

**Views on the Consultation Document on
Civil Service Reform
(for presentation to the Legco Public Service Panel)**

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1. Change is necessary and demanded by the community

1.1 Our existing civil service system, like other civil service systems elsewhere before they were reformed (e.g UK), is overly rigid, outdated and out of tune with prevailing market practices. Civil service reform is already a worldwide trend (of OECD countries). The traditional system originating from the British system of the last century which treasured a life-long career with maximum job security, stable expectations and minimum incentives to move out (hence the retirement pension system and other length-of-service-induced benefits), suffers from problems of inflexibility and lack of mobility and is clearly no longer sustainable¹. The civil service has become too bloated, its culture too risk-averse and innovation-averse, preventing it from effectively responding to an increasingly competitive and challenging environment.

1.2 The Hong Kong public is now more demanding, and less willing to fund increase in civil service costs, particularly in the current economic downturn. Our civil service has to prove its value to the community.

2. Goals for Civil Service Reform must be set right

2.1 Despite the above-mentioned pitfalls of the existing civil service system and the much-heard rhetoric about private sector efficiency, we must not fall into the trap of putting public service against the private sector or the market. We must not allow the government to shrink its proper responsibilities. The question before us is not *more* or *less* government, but **better** government.

2.2 Civil Service Reform has to prove its benefits to the wide community: to the public, a better-performing, better-motivated and cost-effective civil service; to the civil servants themselves, bringing the best out of them and properly recognizing their service and performance, *not* denigrating or de-motivating them in any way.

¹ Even the British civil service system has been undergoing major changes over the past decade. See British Government White Papers on *The Civil Service: Continuity and Change* (1994) and *Modernizing Government* (1999).

2.3 It should aim at changing the civil service culture - to make it conducive to nurturing a more performance-based, more competitive and mobile, more innovative and less risk-averse workforce. Mediocrity must not be tolerated. *But* at the same time, we must ensure that the fundamental values of a civil service institution - overall stability, impartiality, devotion and integrity - are maintained. Ultimately, civil service reform has to be linked to the wider *Governance Reform* (touching on areas of our policymaking process, programme management, service delivery, decentralization, and customer-driven awareness).

3. Right to modernizing appointment, promotion, discipline and dismissal procedures

3.1 Existing procedures which are too centralized (with many decisions made at the Government Secretariat level) and too cumbersome and time-consuming must be reformed. We must respect the managerial autonomy *and* responsibilities of Department Heads and their line managers.

3.2 The reform should strike the right balance among several needs:

- Providing effective management tools to managers;
- Recognizing merit and performance;
- Safeguarding employees' legitimate rights (including right to appeal);
- Enhancing staff motivation; and
- Aligning more closely with market practices, though not overlooking some fundamental distinction between the context of the civil service and that of the private sector.

4. The proposed 'contractization' of basic ranks unjustifiable

4.1 The present pensionable & permanent (p & P) terms of appointment can be reviewed. Pension should be separated out, to be looked at essentially as a form of retirement benefit which can be replaced by a contributory provident fund scheme (a scheme which applies to the majority of our working population).

4.2 At present 97% of civil servants are on permanent & pensionable terms, so the scope for introducing more contract appointments is considerable, say to 20-25% of the total workforce. To achieve a more flexible appointment structure, more staff can certainly be employed on contract or temporary terms.

4.3 The suggestion to bring in 'outsiders' at promotional ranks level (whether middle or the top) through lateral entry is sound and may be conducive to government-private sector cross-fertilization. It is definitely worth trying.

4.4 However, the dichotomy between basic and supervisory/management ranks along fixed-term agreement (contract) *versus* permanent appointment terms, as advocated by the Civil Service Reform Consultation Document, is ill-founded:

- Why make basic ranks (which comprise two-thirds of civil service workforce) inherently unstable?

- Contract terms should more properly be used as the means to try out performance of new recruits before offering them longer term appointment *and* to provide greater job mobility for some categories of staff (e.g. professionals).
- Conceptually, contract terms seem to be more relevant to senior/professional ranks than basic ranks for reason of job mobility between government and private sector.
- The risks of corruption and wastage of training investment and job experience should not be lightly dismissed. Their impact on the rank-and-file of the disciplined services can be quite detrimental to law enforcement.

Creating an environment of ‘healthy discomfort’ is one thing, making most employees feel vulnerable and uncertain of their career future is quite another.

5. Performance-related pay

5.1 The existing system of pay determination, though linked to private sector pay through the pay trend survey and pay level review on the principle of ‘fair comparison’, can only guarantee comparable levels of pay for the job, *not* pay for performance. The practice of annual salary progression (increments) on the basis of length of service rather than performance is unjustifiable in present circumstances.

5.2 There is a need for rewards to be more linked to performance, *BUT* due caution is warranted based on lessons obtained elsewhere:

- *Don't* over-emphasize the effectiveness of pay as a motivator (for many managers, job independence, sense of accomplishment, challenging work, respect and fair treatment are more important than performance pay);
- *Don't* under-estimate the cognitive and technical difficulties in measuring performance and linking performance to pay (given the less individualized and inter- unit/inter-departmental nature of many government activities, as well as the existence of unquantifiable elements in civil service work);
- *Don't* ignore transaction costs - for example, in bureaucratic bargaining over the formulation of performance indicators and the valuation of performance output; the need to perform scrutiny & control over line managers to ensure fair and comprehensive performance evaluation; and managerial time and efforts on the part of line managers to implement the new system;
- *Don't* assume a necessarily conducive management culture - managers may resist responsibility and try to play ‘nice boss’ to their staff.

5.3 We should aim at those technically ‘feasible’, ‘motivating’ and ‘non-divisive’ forms of performance-related reward system, such as linking annual salary progression to performance, and trying out a bonus system in agencies such as Trading Funds which engage in tradable services more akin to market operations. More frequent pay level review, say every 3-4 years, should be conducted to ensure broad comparability with the market pay rates.

5.4 Ultimately, managers are the key factor to change: They must be in a position to benefit from a good performance pay system, and to suffer from the consequences of any poorly done performance appraisals.

6. Concluding remarks

Civil Service Reform should be seen as a reform of every level of the civil service, not just targeting at the lower levels, and be linked to the wider Governance Reform. It must not have the impact of denigrating the civil service, but should be conducive to better performance and better job satisfaction and morale. The reform process should be based on **both** a *top-down* vision and will-to-change **and** *bottom-up* consensus building among the broad civil service body. Public support of the change is clear, but it is not sufficient. Afterall, civil service reform is a kind of reform which has to be implemented through those who are being reformed. Staff support and consensus are therefore pertinent to its success.