

**Views on the Consultative Document entitled "Civil Service Reform"  
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The government's proposed reform of the civil service, as expounded in the captioned document, has generated a considerable amount of controversy in the community. The intention of the government to build up a "clean, trustworthy, quality and efficient Civil Service" is clear and the objective *per se* is hard to dispute under any circumstance. Yet there is no denying that the proposed reform is sweeping and fundamental. I shall venture to explain below that the reform is also subject to considerable hazards.

Let me emphasize at the outset that, in my opinion, the government's goals are well justified. Much could be said in favor of the reform. Yet in attempting to make a contribution to the current debate, I see my role as pointing out the pitfalls rather than reinforcing the government's views. In the following, my viewpoints can be categorized under four headings – the uncertainty of a civil service career, the incentive to invest in employer-specific human capital, the likelihood to abuse power, and the difficulty to implement incentive schemes.

1. Uncertainty of a Civil Service Career

Quoting from Section 2.2: "The current Civil Service system is essentially a system of permanent employment. The great majority of civil servants enter at the lowest rank of different grades and are appointed on permanent and pensionable terms. They can normally expect to keep their jobs regardless of their performance unless they have committed serious misconduct." In short, civil servants bear very little risk throughout their career.

Under the envisaged system, risk is much higher. The civil servants could face non-renewal of contract, hitting the ceiling at the basic rank, possible redundancy and management-initiated retirement. The uncertainty that results is arguably larger than that of a career in the private sector, especially in large companies. Moreover, the upside potential of a civil service career cannot be compared to that in the private sector. Profit-sharing scheme, for example, cannot exist in the civil service. The downside potential, however, is pretty large, as workers who lose their jobs in the civil service cannot readily find another job in the private sector because of incompatible skills.

The bottom line of all this is, first, the appeal of a civil service job is lowered, and a higher remuneration (considered as a package) is required to attract new recruits. Second, in the absence of better remuneration, the quality of new recruits will deteriorate.

2. Employer-specific human capital investment

Under the existing system, civil servants are seldom removed. Such removal -- through resignation, contract termination, forced retirement, and dismissal -- will be much more common under the envisaged system. Since the worker is uncertain as to how much longer he/she is going to stay in the civil service, the incentive to invest time and energy into employer-specific skills (i.e. human capital) is reduced. These skills have no value once the worker leaves the civil service. Examples are the rules, regulations, customs, conventions, and routines of civil service operations. These skills are however valuable in ensuring the smooth functioning of the government.

### 3. The likelihood to abuse power

It is the nature of many civil service positions that certain power is vested in the worker - for example, enforcing law and regulations, granting permits, and giving away insider information. Under the existing system, many civil servants are paid higher than their productivity. This surplus is enjoyed so long as there is no serious misconduct that would lead to removal from office. The continued enjoyment of this surplus by the worker amounts to a reward for good conduct. Under the envisaged system, workers are paid at par with productivity. Since the surplus no longer exists, the incentive to maintain good conduct is much reduced. More check and control measures have to be laid down to maintain good conduct, resulting in higher administrative costs.

### 4. Implementing incentive schemes

Under the envisaged system, pay and promotion are more closely linked (relative to the existing system) to performance. There are a number of problems with this kind of scheme in practice.

First, performance is always hard to measure. In the private sector, high-powered incentive schemes are mostly used in marketing positions, as performance, i.e. sales generated, is relatively easy to measure. Incentive schemes in accounting and personnel management positions, if they exist at all, are usually low-powered. The main reason for the difference is the difficulty of performance measurement in the latter positions. Nevertheless, the private sector, as they are profit-oriented, can always resort to one type of incentive scheme, namely, employee stock option plan (ESOP) or some kind of profit-sharing scheme. The government, being non-profit making, does not have this option.

Second, there is an argument saying that an on-the-job worker typically has to perform many tasks. The performance of some tasks is easier to measure and report than that of others. That some tasks are difficult to measure does not mean that they are not important. An incentive scheme typically rewards those tasks whose performance is easy to measure. More attention would then be paid by the worker into those rewarding tasks and at the expense of other tasks. The problem gets more serious the higher is the power of the incentive scheme.

Third, as performance of the typical civil servant is difficult to measure, the connection between performance evaluation and reward is hard to make transparent. Without transparency, it is hard to convince civil servants that they are being fairly treated. In a large organization, whether public or private, the difficulty of running an incentive scheme that is seen as being fair and uniformly applied across departments is evident. That is why incentive schemes that are closely linked to performance are rarely implemented in large organizations, no matter they are public or private.