

CS' statement on Remunerations of Senior Executives of Statutory and Other Bodies

Madam President,

With your permission, I would like to say a few words on the consultancy study of remunerations of senior executives of selected statutory and other bodies. We have sent a Legislative Council Brief on the subject to Members of this Council earlier today. At the outset, I hope Members would understand that most of the selected bodies are statutory organizations and some are listed bodies. These bodies are required under the relevant laws to operate independently and effectively. Financially, the bodies under review are in general not subvented by the Government and they are not under Government's direct control. Furthermore, most are required to operate on commercial principles.

Given the importance of the exercise, I would first recapitulate the background to the study, before I explain the consultant's key findings and proposals, and set out the Administration's position on the recommendations.

The Problem

Members would no doubt recall the intense public discussion particularly on the remunerations of senior executives of major statutory bodies. We had a motion debate on this subject in this Council in December last year. From these discussions, there was a clear demand for the Administration to look into this subject matter, with a view to drawing up some consistent and reasonable principles and guidelines to enable these bodies to safeguard both the propriety and general competitiveness of the remuneration arrangements for their senior executives.

First, there is general perception that senior executives of some major statutory are grossly overpaid. Second, adjustments to their remuneration packages do not appear to be in line with the prevalent pay cuts in the private sector. Last but not least, there is little transparency in this whole issue; most of these bodies do not allow for public disclosure of details of their senior executives' remuneration packages or the adjustment mechanism, making effective public monitoring difficult.

The Consultancy Study

To take account of these expressed concerns, I announced in January this year the Administration's decision to commission a consultancy study to look at remunerations of senior executives of selected bodies. In approaching this subject, the Administration has a clear position - that we must undertake the study sensibly and responsibly, and look at the remuneration policies and practices of these bodies in an objective manner.

In this regard, we have appointed a consultant pursuant to our established tendering procedures and laid down five main tasks. First, to examine whether existing remuneration arrangements of the bodies under review are in line with their comparable counterparts in the private sector. Second, the consultant should put forward his recommended remuneration packages for senior executives of each of

the bodies under review, making reference to current practices applicable to those holding comparable positions in the analogue companies. Third, the consultant should draw up some consistent and reasonable guidelines for each of the governing boards or committees of these bodies. Nevertheless, the new guidelines or recommended packages should not affect current employment contracts but take effect for new recruits or upon renewal of existing contracts only. Fourth, to enhance transparency of the remuneration arrangements of these bodies, the consultant should also come up with an effective adjustment mechanism to enable the community to monitor the long-term comparability between the remuneration packages of these bodies and their private sector counterparts. As the last study objective, the consultant's recommendations must also include a general framework for regular "disclosure" of the organizations' remuneration arrangements to the responsible Directors of Bureaux and the community in general.

I am pleased to inform this Council that we have now completed the five main tasks of the study. The study report, as distributed to Members earlier, contains a full range of findings and recommendations as required of the consultant. I would like to highlight the more pertinent findings or proposals in the report for Members' easy reference.

Study Findings and Recommendations

The study findings and recommendations are made based on the most up-to-date data collected from 80 private companies that took part in the consultant's survey in March this year. Different comparison groups were drawn up for the bodies under review. The number of private companies chosen for comparison with each of these bodies varied from ten to 25. We have decided to use the median of the collected data as a reasonable benchmark for measuring market comparability of remunerations of each tier of senior positions in the bodies under review. The consultant has also applied qualitative adjustments to the market median to reflect the unique mode of operation and prestige attached to some of the top executive positions.

In compliance with the requirements for protecting personal and privacy data, the consultant cannot disclose the current remuneration packages of senior executives serving in the bodies under review without the data subjects' consent. Nevertheless, the consultant has made general comparisons between the senior executives' existing packages with the market medians and the proposed remuneration packages respectively. The findings reveal that 70% of the CEO positions under review have their current remunerations within a range of 15% of the market medians. When the comparison is made with the consultant's proposed remuneration packages, the percentage figure becomes 60%, still presenting a large majority of the CEO reviewed. Generally speaking, similar findings apply to the second and third tier executives covered in the consultancy study.

On the remuneration mix, the consultant considers that there is a common need for these bodies to have a more significant performance-based component and a larger variable pay element under their remuneration policy.

To achieve greater consistency and objectivity in the organizations' remuneration arrangements, the consultant has proposed that each organization should designate a special committee to objectively deal with its remuneration policies and

arrangements. That committee should review the performance and remuneration particularly of the CEO, and formulate its recommendation to the relevant governing board or approving authority. Each organization should also track the remuneration levels and trends in the relevant human resource market in accordance with a prescribed and consistent methodology.

As regards disclosure arrangements, the consultant proposes the bodies under review to follow in the meantime the disclosure practice of companies listed in the Hong Kong Stock Exchange. In the longer run, as in developed countries, the consultant further proposes more complete disclosure of the pay packages at the CEO level. At other levels, these bodies should disclose the aggregate or average remuneration data for the second and third tier executives.

The Administration's Response

The Administration considers the consultant's methodology, analyses and recommendations reasonable and on the right track. But we also recognize that the consultant has, quite rightly so, exercised his professional judgment in a number of important areas. For example, after taking into account the qualitative adjustment factors attributable to the senior positions in the bodies under review, the consultant has come up with a net downward adjustment of 10% for prestige identified with two CEO positions. Another example concerns the consultant's recommended conversion factor of 1.5 for translating a variable pay into its equivalent fixed pay component. These professional judgment may contain elements of subjectivity but the Administration considers them reasonable. However, as I have just explained, neither the consultant nor the Administration can claim to have full knowledge of the competence and performance of individual post-holders. This is, however, a pertinent and essential consideration when one tries to establish the general comparability or compliance of a senior executive's remuneration with the market median or the consultant's proposed package.

Indeed, it is for this reason that we see the study recommendations as an authoritative reference tool rather than prescriptive or mandatory provisions. In other words, the recommendations are for the governing boards or committees to consider. Taking into account the qualifications, competence and performance of a particular individual, the responsible governing board or committee should decide whether and how an incumbent should justify a higher or lower pay than the market medians. Before arriving at its comprehensive decision, we would expect the governing board or committee to take into account all relevant factors including the market pay conditions and the diverse job functions and requirements for different senior positions.

Regarding the transparency or disclosure arrangements we agree that, in accordance with the general requirement to protect privacy data, we cannot disclose in the study report full packages of the senior executives. Nevertheless, we accept the consultant's recommendation that these bodies should, with immediate effect, follow the disclosure practice of companies listed in the Hong Kong Stock Exchange. This will require the disclosure of remunerations of the top five executives, showing the amount that they receive in different bands without identifying the individuals. With effect from next year, we will require these bodies to disclose the full remuneration packages of their CEO. The information should

include the CEO's base salary, allowances, variable remuneration targets, major benefits and perquisites, and any adjustments to the CEO's remuneration. At other levels, we agree that disclosure of the aggregate or average remuneration data for the second and third tier executives would suffice.

Follow-up Action

Madam President, the Administration understands and shares the community's expectation of these organizations. Insofar as remuneration policies and practices are concerned, we also expect the governing boards to be vigilant on cost control, and to conduct periodic efficiency studies as well as aim at a higher level of transparency and disclosure. At the same time, we must also recognize and pay regard to the fact that many of these organizations were established as statutory bodies with independent governing boards or committees to oversee their management and operations. It would not be appropriate for the Administration to prescribe or mandate the salary levels for their senior staff on behalf of the governing boards. After all, the governing boards know much better than we do as to the qualification, experience, competence and performance of their top executives, and hence would be able to make fair and proper judgment on remuneration issues pertaining to the respective organizations. I would like to reiterate that paying due respect to the rule of law the Government has no intention to interfere with existing contractual arrangements. Any new guidelines or recommended packages should not affect current employment contracts but take effect for new recruits or upon renewal of existing contracts only.

Notwithstanding the above, Madam president, we have invited the respective governing boards of these bodies to carefully study the consultant's recommendations and inform their responsible Director of Bureaux the outcome of their deliberations and the implementation programme in six months. We will establish a mechanism to require each of these bodies to report annually to its Director of Bureau the detailed remuneration arrangements for each of the three layers of its senior executives, the compliance of the remuneration arrangements with the established principles set out in the consultancy report, any deviations from the principles with justifications, together with a full list of comparison companies used in coming up with the remuneration packages. The Director of Bureau should also be kept informed whenever adjustments to the remuneration policy or packages are made. We believe such arrangements strike a proper balance between the need to preserve the independent and effective management of the statutory and other bodies by the governing boards and public expectation of these bodies to achieve greater transparency and accountability.

In the meantime, the Administration stands ready to brief the relevant Panel of the Council on the detailed findings and recommendations of the consultancy study.

Thank you, Madam President.

End/Wednesday, June 26, 2002