Hong Kong Information Technology Federation

HKITF Response to the Consultation on the Information Technology Professional Services Arrangement (ITPSA) In the Government of the Hong Kong Special Administrative Region

HKITF has been supportive of the Government's ITPSA initiative since its inception and implementation. We believe it to be a step in the right direction of opening up more opportunities for Government IT professional services to small and medium sized and local firms. As an organization representing the IT industry in Hong Kong, we believe the Government procurement of IT services is a key part of the demand in our industry chain, and it is important to maintain a fair and openly competitive playing field for all companies in Hong Kong, in order to sustain the healthy development of our industry, and foster more innovation by small and large firms, and both local and international players.

Since the ITPSA program has been implementation in 2002, we believe that some progress has been made, but there are still rooms for improvement. We will set forth in the following submission our comments and recommendations to improve the future arrangement for Government IT procurement services.

Participation by Suppliers

We believe that the size of various service categories/groups should be increased. For instance, there are only two companies in some categories/groups in the current ITPSA. This reflects that there must be some criteria within the selection process of the current program that inhibit certain companies from applying, or being accepted.

We agree with the Government's view on the need to "strike a balance between maintaining an efficient procurement program for IT services and broadening industry participation." But we believe a reasonable number for each category/group can be at least four to six – but that is assuming that the amount of Government procurement for IT professional services would at least sustain at the current level, but indeed preferably with reasonable growth.

Length of Contracts

We believe that the current arrangement for ITPSA SOA duration for 30 months, with an option for an 18-month extension, is reasonable. However, we do not believe this duration can be decreased from the current level, as it requires significant investment by companies to participate in ITPSA and any change in status within an

even shorter period of time will lead to disruption in the business operations of these companies, making it difficult for these companies to recoup its investment in participating in the arrangement.

However, we also understand that if the program duration is too long, those companies not then participating in the arrangement will have to wait for a long time for the opportunity to enter the arrangement.   Therefore, we propose a new rolling application basis for the arrangement, such that new SOAs will be offered on periodic term, such as every two years, as some existing SOAs may have been inactive in bidding and not be renewed. This will ensure that new blood will be injected into the arrangement periodically, and also instills more continuity and minimizes the disruption caused to Government procurement every time the arrangement is renewed and all SOAs expiring at the same time.

Selection of Contractors and Quality Consideration

As the Government is aware, there have been suggestions within the industry that bidders of Government IT professional service projects are often at "cut-throat price competition" levels.   While the Government maintains that it has not led to loss in quality of delivery, we in the industry nonetheless feel that the phenomenon is unhealthy and has led to difficulty for some companies to operate – especially for small and medium sized firms – and many professionals are also suffering because of such competition being focused too much, or in cases even exclusively, on price factor alone.

We also observe that such price competition occurs even after the ITPSA tender process, such as, when each project brief is offered for ITPSA contractors to bid.   While this is unavoidable in an open market, we believe that the Government also has an obligation and indeed a responsibility to maintain the minimum prices at a certain level that is reasonable in the market, so as to avoid certain players engaging it potentially predatory pricing or dumping behaviors to undermine their competitors.

Categorization of Services and Suppliers

In some categories, there is an imbalance of work assignments and overall contract values.   There are comments from the industry that the differentiation between Group 1 and Group 2 is unclear and open to interpretation, and this should be improved.
While we realize that there are practical requirements on the Government from the Agreement on Government Procurement of the World Trade Organization, we believe the Government should still explore any feasible ways to foster more support and development by local firms.

Categorization of Human Resources

Given the complexity and ambiguity involved in setting up and maintaining a staff categorization system, we agree with the Government that the current system services its purpose with some limitations.   This is also the reason why there is no generally adopted formal system for the classification or grading of competency in the provision of services in the IT industry.

However, we believe that the reliance of the current system on the length of experience is too inflexible.   As we all know and understand, the competency and ability of a staff cannot be rated on where he or she has more than exactly x years of experience or exactly less.

Sub-contracting

While there are about 70 sub-contractors under the current ITPSA, there are nevertheless comments in the industry that distribution of work to these sub-contractors has been less than satisfactory.   In the current IT market where human resources are relatively abundant at most levels of experience or skills, there is lesser incentive for the contractor to engage a sub-contractor firm, if they can hire their own sub-contracting persons directly.   This may defeat the intention and purpose of the sub-contracting element in ITPSA.

We also believe that one of the purposes of sub-contracting is for the sub-contractors to gain the experience and opportunities to become contractors themselves in future.   Therefore, the sub-contracting system must be conducive to such development for the sub-contractors.   Unfortunately, the current arrangement does not achieve such purpose, in our opinion.

In order to tackle this problem, we have a few recommendations.   First, we believe that a certain reasonable percentage or quota of minimal sub-contracting can be considered to be imposed on the contractors.   For instance, although the number of large (over $5 million) has been small thus far, their overall value does take up a higher percentage of the overall value.   We believe that it may be feasible to impose a requirement on the contractors of these work assignments that a certain proportion of work – for example, 30% – must be sub-contracted to other firms.

Second, there is a gross lack of transparency of information about work assignments to sub-contractors. More direct disclosure of information to all sub-contractors from the Government about work assignments may help make the balance between contractors and sub-contractors more reasonable.

Finally, currently, sub-contractors are unfairly barred from quoting their work under the arrangement as references.   They are thus unfairly inhibited from gaining other business from other sources, or otherwise growing the profile of their companies, or eventually becoming a direct contractor themselves.   Therefore, we believe this restriction should be removed.   In fact, we believe the Government should highlight the successful contractors as examples of its support for the development of small and medium IT firms, and encouraging these companies to continue to participate in the arrangement as contractors or sub-contractors, and attracting other companies to follow their examples.

Country of Origin of Workplace

Our position is that while as local practitioners we would like to see as much work to be engaged inside Hong Kong by hiring local professionals, we also believe that the market should be open to the extent that firms can maintain their competitiveness by means including offshoring.   We agree with the Government that because of the nature of ITPSA work assignments, the amount of work that can be offshored is relatively small.

Managing Conflict of Interest

We agree with the Government that the current practice in managing conflict of interest is generally sufficient and we believe the Government will continue to work to ensure fair procurement under these principles.

Supplier Registration System

We observe the number of registered suppliers for IT products and services is small compared to many other countries or regions.   There may be several reasons, but the first one may be that the Government has never engaged enough in publicizing to local or small and medium sized IT companies to become registered.   It is urgently necessary for the Government – and there is absolutely no reason for it not to – to promote, inform and educate about the process and the benefits of registering to local companies, and then to teach them how to equip themselves and successfully bid for Government works.

As an example, while ITSD promotes to IT companies to join the IT Solution Center program, they did not inform these firms to become registered, or what they needed to do in order to be qualified to be registered. Then, as some of our members reported to us, after the Government evaluated their products and solutions, they were told that while their products might be suitable, they need to find another company with a Government SOA in order to complete the sales, but without being informed about the supplier registration program.   Such practice is grossly unfair to the small IT firm, and extremely inefficient for the Government

itself, and must be rectified as soon as possible.

Comments on Other Areas

There are also concerns from contractors and sub-contractors of the arrangement that overall management of work under the arrangement has somewhat deteriorated after the migration to the Information Technology Management Unit (ITMU) system in Government.   The management of projects is no longer consistent across departments and bureaus, making it difficult and more costly for contractors and sub-contractors to handle frequent changes or other unreasonable demands.   Contractors are forced to abide by these requests because they will be graded by their customers, affecting their chances for work with other departments or bureaus in future.   A clear guideline from CTB to ITMUs will be needed to control the situation.

It was also alleged that for some projects an excessive amount of time and effort was spent on various project management requirements and documentation, causing the project to run longer than necessary – in some cases not to the best benefit of efficiency for the Government either.   One of the reasons may be the tendency by some individual Government IT employees to feel the need to prolong the process and justify such overheads.   We believe that this situation should be handled seriously by the Government.

The Government should more proactively support the export of solutions, applications and services developed under the arrangement to Mainland China and other countries, especially developing countries in Asia.   In addition to fulfilling the Government's duties to support local industry development, it is will be beneficial to the Government as a user to see its suppliers expand its market and these applications gaining more acceptance in the market, hence ensuring the better viability of the suppliers and more support for these applications and products.   Other than entering and winning some international awards, the Government has not done anything to help local companies promote and open doors to other Governments.   This is a situation that must be improved.

Finally, we believe that while the Government has maintained its IT investment, there are still many system improvements in Government that can be expedited and facilitated.   These works will be extremely important for stimulating local demands and supporting the local professional employment.   We urge the Government to continue to invest more in IT products and services procurement in future.

The Council
Hong Kong Information Technology Federation
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