Professor Demokan, Dr. Wong, distinguished guests, ladies and gentlemen,

It gives me great pleasure to be invited to speak at the Project Management Symposium 2002.

2. As the theme of the Symposium rightly suggests, project managers have a leading role to play in the development of the construction industry. Today, our industry is at an important juncture. As we march forward with perhaps the most significant reform in recent times, your leadership and support will be of vital importance to the successful transformation of our industry.

3. A road map has already been drawn up for us by the Construction Industry Review Committee, or CIRC as it is widely known. It conducted a comprehensive bodily check-up of our industry. After months of deliberation and consultation with all stakeholders, the CIRC has proposed sweeping changes in its report, entitled “Construct for Excellence”. To cure the industry’s ills, the report prescribed a list of 109 improvement measures covering the whole spectrum of construction activities.

4. The Housing Authority has been pushing forward with its own reform on quality, even before the appointment of the CIRC. It was our response to the piling incidents that we experienced a few years ago. Those incidents really sounded the alarm bell for us. We knew that resolute actions needed to be taken to restore public confidence in the built quality of public housing. Immediately, we analysed the incidents and examined how they could be prevented in the future. We concluded that fundamental changes were
needed, and to bring about those changes, we launched our Quality Housing Reform programme in April 2000. Our vision is “to provide quality housing together with all stakeholders through partnering and sustained improvement such that the community can take pride in our housing construction.” Now, we have the benefit of reading the CIRC Report, and I take considerable comfort to find that it is largely in line with our reform programme.

5. At the Housing Authority meeting held last week, we have taken the opportunity to review our progress over the last two years. I am happy to report that more than 95% of the 50 Quality Housing Initiatives have been launched or partially implemented. While it will take many more years of diligent efforts to give our reform its fullest impact, we are already seeing the early fruits. Not only have there been marked improvements in the built quality of Housing Authority projects, we are enjoying closer and more open working relationships with our consultants and contractors than ever before.

6. This morning, I would like to share with you some of the experience that we gained through the reform process. As giving full justice to the entire reform programme would require more space than time allows, I would limit my presentation to one of the most important pillars of our reform – “partnering”.

PARTNERING

7. Traditionally, the procurement of construction services is perceived as a commercial deal, characterised by adversarial culture, mistrust and lack of effective communication. More often than not, the risks are not shared equitably between the client and the contractor. This can be all good and well if nothing happens. However, when some “unforeseen” difficulties materialise, contractors are often held to the letters of the contract and made to pay hefty
liquidated damages. Coupled this with a “low-bid wins all” tendering system, the result, as we know all too well now, can be very damaging. Changing this deeply imbedded adversarial culture really requires the joint efforts and commitment from all stakeholders, including developers, project managers, consultants, contractors, sub-contractors, workers, training organizations, professional bodies, academic institutions and the like.

8. That is why “partnering” is prominently featured in our reform programme. I appreciate that as a concept, it seems a bit vague. But in practice, partnering means something very concrete. For the Housing Authority, it means the building of stronger relationships with our business partners. It means sticking with each other through the rough and smooth. It means solving problems together in a proactive manner. It means effective communication facilitated by common goals and good business results. It means the sharing of risk and pride, and it means putting money where our mouth is.

9. Since the middle of 2000, the Housing Authority has taken steps to share the risk in piling works. For new piling contracts entered since then, we have revised our conditions of contract to achieve a more equitable sharing of the technical and financial risks associated with unforeseen complex ground conditions. We have lengthened the contract period and cut liquidated damages by half. We have used engineers’ design where appropriate, and we have been giving favourable consideration to time extensions where unforeseen ground conditions are encountered. Specifications are being reviewed to sustain continuous improvement. As for existing contracts, liquidated damages may be waived if justified. In the same token, ex-contractual relief are provided if a delay is caused by the additional supervision and approval requirements brought about by the Quality Housing Initiatives. We have not stopped here. You may be interested to know that we are now taking further steps to re-allocate the risks
of unforeseeable adverse ground conditions and change in law unanticipated at
the time of tender for the Authority’s new works construction contracts.

10. As for building works, we have established a ‘Premier League’
Scheme to build a strategic partnership with building contractors who are
consistent outstanding performers. To qualify, the contractors must demonstrate
the ability to deliver quality products and a strong commitment to partnering. In
April 2001, six contractors were admitted to the Premier League. As a reward
for their outstanding performance, they are given the privilege to be invited to
tender for special projects bearing higher financial and technical risks with a
slightly higher bonus of 1.5% of the contract sum. To put it simply, the
establishment of the Premier League represents a procurement method that
provides an incentive for the contractor to put out excellent performance on a
consistent basis.

Resolving Disputes

11. In an adversarial environment, disputes are fought with each side
trying to put up their best case. It is a game of gaining everything and conceding
nothing. As a result, disputes are sometimes dragged on unnecessarily, causing
more financial loss and delays that it would have been the case had the parties
concerned been more willing to work things out.

12. Time and again, experience tells us that no party is likely to come out
a “winner” in a drawn out dispute, with the exception of perhaps the lawyers.
Therefore, it actually makes more sense for parties to avoid disputes as far as
possible. This is where partnering comes in. It encourages the contracting
parties to establish effective communication and to gain a good understanding
of each other’s expectations. It also means a common will to resolve problems
together, irrespective of whose problem it is.

13. However, sometimes a dispute does become unavoidable. In order to minimise the potential damage, not only in financial terms but also in terms of the relationship, every effort should be made to resolve the dispute proactively and speedily. To this end, we have set up a Dispute Resolution Panel on Foundation Works to assess and resolve disputes fairly and expeditiously for on-going piling contracts. Since the setting up of the Panel, 12 cases have been resolved successfully under this arrangement. In addition, we are looking into building an effective dispute resolution mechanism into the contract. In this connection, we are experimenting with the Dispute Resolution Advisor system. This will be extended to more projects if proved to be effective.

Securing Partnering with the Professionals

14. In elevating quality, we are keen to secure competent partners for the provision of professional services. To underline our willingness to pay fair prices and reject unreasonably low bids, we have adopted an enhanced two-envelope system on a pilot basis. Under the system, only the three tenderers with highest technical scores will be considered. This way, consultants can compete more on technical competence than fee. So far, the system has been used in two projects with very good results.

15. Talking about the open competition project at Shui Chuen O, I am glad to say that we have also adopted a fixed fee arrangement for the procurement of professional services. Pre-negotiation with the professional bodies was concluded satisfactorily. Not only has a reasonable fee been reached for the project, we have also managed to build into the agreement many quality enhancing features, such as the deployment of project professionals on site, the
use of value engineering and various partnering initiatives. This is a clear example of how partnering works.

16. Last but certainly not the least, we have launched the first project adopting direct appointment of consultants, enabling practitioners of different disciplines to share experience more fruitfully and accept responsibility more appropriately. This, I believe, is an important step in establishing clearer lines of accountability between the consultants and the Authority.

Partnering at the Project Level

17. For partnering to take root, it is imperative that it is practised at the project level, where the day-to-day decisions are made. Our business partners and ourselves find partnering workshops and value management workshops useful tools in fostering mutual understanding towards a common project goal. All relevant stakeholders working on the same project, including all contractors and subcontractors, are invited to participate in these workshops. These workshops provide the interested parties a valuable opportunity to discuss objectives and expectations. Experience has shown that once a partnering relationship is established within the teams, they can communicate more effectively, make more timely decisions and solve problems in a more proactive manner, leading to higher productivity and lower occurrence of claims and disputes. These partnership workshops are so successful that it has become a standard practice for all new Housing Authority projects coming on stream.

Continuously Improving Communication with Stakeholders

18. In addition to strengthening communication at the project level, we
have also made an effort to enhance dialogue with business partners in respect of issues of wider concern. A case in point is the Site Works Forums, where consultants, contractors and the Authority’s staff can sit together and resolve common site problems expeditiously. More than 120 items have been successfully resolved in this manner. Just to quote a few examples, these included the deletion of uncommon concrete block sizes in our Specifications, the permitted use of alternative materials like spray plaster and plaster angle beads to enhance buildability, and the acceptance of structural steelwork complying with other international standards besides British Standards.

19. Another case in point is the two Partnering Symposia that we have organised in October 2000 and January 2002 respectively. With their much wider audience and higher profile, these Symposia helped build consensus at the industry level and point the way forward for our quality reform.

**Partnering with the Construction Industry**

20. The successful implementation of our quality reform programme depends critically on the effort and co-operation of all stakeholders in the construction industry. To give ourselves the best chance of success, we have always valued the industry’s views and input. The industry was thoroughly consulted before the 50 reform initiatives were cast in iron.

21. We have been working very closely with the Hong Kong Construction Association on the implementation details. Many meetings, both formal and informal, have been held. And among them, the breakfast meetings have proven to be the most useful in ironing out matters of concern before they are tabled for formal discussion.
22. I am deeply moved by the industry’s enthusiastic response to our Quality Reform. Without their support, I think many of the new initiatives implemented over the past two years would not have been made possible. These included the structural guarantee, the imposition of tighter restriction on the subcontracting of piling works, the increase in the proportion of trade tested workers and the lifting of professionalism of site supervisors.

23. I would also like to pay tribute to our business partners, who shared our vision and stood by our side. In addition to putting in considerable resources in training, they have also made significant strides in the areas of built quality, security, site safety and environmental protection as well as the application of information technology.

24. The Housing Authority has always made an effort to stay at the forefront of construction innovation for domestic buildings. A high point is the use of precasting strongly promoted by the Authority in the 1980s. It enabled the industry to make a quantum leap in built quality, while turning the constructions site into a cleaner and safer work place.

25. I am pleasantly surprised to find that the promotion of partnering has made a positive impact in the technical advancement of the construction of public housing. Encouraged by the more open working relationship, our contractors are feeling more comfortable in mooting new ideas with us. This has resulted in a wider use of prefabrication, such as precast facades, slabs and staircases. One of our contractors has even initiated a pilot scheme to incorporate prefabricated bathrooms and precast tile wall panels in a development in Tseung Kwan O. There has also been a greater application of information technology at our construction sites, with electronic document management systems and smart card intelligence and security systems being
two notable examples.

**Partnering Efforts Start to Bear Fruit**

26. As I said earlier, we have already started to see the early fruits of our efforts in quality reform. Housing Authority's production reached a record high last year, but complaints on building defects dropped to a record low. Compared with the year before, the number of customer complaints on building quality dropped by over 30%. At the same time, our building contractors’ output quality performance scores improved by almost 10%. In any measure, this is a remarkable achievement.

**Way Forward**

27. The success that we have enjoyed is the result of concerted efforts and hard work by all our business partners as well as the staff of the Authority. Having said that, we are mindful that we are still in the early stages of building trust and partnership. Much work still lies ahead. We will continue to play our part faithfully and diligently, and to contribute to the reform of the entire industry. However, the Housing Authority is just one of the players in the reform of the construction industry. For the reform to truly take root, it requires the support and commitment of every participant of the industry.

28. Ladies and Gentlemen, as project managers you have an important leading role to play. A lot of good work has already been done. I would like to call on you to build on this foundation and give your maximum support. With your participation, I am confident that we will be successful in transforming the industry. Let's work hand in hand and build a brighter future for Hong Kong. Thank you.