

## **KEY PERFORMANCE CRITERIA FOR THE CONSTRUCTION INDUSTRY - THE ROLE OF CLIENTS**

It is a very great honour for me to participate in this conference and to have been given the opportunity to address you.

The Construction Industry Development Agency ( the Agency ) for which I work is undertaking dramatic change of the Australian construction industry. It is doing so with the cooperation and involvement of all parts of the industry – contractors, sub-contractors, the design professions and other consultants, labour unions, academics, government officials, and both private and public sector clients.

The Agency has a short and fixed life – as I will relate, it was established in 1991 and will cease to exist on 30 June 1995, a total of three and a half years. Its role is to act as a catalyst for change. As is often the case with chemical catalysts so with the Agency much heat has been created as part of the change process. It is not always easy to ask a person to change the way they work for the common good. When all parts of an industry are asked to do so, the strains are many and great.

But also as with the application of heat to steel, so the application of the heat of change is already forging a stronger, sharper and more resilient Australian construction industry. The key to the change process adopted by the Agency is that the involvement of all parts of the industry is gradually leading to a sense of ownership of the outcomes, and a shared commitment to use the outcomes.

### **The CIDA Vision**

The Vision which we have adopted for our work is that we will have a world class Australian building and construction industry that delivers our customer requirements by :

- \* working with customers through the life of projects to ensure an outcome which is fit for the intended purpose;

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- \* continually improving performance standards building on our existing strong base;
- \* promoting partnerships of interest to achieve the common aims of the industry parties;
- \* harnessing and extending the skills and creativity of people working in the industry;
- \* removing barriers to continual improvement in the quality of the working environment, the design, building and construction process, work methods and the completed product;
- \* fostering an innovative and dynamic work culture where people are proud to work together;
- \* exceeding international best practice so that the world beats a path to our door.

The Vision is one of great challenge, made the greater by the short time we have to put in place the strategies which are needed to achieve it, and the fact that we have been and are determined to develop those strategies working with industry.

I now turn to the origins of the Agency and the factors which led to its creation, and those other factors which determined its scope of work and funding.

### **Beginnings of the Construction Industry Reform Strategy and the Construction Industry Development Agency**

The Construction Industry Reform Strategy was launched in December 1990 by the then Prime Minister of Australia, Bob Hawke. The Australian government and major organisations

representing the construction and property industries had become increasingly concerned through the 1980's about the growing unpredictability of the cost, time and quality of construction. Whilst much of the instability experienced could be traced to severe labour relations problems, equally as much of the problem could be attributed to the overheating of the Australian economy through the asset boom of the mid-1980's, and then the flight of capital to commercial property following the stock market crash of 1987.

As seems to have been the case in much of North America and Europe, speculative development led to great strains on the capacity of the construction industry, fostered careless financing decisions, and resulted in major overbuilding of central business district office buildings. Australia currently has about 20% of its office building stock vacant. Rents and capital values have fallen dramatically. Demand for office space has fallen due to the recession, and demand for new construction is low.

Through 1988 and 1989 the construction industry began to consider what it could do to break out of the commercial and labour problems it was experiencing, and which were causing the community to treat the industry with contempt. A series of studies and reports identified the scope for major improvements in productivity and predictability. As is the case world-wide, the potential benefits to the whole of the economy were shown to be great – the impact of savings flowing through to other industries from a 10% lift in productivity in construction was greater than an equivalent improvement in any other industry. Indeed that 10% improvement would add more than 2.5% to Australia's Gross Domestic Product.

After discussions with the industry, the Australian government proposed a process to identify strategies to achieve major productivity gains. The process, announced as I have mentioned by the Prime Minister in December 1990, took the form of four industry/union/government working groups developing broad strategies in the areas of skill formation, industrial relations, contracts and industry development. The groups were given four months to work. They reported in April 1991 and their reports were widely distributed throughout and commented

upon by the industry. The broad consolidated recommendations of the groups were that :

1. The Australian and State governments as major clients of the industry should take leadership of the industry by demanding improved cost effectiveness, quality and predictability;
2. A sunset Agency jointly funded by the Australian government and the industry be established to act as a catalyst to induce change;
3. The Agency should develop a Code of Practice which would encapsulate the standards of performance demanded by clients.

These broad recommendations were accepted by the Australian government. The detailed measures to implement them were contained in a consolidation of the four working group reports called the In Principle Reform and Development Agreement ( the Reform Agreement ). This agreement was signed by the Australian government, most of our State governments, and by the key industry, employer and labour organisations.

The formation of the Agency and implementation of the Reform Agreement was announced on 3 December 1991. Government funding was set at AUD \$7 million for the life of the Agency, with the industry agreeing to provide an additional AUD \$3 million. The Agency has an appointed Board including representatives of contractors, clients, design professions, labour organisations and government. It has a full time staff of fifteen people.

### **Process**

Using the Reform Agreement as its strategic imperative the Agency Board and staff developed a business plan in the first half of 1992 which reduced the objectives of the Reform Agreement to the following twenty Action Plans, grouped in five "clusters":

<b>Cluster</b>	<b>Plan</b>
A Project Delivery	A1 Project Initiation A2 Project Management A3 Contractual Relationships A4 Security of Payment
B Best Practice	B1 Code of Practice B2 Performance Measurement and Databases B3 Strategic Management B4 Model Projects and Enterprises
C Industry Development	C1 Research and Development C2 Export C3 Regulation Reform C4 Industry Representation C5 Future Structure of the Industry
D Skill Formation	D1 Skill Formation D2 Equal Employment Opportunity
E Workplace Reform	E1 Workplace/Enterprise Bargaining E2 Award Restructuring E3 Health and Safety E4 Review of Employment Benefits E5 Restrictive Practices

Each Action Plan had an Action Team appointed to it, drawn from industry, government and the unions, and from the professions and academe. Team members contributed their time and travel expenses free of charge, as part of the industry's contribution to the Reform process. More importantly, the two hundred and twenty Team members gave their skill and experience, to produce the "tools" which are the products of the Action Teams.

During its first full year of operation the Agency concentrated on developing "tools" which the industry could use to lift performance. The priority area was and remains the development of the Code of Practice, or Pre-qualification Criteria, setting consistent and objective criteria for the measurement of performance and capacity of contractors and consultants. The objective is to provide clients with reliable performance indicators, and contractors and consultants with a consistent set of standards against which they may measure themselves. In other words, a pre-qualification system building on those now in use but of far greater consistency, sophistication and reliability.

The philosophy underpinning the Criteria and other work was and is that the process was not about government intervention or "picking winners". Rather it was essential that anything the Agency produced be acceptable in the market and be used by clients, contractors and consultants because it added value to their operations. This has been tested first through the Action Team process and then through wide industry review of, and comment on, all products produced by the Agency.

## **Products**

The products to assist organisations engage in the process of striving for World Best Practice which have been released to the industry, either in final form or as exposure drafts include :

Code of Tendering

Code of Ethics and Procedures for the Selection of Consultants

Conditions for the Engagement of Consultants

Pre-qualification Criteria

Project Initiation Best Practice Guide

Project Management Best Practice Guide

Contracts User Guide

Partnering "How To" Guide

Value of Overseas Business Activity

Competitive International Contracting – Determinants of Success

Draft Export Strategy for the Building and Construction Industry

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Model Projects and Enterprises Manual

Model Projects Implementation Guide

Enterprise Quality Improvement Productivity & Process ( EQIPP )

Management Benchmarking Survey

Project Performance Update

Quality Safety Management System

Strategic Management Framework Manual

Enterprise Bargaining "How To" Guide

Audit of Restrictive Work and Management Practices

Skill Formation Needs Analysis Report

Work continues on other products :

Equal Employment Opportunity How To Guide;

Skill Formation Future Strategy Report;

Research and Development Manual.

As the Agency moved into its second full year of operation its emphasis shifted from the development of policy and products to the implementation and adoption of the products of the Agency's work. Whilst in some areas development work must continue and be finalised with the assistance of Action Teams, in others greater emphasis is being placed on working with industry organisations and firms to have people in the industry adopt and implement each of the tools in a systematic way. Work is well advanced on preparing flexible learning packages to enable this to be done. Those packages will permit distance learning as well as more orthodox classroom and "on the job" learning to be utilised.

The Agency will not act as a provider of learning on a large scale, but provide industry organisations with the materials to in turn provide to their members. In the case of larger organisations in particular government client agencies, the Agency is working with their training and human resources departments to provide key project staff with the skills to adopt and

### **Code of Tendering**

This Code was developed by the Agency and subsequently has become an Australian Standard.

The Code deals primarily with the obligations of clients to establish consistent and ethical tendering processes. It includes a statement of the ethics which underline Best Practice tendering processes. On the contractors side, the Code prohibits a range of practices including collusive tendering, the taking of cover prices, and the payment of unsuccessful tender fees.

### **Code of Ethics and Procedures for the Selection of Consultants**

This Code also has been taken up as an Australian Standard. It is to an extent the mirror of the Code of Tendering but for the selection of consultants – architects, engineers, quantity surveyors and others. It also contains a statement of the ethics which ought to underpin the selection process, and lays down processes for clients to use in that process.

### **Conditions for the Engagement of Consultants**

As the title suggests this document provides clients with a standardised set of conditions to use when engaging consultants. Despite some anxiety over the treatment of the consultants' copyright in their work the conditions have been endorsed by the design professions in Australia.

### **Contract User Guide**

Australia has inherited the British Common Law approach to contracts and the concomitant detailed approach to the exposition of the rights and obligations of parties to the contract in excruciating detail.



In other nations where the concept of faith is incorporated in the law and permits, as a result, simpler and shorter contracts, and of course to those nations where law is codified far more than in the British tradition, also making for simpler contracts.

Our contracts have become too large and legalistic to serve their purpose of describing the essential obligations of parties to them. This has been in part a product of the mistrust bred through the commercial travails of the 1980's and the subsequent collapse of some developers, builders and financiers, but also because the lawyers have made construction a growth area for themselves. One of the worst personal business decisions I have made was to leave the practice of construction law in 1981 because I thought it had no future.

We have the added complication of there being competition amongst clients for the use of at least three widely used forms of contract, each with its own supporters and critics. When the Agency looked at this market it attempted to produce, with industry support, a single harmonised suite of contracts catering for different procurement techniques but with common language and philosophy. We found we were not able to gain agreement from the industry for this approach.

Instead we have produced a guide to the two most commonly used contracts, produced by industry consensus processes, and two others, one a client specific form and the other a novel approach similar to the British Institute of Civil Engineering's New Engineering Contract. The guide will allow potential users to compare the features of each contract, expressed objectively, and will permit a more rational selection of the contract which best suits a clients needs on a particular project.

### **Partnering "How To" Guide**

The American concept of Partnering was introduced to Australia last year through a series of seminars run by Master Builders Australia, featuring Colonel Charles Cowan from the Arizona Department of Transportation. Cowan had made good use of the concept whilst with the US Army Corps of Engineers. The combination of Total Quality Management practices, value engineering, and a more open approach to solving problems on projects, had reduced disputes and litigation and improved project time, cost and quality performance on the Corps' projects, and on the Arizona governments road projects.

The Master Builders seminars were very successful in promoting the concept. In less than a year more than thirty significant projects had used the concept and a useful body of experience in Australia has been acquired. To capture that experience and help others not familiar with Partnering to evaluate and test it, the Agency jointly with Master Builders Australia will launch this Guide in November as part of a second series of seminars featuring Cowan. The Guide deals with the experience of Partnering in the US and in Australia, explains the elements and pre-conditions for its use, and gives instruction on implementing the concept on individual projects.

### **Pre-qualification Criteria**

The Agency has developed Pre-qualification Criteria encapsulating standards of performance demanded by clients.

The Criteria are the heart of our work, providing clients with a consistent, reliable and objective framework to determine which contractors and consultants are able to carry out their work. They fit logically within the scheme of the other products I have described – clients move from

- \* selection of consultants using the Code of Ethics and Criteria, to
- \* engagement of consultants using the Conditions for Engagement, to
- \* establishing the project team using the Project Management Best Practice Guide, to
- \* project initiation processes using the Best Practice Guide, to
- \* tendering processes for contractors using the Code of Tendering, to
- \* selection of contractor using the Criteria, to
- \* selection of contract type using the Contract User Guide, to
- \* managing the project using the Partnering "How To" Guide.

The Criteria in their present form concentrate on seven indicators of capacity and performance :

1. Technical Capacity
2. Financial Capacity
3. Quality Assurance
4. Time Performance
5. Occupational Health and Safety
6. Human Resource Management
7. Skill Formation

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The information required for each of the Criteria will be provided by contractors and consultants to clients – there is to be no bureaucracy to collect and analyse information. Clients will have the opportunity to conduct spot checks or audits, and to ask for evidence that the ratings claimed for a firm are in fact accurate. The sanctions for misleading clients are left to clients – omitting offenders from tender lists is a powerful sanction.

Regular clients of the industry ( particularly government agencies ) will use the Criteria to pre-qualify contractors and consultants for selective tendering processes. Occasional clients will use them as the basis for determining which firms are asked to tender or to negotiate for work.

In addition further Criteria are being or will be developed for those clients who are interested in these other measures of performance :

Claims Performance

Compliance with Legislative Requirements

Management for Continuous Improvement ( Total Quality Management systems )

Research and Development

Export Development

The first seven Criteria will form the basis for all construction projects with a value of AUD\$ 5 million or more, undertaken by the Australian government, most of our State governments, and major private sector clients in the non-residential sector of the market. Contractors will have the benefit of a consistent and objective set of standards against which to measure their own performance and market their abilities.

Plainly those contractors and consulting firms which do not measure up well will find it difficult to get major work. Those firms which are comfortable to strive for the objectives in the Agency Vision statement will be rewarded with work, and with working for clients who are committed to seeing a more efficient and prosperous industry in Australia.

Taken as a whole the seven criteria carry the hallmarks of a push towards Best Practice and the attainment of an industry where competitive pressures will foster the adoption of management strategies to achieve continuous improvement. As firms reach and surpass the minimum standards in the Criteria other firms will be striving for ways to improve their rating under each of the Criteria. To assist firms to embark on this journey the Agency has produced two further products, both stressing the importance of a strategic enterprise focus rather than just a focus on winning the next project.

### **Strategic Management**

To introduce contractors and consultants to the concepts of Strategic Management the Agency has produced a Guide to Strategic Management which incorporates a matrix identifying the critical elements of sound management and the levels at which a firm is operating against each of those elements. A diagnostic tool if you will. Beginning with four pre-requisites for effective application of Strategic Management

- \* clear strategic direction,
- \* performance management, and
- \* continuous improvement,
- \* effective leadership of change,

seven imperatives or elements of strategic management were developed :

1. Customer focus
2. Strategic thinking
3. Process focus
4. Supplier relationships
5. People development
6. Information use
7. Change leadership

Any organisation wishing to implement and sustain Strategic Management must develop a high level of achievement against each of the management imperatives.

The Strategic Management Guide is being made available in a number of ways including learning packages in workshops and seminars.

The second Strategic management tool developed is the Enterprise Quality Improvement and Productivity Process, a package of learning modules which may be used by a firm to introduce a programme of Strategic Management into all levels of the firm, with the assistance of suitably qualified trainers or facilitators.

### **Performance Comparison**

As I have sought to outline, the Agency's work is focused on lifting performance and on providing firms in the industry with the means to change the way they work and lift productivity. For this to be meaningful and to help firms continue to improve, objective measurement is needed. The Criteria will be useful in this but other measures are needed as well to help compare performance on an international basis. If the Agency Vision of having a world class industry is to be achieved then the performance of firms in other countries must also be looked at. Where one nation's contractors are able to perform better in a particular area contractors in other nations may seek to understand why and to emulate that performance. We hope to leave behind a regional comparison service as well.

The Agency will be seeking support for such a process which can be put in place and maintained after June 1995 when the Agency ceases to exist. It is seeking a reputable partner for the domestic Australian performance comparison service which will be operating by the end of 1994. Preliminary support in principle for a regional exchange of information would influence the choice of partner by the Agency, and no doubt encourage the partner to move towards a regional arrangement sooner rather than later.

The information which might be exchanged is a matter for discussion. The Agency is discussing a wide range of information with the industry in Australia, including all the Key Performance Criteria and other issues including the extent of re-work and waste, and return on funds employed.

There can be no argument that the construction industry is in need of change. What is slowly emerging is a recognition that change will not occur unless it is demanded clearly by clients of the industry, and that their requirements are well articulated. The end result can, and I am sure will be, a more productive and competitive industry and nation.

