

Your Ref: CB(3)/PAC/R49

11 December 2007

Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Attn: Ms. Serena Chu

Dear Madam,

**The Director of Audit's Report on the results of value for money audits
Report No. 49 Chapter 5:
Hong Kong Tourism Board:
Corporate governance and administrative issues**

I refer to your letter dated 6 December 2007, enquiring about the performance assessment criteria used for determining the variable payments for the Deputy Executive Director (DED) and the three General Managers (GMs) mentioned in Table 7 in paragraph 4.29 of the Audit Report.

To put the evaluation criteria in the right perspective, let me first explain the process for defining the annual performance objectives of each GM and DED. As early as March each year, Jacqueline Tong, GM of Strategic Planning & Marketing would send out a planning schedule for the development of the Annual Business Plan to all senior managers of the organization including both the GMs and DED in Hong Kong. The schedule would show the dates when the GMs and DED need to submit their final Functional Plans for inclusion into the proposed Annual Business Plan, which is then needed to be presented to the Board for final approval.

The Functional Plan of each division would need to go through a series of consultative meetings with me as the Executive Director at the time. At the meetings, the GMs and DED together with their key managers would present their recommended initiatives for the year to contribute to the overall

organization objectives and discuss any major concerns they have in delivering these objectives. Once the Functional Plan was completed, it became the official document containing the annual objectives agreed with each GM and DED. The Function Plans were included as part of the Annual Business which was approved by the Board. It was based on this agreed objectives listed in the Functional Plan that GMs and DED were appraised at the end of the year. I hope this helps to clarify the process of agreeing the] annual objectives of the 3GMs and the DED of the Hong Kong Tourism Board (HKTB).

In regard to the assessment criteria, besides the agreed KPIs, there were other factors considered when deciding the variable payment of the senior managers. In line with the approach adopted by the Board to assess the performance of myself as ED, the successful implementation of the key initiatives described in the Functional Plan was also considered as part of the performance appraisal of the senior managers. At the same time, the attainment of KPIs would be evaluated within the context of the external factors that had any major bearings on the overall tourism performance of Hong Kong.

On this point, the Board expressed their views on how to evaluate the senior managers of HKTB in their letter to the Government dated 16 May 2003. Under the section of "Remuneration Mix" point (b) to (d), it stated clearly that there would be practical difficulties in directly relating the activities of the HKTB and the key performance indicators. In addition, owing to the inherent nature of HKTB's operation and its dependency on external factors beyond its control, it is inappropriate to incentivize its executives purely on achievement of specific KPIs. (Please refer to appendix 1) To further support this assessment approach, the Economic Development and Labour Bureau (EDBL) in paragraph 3.4 of the Audit Report also reinforced that the effectiveness of the performance of the HKTB cannot not be assessed entirely in quantifiable terms. (Please refer to the Audit Report)

This would explain the decision of the Board to award the full amount of the variable payment to me as the Executive Director for the performance of year 2004/2005, despite that three out of the nine reported KPI targets were not achieved. The factors taken into account when evaluating the performance were the rapid expansion of the IVS visitors which lowered the average Length of Stay (LOS) of the overnight visitors, and the change in survey samples to cover the two land borders Lo Wu and Lok Ma Chau where most

IVS visitors were used. Hence a lower average overnight Per Capita Spending (PCS) was recorded for Mainland visitors while PCS of other major source markets all registered growth.

Using the same yardstick, ED evaluated the performance of the GMs for the year 2004/2005 and 2005/2006. After the assessment of the quantitative objectives (i.e. the agreed KPIs), the outcome of the key initiatives in the Functional Plans were also examined since this constituted part of the overall performance of the GMs. With both the quantitative and qualitative achievements considered, ED then decided if the GMs had delivered an overall satisfactory performance to justify the award of the variable payment as stipulated in their Employee Contracts. As for the assessment for DED, since her accountabilities covered mainly the back end operations of the organization, the annual objectives were mainly the expected qualitative deliverables of each sub-functional area including Human Resources, Legal Support, Finance and System & IT and Office administration. Similarly, an overall satisfactory performance had qualified the DED in receiving of the variable payment for the year 2004/2005 and 2005/2006.

For the year 2006/2007, ED adopted the appraisal format of the new Performance Management System (PMS) introduced in 2006 to assess the overall performance of the GMs and DED. Under this structured mechanism, each of the Key Strategic Focus (KSF) carries a certain weighting. The overall performance score is the sum of the weighted score of all KSFs and the competency assessment score. This final score determines the eligibility of the executive in receiving the variable payment, if applicable. One of the major benefits of this new PMS is that it allows the organization to focus on “what is important” in terms of both qualitative and process outcomes, rather than purely assessing the job incumbent on numerical results. This assessment philosophy was endorsed by the Staff and Finance Committee on February 16 2006. The Board approved this new PMS at end of March 2006 (Please refer to appendix 2). With this background and the understanding of the challenging environment that HKTb operated during 2006/2007 ED looked at the attainment of the KPIs and the other agreed KSFs and then decided to award the variable payment to the three GMs and DED.

In conclusion, as the Executive Director of HKTb during 2001/2002 to April 2006/2007, I had carefully examined the achievements of both the KPIs and the major initiatives, the quality of the implementation processes and the final

outcome of each strategic focus to decide the overall performance of each of my direct reports. The performance of the three GMs and DED for the enquired period were all satisfactory (i.e. Score of 3 or above under the new PMS) hence justified my decision of awarding the variable payment. Should there be further questions relating to this subject, I am pleased to answer them during the hearing.

Thank you for your attention.

Yours Sincerely,


Clara Chong

**Note by Clerk, PAC: Appendices 1 and 2 not attached.*