

(Draft – Please check against delivery at Chamber)

LEGCO QUESTION NO. 5

(Oral Reply)

Asked by: Hon SIN Chung-kai

Date of meeting: 9 May 2007

Replied by: Secretary for Economic
Development and Labour

Question:

The former Executive Director of the Hong Kong Tourism Board ("HKTB"), who has just departed, received a "discretionary performance pay" ("variable pay") in the amount of \$589,000 in 2005-2006, four times more than that of the previous year. It has been reported that the Board of HKTB will further grant her a variable pay exceeding one million dollars. In this connection, will the Government inform this Council:

- (1) whether it knows of the formula adopted by the Board of HKTB for calculating the amount of variable pay receivable by the Executive Director, together with the factors for consideration as well as their weighting;
- (2) if the above factors for consideration include the two indicators of "Visitor Arrivals" and "Tourism Expenditure Associated to Inbound Tourism", whether, based on the Government's assessment, developments such as the Central Government's liberalization of Individual Visit Scheme, the opening and publicity of the Hong Kong Disneyland, and the rising hotel room rates have contributed to the rise of these indicators, apart from the publicity of HKTB; and
- (3) whether it knows how the Board of HKTB, when it applies the said formula to determine the variable pay, assesses how much of the changes in the factors for considerations may be attributed to the performance of HKTB?

Reply:

Madam President,

- (1) The remuneration package for the staff of the Hong Kong Tourism Board (HKTB) at the level of General Manager or above (including the Executive Director) consists of “basic salary” and “discretionary performance pay” (performance pay). According to the independent human resources consultancy study (Consultancy Study) on the remuneration of the HKTB’s staff in local and worldwide offices, the Board of the HKTB endorsed in 2004 that the performance pay of the Executive Director (ED) should account for 15% of the remuneration mix.

According to the recommendations of the Consultancy Study and the employment contract between the HKTB and the former ED, the performance pay of the ED depends on whether she could achieve the four performance indicators, namely visitor arrivals, tourism spending, length of stay and satisfaction level, as set by the Board of the HKTB in its Annual Business Plan, as well as other factors regarding her administrative abilities and performance, such as competence in implementing marketing strategies, organizational as well as management ability, etc. The Remuneration Review Committee under the Board of the HKTB holds special meeting(s) to review the annual performance of the ED and the amount of performance pay awarded to the ED. In the case of the former ED, as the overall performance of the HKTB in 2005-06 achieved its targets, and the job performance and management ability of the ED were also satisfactory, the former ED was awarded her performance pay in full, which amounted to \$589,000. In 2006-07, the HKTB fully achieved two performance indicators, namely tourism spending and satisfaction level, but not so in visitor arrivals and length of stay. Therefore, the Committee decided to award the former ED only about 60% of her performance pay which is in proportion to the level of achievement.

- (2)&(3) The above four performance indicators are set by the HKTB every year in its Annual Business Plan as performance targets. They are also

important considerations for assessing the performance of its senior executives to determine whether performance pay is granted.

In drawing up its Annual Business Plan, the HKTB will make an estimate on visitor arrivals, tourism spending, length of stay and satisfaction level, using a set of methodology based on market surveys. These are all objective and quantifiable yardsticks. Every year, these are examined by the Board of the HKTB, its Marketing and Business Development Committee as well as Staff and Finance Committee, and endorsed by the Board of the HKTB. As a result, in considering the performance pay of the ED, the Remuneration Review Committee's assessment would focus on these four performance indicators. In fact, implementation of the HKTB's Annual Business Plan is subject to many local and external factors, e.g. the economic situation of source markets, policy changes, political environment, and emergency situations associated with safety and health concerns, etc. These factors would have positive or negative impact on the overall tourism performance of Hong Kong. However, the impact of each and every factor on the tourism performance of Hong Kong could hardly be assessed in a scientific manner. Most importantly, the HKTB must flexibly adjust its marketing and promotion strategy in response to these external factors so as to promote the growth of Hong Kong's tourism industry.

In implementing its business plan, the HKTB has to complement the latest development of the tourism trade, including tourism policy, commissioning of new tourist attractions, supply of hotel rooms and supporting infrastructure, etc. The HKTB has to make use of its professional knowledge and skills, including analyzing the economic situation of source markets and visitors' preference, to formulate complementary marketing strategy with a view to achieving the above four performance indicators. The HKTB is also playing the role of a facilitator. On the one hand, it has to complement Government's policy by exploring and developing new source markets to attract more visitors to Hong Kong. On the other hand, the HKTB has to maintain close liaison with the travel trade to develop new tourism products, and to join the travel trade in participating in local and overseas promotion activities. For instance, the HKTB has targetted at the business and family visitor segments in its worldwide promotion strategy and worked

closely with the trade to launch targeted promotions over the past two years. As compared with 2004, the number of family visitors has grown by 13%; the number of visitors below 16 has increased by about 35%; and the number of visitor arrivals attending conventions and exhibitions has also increased by 44% in 2006.

Similarly, negative incidents will undermine visitors' interest in visiting Hong Kong and lead to a drop in visitor arrivals. For instance, international terrorist attacks, SARS, threat of avian flu, etc have much impact on the interest of visitors from all over the world in visiting Hong Kong. Under such circumstances, the HKTb will appropriately adjust its marketing strategy to avoid any persistent impact arising from such negative news on the markets and visitor segments concerned, and to rebuild visitors' confidence and entice them to visit Hong Kong.

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