

For Discussion  
On 9 December 2002

**Legislative Council Panel on Commerce and Industry  
Review of Hong Kong Productivity Council**

**Purpose**

This paper informs Members of further progress made to follow up on the consultancy study to review the role, management and operation of the Hong Kong Productivity Council (HKPC).

**Background**

2. In April and July 2002, Members were informed of the findings and recommendations of a consultancy study to review the role, management and operation of HKPC, as well as the progress in certain priority areas to follow up on the recommendations.

**Further Progress**

Role and focus

3. The Consultants have recommended that HKPC's future role should be to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain. The main sectoral focus should be on manufacturing, particularly in Hong Kong's foundation industries, and related service activities, while the main geographical focus should be Hong Kong and the Pearl River Delta (PRD). The Council of HKPC has accepted the new role and focus, and on that basis HKPC has initiated actions to realign its services and activities with its new role and focus. Details of the actions taken and progress made are outlined in paras. 4 to 10 below.

"Do's and don't's"

4. In realigning its services and activities with its new role and focus, and to avoid competition with private service providers, the Council of HKPC has endorsed a "do's and don't's" list for HKPC. A copy of the list is at the *Annex*.  
---- HKPC will focus its services primarily on SMEs in the manufacturing and related

services sectors. It will continue to introduce new technologies and undertake pioneer and innovative initiatives and services with industry-wide impact. It will withdraw from mature markets where there is strong private sector presence, and refrain from the production of equipment and products for marketing purpose. In the information technology (IT) field, HKPC will stop undertaking customised activities for individual companies/organisations and stop bidding for government projects unless acting in a project management capacity and teaming up with private service providers. HKPC has started phasing out the activities in the "don'ts" list.

5. To ensure the continued relevance of the list in the changing industrial environment, the Business Development Committee (BDC) of the Council of HKPC will monitor the implementation of the list and update the list where necessary. To ensure that views from industry will be taken into account in the deliberations, the BDC has set up six industry work groups covering areas of SMEs, textiles and garment, environment, foundation industries, electronics industry and IT to facilitate exchange of views.

#### Competition with IT industry

6. HKPC's involvement in the IT industry as a direct service provider has been a cause of concern on unfair competition. The Consultants have recommended that HKPC's support to the IT industry should focus on improving the quality, capacity and productivity of IT service providers and integration of IT support across the value chain. After a rigorous analysis of HKPC's activities in the IT field, the Council of HKPC has decided that HKPC should no longer undertake the following -

- (a) customised IT services for individual companies/organisations unless acting in a project management capacity and teaming up with other private service providers;
- (b) bidding for government IT projects unless acting in a project management capacity and teaming up with other private service providers or specifically requested by government departments; and
- (c) equipment or system manufacturing for marketing purpose, but will only focus on technology transfer of its research and development outputs to private service providers.

In this way, direct competition with private service providers can be eliminated while the teaming arrangement can facilitate technology transfer and bring more business opportunities to the private service providers. SMEs' needs will continue to be taken care of, as HKPC may back up the services provided to them by private service providers through the teaming arrangement.

7. HKPC is phasing in the new activities model progressively. It will continue to refine its role in the IT field through consultations with industry.

#### Geographical emphasis

8. To extend HKPC's geographical focus to PRD, the Council of HKPC has endorsed a programme to establish HKPC's presence at Guangzhou, Dongguan, Shenzhen and Zhuhai initially. These offices will be run as "wholly foreign owned enterprises", and will be held by a subsidiary company to be set up in Hong Kong under HKPC. Integrated support and services as those provided in Hong Kong will be provided through these enterprises to Hong Kong firms operating in PRD. While HKPC will provide start-up fund for these enterprises from its savings, it is the intention to run them on a full cost recovery basis in the long term.

9. HKPC has appointed by tender a consultancy firm to help set up the subsidiary and the enterprises. Actions are in train and it is expected that the registration of these entities will be completed in the first quarter of 2003.

#### Financial management and funding model

10. The Consultants have recommended a change in the funding regime of HKPC, with more emphasis on programme-based funding for greater financial accountability and strategic and programme control. The Council of HKPC has agreed on a programme-based funding model and will implement it in 2003/04. Under this model, HKPC will categorise its activities into four programme areas, namely manufacturing technologies, management systems, information technologies and environmental technologies. HKPC will consult the industry on the relevance and usefulness of its activities, and place emphasis on targets and outputs. HKPC will also report to the Government how the subvention is being used to meet Government objectives and fit within the redefined role and focus of HKPC. The programme-based funding arrangement should help address the concern of government subvention being used to subsidise HKPC in competing with private service providers. It will also help change the focus from inputs and flow of funds to outputs and impacts.

#### **Advice Sought**

11. Members are invited to note this paper.

## **HKPC DO's AND DON'T's LIST**

### **I. Guiding Principles**

Whereas HKPC is to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain, with sectoral focus on manufacturing and related service activities and geographical focus on Hong Kong and the Pearl River Delta:

#### **DO's**

- ' · Services focusing primarily on SMEs in manufacturing and related service sectors.
- ' · Active introduction of new and emerging technologies, including product/technology development (including prototyping and technology transfer), manpower development, e-learning platforms and study missions.
- ' · Technology and management development and dissemination programs as approved in ITF, SME and other relevant government funding schemes.
- ' · Pioneer and innovative initiatives with industry-wide impact.
- ' · Services to which HKPC is a preferred vendor due to its neutral and public status and cross industry nature.
- ' · Underserved markets.

#### **DON'T's**

- ' · Mature markets where there is strong private sector presence.
- ' · Customized activities in the IT field for individual companies/organisations - unless acting in a project management capacity and teaming up with other solution providers.
- ' · Bidding for government IT projects - unless acting in a project management capacity and teaming up with other solution providers or specifically requested by government departments.

- ' · General skills training and educational courses adequately provided for by alternative suppliers.
- ' · Mass production and marketing of equipments and products.

## **II. Activities**

### **Caveat**

The activities listed out below are illustrative only and by no means exhaustive. In all cases, the principles should prevail. In case of doubt, the HKPC Executives should seek advice from the HKPC Council or its designated committee which would decide whether HKPC should undertake the activity or not with reference to the 'Do's and Don't's' principles.

### **DO's**

- ' · Acquisition, development and dissemination of enabling manufacturing technologies, processes and materials sought by target industries to move up their respective value chains through consultancy, training, and awareness programs.
- ' · Product design and development for manufacturing industries including intellectual property consultancy services for SMEs.
- ' · Facilities design, soft and hard automation systems including equipment design, ERP applications, processes improvement methodology and tools for manufacturing industries.
- ' · IT applications for the manufacturing industries e.g. product design, 3D CAID/CAD, concept modeling, RP, quick tooling, CA failure analysis and precision molding, for innovation product support.
- ' · Integrated Productivity Improvement for manufacturing and related services e.g. 6 Sigma, Kaizen, SPCD, lean & green, FMEA, Taguchi etc.
- ' · Manufacturing operations and supply chain management solutions, e.g. ERP, Trade@anywhere, Hkprocure.
- ' · Promote SME IT and e-Commerce adoption audits and consultancy services.
- ' · Environmental Management and Technology Services including applications development and transfer of technology.
- ' · Technology sourcing, transfer, commercialization, partnership, and business maturity services for SMEs.
- ' · Promotion of productivity gains up the value chain through the introduction of tools etc. in information management, customer services & marketing, logistics

& supply chain management, purchasing, investment risk management, strategy & business planning.

- ' · Introduction and adaptation of new and emerging management methodologies and models, e.g. Knowledge Management (KM), Customer Relationship Management (CRM), Benchmarking, Innovation.
- ' · Competitiveness enhancement through compliance with international standards: ISO 9000 (v2000), ISO 14000, SA 8000, OHSAS 18001, QS 9000, ISO 16949, TL 9000, etc.
- ' · Sustaining company competitiveness through continuous international benchmarking on Best Management Practices & Business Performance, Benchmarking Clearinghouse, Balanced Scorecard, KPI Audit, etc.
- ' · Publications and dissemination of information on Technology and Market trends and knowledge for manufacturing industries (by sector), software and IT companies etc.
- ' · IT Security and quality assurance, e.g. HKCERT (Hong Kong Computer Emergency Response Team), HKSQA (Hong Kong Software Quality Assurance) etc.
- ' · Promotional events for Manufacturing, IT and related service industries, e.g. Software Exhibition, Innovation Expo., SME Week etc.
- ' · Promoting and assisting industry participation in local and world Awards, e.g. Industry Awards, Service Awards, Malcolm Baldrige Awards, SME Awards, IT Awards, etc.

## **DON'T's**

- ' · Software development of generic application, i.e. accounting system, personnel system, etc.
- ' · Static web site development for individual companies.
- ' · Computer communication infrastructure set up.
- ' · Web site hosting for individual companies.
- ' · ASP, ISP & Data warehousing operation.
- ' · General Purpose IT education (such as Microsoft Office), General Office Skills Training (Secretarial / Language / Steno Skills / Academic Education).
- ' · Government IT projects unless acting in a project management capacity and

teaming up with other solution providers or specifically requested by government departments.

- ‘ · Non core competence areas, such as telecommunication, semiconductor and biotechnology product development.
- ‘ · Traditional Standard Compliance Consultancy on ISO 9000 for non-manufacturing related sectors, such as: Restaurants, Education & Schools, Hospitals, Legal & Accounting (Unless for ISO 9000 upgrading services).
- ‘ · In mature markets where there is strong private sector presence, such as Electrophoretic Painting, Gold Electroforming, Be-Cu Unicast, Traditional CNC Machining, Pad & Silk printing.