, pay cannot be adjusted before any changes are agreed with the unions. A completely different employer-employee relation exists locally.

## **New Zealand**

17. New Zealand has a large contingent of public sector employees. The total number (130,000) amounts to 6.78% of the working population in 2001, not counting the police, fire service, engineers, surveyors, chemists/water chemists, electrical, electronic and mechanical inspectors and environmental protection personnel.

18. The reforms in New Zealand were both for economical reasons and for political reasons. Locally, we have heard forecasts of downward trend of public finance and that could be construed as the basis for pay reform in the Civil Service, though such a basis is not explicit in the Interim Report, and perhaps it should.

## **Singapore**

19. There is no data in Appendix D to indicate that the Singapore Civil Service was in the past ineffective or inefficient, while public sector reforms took place seemingly without external pressure and without change in political leadership or direction. There is a lack of validation of the success of any of those reforms. What then is the rationale to emulate the complex multi-component pay system in Singapore?

## **United Kingdom**

20. Locally, collective bargaining at the national level has never been an issue here as in the UK, where it was thought necessary to devolve powers to the departments, to break wage negotiation deadlocks from the 1960s to the 1980s. We do not face similar situations. There are many reports of the failure of pay reform policies. Many more new reform packages are being rolled out to remedy the earlier reforms. Against this background, should not we pay more attention to the fundamental differences between our two societies, rather than the slim similarities?

**On pay policies, pay system and pay structure**

**Para. 19(a)**

21. There should be a declaration of intentions and objectives for any pay reform, and major overhaul policy and system. In the Interim Report, there is no clear declaration of intention and one could only speculate on the Consultant's proposals behind them. Is affordability the driving force, or is the Civil Service regarded as so ineffective and inefficient that a major overhaul is deemed necessary, or is the overhaul intended to smooth a transition from the pre-existing political system? All these should be made explicit, to ensure that everyone strives towards the same objectives.

22. After the intentions and objectives have been agreed and that reforms have been the only option, performance-pay should not be regarded as the only possible direction. Performance-pay, a method of remuneration borrowed from private sector practice, has a long history of unsuccessful implementation in the public sector and that textbooks have been written on it. There has never been any third-party authenticated success of it in achieving its prime objective in the public sector. Its failure, on the other hand, could be drastic. Some of these have already been included in the Consultant's Report.

23. The Chief Secretary to the Treasury (UK), Andrew Smith, publicly admitted that there were 'problems with the present system (that) include performance related pay, pay progression, low pay and equality issues'.

24. To administer a performance-pay system, it is surmised that a line will be drawn below the present pay level to demarcate the pay ranges above and below 'effective performances', in order to allocate funds to reward peak performers within the current pay budget. However, should the local public finance continues to deteriorate, in the same way UK and Australia have, then everyone could end up with the same pay as before, because bonuses are likely to be first pay components to be eroded in a pay squeeze. Such a scenario and consequence must be fully considered and debated before embarking on any performance-pay system.

25. How to assess performance fairly and objectively is a thorny subject. In the UK, it has led to 'unfairness, low morale and inefficiency'; all are exact opposite to the original objective.

26. Clean wage policy, on the face of it, could enable downsizing of the Civil Service, after the clerical personnel dealing with allowances and fringe benefits have been released. However, there are inherent problems with converting existing allowances and benefits to cash terms, leading to unfairness and mistrust. To provide a clean break, clean-wage terms should only apply to newcomers.

**Para. 19(b)**

27. Before considering if any sector of civil servants should be paid differently according to their performance, the category of 'senior civil servants'

should be more clearly defined, and reviewed. It is noted that in those countries, a wide range of definitions exists. If performance-related pay were the chosen incentive for staff to perform, would the staff not so included in the incentive system be demoralized?

28. If the Directorate and the Administrative Service have a percentage put 'at risk', it is highly likely that their subordinates would feel the pressure too. After all, the supervisor is only as good as his/her subordinates' collective performance! Conversely, poor team performance could just as well be the fault of poor policy setting by those 'senior civil servants', and not through the fault of the subordinates. Clear audit procedure should be in place to ensure that subordinates are unduly pressurized, or made scapegoats.

**Para. 19(c)**

29. A more acceptable line of reasoning should instead be: if a pay system that has within it the disciplined service, worked well to date, why should there be devolution. Under the existing system, different pay scales are already taking care of the different nature of work.

**Para. 19(d)**

30. In none of countries studied were there deliberate disregard for the pay trends in the private sector. Retention of professionals and the administrators would be difficult, hence the strong emphasis on pay matching by Singapore.

**Para. 19(e)**

31. If affordability were made the over-riding consideration in pay adjustments, then government could be drawn into a downward spiral of worsening morale and performance. Poorer employment conditions lead to poorer performance unless the poor conditions are short term.

**Para. 19(f)**

32. Government should be explicit on exactly where and how the existing pay policy and system are not satisfactory, before any changes should be attempted. In doing so, the intentions and objectives for the change should be fully examined and debated, to not destroy staff morale and undermining a system that has worked well to date. Foreign models studied, except for Singapore, have been devised to counter the influence of their unions. In Hong Kong, on the other hand, collective bargaining is not the norm.

**On replacing fixed pay scales with pay ranges**

**Para. 20(a)**

33. The performance-oriented culture is already here in Hong Kong. In the countries studied, except for Singapore where staff views were not documented for outside scrutiny, their flexible pay ranges have not brought clear-cut benefits. One is left to wonder whether pay reforms are actually cost-cutting exercises. In Singapore, civil service pay was broken down into components and employees, all are 'at risk',



i.e., subject to performance and government affordability. Employees are left only with a low 'basic' pay component free from adjustment.

34. On fair compilation of performance appraisals, there are no well-tested success stories to model on. The police in New Zealand, after years of reform, still noted that 'their performance management system did not work as intended: some units within the Police set aside sums of money that were then split evenly between those who were eligible – in effect working like annual increment'!

35. To full emulate a commercial organization, the reformer is faced with the dismissal of a fractile of under-performing employees (although this situation could arise only when a management dictates performance follows a normal distribution pattern). To do so, the fundamental issue of fairness in administering a 'management by objective' staff appraisal system must be addressed. The models of the countries studied could hardly offer any failsafe formulae, however.

#### **Para. 20(b)**

36. Flexibility in pay progression already led to divisiveness in the UK. After six years of delegated pay systems, lower grade pays vary by as much as GBP 3,000 for the same work. 'Morale has fallen, along with efficiency, job satisfaction and productivity.' When a (social welfare) benefits clerk in the UK gets about GBP 11,000 a year, that difference amounts to 30% of pay. Do human performance vary that much? If so, could that be due to difference in policy quality, or in subjective performance evaluation, instead?

#### **Para. 20(c)**

37. Pay ranges basically disregard the merits of experience. Hong Kong Civil Service has built up credibility partly because of experience. The experienced members of teams are like walking libraries of valuable information. In most professions, experiences are indispensable in problem solving and in innovation. They are not manual workers who may slow with age. In the past, annual increments reward workers' experience. It should be pointed out these increments only last a fixed number of years. Over 69% do not have annual increments.

38. In terms of the current differentiation between percentage adjustment for junior, middle and senior ranking staff, there exist views that adjustment in pay according to pay trend surveys should take into account whether the staff would otherwise be awarded annual increments. The net effort for staff who have served the Civil Service and have been loyal the longest, have their net pay cut (in downward adjustment) than a new staff who have yet to learn the ropes?

39. Adjustment according to pay trend surveys should take into account the pay differentiation according to rank, to continue to provide monetary and hierarchical incentives. Within the Directorate, there is very little difference between the pay for D2 and D3 staff. Future adjustments should address this anomaly.

40. Indeed, the lower ranking staff would have less management responsibilities, but that does not mean that their experiences do not merit monetary reward, even they do not please their bosses and earn top marks in performance appraisals. The public is still served well by their making good use of their valuable

experience. We should be wary of the example of the consequence of Canadian programme reviews that resulted in losing half of their staff in the next decade.

**Para. 20(e)**

41. Flexible pay ranges, if introduced, should not depend entirely on the views of the immediate supervisors and heads of grades, but should be a two-way process. Top-level policies could just as well stifle initiatives and lead inevitably to poor team performance. The existing appraisal system is one-way and top-down and that could not possible reflect the true contributions of a staff.

**Para. 20(f)**

42. The private sector performance management system does not work here. The lack of a clear objective such as profit and business expansion is obvious. In pushing for a system to emulate the commercial enterprise, government could end up with a group of frustrated elite generalists at odds with their subordinates who, though keen to perform, are forever trying in vain to grasp the shifting policy intentions, and the eventuality of both groups failing in the process. In the longer term, not only would there not a performance culture, the departure of the disillusioned experienced staff could set the scene for an ineffective Civil Service, unable to carry out policies.

**On pay adjustment system and mechanism**

**Para. 21(a)**

43. That would depend on how broad that comparison is. In a commercial enterprise, profits reign supreme. In the public sector, it is the opposite – achievement in spending is key indicator of a staff's performance. Furthermore, account should be taken of the vast difference in size between the smaller private company/corporation and the larger Civil Service.

**Para. 21(b)**

44. Mixing up the argument with the introduction of the general public as a stakeholder in pay adjustment is misleading. It would be like conducting a survey among tenants on whether rents are high! The general public cannot become aware of the adverse underlying consequences of public sector employee pay reform until services deteriorate, or there are street demonstrations. The Task Force should make explicit the evidence of the general public demanding pay reform, so that the objectives for reform could be formulated for effective implementation.

45. Pay adjustments are debated in the Executive Council already. What has worked in the past, meaning without strife and confrontation, should not be tempered with.

**Para. 21(d)**

46. No, not in the over-riding sense, for fiscal constraints could be overcome. Within the European Union, EU funding has helped pay for projects and initiatives some member nations could not have otherwise afforded. Private sector participation in public sector housing in Hong Kong is one local example for overcoming fiscal constraints.

**On introducing performance-based rewards**



**Para. 22(a)**

47. No, not when there is no clear third-party authenticated evidence of success in those countries studied, not when there is a real danger of suspending bonuses in times of fiscal constraint, not when there is no perfect appraisal system that is crucial to the likelihood of the staff, and not when experience is thrown out as a valid measurement of performance.

**Para. 22(c)**

48. Team-based performance might work for a commercial operation, or for a standalone project. However, in the Civil Service, if the success of a project were used as measurement of relative performance between teams, regulations within the Civil Service would render fair comparison unrealistic.

49. In addition, civil servants invariably have many other duties to perform. It is rare that a team could be allowed a free hand to work on a project.

50. Situations where team competition could take place when staff are temporarily released from their normal duties to carry out extraordinary tasks, such as providing assistance during DB elections. Extra monetary awards would be the incentive.

**Para. 22(e)**

51. Current staff appraisals affect the promotion prospects only. Using the same system for pay award is a different consideration. Staff would view appraisals as crucial in their ability to satisfy their personal and family needs. The consequence of getting a poorly rated appraisal would be grave.

52. In a commercial enterprise, staff changes take place because of problems arising from performance appraisals. Could the Civil Service afford similar and worse turnovers? The public should be informed the gravity of discontinuity of Civil Service expertise, before a census is taken on support for any performance-related pay system.

**On simplification and decentralization of pay administration**

**Para. 23(a)**

53. Within a fixed departmental budget, junior staff cost could be the first component to be sacrificed at times of fiscal constraint. Such a situation cannot be healthy. Coupled with a department's inability to reward peak performers due to sudden economic downturn and budget cuts, strife would arise within. This situation is already happening in the UK where departments with poor pay reputation have great difficulties in attracting staff. Newly set-up departments have problems in recruiting staff and enlisting staff transfers because of a lack of a good track record in staff pay.

**Para. 23(e)**

54. The key issue here should not be about simplifying the number of grades/streams/groups of staff to control, but should be about how those staff could progress and perform at the best of their ability. Mobility between grades has so far been rare. In a knowledge-based society, mobility between grades should be encouraged. Over the years, junior and middle ranking staff have acquired skills well

beyond the capabilities demanded in their normal jobs. There lies a treasure cove of human resources that government could capitalize without spending on outside consultants.

55. Frustration due to stagnation and over-qualification could be counter-productive. Training, sponsored or self-funded, should not be just about patching up defective skills, but should also be about the trained moving beyond the present rank and field of work. In a bank, a clerk could move to the forex dealing room provided that he/she is viewed to possess the right aptitude, surely the multi-disciplinary Civil Service could offer even greater opportunities. If the proposed reform is to be fundamental, such easily tapped resources should at least be explored.

**Para. 23(f)**

56. Job evaluation system would work better with formally laid down procedures such as those in use under the ISO 9001 Quality Management System. In the past, the ICAC, targeting corruption prevention and corruption opportunities, studied the job nature in various departments. Formal job evaluation could be based on those attempts. In Canada, the job evaluation in 1998 was done centrally by the Treasury Board Secretariat and the terms of further evaluations are the subjects of further negotiation between employer and employee. Pay increments follow every two years. There is currently strong dissatisfaction there. Here, pay increments following job evaluation should be awarded annually, to produce the desired effect.