

Big Changes in the Construction Sector

This article appeared in NZ National Business Review (NBR) issue of 13 July, 2009

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In the early 1990s the British Government recognized that if it was to be re-elected it needed to deliver on its election promise to substantially upgrade the country's infrastructure including roads, schools, hospitals etc. It realized that delivery by the construction industry was the biggest risk to achieving this promise in terms of time, cost and quality.

It appointed Sir Michael Latham and then Sir John Egan to set up Task Force Groups to review the way the construction industry worked, to make recommendations and to implemented those recommendations. Three far reaching reports were produced. "Constructing the Team" in 1994, "Rethinking Construction", in 1998 and "Accelerating Change" in 2002. The result was a total restructuring of the UK construction sector in the way it worked.

In essence, the Task Force Groups business process re-engineered the whole construction sector by taking best practice from the British manufacturing industry and applying it to the construction sector. This turned the construction sector upside down and had a profound impact on raising its productivity. I believe the New Zealand construction sector can learn enormously from this initiative and can improve its productivity substantially by taking on board those changes. This is very important and timely given the current Government's focus on infrastructure construction.

So what was the result of this business process re-engineering of the construction sector? Data from the measurement of KPIs (key performance indicators) on hundreds of projects from 1998 to 2002 showed that compared to traditional construction the new way of procuring construction resulted in 18 to 44% more chance of a project being built on cost, and projects were 7 to 15% more likely to be completed on time. (*Source: Constructing Excellence U.K.*) Here's how they made those productivity improvements.

Perhaps the most important change was moving away from an adversarial procurement process to a collaborative one. A collaborative approach is where the client, designer and builder all work together as one team within an incentivized commercial environment. They become a virtual organisation and work together under the same roof. This enables the parties to focus on achieving the most cost effective project outcomes, rather than focusing on and protecting their respective contractual interests.

It also enables the project to be sped up. Traditionally the client commissions either an architect or consulting engineer to design the building or infrastructure project. Once the design is completed and the project fully specified the client calls tenders and then lets a contract to a builder or contractor to actually build the project. Collaborative procurement, on the other hand, enables the design and construction to proceed at the same time in parallel.

A spin off from having the design and construction occurring in parallel is early contractor involvement in the design process. Experience has shown that having the contractor working with the designer early on in a project can dramatically improve value for money by bringing a practical approach to the design.

The revolutionary aspect about this form of procurement is that the contract is awarded not by evaluating the tender prices but by evaluating the ability and attributes of the tenderers. Once the team of client, designers and contractors is appointed their first task is to determine a competitive target project cost. This cost is rigorously and robustly peer reviewed by industry experts using market rates to ensure that it is value for money. It's important that no work starts until this is done. The team then has to deliver the project to this target cost. But that is only half the story.

What really drives the efficiency is the commercial risk sharing around that cost. If the final cost is greater than the target outturn cost then ALL parties bear their share. On the other hand if the project comes in under the target cost ALL parties benefit. This has proven to be a very powerful model focusing the team totally on the project outcomes. There is no need for individual parties to waste their time on protecting their individual interests through contract law.

The old Transit New Zealand, now the New Zealand Transport Agency, has trialed this form of procurement on a number of projects in recent years with very good results. I believe it is now time for the rest of the construction sector to do the same on the projects that suit this type of procurement

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