

# **A Teaching Case on the Applications of Official Statistics**

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In late October of 1995, Mr. A Tan, the chief financial officer of Southern Daily Post, a leading Hong Kong newspaper, had to make recommendations to the management board of the company on annual salary increases for all its employees. The Post's managing director was expecting Tan's full report before Christmas. Tan had reviewed most of the factors that had a bearing on salary. He adjusted these factors in the context of the company, and was prepared to make a general recommendation which would ensure that the increase was both compatible with the market conditions and fair to the employees. This paper describes how official statistics is used in Tan's salary review process.

## **Southern Daily Post and the Newspaper Industry**

The year 1995 was not an easy year for the journalistic industry. The less favourable economic conditions posed restraints on various sources of advertising revenue. In addition, the costs of newsprint increased from approximately US\$500 per metric tonne in the second quarter of 1994 to more than US\$900 per metric tonne in 1995. In spite of these difficulties, the Southern Daily Post was still able to report a profit of HK\$702 million, up by 4.5%, and enhanced its readership by 43,000, a 19% increase. In order to maintain its competitive edge, the company consolidated its operation and continued to upgrade its production technology. It invested HK\$670 million in the purchase and fitting of new premises, which would provide more space and close proximity to news gathering and display advertising. The company enjoyed greater press capacity and a fully computerized pre-press operation.

The quality of the staff of Southern Daily Post could be judged by the many awards they won in the past - Best Photographer, Best General Story, Best Feature Story, and Best Business Story in the Press Articles categories of the Newspaper Society of Hong Kong. The company demonstrated how advanced technology could complement its best resource -human power- in creating another year of success.

## **Annual Salary Review**

At the end of the year, the company needed to determine the percentage of annual salary increment for all its employees. As salary was a major item in the company budget, salary trends analysis naturally fell within Tan's jurisdiction of his Finance Department. Tan's recommendation on salary increase would be considered for approval by the senior management.

As chief financial officer, Tan was the key person in the salary review process. The approach adopted by Tan was to review all the factors that had a bearing on salary. He adjusted these factors in the context of the company, made general recommendations, as well as provided further facts and guidelines to be used by various department heads in determining the salary increase of each individual staff member. He wanted to ensure that the increase was compatible with market conditions on one hand, and was still fair to the employees on the other hand, thus keeping the company's focus on the value of its human resource.

## **Weighing the Decision**

Some of the factors considered by Tan in the salary review process included external factors such as the general economic outlook of Hong Kong, inflation rate, economic performance in specific

sectors in relation to labour demand in the field, and salary trends in similar companies. He also considered internal factors such as overall performance, special contributions, and credentials of individual staff members.

Sitting in his leather chair, and facing pile of economic reports published by the HK Government, Tan began exploring the trend of the HK economy in 1996. Tan realized that where the economy was heading had a bearing on the consumption level of the employees as well as their mobility in the labour market. He spent hours on these reports as well as economic monthly reports from major banks which revealed more up-to-date statistics than government sources. Tan started analysing the 1994 Hong Kong Economy Situation and the 1995 Forecast. He listed both favourable factors and unfavourable factors affecting the Hong Kong Economy in 1995. Taking all those factors into consideration, Tan felt strongly that Hong Kong's Gross Domestic Products would maintain a steady growth of 5.5% in 1995, similar to the growth rate attained in 1994.

Tan still remembered how tight the labour market was in 1994. With reference to the published labour statistics, Tan believed that a strong local demand for labour, coupled with forces prompting the sectoral shift in labour resources, would continue to exert significant pressures on the labour market and to raise wages and salaries.

After enjoying a cup of cappuccino, Tan began an in-depth study on Consumer Price Index (CPI). It was found that the rate of increase in "housing" under Hang Seng CPI was 14.6 % in 1994 as compared with the figures in 1993. But Tan felt strongly that "housing" constituted a higher percentage of a household's spending, the expenditure weighting of "housing" is usually underestimated in the CPI and hence lower the inflation rates.

*"I am totally convinced that a staff member with a salary of about \$30,000-\$40,000 per month would likely be occupying the type of housing with a monthly cost of \$15,000 to \$20,000. The housing cost is therefore estimated to be 50% rather than 30% as suggested by the index."*

In considering the salary trends of other companies as well as that of Civil Service, Tan picked up the Report of Pay Trend Survey 1994 prepared by the Hong Kong Institute of Personnel Management (HKIPM). HKIPM is a professional association for practitioners in the human resource field. Among the many activities of the organization, a comprehensive pay trend survey is conducted annually to provide information on salary increases to its members as well as the public at large. To ensure that the data collected is unbiased, the survey normally covers a wide range of industrial or business sectors involving more than a hundred companies. For the 1994 survey, 13 sectors encompassing 109 companies were involved. These companies were, representative in their field, usually large, employing more than 100 employees, and had an independent pay policy. Tan was particularly interested in the total pay increase analysis generated from this particular survey. Furthermore, as the company was paying salaries in four levels, Tan tried to look for trends of 'tapering' in salary adjustment.

Looking at all the data on his desk, Tan wondered whether the detailed effort was worthwhile. At the bottom of his heart, Tan knew that he would like his colleagues to be paid with the right amount. However, he also had the responsibilities in controlling the budget and ensuring that remuneration was adequate and equitable to all in the company.

À la fin du mois d'octobre 1995, le chef des finances du Southern Daily Post, M. A. Tan, devait présenter ses recommandations auprès du conseil d'administration concernant l'augmentation des salaires annuels des employés de ce journal bien connu à Hong Kong. Le directeur administratif du Post anticipait recevoir un rapport complet avant Noël. M. Tan a examiné les facteurs et les a ajusté selon le contexte de la compagnie. Il était prêt à soumettre une recommandation pour assurer que l'augmentation non seulement reflète les conditions du marché, mais qu'elle soit équitable au point de vue des employés. Cette discussion examine l'utilisation des statistiques officielles par M. Tan dans son processus de révision salariale.