

18 December 2006

Office of the Government Chief Information Officer
Commerce, Industry and Technology Bureau
2/F, Murray Building
Garden Road
Hong Kong

Dear Sir,

Response to the 2007 Digital 21 Strategy Consultation

We very much welcome the HKSAR Government's decision to review the Digital 21 Strategy again, and the opportunity to comment upon the draft strategy as published for comments in October of this year. As the consultation document highlights, developments in technology and innovation are moving quickly and we see great value in Government's periodic reviews of the original D21 Strategy in 2001, 2004 and 2006/07.

As you are aware, IBM, through its predecessor firm PricewaterhouseCoopers Consultants, was privileged to have the opportunity to work with the HKSARG on the first and second versions of the Digital 21 Strategy. We also provided our comments on the third version of the Strategy that was promulgated in 2004. We are now delighted to provide our comments and suggestions on this fourth version of the Digital 21 Strategy. We have provided our comments in two parts:

- The broader environment for technology and innovation, where we have drawn upon IBM's broader business experience to comment on the trends and direction set out in the consultation document.
- Enabling the next generation of public services – where we have drawn on our extensive global and Hong Kong experience of working with governments to exploit technology to transform the management and delivery of public services.

Technology and Innovation

As you know, IBM published its Global CEO Study¹ in 2006, which was the second in its series following a successful 2004 study. This year's Study was focused on innovation and the role it plays for CEOs and public sector leaders. We enclose a further copy of report for ease of reference. A number of the themes emerging from the Study have implications for the Digital 21 Strategy:

- CEOs and public sector leaders see innovation as an imperative to survive, grow and succeed in the 'flat world' described by Tom Friedman. In his book 'The World is flat'² Tom Friedman described how the lowering of economic and trade barriers, the availability of virtually limitless bandwidth, and the adoption of standardised business processes and software, mean that competition comes from every direction at a personal, firm and country level. CEOs see this, combined with faster and faster technology cycles, as leading to commodity hell. They are reaching for innovation to secure more sustained differentiation. For us Digital 21 needs to consider the perspective of how technology, and the Government in its myriad roles, can enable and facilitate innovation which allows Hong Kong citizens and Hong Kong companies to succeed in this flat world and avoid commoditisation.
- CEOs agreed with IBM's point of view that innovation is more than invention. Innovation occurs at the intersection of business and technology insight. Innovation involves applying new or existing technology in new ways to deliver business value for a client and capturing some of this value for the organisation. CEOs see this integration of business and technology insight as vital but also as difficult to achieve. Our financial analysis of respondents shows that companies which described themselves as good at integrating business and technology delivered higher revenue growth and operating margin over the 5 year period we analysed. We very much support the Government's move to weave the innovation theme into Digital 21 given the close relationship between innovation and technology. We also support the focus on using technology and innovation to deliver value – and help citizens, companies and Hong Kong as a whole to add value and thereby position itself as a hub for China.
- It was striking that when asked for the sources from which they gained innovative ideas, few CEOs mentioned R&D. This highlights the challenge of ensuring that R&D investments focus on areas with real business potential and value, and of

¹ The study, titled "Expanding the Innovation Horizon", focuses on CEOs' view of innovation and is an in depth research report based on interviews with 765 CEOs, Business Executives and Public Sector leaders across the globe, representing organizations of all sizes, in every significant industry.

² "The World is Flat – A brief History of The Twenty-First Century", Thomas L. Friedman, 2005

speeding
technology

transfer from the laboratory to the market. The consultation document rightly places emphasis on Government's role in facilitating this transfer.

- CEOs also endorsed the view that collaboration and partnering is vital to innovation. Collaboration and partnering is important within the organisation (e.g. across various business units or across divisions and departments within governments) and outside the organisation – collaborating with business partners, customers, academia etc. CEOs and public sector leaders indicated that they are getting an increasing proportion of ideas from outside their organisations – especially from business partners. Our financial analysis showed that companies which were good collaborators were more likely to be financial out-performers and that financial out-performers sourced a greater proportion of their ideas from outside. In the context of Digital 21, this evidence supports government's focus on broader involvement across sectors to build Hong Kong's technology and innovation agenda and capabilities. As the consultation document indicates, the dominance of small and medium enterprises within the Hong Kong economy makes collaboration and partnership all the more important. Given that the PRC government has made innovation a priority within the 11th Five-year plan, the focus in Digital 21 on continuing to deepen cross-border collaboration is clearly important.
- The CEO Study found that CEOs see the nature of innovation as having broadened beyond the traditional focus on product and service innovation to embrace innovation in operations and in business models. CEOs and public sector leaders highlighted that the three areas are linked in practice (innovative products and services will require innovation in operations, and radical innovation in operations is likely to require innovation in business models because organisations will need new capabilities from new business partners). Our financial analysis showed that financially successful companies put more focus on business model innovation. In the public sector leaders placed even more focus on business model innovation as a mechanism to cope with ever rising expectations within the constraints of finite resources. This is likely to be an important theme for the Government's efforts to enable the next generation of public services, as highlighted in chapter 6 of the consultation document.

Enabling the Next Generation of Public Services

IBM has been privileged to work alongside Government on many of its service transformation policies and initiatives, including the first two versions of Digital 21, the original e-Government Strategy and the CRM and e-Procurement strategies highlighted in the consultation document. We very much agree with the

Government's
perspective that

enabling service transformation through technology is vital both to improve the quality of services and as an enabler to facilitate the broader adoption of e-business and technology in Hong Kong.

We understand why the government has presented the next stage of Digital 21 as being about building on the strong progress to date. Clearly continuity of direction has a value when Government is seeking to promote consensus and community support. Government has made solid progress on the use of technology to support service delivery. Chapter 6 summarises well the various policy initiatives which are underway to take this further. However, we would suggest that a more radical agenda may be necessary if the application of technology is to go beyond supporting or re-engineering service delivery to the transformation highlighted in chapter 6.

There are some very strong examples of service transformation enabled by technology, such as the Immigration Department's transformation of the processes at the control points through the smart cards, the EXPRESS system and automated gates. The Land Registry has used the IRIS to significantly raise the proportion of on-line transactions and transform the counter service. But as the consultation paper implies, for many departments the use of technology has yet to enter the mainstream of their policy and operational considerations, and exists as a separate programme. In this we would see Hong Kong as being in a very similar position and facing similar challenges to other governments looking for how to take the application of technology to the next level so as to transform services. We would suggest that the Government uses the current review of Digital 21 to set a robust and ambitious agenda for technology enabled service transformation, and to raise both the expectations of and the level of engagement by bureaux and departments.

In particular, we feel that in defining the next generation of public services the government should consider the following:

- Citizen centric service delivery – With the launch of GovHK, Government has adopted a new platform and approach (cluster based) to the delivery of e-services. While we agree that a citizen-centric approach is certainly the direction to go as seen in other governments, we feel that it would be important to provide a clearer description and definition of how a “citizen-centric” approach would be very different from current service provision. For example, the 2006 e-Government Strategy published by the Australian Government describes the future e-Government to be “*approachable*”, and “*interacting with government will be quick and straightforward*”, and that “*every door will be the right door*”. These definitions provide the reader a clearer picture of what the government aims to achieve, and how different this will be. We believe that such an approach would provide a clear test for bureaux and departments when

considering their
own approaches
to service transformation – and set the bar higher in terms of
expectations.

- A collaborative, joined up and connected government – The re-provisioning of all the e-services by end 2007 provides a good opportunity for departments to develop integrated joined up e-services that support streamlined processes. However, the benefits of these investments will not be maximised if departments simply move the existing services and processes to a new technology platform with an enhanced front page. Many other governments have faced similar challenges in building a collaborative government. There may be a need for significant changes in funding mechanisms and management culture to secure real cross-government transformation. At the moment it can be difficult to progress cross-government transformational initiatives where the costs and benefits of the project do not align with current government structures. There may well be a case for pump priming funding from the centre to get projects underway and perhaps cover some recurrent costs until savings can be realised. Individual departments can find it hard to secure cross-departmental cooperation and priority when dealing with their peers and there may be a case for bureaux to take more of a role. But this would entail providing bureaux with the skills and resources to drive such developments, given their many other competing demands.
- Ensuring that technology is seen as the enabler for service transformation – Technology should not be seen as the driver for service transformation but as the enabler for it. Bureaux and departments are the owners of their policy and operational priorities and agendas. Given rising expectations and service demands, and finite resources, technology enabled service transformation has a huge potential to assist bureaux and departments. But they need to define the priorities and make the judgements about the investments. In seeking to quantify the potential benefits from service transformation they will need to draw on clear service objectives and measures of current performance. If the current services and performance are not measured it will be very difficult to demonstrate the potential benefits and return on investment, or to ensure that they are delivered.

Managing the impact on civil service roles and skills requirements – We see two aspects here. First technology enabled service transformation will represent change on a significant scale requiring expertise in programme management, change management and technology. Because this will represent a heightened level of change and expectation many bureaux and departments may lack the experience to drive such projects and need assistance – potentially from OGCIO. Second, such service transformation can change the pattern of current jobs and staff resources. If a service is transformed, enabling more

on-line transactions,
less staff may be
needed and those required may need different skills. We sense that some departments feel that they cannot progress service transformation initiatives in the absence of assistance with dealing with the staffing implications. This suggests to us the need for a mechanism to assess the changes in staff needs and skills requirements resulting from service transformation and to facilitate both re-skilling and the movement of staff across departments to match the changing pattern of demand.

Conclusion

We hope our comments provide some useful insights both to support the Government's broad direction and to suggest some further developments.

We would be delighted to meet and discuss our views and suggestions if that would be helpful.

Yours sincerely

Dominic Tong