

CULTURE CHANGE — AN UPDATE AND NEXT STEPS

In 1999/2000 annual report for Hsin Chong Construction Group Ltd. (“Hsin Chong”), Hsin Chong stated its commitment to taking a leadership role in the transformation of the construction industry from one which is “beset with an adversarial culture” and in which “many industry participants adopt a short-term view of business development, with little interest in enhancing their long-term competitiveness” to “an integrated construction industry that is capable of continuous improvement towards excellence in a market-driven environment.” (quotes from Report of the Construction Industry Review Committee, dated January 2001).

From the beginning, Hsin Chong’s management noted that the dedication and commitment of its employees must be earned through a culture of promoting transparency, empowerment, responsibility and accountability. It also leveraged the expertise and resources of its sister company, Hsin Chong Real Estate Management Limited (which was awarded the 2001 HKMA Quality Award Overall Winner by the Hong Kong Management Association), by adopting and implementing Total Quality Management (“TQM”) as Hsin Chong’s management philosophy and as a means to help Hsin Chong with its “culture change”.

A year has passed since Hsin Chong initially developed its vision and instituted changes to its work environment to encourage communication across and among businesses, departments and functions with specific focus on its core processes. While Hsin Chong’s management is mindful that its transformation is a marathon and not a sprint, it is pleased to report that the majority of Hsin Chong employees now recognizes and understands the importance of this journey and have joined its management in leading the construction industry to focus not only on the product but on Hsin Chong’s customers and ultimate end-users. Some of Hsin Chong’s achievements in its culture change efforts include:

- **Implementation of TQM:** Apart from introducing the concept of TQM to Hsin Chong’s employees, all of its senior management attended a 5-day TQM Workshop — “Implementation of TQM through Malcolm Baldrige National Quality Award Criteria” — conducted by the Hong Kong Productivity Council, in the latter half of 2000. This intensive workshop

enabled Hsin Chong’s senior management to achieve a better understanding of TQM, so that they can exercise their leadership in designing Hsin Chong’s TQM model and implementing its strategies and action plans.

- **Establishment of Quality Circles (“QC”):** QC is an essential tool in TQM used by frontline staff to generate ideas and actions for continuous improvement in Hsin Chong’s day-to-day operations. QCs are comprised of teams of generally not more than seven frontline staff from different disciplines and functions. QCs are empowered to determine which quality-related issues to address, based on a cost-benefit analysis, and are responsible for generating a commercially viable solution to such issues. Since May 2000, over 270 frontline and middle management employees have received training on QC’s objectives, structure and process. In September 2000, two QCs were formed and piloted at a Hong Kong Housing Society construction site and the solutions developed by those two QCs would reduce by approximately 400 manhours and save Hsin Chong over HK\$850,000. Since then, Hsin Chong’s frontline staff at both its construction site and head office have formed 20 QCs and adopted 13 quality improvement proposals.
- **“Every manager an HR manager” Program:** A comprehensive human resource management plan is crucial to the success of building a committed, highly-skilled, motivated and dynamic workforce. As Hsin Chong stated in its 1999/2000 Annual Report, every manager must play an active role in people development before Hsin Chong can be successful in developing a keen sense of ownership among its employees. Its managers took a first step in this direction when all managers, with the assistance of and advice from Hsin Chong’s Human Resources Department (“HRD”), developed their own action plans with respect to people development for their own department. At the same time, the HRD took steps which were focused on improving staff satisfaction rates, providing guidance and assistance to managers in the implementation of their people development plans, and continuously improving its internal processes and staff competence.

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• Environmental, Health and Safety Awards:

(i) Safety Record and Awards

Hsin Chong has made improvements every year since 1996 in its safety and health performance. Hsin Chong's accident rate is significantly below that of the industry and in fact, is the lowest among all major contractors in Hong Kong for the past two consecutive years.

Year	Accident Rate (per 1,000 workers)	
	Hsin Chong	Industry*
1997	72.42	227.36
1998	62.98	247.93
1999	39.41	198.45
2000	38.05	148.50

* Source: Labour Department

In addition, five sites out of the eight “active” Hsin Chong’s construction sites recently obtained the Safety Team Award organized by the Labour Department.

(ii) Environmental Awards

- Good Housekeeping Plan – Bronze Award for Kwai Fong Estate Phase 7 by Occupational Safety and Health Council.
- Hong Kong Eco-Business Awards (Green Office Certificate of Merit) for Tuen Mun Area 4C and Hsin Chong Center by Environmental Campaign Committee. Hsin Chong is the only construction company to receive this award.
- ISO14001 (Environmental Management System) Certificate by Hong Kong Quality Assurance Agency.

However, Hsin Chong’s commitment to take on such a leadership role and its efforts to change an industry mindset also means that it has to learn from missteps and continuously

review and re-evaluate its implementation plan. Perhaps the most important lesson for Hsin Chong’s management was that, despite its efforts to communicate and actively promote Hsin Chong’s vision and targets, its employees initially had a difficult time grasping the link between their efforts in the culture change and the company’s strategy — and even more importantly, how these newly learned management concepts and tools can make their daily operations more effective and efficient. Management realized that it must not only communicate vision but also provide a clear guide as to what Hsin Chong’s strategy was to achieving its vision in a manner which would allow every employee to understand and appreciate the impact of their actions.

In January 2001, about 50 of Hsin Chong’s senior and middle management gathered over a two-day period to critically review the achievements and performance gaps in our nascent culture change journey. After much soul-searching, we collectively agreed to adopt the **BALANCED SCORECARD APPROACH** as the cornerstone of our strategic planning process.

The Balanced Scorecard was developed in 1990’s by Harvard Business School professors, Robert S. Kaplan and David S. Norton, because the value-creating activities of any organization cannot be adequately measured by financial data alone. The Balanced Scorecard approach is one in which (a) vision, strategy and resource allocation flowed from the top; and (b) implementation, innovation, feedback and learning flow back up from the front lines and support functions. It is also synergistic with Hsin Chong’s TQM program because the Balanced Scorecard provides the linkages to strategic customer and financial outcomes while the TQM program provides a disciplined approach to continuously improving an organization’s business processes. This, in turn, increases productivity and enable us to provide better value for Hsin Chong’s customers.

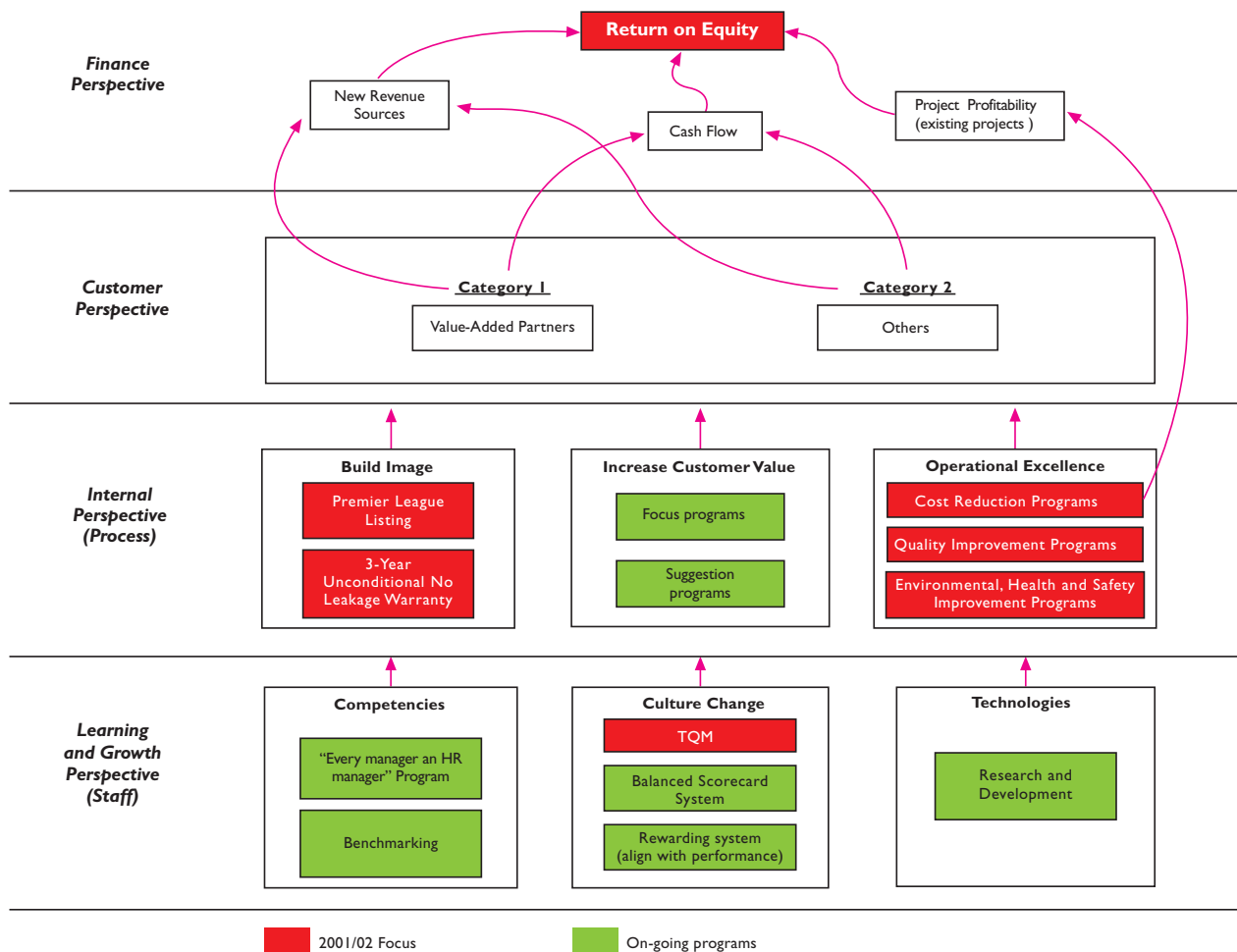
Hsin Chong is pleased to present its Strategy Map (see Figure below). Sustained value creation for Hsin Chong’s shareholders involves a delicate balance of long-term and short-term performance goals. The cause-and-effect linkages enable the company’s management and employees to clearly see how improvements in intangible assets or programs (e.g. developing leadership skills or our performance measurement system) are “translated” into tangible customer and financial outcomes.

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In developing this strategic map, Hsin Chong has benchmarked itself not just against the best companies in Hong Kong but also against companies around the world which have demonstrated success in implementing the balanced scorecard approach. However, Hsin Chong did not adopt, on a wholesale basis, some other organization's strategy but its managers painstakingly, during the two-day

workshop, examined the best concepts and strategic themes of world-class organizations and customized them to suit the needs of Hsin Chong. Hsin Chong's annual performance targets are specifically designed to not only fit into its strategic Balanced Scorecard but be relevant to the day-to-day operations of its frontline staff, especially those involved in the construction process.

Hsin Chong's Strategy Map



Hsin Chong is committed to becoming “the most reputable, highest quality and best managed construction group in Hong Kong” and not only to maximizing shareholder value but also to **sustaining shareholder value**. In taking on this leadership in the construction industry, its people will strive to answer the call of the Hong Kong Government to “develop a new culture that focuses on delivering better value to the customers on a continuous basis”, by providing

value through different non-traditional procurement partnering arrangements with our customers (such as “design and build” and management contracting), nurturing a professional workforce and being true to Hsin Chong’s 5 core values: “**Integrity, Quality, Service, Innovation and Social Responsibility**” — both in our day-to-day operations and human resources development.