



HONG KONG  
RETAIL MANAGEMENT  
ASSOCIATION

香港零售管理協會

## HONG KONG RETAIL MANAGEMENT ASSOCIATION

### Submission on “Working Hours Policy Direction” Consultation

20 July 2016

The Hong Kong Retail Management Association (the Association) supports work-life balance; however, we oppose the introduction of standard working hours (SWH) as a measure to achieve this goal. The legislation of SWH will not alleviate the problem of long working hours, as its root cause is an acute manpower shortage in Hong Kong.

The introduction of SWH will be a severe blow to Hong Kong’s competitiveness as it will reduce flexibility of the labour market, dampen economic efficiency and threaten the survival of SMEs especially in the wake of current dismal economic outlook.

In response to the Consultation on “Working Hours Policy Directions”, the Association supports in principle the concept of implementing the “big frame” which requires employers and employees to enter into written employment contracts specifying working hours arrangements.

We object to the “small frame” of setting a working hours standard and an overtime pay rate for employees, as the regulating of working hours in this artificial manner will lead to serious employment distortion.

We would like to present our members’ views in the following deliberations:

#### **I. Undermine Hong Kong’s Competitiveness**

1. The Government should uphold the free-market economy principles on which Hong Kong has thrived. The SWH legislation will have alarming impacts on Hong Kong’s competitiveness, as it will affect the entire labour market.
2. Agility is one of the keys to success for Hong Kong’s economy, and it is especially crucial for the retail industry, which is world renowned for our



flexible operation hours. Regulating working hours will further diminish labour supply and constrain growth of the service sector.

3. As a service-oriented economy, Hong Kong's sustaining growth depends very much on a steady and sufficient labour supply. As each industry or position has its own work pattern, the legislation of SWH will only add rigidity to working hours, which will harm the flexibility of business operations.
4. Throughout the years, Hong Kong works perfectly under the free market principle. Employment relationship can be easily established or terminated by mutual agreement on the job requirements, working hours and arrangements for over-time pay.
5. To standardize working hours through legislation, it will lead to over-regulation which hinders enterprises to make timely adjustments to cope with changing economic landscape, bring serious employment distortion and reducing the overall competitiveness.
6. Since the introduction of the Statutory Minimum Wage in 2013, low-income workers' wages are calculated based on the number of hours worked, and their right to overtime pay is protected under the minimum wage law. Any tightening of working hours would lead to further erosion of Hong Kong's competitiveness.

## **II. Anticipate Uncertain Economic Prospect**

7. Hong Kong recorded the slowest economic growth of 0.8% in the first quarter of 2016. Although the Government maintained its forecast for 2016 real GDP growth at the rate of 1-2%, it also highlighted the fact that Hong Kong's exports of services will continue to drag by the weakness in inbound tourism in near terms.
8. In fact, the retail industry has continued its downward trend for 15 months since March 2015. For the first five months of 2016, the total retail sales value dipped by 10.8%. And, the retail outlook will remain bleak due to external economic uncertainties, as well as the slowdown of the Mainland economy.



9. Hong Kong thrived as an international business hub with many international corporations set up their headquarters here. The legislation of SWH will surely deter businesses, especially start-ups, coming to Hong Kong. It will also damage our reputation of offering a flexible labour force under the free-market economy principles.
10. When the impact of the vote by the United Kingdom to exit the European Union is still unclear to the global economy, it is not advisable for Hong Kong to moving hastily to have SWH legislated, especially when our overall business outlook is bleak.

### **III. Exacerbate the Problem of Labour Shortage**

11. The Government has estimated that Hong Kong's labour force will peak out in 2018. The legislation of SWH might aggravate the problem of manpower shortage.
12. The latest Government figures show that the labour market was largely stable, with the seasonally adjusted unemployment rate edging up by 0.1 percentage points to 3.4% in the first quarter of 2016, the highest level since late 2013, while the underemployment rate held unchanged at 1.4%.
13. Given the current acute labour shortage, stipulating SWH will only make it more difficult for companies to hire staff. As shown by overseas experience, the legislating of SWH often forces employers to hire more part-time or casual employees, which will fragment jobs and lead to underemployment.
14. As one of the labour intensive industries, retail industry employs about 270,000 people in Hong Kong. If retail employers are required to reduce the work hours of their employees to meet the working hours standard, it will be extremely difficult for them to hire enough part-time to maintain the operation, taking into account of Hong Kong's tight labour supply.
15. Retail sector has been suffering from the acute manpower shortage problem over the years. Regulating working hours will have negative implications on our service quality, which is one of our most valuable competitive edges.



16. The Government should pragmatically consider importing labour on a large-scale sector-specific approach to uplift the Supplementary Labour Scheme in order to address problems arising from the acute labour shortage and long working hours in many sectors.
17. With acute labour shortage, the setting of a SWH will further push up the total wage bill, which has already been jacked up since the implementation of the Statutory Minimum Wage in 2011. According to the Government's Report on Annual Earnings and Hours Survey, the hourly wage level of the retail trade employee at the lower quartile has increased by 26% from \$30 in 2011 to \$37.8 in 2015, with an average annual increase of 6.5%, which is much higher than the inflation rate at around 4%.
18. As enterprises may have to raise the price to tackle the increase in labour cost, the inflation rate will be further magnified in case the SWH was introduced. If this wage-inflation spiral is triggered, it will exert an extensive impact on the entire economy.

#### **IV. Threaten the Survival of SMEs**

19. Hong Kong's SMEs currently account for more than 98% of all local businesses and employ about 1.2 million people. One of the major problems they are facing is the insufficient labour and the talent loss, which the long working hours is only a side-product.
20. SME retailers are the backbone of Hong Kong's retail industry. According to the Census & Statistics Department's Quarterly Survey of Employment and Vacancies in March 2016, there are a total of 64,498 retail establishments in Hong Kong, 64,156 (99.5%) employed less than 50 people in each of them. And among these 64,156 establishments, 93.6% engaged less than 10 persons.
21. According to the "Household Survey on Working Hours Situation" conducted by the Standard Working Hours Commission (SWHC) between June and August 2014, if the working hours remained unchanged, the average wages of the involved employee would increase (ranging from 0.7% to 10.1%), suppose the overtime compensation rate would set at the level of 1.1, 1.3 and 1.5. This is equivalent to an immediate increase in the annual wage bill, ranging from 103 million to 21.63 billion.



22. Unlike large corporations, which have the resources and flexibility to adjust duty rosters, arrange outsourcing services and automate job processes, such abrupt increases in the wage bill is a severe blow to the SMEs.
23. In addition, the compliance cost of the implementation of SWH is also a heavy burdensome for SMEs since most of them do not have the resources and experts to deal with the compliance issues.
24. With SMEs already struggling to survive under the current economic downturn, they have to pass the increased operating costs to consumers, jacking up prices and eventually affecting the livelihood of the community. Even worse, some SMEs may have no choice but to close their business leading to job losses.

#### **V. Harm Employer-Employee Relations**

25. The legislation of SWH will also create confusion and uncertainty that would bring negative impacts to both employers and employees, as well as their relations.
26. Based on the finding of an opinion survey on working hours regimes conducted by the Standard Working Hours Committee (SWHC), 24.4% (0.77 million) of employers considered their total working hours “too long”. However, 69.9% (0.54 million) of this group also indicated that they did not wish to have their working hours reduced if their income would also decrease.
27. This suggests that employees may opt for taking a second or third job to compensate for the loss of their income as their principal employer stops offering overtime work. Instead of alleviating the issue of long working hours, the implementation of SWH actually accelerate the problem.
28. The possibility of employee taking up second or third job can directly affect their commitment to their work, which in turn may push employers to adopt a more stringent approach in measuring staff productivity and performance.



29. To better manage business costs, employers may also have reservations in engaging full-time employees after the implementation of SWH, leading to a reduction in the number of full-time employment available in the job market.
30. In addition, in order to comply with the SWH requirements, companies may also need to come up with rigid reporting and auditing systems to monitor staff work hours. This will create tension of employer-employee relationship, which is detrimental to the overall society.

### **Conclusion**

31. Hong Kong's competitiveness hinges on its free market principle. This is well demonstrated by the success of our retail industry that it thrives on great flexibility and adaptability in providing excellent services to customers round the clock.
32. We reiterate our opposition to the legislation of SWH in Hong Kong, and we urge the Government to address the pressing acute labour shortage problem, which is the root cause of long working hours, without further delay.

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