

For Information
On 8 April 2002

Legislative Council Panel on Commerce and Industry

Review of Hong Kong Productivity Council

Purpose

This paper informs Members of the findings and recommendations of a consultancy study to review the role, management and operation of the Hong Kong Productivity Council (HKPC).

Background

2. HKPC is a statutory organisation established in 1967. Its mission is to promote productivity excellence through the provision of professional services to achieve a more effective utilisation of available resources and to enhance the value-added content of products and services. The rapid changes in recent years in the international environment, and restructuring in the local industrial scene and in Southern China, have presented major challenges to the HKPC. A consultancy study was thus commissioned in June 2001 to assess the role, management and operation of the HKPC to ensure that they remain relevant and competitive in the context of Hong Kong's economic development.

3. The Consultants presented the draft Final Report of the consultancy study to the HKPC Council at a special Council meeting held on 5 February 2002. Subject to a few textual amendments, the Council agreed to accept the Report¹ as a reasonable deliverable of the consultancy study and make reference to the recommendations therein in re-positioning the role, focus and operation of HKPC.

¹ The executive summary of the Report is available for members' reference upon request.

Study Findings and Recommendations

4. The key findings and recommendations by the Consultants are in three main areas: future role and focus; business model and funding; and organisation and management.

Future Role and Focus

5. The Consultants recommend that HKPC's future service focus should be to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain. The principal sectoral focus should be on manufacturing firms, particularly those in Hong Kong's foundation industries², and related service activities (see Annex). The main geographical focus should be Hong Kong and the Pearl River Delta (PRD). Within this focus, HKPC should develop a capacity to package integrated support, but should only deliver services in those areas in which it has real depth of expertise. In other areas HKPC should manage service delivery by other organisations/specialists with the relevant capabilities. Support for the small and medium enterprises (SMEs) should also be focused along the above lines.

6. A sharper focus will mean that HKPC has to devote more resources in some areas, and withdraw from others. In this respect, the Consultants recommend that HKPC should consider the formation of spin out businesses as a way to withdraw from services, particularly those which are mature and subject to private sector competition.

Business Model and Funding

7. The Consultants have examined the option of retaining HKPC as a council and the option of changing HKPC to a corporation. Continuing with HKPC as a council will ensure that it has a strong public service mission determined by Government as its owner and principal source of funding. HKPC as a corporation, on the other hand, could be more autonomous from Government and more market driven. The greater separation from Government could reduce

² Foundation industries are those industrial sectors which are the main contributors to output and wealth in the manufacturing sector in Hong Kong and the Pearl River Delta. They include electronics, machinery and equipment, toys and plastics, textiles and clothing etc.

concerns about unfair competition, but corporate status (if it leads to privatisation) could affect HKPC's public service mission, particularly in relation to addressing SME needs. The Consultants are of the view that whether HKPC operates in future as a council or a corporation, it should be clearly understood that the public service element of its mission should be retained, and that Government accepts the implications of this for its long term commitment and support.

8. The Consultants also recommend a change in the funding regime, with a greater proportion of Government funding in the form of programme- and project-based support, and a lower proportion in the form of generic subvention. This will facilitate a clearer relationship between Government expectations of HKPC and the funding it provides, and should also help reduce concerns about unfair competition.

Organisation and Management

9. Based on the proposed future focus and operation, the Consultants have identified personnel principles for HKPC including flexible employment terms; lean core of highly competent permanent staff supplemented by contract/temporary staff; accountability and performance; human resource development and corporate governance.

Way forward

10. The Government will work with HKPC to follow up on the recommendations of the consultancy study. Views and feedback from the industry will be sought in the process to ensure that HKPC's services are relevant to the needs of industry. The following have initially been identified as the priority actions :

(a) Role and focus

One of the major recommendations of the Consultants is that HKPC's future service focus should be on providing integrated support to innovative and growth oriented Hong Kong firms across the value chain, with the main sectoral focus on manufacturing, particularly in Hong Kong's foundation

industries, and related service activities. This coincides with the notion of “producer service” set out in the Financial Secretary's Budget Speech delivered on 6 March. HKPC will be asked to realign its services and activities to help promote and strengthen Hong Kong's “producer service”.

(b) Geographical emphasis

The Consultants have recommended that the main geographical focus of HKPC should be Hong Kong and the PRD. HKPC can play a substantial role in enabling the better integration between Hong Kong and its hinterland in the wider context of manufacturing and producer service. HKPC will be tasked to pursue this rigorously and be more proactive in supporting our industrial base in PRD.

(c) Competition with IT industry

HKPC's involvement in the IT sector as a service provider has been a cause of concern on unfair competition. While efforts have been made to ensure that HKPC adopts a pricing system which could avoid unfair competition, it remains a point of principle and policy whether HKPC should take the role of a service provider, given that it is a subvented organisation. In this regard, the Consultants have recommended that HKPC's support to the IT sector should be focused on improving the quality, capacity and productivity of IT service providers and integration of IT support across the value chain. To take the matter forward, HKPC will be asked to conduct rigorous analysis of its consultancy and service activities in the IT area. Activities which may be construed as in competition with the private sector and where the role of HKPC is not clearly essential will be critically reviewed. However, the case of HKPC as a service provider to SMEs will be considered carefully given the limitations of small IT firms in supporting them, in terms of technical capability, services and overall reliability. HKPC should play a role to facilitate a win-win situation for both IT based SMEs and non IT SMEs. The alternative of spinning off the IT service operation of HKPC will also be considered.

(d) Financial management and funding model

At present HKPC is given a block subvention with great flexibility in its deployment. The Executive of HKPC has been allowed a high degree of operational autonomy. The Government will work with HKPC for greater financial accountability and strategic and programme control, and possible pilot programme funding arrangements.

11. Changes arising from the above will be managed and taken forward in phases. Due regard will be given to elucidating the changes to industry and clients of HKPC, and to avoiding any service disruption and instability in the change process.

Advice Sought

12. Members are invited to note this paper.

Components of the manufacturing value chain
(illustrative linkages only - not comprehensive)

