**For consideration
on 10 February 2003**

Legislative Council Panel on
Information Technology and Broadcasting

Promotion of IT Adoption in the Business Sector

Purpose

This paper briefs Members on the measures taken by the Government to promote the adoption of information technology (IT) and e-business in the business sector, especially by small and medium enterprises (SMEs).

IT and e-business Adoption Level

2.   Since 2000, the Census and Statistics Department (C&SD) has annually conducted surveys on IT usage and penetration in the business sector. Results of these surveys showed that there has been a steady growth trend in IT adoption in the business sector. Personal computer (PC) penetration rate has increased from 49.7% in 2001 to 54.5% in 2002, and Internet penetration rate from 37.2% in 2001 to 44.2% in 2002. Nevertheless, like many other economies, IT adoption in SMEs was still relatively low[1] as compared with larger establishments. In addition, the survey conducted in 2002 revealed that only 3 to 4% of the establishments not using PCs or the Internet had planned to install PCs or connect to Internet. The most commonly cited reasons for not planning to do so were "no business benefits to do so" (cited by about 70% of those establishments) and "lack of personnel familiar with using PCs/Internet" (cited by about 30%).

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[1] The C&SD survey in 2002 revealed that while some 95% of large establishments and 77% of medium establishments had used PCs, in respect of small establishments, only 51% had used PCs. Internet usage also showed a similar pattern. About 83% of large establishments and 66% of medium establishments had Internet connection, as against 41% for small establishments.

3.   Another survey on e-business adoption in Hong Kong conducted by the Hong Kong Productivity Council (HKPC) in 2002 yielded similar findings.   This survey revealed that, for those which had no intention or plan to adopt any form of e-business in the short term, the main reasons cited were "no business need (69%) and "no benefit to business" (30%).

Measures to Promote IT Adoption in Business Sector

4.   The Government is committed to encouraging and assisting businesses, in particular SMEs, to adopt IT to enhance their efficiency and productivity. We have launched a wide range of support measures for the business sector direct or through industry support organisations and trade associations. These include awareness building programmes, support centers and services, financial support, as well as education and training.

Awareness building

5.   To raise businesses' awareness of the benefits of adopting IT in their operation, the Government has worked with industry support organisations to distribute information materials in both printed and electronic versions (e.g. pamphlets, publications and CD-ROMs, etc.) as well as through their websites (e.g. e-business reference cases posted on the Digital 21 website (http://www.info.gov.hk/digital21). The Government has also organised in partnership with the HKPC and the Hong Kong Trade Development Council (HKTDC) free seminars and workshops to raise SMEs' awareness and provide information and practical advice to SMEs on adopting e-business. Since 2000, the Government has, in collaboration with industry support organizations, organised 31 free IT-related seminars for the business community, with 8200 participants from various sectors, to encourage the adoption of IT and e-commerce.

Support centres and services

6.   The Government and various industry support organisations have set up both physical and virtual support centres to provide one-stop-shop services, such as the Support and Consultation Centre and Virtual

Information Centre for SMEs of the Trade and Industry Department, the DigiHall 21 of the HKPC and the SME Centre of the HKTDC to provide information, advice, training and online resources to assist SMEs in IT adoption. The Government and various industry and support organizations have also provided SMEs with a wide range of support services like training, advisory and hotline services, demonstration on IT solutions, IT assessment service, and online IT self-assessment ware.

Financial support

7.　　The Government has set up various funding schemes to meet the different needs of local enterprises so as to enhance their competitiveness. For instance, $1.9 billion has been allocated to set up four SME funding schemes, which can assist SMEs in IT adoption.

8.　　The SMEs are making good use of these funding schemes to meet their needs and to enhance their IT capabilities. As at December 2002, the SME Business Installations and Equipment Loan Guarantee Scheme has provided loan guarantee of over $34 million to SMEs for purchasing IT equipment including computer hardware and software. The total amount of IT related loans involved was about $68 million. The SME Training Fund has provided grant of over $6 million to over 1500 SMEs for providing IT related training to their employers/employees. More than 2000 employers/employees have so far benefited. Under the first tranche of the SME Development Fund applications, funding support of over $28 million has been approved for 17 trade and industry associations, industry support organisations and professional bodies to implement 27 project proposals which are conducive to helping SMEs in general or SMEs in specific sectors enhance IT awareness and adopt IT. The following are examples of some of the funded projects (please see **Annex** for a complete list of the approved projects):

- setting up IT promotion and support teams, provision of hotline advisory services, and publishing an IT solutions directory for SMEs;

- setting up IT solution pavilions to showcase sector-specific IT solutions and systems at different SME exhibitions;

- setting up a Linux Resources Centre to promote and encourage the use of open source software among SMEs;

- developing a decision support system for SMEs in the logistics sector to make effective investment and planning on IT;

- helping SMEs in the restaurant trade identify their IT requirements, and working with software developers to customise restaurant management systems for local SME restaurants;

- developing a web-based 3D interactive marketing and commerce system for SMEs in the jewelry industry; and

- organising an IT Excellence Awards for SMEs.

9.   The Small and Medium Enterprises Committee (SMEC) has recently completed a comprehensive review of the four SME funding schemes. While the SMEC considers that the schemes are of practical use to SMEs, it has come up with various recommendations to further enhance their effectiveness. Major recommendations include extending the scope of Government's loan guarantee to cover working capital loans, raising the ceiling of the business installations and equipment loan guarantee from $1 million to $2 million for individual SMEs, extending the business installations and equipment loan guarantee period from 3 years to 5 years, and raising the ceiling of the grant under the SME Training Fund to individual SMEs from $15,000 to $30,000. The proposed improvement measures will be implemented in the first quarter of this year.

Education and training

10.   Apart from the financial support available under the SME Training Fund and the IT training programmes offered by the Vocational Training Council, the HKPC and various trade and industry bodies, the Cyberport Institute of Hong Kong (Cyber.i) was established in June 2002 to provide practical, state-of-the-art IT education and training, and

internship and placement in collaboration with the IT industry. Knowledge and skills in IT are now essential to the development of almost all types of business. To help graduates of other disciplines acquire IT competency, Cyber.i has specially designed a diploma course for non-IT graduates to equip them with fundamental concepts and knowledge of IT, state of the art IT technology development and application trends, and hands-on, practical experience in the latest technologies and applications. This initiative augments other training programmes now provided in the public and private sectors which allow SMEs to upgrade their IT capability and enhance IT adoption through training and education.

Way Forward

11.   While the funding schemes and support measures outlined above should help businesses appreciate the benefits of, and assist them in, adopting IT in their operations, we note that there is still inertia among many SMEs which are unfamiliar with IT application or generally have yet to perceive any business needs for or benefits from adopting IT. Moreover, under the current economic climate, SMEs tend to focus on their day-to-day core business operations rather than to invest in new supporting infrastructure. Having regard to this, we will step up our awareness building programme to further promote IT adoption in the business sector. We will produce a series of television programme focusing on successful cases in specific sectors and with a simple and user-friendly approach so that SMEs will be able to perceive the real benefits that IT may bring to them. Only when the SMEs appreciate that IT can genuinely help enhance their business operation would they have the interest and urge to adopt IT. Apart from television, we will also explore other avenues for showing these programmes to SMEs to ensure that the message would effectively reach them.

12.   We will also explore ways to lower the entrance barrier or initial set up costs for SMEs currently not adopting IT at all so as to encourage them to migrate to a basic IT adoption level. Programmes under consideration include appeal to major vendors for sale of PCs to SMEs at discount prices and bundling them with value-added services such as training, and provision of simple and out-reaching support services in

collaboration with IT bodies to those SMEs which have just started to adopt IT so that they could be facilitated to convert part of their operation from the manual to electronic mode with a relatively less substantial initial resource commitment, etc. We hope that, through the hands-on experience gained, more SMEs will appreciate the benefits of adopting IT and migrate to the electronic mode, creating the critical mass for e-commerce to take off in a much wider scale in Hong Kong.

Information Technology and Broadcasting Branch
Commerce, Industry and Technology Bureau
January 2003

SME Development Fund – First Tranche

Approved IT-related applications

	Project	Applicant	Approved Funding Amount
1	SME Ambassador Program 2002 - 2004 Building modern supply chain management capability for SMEs	Hong Kong Article Numbering Association	$1,840,000
2	Exploitation & promotion of local eyewear product to overseas market by developing a centralized interactive virtual 3D eyewear marketing portal	Hong Kong Optical Manufacturers Association	$1,230,000
3	Developing a Business Support Program for Hong Kong Software Developers to enhance their business competitiveness	Information and Software Industry Association Limited	$410,000
4	Establishing IT solution pavilions in different SME exhibitions to assist SMEs' adoption of practical IT solutions	Information and Software Industry Association Limited	$1,370,000
5	Developing the best practice cases of wireless technology solutions for SMEs in Hong Kong to enhance their operational efficiency and competitiveness	Hong Kong Wireless Technology Industry Association Limited	$710,000
6	Smart Card Technology Supporting Services	CityU Professional Services Limited	$1,810,000
7	Decision Support System for Hong Kong Logistics Service Providers and Exporters to make effective investment and planning on I.T.	Hong Kong Logistics Association Limited	$1,000,000

8	IT Files III	Hong Kong Computer Society	$1,860,000
9	IT Excellence Awards for SMEs	Hong Kong Computer Society	$630,000
10	A pilot promotion scheme on Restaurant Management System for the enhancement of the competitiveness of Hong Kong Food and Beverage Industry[1]	Association of Restaurant Managers	$1,360,000
11	Linux Resources Centre[2]	Hong Kong Linux Player Group	$890,000
12	Improving survivability and sustainability of growth through adoption of e-Commerce for SMEs	Hong Kong General Chamber of Commerce	$1,550,000
13	CMM Support Programme for Hong Kong software SMEs[3]	Hong Kong Information Technology Federation Limited	$1,990,000
14	Establishment of a SME-friendly IT Solution Directory based on familiar context, business problem description, solution-driven search and selection aids	Hong Kong Information Technology Federation Limited	$1,360,000
15	Wireless Application Enabling Center	The University of Hong Kong (E-Business Technology Institute)	$1,760,000
16	How to set up and implement the information technology promotion and support team for the SME in Hong Kong to provide "IT Estimation Advisory Service" to cope with knowledge-based economy in future	Hong Kong Small and Medium Enterprises General Association Limited	$1,570,000
17	Computer software on instruction of complex structure knitting with graphical display	The Clothing Industry Training Authority	$1,720,000

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[1] combined from 4 applications
[2] combined from 2 applications
[3] combined from 3 applications

18	Enhancement of Hong Kong jewelry manufacturers' overseas marketing capability via web-enabled advanced 3D interactive marketing and commerce system	Hong Kong Jewelry Manufacturers' Association	$1,490,000
19	To increase the competitive power and market exposure of SME through the promotion of eMarketing awareness amongst SMEs	Victoria Junior Chamber Limited	$640,000
20	Technology & overseas market promotion of Hong Kong digital entertainment industry	Hong Kong Digital Entertainment Association	$920,000
21	Standardization of identification coding and classification of raw materials for apparels & textiles industry	Hong Kong Article Numbering Association	$1,930,000

Total: **$28,040,000**