The Demanding and Rewarding Client

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Setting the Scene

- *On cost performance, some studies show Australia rates highly in comparison with other advanced countries*
- *Other studies show an opposite trend*
- *What is consistent is the ongoing attempts by many of these countries to achieve reform and higher levels of industry productivity*
- *Reform programs are current in United Kingdom, Netherlands, Norway, Denmark, Sweden and South Africa*

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Setting the Scene

- *We have all seen unacceptable behaviour, conflicting business objectives, uncooperative relationships and poor management practices*
- *We have had two Royal Commissions which have recommended surprisingly similar strategies*
- *A major thrust of these strategies being that the client must demand improved performance*
- *Success is only sustainable when all parties succeed. This means that superior performance must be rewarded*
- *What are the implications for clients and the industry?*

Some comments from key people

Ross Dalgleish, Head of NSW BITF

On collusive practices ..... *all of the major contractors were right into it .....*

John Sutton, National Secretary CFMEU Construction Division

On the industry generally ..... *it was a time of excess, excess on the part of some unionists, excess on the part of some developers .....*

NSW DPWS Oral History Program
Evolution of Construction Policy

Client Buying Power

The NSW Government is the major client of the industry

- Capital works and maintenance program is between $A6 to $7 billion pa
- Includes hospitals, schools, public housing, roads, bridges, railways
- Is 25–35% of total construction expenditure in NSW
- Represents around 96,000 direct and indirect jobs
- Makes up 50-70% of non–residential building and engineering work

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The Journey – reform to incentive

Imposed Standards — Reform Phase 1992 to 1996

- *Standards imposed on industry service providers*
- *Aggressive compliance focussed implementation by construction agencies*

Shared Values — Cooperative Phase 1996 to 1998

- *Shared ownership of core values*
- *Cooperative approach to implementation by major stakeholders*

Shared Vision — Development Phase 1998 to 2000

- *Seamless service delivery*
- *Efficient & profitable – it's OK to make a profit*
- *Innovative – clever & adaptive enterprises*
- *Environmentally responsible – sustainable development*

Learning and Growth — Sustainable Phase 2000 to 2003

- *Self-sustaining development program by working with industry to produce solutions for industry improvement*

Client & Industry Outcomes

Reducing the cost of doing business

- Public sector saving of $A50m pa
- Private sector saving of $A430m pa
- Consistent practices - savings to Government of $A1.4m pa
- Improved procurement methods and contract management reducing failure rates compared to private sector construction
- Security of Payment Act saving industry $A10 m per year.

Client & Industry Outcomes

Improved Industry Productivity

- Improved productivity - NIER assesses an average productivity increase of 0.6% per year in the period 1990 to 1999, from $A102,000 to $A108,000 of construction output per person
- Lower rates of industrial disputation - below the national average in each year from 1994 to 2001, despite record levels of construction activity in NSW
- NSW Government client demanded OHS managed systems approach significantly improved the industry's performance. The incidence rate for NSW decreased from a 10 year high of 58% in 1995/96 to 40% in 1999/2000, a reduction of 31%

Principles for Superior Performance

So a major client calls on its service providers to improve performance and innovate. So easy to say!

1. Service Providers need to understand what constitutes best practice and superior performance
2. Performance of service providers must be rigorously assessed
3. Performance will be a primary driver in tender selection with service providers competing on quality of performance
4. Clients reward superior performance by service providers by offering them improved terms of trade
5. Superior performance does not remain static and standards must be continuously reviewed and adjusted

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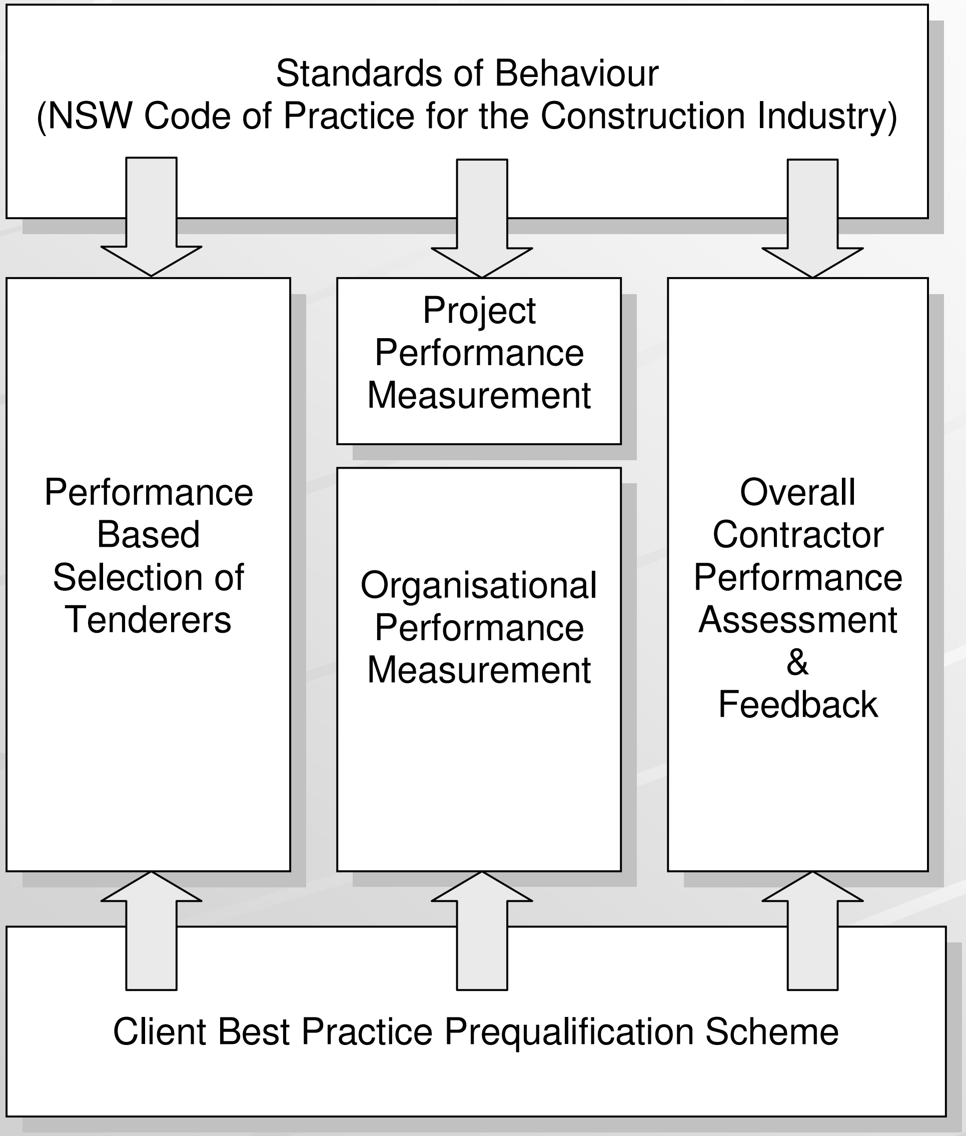
Framework for Superior performance



Challenge for a National Agenda

There must be positive incentives that will encourage all parties to strive for success. It is simply the win-win scenario!

What approach will be taken? How will this contribute to the Construction 2020 Vision?

- Client Imposed – the one-dimensional approach where available performance improvement is limited by the negative business relationship
- Co-operative – client and service provider work to common goals
- Development and/or Sustainable – the multi dimensional approach of the *demanding* and *rewarding* client. You only have true success when all parties succeed

What does it all mean?

- The Construction Industry is an enigma - capable of spectacular success one day and disappointment the next
- There is a strong commitment by many in the industry to not only do a good but to do a superior job
- An integrated, well designed and client championed industry reform program is capable of significant improvement
- The underlying requirement is to harness that desire to do a better job
- The issue then is for public sector policy setters, regulators and clients of the construction industry to understand and harness this ethos

That this requires a considerable degree of skill is obvious but then delivering high quality outcomes always does