

**Case study: The Impacts to Small to  
Medium Enterprises after the legislation  
of Minimum Wages in HK**

Oxfam Hong Kong  
September, 2009

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### **A) Background of the study:**

One of the major counterarguments against carrying out minimum wage in Hong Kong is that “MW will create extra burden to the labor costs and therefore affect the economic growth. In addition, it will drive under-skilled and under-educated workers to leave from the labor market.” In order to understand whether the statutory minimum wage will fundamentally affect the profit of the SME or not, it is necessary to comprehend the expenditure structures of the SME. To get the reliable and accurate data, and well understand whether there is any difficulty in different industries, we, then, employ qualitative research method to conduct our study. In order to have better understandings of the cost structure and the increase of workers’ salaries, we also set different formulas to collect the data and do the analysis of “*Percentage Increase of low wage workers’ salary (Overall)*”, “*Percentage Increase of the Total Expenditure*” and “*The New Proportion of the Salary Expenditure*” respectively.

**B: Hypothesis and Strategies of the Study**

According to the statistics from the Census and Statistics Department (CSD) in 2004, the expenditure of the SME to the salaries are from 10% - 38%. Base on this finding, assuming that the compensation level for a low wage workers is symbolized as “A” and the new salary level after introduce the minimum wage is “B”. In addition, apart from the salary level, others remain constant. A model is, then, developed as follows,

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials, Rent, Others...etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>)</b>
Salary Expenditure (10%-38%) [E <sub>0</sub> x 10%~38%]	The Salary for Workers except Low Wage Workers		
	The Salary for Low Wage Workers [Low wage = The salary level is lower than B]	The New Salary for Low Wage Workers *[New Salary level after the introduction of minimum wage (B)]	
		The Extra Salary for Low Wage Workers	<b>Extra Expenditure (E<sub>e</sub>)</b>

***Detailed Formulas and Symbols***

**Extra Expenditure due to the statutory minimum wage (E<sub>e</sub>)**

$$E_e = \sum (B - A) \times N \times H \times D$$

**Original Expenditure for low wage workers (E<sub>SLO</sub>)**

$$E_{SLO} = \sum A \times N \times H \times D$$

**Percentage Increase of the low wage workers' salary**

$$(E_e / E_{SLO}) \times 100\%$$

**Percentage Increase of the Total Expenditure**

$$\langle E_e / E_0 \rangle \times 100\%$$

**The New Proportion of the Salary Expenditure**

$$\{[(E_0 \times \%E_{SO}) + E_e] / E_N\} \times 100\%$$

B = Minimum Wage Rate Level

A = Original salary level of workers

N = Number of workers in that particular original salary level

H = Working hours of workers in that particular original salary level per day

D = Working days of workers in that particular original salary level per month

%E<sub>SO</sub>= Percentage of Original Salary Expenditure

E<sub>e</sub> = Extra Expenditure

E<sub>0</sub>= Original Total Expenditure

E<sub>N</sub> = New Total Expenditure = E<sub>0</sub> + E<sub>e</sub>

Through the formulas developed as above, “*Percentage Increase of low wage workers’ salary (Overall)*”, “*Percentage Increase of the Total Expenditure*” and “*The New Proportion of the Salary Expenditure*” can be ascertained respectively. We, then, can have a relatively clear picture of how influential of the mandatory minimum wage to the SMEs. The statement of “Legislation of minimum wages will fundamentally influence the profit of the SME in Hong Kong” can, then, be verified.

Fifteen case interviews with different SME<sup>1</sup>s’ employers have been conducted from February to August in 2009, especially in two industry sectors (wholesale, retail, import-export trade, and restaurants and hotels; and financing, insurance, real estate, and business services) as which “have the highest percentage of labour costs also have the highest ratio of gross surplus to compensation for employees.” (Frost, S. 2006) The summary of the background of these cases are listed in Table 1.

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<sup>1</sup> An Small and Medium Enterprise (SME) under the definition of the Government of Hong Kong Special Administrative Region (the HKSAR), that is, a manufacturing business which employs fewer than 100 persons in Hong Kong; or a non-manufacturing business which employs fewer than 50 persons in Hong Kong\*\*. In this connection, "business" refers to any form of trade, commerce, craftsmanship, professional, calling or other activity carried on for the purpose of gain, but shall not include any club except a club within the meaning of the Business Registration Ordinance which provides services for the purpose of gain. Under the Business Registration Ordinance, "club" means any corporation or association of persons formed for the purpose of affording its members facilities for social intercourse or recreation and which –

- a. provides services for its members (whether or not for the purpose of gain); and
- b. has club premises of which its members have a right of exclusive use.

**Table 1: Summary of background of interviewees' SMEs**

<b>Industry</b>	<b>Location</b>	<b>Number of employees</b>
Logistics	Sheung Shui	4 (Full Time)
Elderly Services/ Residential Care Home	Kwai Chung	20 (Full Time) 1 (Part Time)
Decoration	Fo Tan	4 (Full Time) 20-30 (Project based)
Garden/ Horticulture	Tsuen Wan	8 (Full Time) 2 (Part Time)
Saloon A	Sai Wan Ho	11 (Full Time)
Saloon B	North Point	9 (Full Time)
Electronic Component	Tai Po (HK Office)	25 (Full Time)
Café	Jordon	7 (Full Time)
Cantonese-Style Restaurant A	Fortress Hill	11 (Full Time) 1 (Part Time)
Cantonese-Style Restaurant B	Mongkok	16 (Full Time) 7 (Part Time)
Cantonese-Style Restaurant C	Tuen Mun	6 (Full Time)
ChiuChow-Style Restaurant	North Point	4 (Full Time) 3 (Part Time)
Street Side Food Stall	Causeway Bay	12(Full-Time) 3(Part-Time)
Vegetarian-Style Restaurant	Sha Tin	1(Full-Time) 3(Part-Time)
Street Side Food Stall	Sha Tin	7(Full-Time) 2(Part-Time)

### **C) Major Findings:**

1. **14 out of 15 interviewees said that they could still gain profit** even though in time of financial tsunami (See table 2).
2. **Rent takes up a relatively high proportion. From table 2, there were only four cases over or equal to 25% while the rest are equal to or less than 20%** of the total expenditure ( see table 2)
3. For the catering industries (restaurants etc.), the cost of the raw materials (like pork, cooking oil, rice etc.) rapidly increase almost 100% during this year.
4. **If the wage level is set at \$30, 8/15 of the interviewees will be affected but it is assessed that all of them can bear the increasing cost.** However, amongst these cases, we find that one case which is running Cantonese- style restaurant and the other one running Vegetarian Style restaurant, their profit may become marginal. The monthly profit of the former case will be dropped by 20%, from \$20, 000 to \$16,100 while the profit of the later case will be decreased by 30%, from \$20,000 to \$14,000 per month. ( See table 3)

Table 2: Summary of the findings

Interviewee	Profit (monthly)	Total Expenditure (monthly)	Total Expenditure (%)				Salary Distribution (Hourly)	Remarks
			Materials	Rents	Others( electricity/ water, utility etc.	Salary		
Logistics	No Profit	-	Insign.	20%	40%	30%	Far Over \$30(all)	
Elderly Services/ Residential Care Home	\$80,000 - \$100,000	\$460,000	Insign.	25%	30%	25%-30%	\$21(4 people) \$23(11 people) \$30(5 people)	
Decoration	Yes	\$300,000	60%-70%	15%	Insign.	15%-20%	Far Over \$30(all)	
Garden/ Horticulture	10%-20% of the total expenditure.	-	60%	Free	Insign.	40%	\$30 (all)	Social Enterprise
Saloon A – Sai Wan Ho	+30% compare with last year	\$200,000	Insign.	20%	20%	60%	\$15.6(3 people) \$26(3 people)	* Problem of student-like junior workers.
Saloon B – North Point	Yes	-	Insign.	20%	30%	50%	Over \$30(all)	
Electronic Component	Yes	-	35%	Private Property	25%	40%	Far Over \$30(all)	
Cafe	Yes	-	15%	20%	25%	40%	Over \$30(all)	
Cantonese-Style Restaurant A -Fortress Hill	Yes	-	33%	15%	22%	30%	Over \$30(all)	the cost of the raw materials (like pork, cooking oil, rice etc.)
Cantonese-Style Restaurant B -Mongkok	Yes	-	35%	25%	5%	30%-40%	\$29 (1 person) Over \$30(others)	rapidly increase almost 100% in the past 2 years.

Cantonese-Style Restaurant C -Tuen Mun	10% of the total expenditure ( Around \$20,000 per month)	\$200,000	40%	10%	5% Utility	33%	\$25 (3 people) Over \$30 (3 people)	
ChiuChow-Style Restaurant -North Point	Yes	\$300,000	25%	20%	10% Utility	25%	\$27 (2 people ) Over \$30 (others)	
Street Side Food Stall - Causeway Bay	\$60000	\$500,000	45%	20%	10%	25%	Over \$30(most) \$ 28 (4 people)	
飲食 (Vegetarian-Style Restaurant) - Sha Tin	Around \$20,000 (Revenue: Weekday - \$2000-\$3000 Holiday - \$6000-\$7000)	\$100000	20%	25%	28%	27%	\$ 40 (1 people) \$22 (3 people)	
Street Side Food Stall- Sha Tin	Yes	\$300000	20%	30%	10%	30%	Over \$ 30(7 people) \$ 25 (2 people)	

### Symbols

Yes = Have Profit (Unwilling to disclose the details)

- = Unwilling to disclose

Insign.= Insignificant

\$25 (2 people) = 2 workers are receiving \$25 per hour.

**Table 3: The cost impact to the interviewees if minimum wage is set at \$30/ hour**

Interviewee	Profit before (monthly)	Profit after (monthly)	Total Expenditure (monthly)	Total Expenditure (%)				Salary Distribution (Hourly)
				Materials	Rents	Others	Salary	
<b>Case 1:</b> Elderly Services/ Residential Care Home	\$80,000 - \$100,000	\$50,620-\$70,620	\$460,000	Around 10-15%	25%	30%	25%-30%	\$21(4 people) \$23(11 people) \$30(5 people)
<b>Case 2:</b> Saloon A – Sai Wan Ho	+30% compare with last year		\$200,000	Insign.	20%	20%	60%	\$15.6(3 people) \$26(3 people)
<b>Case 3:</b> Cantonese-Style Restaurant B -Mongkok	Yes	Yes	-	35%	25%	5%	30%-40%	\$29 (1 person) Over \$30(others)
<b>Case 4:</b> Cantonese-Style Restaurant C -Tuen Mun	Around \$20,000	Around \$16,100	\$200,000	40%	10%	5% Utility	33%	\$25 (3 people) Over \$30 (1 person)
<b>Case 5:</b> ChiuChow-Style Restaurant -North Point	Yes	Yes	\$300,000	25%	20%	10% Utility	25%	\$27 (2 people ) Over \$30 (others)
<b>Case 6:</b> Street Side Food Stall - Causeway Bay	\$60000	\$58,336	\$500,000	45%	20%	10%	25%	Over \$30(most) \$ 28 (4 people)
<b>Case 7:</b> Vegetarian-Style Restaurant - Sha Tin	Around \$20,000 (Revenue:	Around \$14,000	\$100,000	20%	25%	28%	27%	\$ 40 (1 person) \$22 (3 people)

	Weekday - \$2,000-\$3,000 Holiday - \$6,000-\$7,000)							
<b>Case 8:</b> Street Side Food Stall - Sha Tin	Yes	Yes	\$300,000	20%	30%	10%	30%	Over \$ 30(7 people) \$ 25 (2 people)

### Case 1 – Elderly Services /Residential Care Homes

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials, Rent (25%), Others (30%)...etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>) \$460,000</b>
Salary Expenditure (25%-30%)	The Salary for Workers except Low Wage Workers (\$39,000)		
	The Salary for Low Wage Workers (<\$30/ hr) \$87,620	The New Salary for Low Wage Workers \$117,000 Spending to the low wage workers <b>(increase 33.5%)</b>	
		The Extra Salary for Low Wage Workers \$29,380	<b>Extra Expenditure (E<sub>e</sub>) \$29,380 (+6.4%)</b>

#### *Detailed Salary Structure of Workers*

Cleaning Worker (mainly deal with the cleaning work in the care home, 10hrs/day) – 4 ppl  
 \$21/hr =>+\$9 (x4) = \$36/hr => \$9360/mth [*increase 42.9%*]  
 Personal Care Worker (take care the elderly, including washing their bodies, 10hrs/day) – 11 ppl  
 \$23/hr =>+\$7 (x11) = \$77/hr => \$20020/mth [*increase 30.4%*]  
 Health Worker (allocate the medicine and give injections, 10hrs/day) – 5 ppl  
 \$30/hr

**\*The New Proportion of the Salary Expenditure = 29.5% - 34.2% (+ ~4.3%)**

Its total expenditure is around \$460,000/month; salary takes up around 25%-30%. And the employee mentioned that the residential care home has a stable profit (\$80,000 - \$100,000)(19.6% of total expenditure) every month. After the statutory minimum wage is introduced, assuming that other factors are unchanged, the owner estimated that he could still able to bear the increasing cost albeit his profit would drop to (\$50,620 - \$70,620)(12.4% of total expenditure) every month.

### Case 2 – Saloon A

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials, Rent (20%), Others (20%)...etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>) \$200,000</b>
Salary Expenditure (60%)	The Salary for Workers except Low Wage Workers (\$96,038)		
	The Salary for Low Wage Workers (<\$30/ hr) \$23,962	The New Salary for Low Wage Workers \$34,560 Spending to the low wage workers <b>(increase 44.2%)</b>	
		The Extra Salary for Low Wage Workers \$10,598	<b>Extra Expenditure (E<sub>e</sub>) \$10,598 (+5.3%)</b>
<b><i>Detailed Salary Structure of Workers</i></b>			
Junior Worker (8hrs/day, 24days/mth) – 3ppl \$15.6/hr => +\$14.4 (x3) =>\$43.2/hr => \$8294 [ <i>increase 92.3%</i> ] Senior Worker – 3ppl \$26/hr => +\$4(x3) =>\$12/hr => \$2304 [ <i>increase 15.4%</i> ] Others – Hair Stylist			

**\*The New Proportion of the Salary Expenditure = 62% (+2%)**

Its total expenditure is around \$200,000/month; salary takes up around 25%-30%. The employee mentioned that compare with the same month last year, their profit dramatically increase almost 30%. After the statutory minimum wage is introduced, the extra expenditure of the saloon is \$10,598/month ( equal to 5.3% of the total expenditure). And the salaries of low wage worker like, Junior Worker will increase almost a double. For the total spending on the low wage workers, it is impressed that it will climb up around 44%.

\* The employee also told that the junior workers more or less like students/ apprentices in the saloon and therefore, their salaries are relatively lower than the others.

### Case 3 – Cantonese-style Restaurant in Mongkok

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials (35%), Rent (25%), Others (5%)...etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>)</b> -
Salary Expenditure (30%-40%)	The Salary for Workers except Low Wage Workers (\$96,038)		
	The Salary for Low Wage Workers (<\$30/ hr) \$7,500	The New Salary for Low Wage Workers \$7,760 Spending to the low wage workers <i>(increase 3.4%)</i>	
		The Extra Salary for Low Wage Workers \$260	<b>Extra Expenditure (E<sub>e</sub>)</b> <b>\$260</b>
<b><i>Detailed Salary Structure of Workers</i></b>			
Cleaning Worker (10hrs/day, 26days/mth) – 1person \$29/hr => +\$1 (x1) => \$1/hr => \$260 [ <i>increase 3.4%</i> ] Waiter and Waitress Over \$30 Chief \$50-\$60/hr			

Although the employer was reluctant to disclose the concrete amount of his expenditure, the employee clearly told that the profit is still in an acceptable level. Therefore, we can still make a sound conclusion that after the legislation of statutory minimum wage, the restaurant will not be affected a lot.

### Case 4 –Cantonese-style Restaurant in Tung Mun

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials (40%), Rent (10%), Utilities (5%)...etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>) \$200,000</b>
Salary Expenditure (33%)	The Salary for Workers except Low Wage Workers (\$46,500)		
	The Salary for Low Wage Workers (<\$30/ hr) \$19,500	The New Salary for Low Wage Workers \$23,400 Spending to the low wage workers <b>(increase 20%)</b>	
		The Extra Salary for Low Wage Workers \$3,900	<b>Extra Expenditure (E<sub>e</sub>) \$3,900 (+2.0%)</b>
Cleaning Worker, Waiter and Waitress (10hrs/day, 26days/mth) – 3 person \$25/hr => +\$5 (x3) =>\$15/hr => \$3,900 [ <i>increase 20%</i> ] Chief (10hrs/day, 26days/mth) – 3 person \$50-\$60/hr			

**\*The New Proportion of the Salary Expenditure = 34.3% (+4.3%)**

Its total expenditure is around \$200,000/month, salary takes up around 33%. It locates at a relatively old district and therefore, the rent only takes up around 10% of its total expenditure. The employer clearly told that the restaurant had around \$20,000(around 10%) profit every month. However, he and his wife are also working in the restaurant sharing some work duties. Profits, indeed, are their salaries.

After the statutory minimum wage is introduced, the extra expenditure of the restaurant is \$3,900/month (+2.0%). The total spending to the low wage worker will climb up around 20%. The profit will, then, drop to \$16,000(-20%). In other words, it indirectly reflects that the “salaries” of the employee will decrease simultaneously.

### Case 5 –ChiuChow-style Restaurant in North Point

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Materials (25%), Rent (20%), Utilities (10%)..etc.	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>) \$300,000</b>
Salary Expenditure (25%)	The Salary for Workers except Low Wage Workers (\$60,960)		
	The Salary for Low Wage Workers (<\$30/ hr) \$14,040	The New Salary for Low Wage Workers \$15,600 Spending to the low wage workers <b>(increase 11.1%)</b>	
		The Extra Salary for Low Wage Workers \$1,560	<b>Extra Expenditure (E<sub>e</sub>) \$1,560 (+0.5%)</b>
<b><i>Detailed Salary Structure of Workers</i></b>			
Cleaning Worker (10hrs/day, 26day/mth) – 2 person \$27/hr => +\$3 (x2) =>\$6/hr => \$1,560 [ <i>increase 11.1%</i> ] Waiter and Waitress – 3ppl \$30-\$35/hr			

**\*The New Proportion of the Salary Expenditure = 25.4% (+0.4%)**

Its total expenditure is around \$300,000/month, salary takes up around 25%. The employer clearly told that the restaurant still has an acceptable profit although its revenue dramatically decrease 30% after the Financial Tsunami last October(2008). After the statutory minimum is introduced, it nearly cannot affect his profit. However, the spending to the low wage workers can be raised over 10%.

### Case 6– Street Side Food Stall in Causeway Bay

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Rent(20%), Materials(45%) Others(10%)	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>)</b> \$500,000
Salary Expenditure (25%)	The Salary for Workers except Low Wage Workers - 101704		
	The Salary for Low Wage Workers (<\$30/ hr) \$23,296	The New Salary for Low Wage Workers \$24,960 Spending to the low wage workers <b>(Increase 7.1%)</b>	
		The Extra Salary for Low Wage Workers \$1,664	<b>Extra Expenditure (E<sub>e</sub>)</b> \$1,664 (+0.3%)
<b><i>Detailed Salary Structure of Workers</i></b>			
Cleaning Worker (8hrs/day, 26day/mth) – 4 person \$28/hr => +\$2 (x4) => \$8/hr => \$1,664( <b>Increase 7.1%</b> )			

**\*The New Proportion of the Salary Expenditure= 25.3% (+0.3%)**

Its total expenditure is around \$500,000/month. Salary takes up 25%. The employer mentioned that the revenue of the restaurant decreases more than 50% after the Financial Tsunami last October(2008). After the statutory minimum wage is introduced, the extra expenditure of the restaurant is \$1,664/month (0.3%). The employer thinks that this amount of extra expenditure is accepted to the operation.

### Case 7– Vegetarian-Style Restaurant in Sha Tin

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Rent (25%) Materials / Other (48%)	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>)</b> \$100,000
Salary Expenditure (27%)	The Salary for Workers except Low Wage Workers - \$10,400		
	The Salary for Low Wage Workers (<\$30/ hr) \$17,160	The New Salary for Low Wage Workers \$23,400 Spending to the low wage workers <b>(Increase 36%)</b>	
		The Extra Salary for Low Wage Workers \$6,240	<b>Extra Expenditure (E<sub>e</sub>)</b> \$6,240 (+6.24%)
Waiters (10hrs/day, 26day/mth) – 3 persons \$22/hr => +\$8 (x3) => \$24/hr => \$7200( <b>Increase 36%</b> ) Chef (10hrs/day, 26day/mth) – 1 person \$40/hr			

**\*The New Proportion of the Salary Expenditure= 33.8% (+6%)**

Its total expenditure is around \$100,000/month. Salary takes up around 27%. The employer mentioned that recent revenue of the restaurant is not in an accepted level. In fact, the monthly profit is only around \$20,000 now and if the statutory minimum wage is introduced, the extra expenditure of the restaurant is \$6,240month (6.24%) which may lead to nearly 30% drop of the profit.

### Case 8 –Street Side Food Stall in Sha Tin

<i>Cost Structure</i>	<i>Before the legislation of the Minimum Wage</i>	<i>After the legislation of the Minimum Wage</i>	<i>Total Cost</i>
Rent(30%) Material(20%) Others(10%)	<b>Unchanged</b>		<b>Total Expenditure (E<sub>0</sub>)</b> \$300000
Salary Expenditure (30%)	The Salary for Workers except Low Wage Workers - \$82000		
	The Salary for Low Wage Workers (<\$30/ hr) \$ 7,800	The New Salary for Low Wage Workers \$9,360 Spending to the low wage workers <b>(Increase 20%)</b>	
		The Extra Salary for Low Wage Workers \$1,560	<b>Extra Expenditure (E<sub>e</sub>)</b> \$1,560(+0.52%)
<b><i>Detailed Salary Structure of Workers</i></b>			
Waiter (6hrs/day, 26days/mth) – 2 person \$25/hr => +\$5 (x2) =>\$10/hr => \$ [increase 0.52%]			

**\*The New Proportion of the Salary Expenditure= 30.5% (+0.5%)**

Its total expenditure is around \$300,000/month. Salary takes up around 30%. The employer mentioned that compared to the pervious summer, recent revenue of the restaurant decrease 20%. After the statutory minimum wage is introduced, the extra expenditure of the restaurant is \$1,560 month (0.52%).

**Table 4: Contrast of the findings**

Interviewee	the Original Salary Expenditure of the total Expenditure	The New Proportion of the Salary Expenditure $\{[(E_o \times \% E_{SO}) + E_e] / E_N\} \times 100\%$	The Percentage increase of the Total Expenditure $(E_e / E_o) \times 100\%$	The Percentage Increase of low wage workers' salary *If the level is \$30/hr	
		\$30/hr	\$30/hr	Detailed	Overall
<b>Case 1:</b> Elderly Services/ Residential Care Home	25%-30%	29.5%-34.2% (+ ~4.3%)	+6.4%	<b>\$21/hr</b> +42.9%	+33.5%
				<b>\$23/hr</b> +30.4%	
<b>Case 2:</b> Saloon A – Sai Wan Ho	60%	62% (+2%)	+5.3%	<b>\$15.6/hr</b> +92.3% <b>\$26/hr</b> +15.4%	+44.2%
<b>Case 3:</b> Cantonese-Style Restaurant B -Mongkok	30%-40%	+ \$260	+ \$260	<b>\$29/hr</b> +3.4%	+ \$260
<b>Case 4:</b> Cantonese-Style Restaurant C -TungMun	33%	34.3% (+1.3%)	+2%	<b>\$25/hr</b> +20%	+20%
<b>Case 5:</b> ChiuChow-Style Restaurant -North Point	25%	25.4% (+0.4%)	+0.5%	<b>\$27/hr</b> +11.1%	+11.1%
<b>Case 6:</b> Street Side Food Stall - Causeway Bay	25%	25.3% (+0.3%)	+0.3%	<b>\$28/hr</b> (+7.1%)	+7.1%
<b>Case 7:</b> Vegetarian-Style Restaurant - Sha Tin	27%	31.3% (+4.3%)	+6.24%	<b>\$22/hr</b> (+36%)	+36%
<b>Case 8:</b> Street Side Food Stall - Sha Tin	30%	30.5% (+0.5%)	+0.52%	<b>\$25/hr</b> (+20%)	+20%

## **D) Discussion and Analysis:**

### **1. Minimum wage will only have limited influences to the survival of SMEs**

From the case, it is noted that Minimum Wage (even if it is set at \$30/hour) will not lead to a notable change in the salary expenditure and cost structure in most of the cases. As a matter of fact, if we take \$30/ hour as a reference, only a limited number (less than 30%) of workers will be regarded as low wage workers except case 1 (Elderly services/ residential care home). Moreover, if we take a closer look to cases engaging in catering industries, only 15 out of 83 workers (18%) will be affected if the minimum wage is set at hourly rate \$30.

Summing up the cases, if minimum wage is employed, the percentage increase of the salary expenditure will be ranged from 0.3 to 4.3% which is an insignificant raise of the overall expenditure. It is assessed that the enterprises can bear this raise as they can still gain a profit.

However, in the study, we have to keep special watch for those marginal enterprises that their profit may be decreased by a certain proportion after employing the minimum wage legislation. Like Case 4(Cantonese Style Restaurant C in Tuen Mun) and Case 7 (Vegetarian Style Restaurant in Shatin), their received profits are usually about \$20,000 per month and if the minimum wage is set at \$30/ hour, profit of the former case will be dropped by 20%, from \$20, 000 to \$16,100. The profit of Vegetarian Style restaurant will then be dropped by 30%, from \$20,000 to \$14,000 per month. In these restaurants, the bosses (both are couple) indeed also take the work duty as other waiters and therefore their salary will then be dropped to \$8,050 and \$7,000 accordingly. It implies that they are in a relative fragile position. Any increase in other costs (such as rent) may turn profit into loss.

### **2. A little bit more paid by the employers will bring marked income raise to poor workers**

It is found that just a slight increase of “The New Proportion of the Salary Expenditure” or “The Percentage increase of the total expenditure” will lead to a notable increase of “The Percentage Increase of low wage workers’ salary”. In this study, if the minimum wage is set at \$30, it will lead to a mild percentage increase of salary expenditure from 0.3% to 4.3%. Simultaneously, the overall salary of poor workers will be drastically increased by 7.1% to 44.2%. Take Case 2 ( Saloon A in Sai Wan Ho)as an example, Saloon A’s low wage workers who are paid at \$15.6/hr, their salaries can be increased almost a double (92.3%) if the minimum wage is set at \$30. Similar outcome can be found in case 8 (Street Side Food Stall in Shatin) also. Only a slight increase of total expenditure (0.52%) or salary expenditure (0.5%) will lead to a marked percentage increase (20%) of the overall poor workers’ salary. (See table 4)

### **3. Costs other than salary share the greatest part of the total expenditure.**

Amongst the cases, we can found that costs other than salary (including rent, materials and utility) share 50-60% of the total expenditure. Many of the interviewees reported that they were asked to pay higher rent even in times of financial tsunami. To those who are running restaurants, foods are the second dominated cost apart from rent which always make up to nearly 30-40%. As

there is only one supplier for meat in Hong Kong and they have no choice but need to bear unreasonably high price of meat (pork, beef). Indeed, the price of meat rapidly increases almost a double during this year. It is quite true that the cost of operating businesses kept increasing in recent years and bosses of SMEs are staying in a passive position without any bargaining power. And therefore, to maintain their profits, they can only limit the cost of salary expenditure.

### **E) Conclusion and suggestions:**

To concluded, first, it is true that the legislation of **minimum wages** will lead to an increase of salary expenditure. However, it **is not the case that “the increase of salaries will significantly influence the total expenditure”**. Second, we can find that **the slight increase of the salary expenditure will lead to a dramatic increase of the low wage workers’ salaries.**

To those marginal enterprises with characteristics like very small scale (4-6 staffs) and employers also work like staff etc., the government needs to pay close attention to these small businesses. Take reference to some countries, like France and the Netherlands, offer subsidies to firms employing minimum wage workers. For instance, in France, employers of minimum wage workers can have reduction to their social security contributions. In the Netherlands, employers can pay less income tax (Funk and Lesch 2005).

We must emphasize that the only way forward in developing long term economic sustainability is not in the prolonged use of low cost, low profit enterprises. For the sake to promote social harmony, social justice and economic well being for all citizens in Hong Kong, minimum wage is indeed the very first step to secure the interests of its business constituents as well as the workers and, in doing so, to address urgently income inequality and the increasing numbers of working poor.

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