



HONG KONG RETAIL MANAGEMENT ASSOCIATION

Submission on Standard Working Hours

30 July 2014

Introduction

1. The Hong Kong Retail Management Association (HKRMA) supports work-life balance; however, we object legislating standing working hours (SWH) as a means to achieve this goal. We believe severe labour shortage is the root problem of long working hours in Hong Kong, and the solution to this problem is increasing our labour force.
2. Hong Kong's success is built on its free market economy and a highly flexible and hardworking workforce. Over-regulation as in the case of legislating working hours will incur huge increase in manpower and operating costs, undermine the flexibility of the market mechanism, and in the long term Hong Kong's competitiveness. The anticipated negative impacts of the proposed SWH on our economy as well as on the retail industry are expounded in the ensuing elaborations.

Intensifying the Problem of Labour Shortage

3. Hong Kong's labour market has been facing persistent tightness for some years. Recent figures of the Government shows that Hong Kong's unemployment rate stood at 3.1% in May 2014, which is the lowest in 16 years, and the total employment in Hong Kong stays at a near record high level.
4. The already tight labour market has been further worsened by the implementation of Statutory Minimum Wage (SMW) in 2011, with sectors like retail, construction, and property management, elderly care, catering and cleaning being most hard hit.
5. The situation will even get worse as in its recent paper on population policy, the Government projects Hong Kong's labour force will decline sharply from 2018 onwards due to the retirement of baby boomer generation, and regulating working hours would only exacerbate the labour shortage problem.



Supply of manpower unmatched with retail growth during 2003 – 2013

6. With the Individual Visitor Scheme (IVS) introduced in 2003, the retail industry registered rapid growth in the past 10 years. The total inbound tourists increased by 250%, from 15.5 million in 2003 to 54.3 million in 2013 (**Appendix 1 – Table A**); while the retail sales value grew 186% from \$172.9 billion to \$494.5 billion (**Appendix 1 – Table B**), over the corresponding years.
7. Nevertheless, the retail workforce only increased by 23.3%, from 217,102 in 2003 to 267,703 in 2013, which is unmatched with the rapid growth both in retail sales receipts and inbound tourists especially from the Mainland over the same period (**Appendix 1 – Table C**).
8. Survey findings of the HKRMA showed that the vacancy rate for frontline staff of its members rose from 1.3% in 2003 to 9.5% in 2013; while the Census & Statistics Department (C&SD) recorded a vacancy rate of 3% in 2013, which however was much diluted by figures of SMEs (constituting nearly 80% of the total retail establishments in Hong Kong), of which a majority engaged less than 5 persons.

SWH exacerbating retail manpower shortage

9. It is for certain that the vacancy in retail industry would go up further if the working hours per week are regulated. According to the Government's 2013 Annual Earnings and Hours Survey (AEHS), there are a total of 276,000 employees in the retail industry, with weekly working hours ranging from 40 to 72 hours. Based on these figures, we projected three scenarios, assuming the working hours per week would be capped at (a) 44 hours; (b) 48 hours; and (c) 52 hours (**Appendix 2**):
 - (a) At 44 hours per week: an additional of 43,177 employees are required to fill up the extra man hours, which is equivalent to 15.6% of the total retail workforce.
 - (b) At 48 hours per week: an additional of 24,829 employees are required to fill up the extra man hours, which is equivalent to 9% of the total retail workforce.
 - (c) At 52 hours per week: an additional of 12,808 employees are required to fill up the extra man hours, which is equivalent to 4.6% of the total retail workforce.

All three scenarios showed that by regulating working hours, it will aggravate the manpower shortage problem in the retail industry. The lower the SWH is capped at, more additional manpower would be needed to fill up the extra man hours.



SWH is contradictory to the Government's policy direction

10. The Government acknowledged the severity of manpower shortage problem and its long-term implications to the retail industry. In March 2013, it set up a Task Force on Manpower Development of the Retail Industry, and in the Financial Secretary's 2014-15 Budget, an amount of HK\$130 million is allocated to implement a series of recommendations put forward by the Task Force to address the situation.
11. If working hours were to be regulated, it would be inadvertently against the Government's policy direction that aims to ease the manpower bottlenecks facing the retail industry.
12. At the same time, it would go against its original policy objective of reducing long working hours as overtime compensation may provide incentives for some employees to work longer hours for more earnings, especially under the current scarcity in labour supply.

Anticipating Uncertain Economic Prospect

13. It is also important to note that Hong Kong recorded the slowest economic growth in the first quarter of 2014 since 2012, at 2.5% year-on-year in real terms. Although the Government kept its 2014 forecast of a real GDP growth rate of 3 - 4%, the business risks of Hong Kong are clearly on the rise.

Retail business outlook

14. The retail industry also suffered from major negative growth in the first quarter of 2014. In February 2014, the retail sales recorded a decrease for the first time since August 2009, and the falling trend continued in four consecutive months with the sales value plummeted to 4.1% in May, after a 9.8% plunge in April.
15. In the face of slower economic growth of China, and its prevailing anti-corruption measures, as well as Hong Kong's local negative sentiments towards mainland tourists, the high growth era both in terms of inbound tourists and retail sales is unlikely to sustain in the time to come.
16. When the overall business outlook is bleak, it is not advisable to moving hastily to have SWH legislated, which will further add pressure to the business operating cost.



Fueling Pressure on Operating Cost

17. Hong Kong is a service-oriented society and the labour cost constitutes a major part of the operating cost. According to the figures from the C&SD in 2012, the share of compensation of employees in total operating expense can be as high as 34.5%, and even 40.7% in low paying sectors namely, retail, estate management, security and cleaning services, and other low paying sectors such as elderly services, laundry and dry cleaning services, etc.
18. To comply with SWH, employers would have to shoulder an extra wage bill either by paying the existing staff at a higher overtime rate, or hiring more part-timers and casual workers to make up for the same number of working hours. The increased labour cost, together with additional resources required to deal with the complicated compliance issues, would jack up the operating costs, which to a great extent would be inflationary as it would be passing on to consumers.
19. For businesses that are working to tight profit margins, additional operating costs would only force them to lay off staff or even closing down. In the end, not only both employers and employees would suffer, but also the society as a whole.

Soaring operating costs already threatening the retail industry

20. By nature, retail is a labour-intensive industry, and people are the most important asset. However, retailers are facing escalating labour costs due to acute labour shortage and the minimum wage. At present, it is not uncommon for retailers paying wage levels 20 to 30% above the minimum wage, but still finding it difficult to fill vacancies, not to mention retaining staff.
21. Apart from skyrocketing shop rentals, retailers are suffering from accelerating compliance costs as an increasing number of business related laws and policies have been enforced in most recent years. They include the Plastic Shopping Bag Levy, Nutritional Labelling, Statutory Minimum Wage, the Producer Responsibility Scheme covering different forms of municipal wastes, Trade Description (Unfair Trade Practices) (Amendment) Ordinance, and Competition Law, etc.
22. As a result, retail businesses are struggling with a high and rigid cost structure. Regulating working hours would create further ripples of impact on the retail industry's competitiveness and its service quality.



Threatening Survival of SMEs

23. There are some 300,000 SMEs in Hong Kong, accounting for more than 98% of all enterprises and employing about 1.2 million people. With nearly full employment state in the labour market, it is extremely difficult for small companies to recruit and retain staff due to their limited resource to compete for talents in the labour market.
24. In addition, the success of SMEs builds on their swift response to their customers' request. Their competitive edge lies on its staff's multi-tasking, high level of flexibility in their working hours in order to respond to the customers' enquiries and requests worldwide, the legislation of SWH might jeopardize this versatile employer-employee relationship among SMEs.
25. At present, Hong Kong's SMEs are covering more than one hundred types of businesses; it would be too complicated to implement SWH across different sectors in view of a diverse range of business models.

SME retailers

26. SME retailers are the backbone of Hong Kong's retail industry. According to the C&SD's Quarter Survey of Employment and Vacancies in June 2013, there are a total of 65,046 retail establishments in Hong Kong, 64,746 (99.5%) employed less than 50 people in each of them. And, among these 64,746 establishments, 58.2% engaged only one or two persons.
27. Given the large proportion of the SME retailers who are generally short of resources in terms of money and manpower in operation, any further tightening of labour regulation would erode their competitiveness and threaten their survival, which would be harmful to the long-term development of the retail industry.

Eroding Hong Kong's Competitiveness

28. As Hong Kong's economy is mostly service-oriented, its sustaining growth depends critically on a steady and sufficient labour supply. Regulating working hours will diminish labour supply and constrain growth of service sector. A recent example of Singapore showed that due to curbs in import labour, its growth of services sector has slowed to 4.4% in the first quarter of 2014, from 5.5% in the fourth quarter in 2013.



29. At the same time, regulating working hours will further damage service quality, which is one of Hong Kong's most valuable competitive edges. According to the "Retail Industry Service Monitor Index" developed by the HKRMA since 1996, the overall service performance of the retail industry has experienced a drop from the highest of 89.5% in 2009 to 86.6% in 2013.
30. Hong Kong should protect and uphold its core competitiveness as a free market economy. Employers and employees should be allowed to stipulate the employment contracts and arrangements for over-time pay based on individual cases. For employees, they should be able to move between jobs to gain their best reward and opportunities, which has always been the case in Hong Kong and is especially true in the current full employment situation.
31. If the main goal of legislating SWH is to ensure that employees are fairly compensated for overtime work, we believe the minimum wage has already addressed the issue especially for the low-paid sectors. Any tightening of working hours would lead to further erosion of Hong Kong's competitiveness.

Calling for a Regulatory Impact Study

32. Unlike the implementation of minimum wage, the impact of SWH would be tremendous and far-reaching as it would affect both the low-income employees and the entire labour force, as well as our economy at large.
33. It is a fact that it is extremely difficult to define the working hours for a wide range of positions. For example, some industries demand their workers to work outside office hours and around the clock, which do not have fixed working hours. Also, owing to technology advancement and globalization, it is a norm to respond to customers even when they are locating in different time zones, such as for those in the consultancy and financial investment services.
34. We urge the Government to conduct a comprehensive regulatory impact assessment and consult all stakeholders including the SMEs to evaluate the impact of legislating SWH under different scenarios, its ripple effect on different sectors, and different job types and positions.



Conclusion

35. We reiterate we support work-life balance but oppose legislating SWH as a one-size-fits-all measure. We urge the Government to address the pressing acute labour shortage problem without further delay, which is the root cause of long working hours in Hong Kong.
36. We maintain that legislating of SWH would violate Hong Kong's free market economy principle, lowering the flexibility of the labour market, as well as constraining Hong Kong's competitiveness and hindering economic growth.
37. For the retail industry, we thrive on the flexibility in providing excellent services to customers round the clock. To regulate the working hours would greatly reduce the competitive edge of Hong Kong's retail sector as being highly adaptable and responsive to customers' request. This would bring serious damage to Hong Kong's reputation as a shopper's paradise.

- END -

(30 July 2014)

Appendix 1

Statistics on Visitors Arrivals / Retail Growth / Retail Workforce

Table A: Visitor Arrivals (2003 vs 2013)

	2003	2013	2013 over 2003
Visitor Arrivals	15.5 million	54.3 million	+250%

Source: Hong Kong Tourism Board

Table B: Retail Growth (2003 vs 2013)

	2003	2013	2013 over 2003
Retail Sales Value (HK\$)	172.9 billion	494.5 billion	+186%
Retail Volume Index	64.2	146.2	+128%

Source: Hong Kong Monthly Digest of Statistics, Census & Statistics Department, HKSAR

Table C: Retail Workforce

	Dec 2003	Dec 2013	2013 over 2003
No. of Persons Engaged in Retail	217 102	267,703	+23.3%
% of total Employment in HK*	9.7%	9.8%	--

* Total Employment (other than those in the civil service) of Hong Kong in December 2003 is 2,227,547 and 2013 is 2,727,884.

Source: Quarterly Report of Employment and Vacancies Statistics (March 2004) & (March 2014), Census & Statistics Department, HKSAR

Projection for the number of employees in the retail industry required to fill up extra man hours under different proposed standard working hours

Basic Data Adopted from “2013 Report on Annual Earnings and Hours Survey” (AEHS)

Table 24(a): Number of employees analysed by industry section and weekly working hours, May–Jun 2013: All employees

Number of employees in retail industry	Total	Weekly working hours									
		< 40	40 - < 44	44 - < 48	48 - < 52	52 - < 56	56 - < 60	60 - < 64	64 - < 68	68 - < 72	≥ 72
	276, 000	55, 200	29,100	29,600	61,500	46,600	18,500	19,400	8,100	3,800	4,300

Source: Table 24(a), 2013 Report on AEHS, Census & Statistics Department, HKSAR

Scenario A

Standard Working Hour (SWH) is set at 44 hours per week

	< 40	40 - < 44	44 - < 48	48 - < 52	52 - < 56	56 - < 60	60 - < 64	64 - < 68	68 - < 72	≥ 72	Total Hours	No. of Employees required to fill up the extra man hours (total hours/ 44 hrs)
(Average working hour in the range)	--	(42)	(46)	(50)	(54)	(58)	(62)	(66)	(70)	(72)		
Difference between average working hour and SWH (A)	--	--	2	6	10	14	18	22	26	28		
No. of employees be affected (B)*	--	--	29,600	61,500	46,600	18,500	19,400	8,100	3,800	4,300		
Total no. of extra hours (A x B)	--	--	59,200	369,000	466,000	259,000	349,200	178,200	98,800	120,400	1,899,800	43,177

(represented 15.6% of total retail workforce)

* Figures adopted from Table 24(a) of “2013 Report on Annual Earnings and Hours Survey”.

Scenario B**Standard Working Hour (SWH) is set at 48 hours per week**

	< 40	40 - < 44	44 - < 48	48 - < 52	52 - < 56	56 - < 60	60 - < 64	64 - < 68	68 - < 72	≥ 72	<u>Total Hours</u>	<u>No. of Employees required to fill up the extra man hours (total hours/ 48 hrs)</u>		
(Average working hour in the range)	--	(42)	(46)	(50)	(54)	(58)	(62)	(66)	(70)	(72)				
Difference between working hour and SWH (A)	--	--	--	2	6	10	14	18	22	24				
No. of employees be affected (B)*	--	--	--	61,500	46,600	18,500	19,400	8,100	3,800	4,300				
Total no. of extra hours (A x B)	--	--	--	123,000	279,600	185,000	271,600	145,800	83,600	103,200			1,191,800	24,829

(represented 9% of total retail workforce)

* Figures adopted from Table 24(a) of “2013 Report on Annual Earnings and Hours Survey”.

Scenario C**Standard Working Hour (SWH) is set at 52 hours per week**

	< 40	40 - < 44	44 - < 48	48 - < 52	52 - < 56	56 - < 60	60 - < 64	64 - < 68	68 - < 72	≥ 72	<u>Total Hours</u>	<u>No. of Employees required to fill up the extra man hours (total hours/ 52 hrs)</u>		
(Average working hour in the range)	--	(42)	(46)	(50)	(54)	(58)	(62)	(66)	(70)	(72)				
Difference between working hour and SWH (A)	--	--	--	--	2	6	10	14	18	20				
No. of employees be affected (B)*	--	--	--	--	46,600	18,500	19,400	8,100	3,800	4,300				
Total no. of extra hours (A x B)	--	--	--	--	93,200	111,000	194,000	113,400	68,400	86,000			666,000	12,808

(represented 4.6% of total retail workforce)

* Figures adopted from Table 24(a) of “2013 Report on Annual Earnings and Hours Survey”.