



The much-anticipated report of the Construction Industry Review Committee (CIRC) has just been released after nine months of consultation and study. The report calls for radical improvements to delivering construction projects and sets out strategic directions for change across industry. This month *Professor Arthur McInnis*, in the first of two articles, looks at its structure, vision, some of the problems being confronted and who will lead the way forward. Next month, he takes a look at the reports recommendations on risk management, quality, value management, sub-contractor registration, structured site supervision, independent audits, and a proposed new institutional framework.

Construct For Excellence I

“Changes of an unprecedented scale are lying ahead.”

Henry Tang, Chairman CIRC

CIRC Buzz Word Quiz

Before turning to the recommendations a short CIRC Buzz Word Quiz is in order to test your understanding. Following is a 100 words/terms taken from the report. Ask yourself how many of them you are familiar with and then put that number over 100 to come up with your CIRC quotient. You can benchmark your score against my guide on page 33, Good luck.

Client-oriented, modern, innovative, teamwork, multi-layered subcontracting, quality, cost-effectiveness, self-regulation, radical, best practice, upgradability, facilitating, crossroads, collaborative, computer modelling, ISAS, change programme, environmental impact, customer satisfaction, Reading, productivity, sustainability, in-situ construction, life-cycle costs, buildability, fragmentation, ISO 14001, culture change, total systems approach, stakeholders, supply chain, continuous improvement, fairness, incentives, alliancing, value chain, HK-BEAM, strategic relationships, C & D material, CONDAM, good practice, recyclability, learning curve, co-operation, conducive regulatory environment, appropriate procurement, mutual benefits, performance oriented, milestones, feedback, interface, rethinking construction, key performance indicators, benchmarks, risk management, equitable, ADR, partnering, planning supervisor, stakeholder, mindset, target cost, ACA, project pact, C21, cost drivers, maintainability, regulatory impact assessment, prime contracting, risk allocation, greenbuilding, logistics management, IT, PPC 2000, open book accounting, integration, hazard management, infrastructure service integrator, PFSS, principal contractor, duty holders, environmental assessment,

repairability, building energy codes, service culture, dispute review board, project brief, market forces, adversarial, quality criteria, daily wage system, modular, movement for innovation, segregated delivery processes, electronic document management, dispute resolution adviser, performance based remuneration, prefabrication, open communications, and contract strategies.

Structure of the Report

Now back to the report. At 207 pages the report is a lengthy tome stretching across 10 chapters with seven annexes¹ and 109 recommendations. Though each of the individual recommendations deserves comment, space of course does not permit this. Instead, I prefer to take some of the key concepts that emerge and develop them. I will concede at the outset that this entails some subjectivity on my part but would say in my defence no more subjectivity than the committee exercised in coming up with a report exhibiting such breadth under the original Terms of Reference².

Recognition of the Problems

The first *milestone* the report makes is to honestly recognise some of the problems facing industry. It is true that it did so only after noting the contribution of industry toward the growth and development of Hong Kong but this seems fair. What are some of these problems then; in short, the construction industry is labour-intensive, dangerous and polluting. Much construction work suffers from defects, construction costs are comparatively high and productivity relatively low. The industry suffers from *fragmentation* and is beset with an *adversarial culture*. Contract awards routinely

go to the lowest bidders, which presents its own problems when contractors are working under unrealistic programmes. Beyond that accountability is undermined by the prevalence of *multi-layered subcontracting* which does not add value and precludes proper supervision. The workforce itself is inadequately trained and there is real hesitation to adopt information technologies or *IT* and cope with new challenges. Overall there was a feeling expressed in the report that industry adopts too short-term an attitude toward business development. There is little pro-activity or *innovation*. Consultants were said to often resort to conventional design solutions while contractors tended to want to meet only the minimum requirements set by clients. In other words there appears to be too much corner-cutting going on. All of these problems are clearly referred to in the report and portray much of the current state of the industry.

Remarkably the report refers to an HKCA survey carried out in 1999 which actually suggests relative *productivity* has been declining since 1972. Five factors which have contributed to this were noted, including: (1) *segregated delivery processes*; (2) non-value-added *multi-layered subcontracting*; (3) labour intensive *in-situ construction* methods; (4) small size of organisations; and (5) little investment in *IT* and new technologies. With regard to *fragmentation*, it has been identified as one of the biggest problems facing industry. “*Fragmentation* within the industry and in the project delivery process has impeded proper consideration of issues that have a direct bearing on the industry’s performance.” One of the variables that has been identified as missing in the local industry and which would go some way to improving it is *teamwork*. “The absence of a *teamwork culture* in the industry and the lack of a common purpose among *stakeholders* has inhibited concerted efforts in driving for better overall performance of the industry as a whole.” How can these impediments to constructing excellence be overcome? The Committee’s prescription calls for *culture change*. “We need a change of *culture* and *mindset* among *stakeholders* in order to bring substantial improvements to the image and operation of the industry.”

The Vision

The report puts forward a bold vision for growth and development “... a vision of an integrated construction industry that is capable of *continuous improvement* towards excellence in a *market-driven* environment.” The three planks in this vision can clearly be seen to involve *integration*, *continuous improvement* and *market forces*. *Continuous improvement* received additional emphasis in the covering letter that Chairman, Henry Tang, sent with the report when it was delivered to the Chief Executive. “Our conclusions are that we need a *modern, safe, innovative, efficient* environmentally responsible and client-oriented construction industry that strives to deliver *quality* products in order to support the further development of our economy in the 21st century and to provide a better living environment for the population. The industry must enhance its competitiveness through *continuous improvement*.”

Public Sector, Private Sector or Both

The report comes down in favour of the public sector taking the lead in driving change. “We feel strongly that public sector clients should take a lead in implementing our recommended improvement measures and in adopting *good practices* in construction *procurement* and project implementation.” This comes in part not only from the greater control government exercises over the public sector versus the private sector, but also because of the report’s three-category division of local construction work³. This is not to say the private sector has no role to play. In fact, the report allocates a very large role to the private sector but sees it building upon public sector reform. One example is a call for a review of the government’s Conditions of Contract. It is intended that the review be completed within one year; on the other hand, the private sector too is invited to review both current HKIA and proposed JCC conditions but within a two-year timeframe. The public sector has also been assigned the largest role in implementing specific recommendations. In many cases responsibility has been given expressly to the Works Bureau or Housing Authority. These bodies seem a good place to start if one notes

that public sector works and housing projects account for almost one-half of all local construction activity, and that the public sector has been the driving force for change in other countries. The Works Bureau in fact, is given special responsibility as a lead agency in taking change forward, while the public sector assumes this role. Several other points may be mentioned, firstly, the report does not see the public sector in only public sector terms but also as a *client* akin to one in the private sector. Thus, the government will also have a role to play in the proposed new industry co-ordinating body. Secondly, in some cases, the report “urges clients in the private sector to improve their practices in line with the spirit of [the] ... recommendations”. Lastly, even with responsibility for implementation going in the majority of cases to a public sector “other *stakeholders* which have not been specifically named should be brought in as appropriate”. Therefore, while the public sector has rightfully been given the lead — the lead is not expected to last. ■ AAC

- 1 **Annex A** sets out the Terms of Reference, **B** and **C** Committee and Sub-committee membership, **D**- Model Project Pact, **E**- Construction Worker Registration Scheme, **F**- Methodology for Calculating Construction Site Accident Rates and **G**- Proposed Framework for Local Construction.
- 2 That is, in terms of quality, quantity, environmental friendliness, manpower, safety and supervision, customer satisfaction, timeliness in delivery and value for money.
- 3 (1) Public housing projects undertaken by the Housing Authority; (2) other public sector works commissioned by the Government, Airport Authority, KCRC and MTRC; and (3) private sector construction projects undertaken by property developers.

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