

# **Construction Industry Development: Comparison & Acceleration (CIDCA)**

**Focus Group Meeting on:**

***“Construction Industry Development Reforms:  
Institutional Framework, Drivers and  
Challenges”***

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**Summary report by:**

Dr. Gangadhar Mahesh  
Mr. Scott Pu  
Prof. Mohan Kumaraswamy

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# **1. FOCUS GROUP MEETING BACKGROUND**

## **1.1 OBJECTIVES AND OVERVIEW**

The CIDCA study focuses on construction industry development reforms and improvements in Hong Kong over the last decade in an institutional context and is a comparative study, in parallel with interlocking studies with similar objectives in Singapore (from the National University of Singapore) and UK (from the University of Reading). CIDCA (Construction Industry Development: Comparison and Acceleration) is the working title of the Hong Kong RGC funded project entitled 'Evaluating Construction Industry Development Programmes in Hong Kong'. The objectives of the CIDCA study are:

- (a) Evaluate the effectiveness of the industry improvement programmes against their original objectives, while discounting / allowing for (i) industry development trends that may have continued even without reform inputs and (ii) changing aspirations, priorities and concerns;
- (b) Unravel reasons for any perceived shortfalls in the above implementation and to unearth any root causes, with particular reference to relevant public agencies and private organizations involved; and
- (c) Unveil lessons to help to improve future industry development agendas and re-align current development trajectories.

Following a series of initial fact-finding interviews, and an analysis and consolidation of findings from the data collected from these interviews and the literature, a small group of experts including some interview participants were invited to provide feedback on our preliminary findings and enrich our knowledgebase so as to set final directions for our research thrusts.

This focus group meeting targeted to supplement the interview findings in validating the specific / detailed issues to be further investigated through a questionnaire survey, case studies and a workshop in the future course of the research.

## **1.2 PARTICIPANTS' PROFILE**

The Focus Group Meeting brought together 7 high profile individuals (2 clients – 1 each from public and private sector, 1 contractor, 1 consultant, 1 academic and 2 from an industry co-coordinating body) from industry stakeholder institutions together with 5 research team members. All participants were seasoned professionals in the construction industry of Hong Kong and most of them were interviewed for our preliminary / fact-finding interviews and were conversant with the industry reform recommendations in the 2001 report. While grateful for their inputs, they are not individually responsible for the collective output as presented herein.

## **1.1 FOCUS GROUP MEETING PROGRAMME**

A 10 minute introductory presentation on the research project was given by the meeting chair, followed by a presentation on preliminary findings (20 minutes) from

the first round of interviews and literature review. These presentations were followed by comments, feedback, questions and answers from the participants.

Next, three pre-identified focus areas were introduced through presentations of 5 minutes each and were brainstormed for periods of 20 minutes each. The focus areas were:

- (1) Institutional framework of construction industry in the context of reforms;
- (2) Drivers of construction industry reforms, and
- (3) Challenges to construction industry reforms.

After the brainstorming sessions, the meeting concluded by consolidating ideas and suggestions for 'way forward' from all attendees in point form. The presentation on findings and focus areas can be accessed at [http://hku.hk/cicid/3\\_events/91/91\\_ppt.pdf](http://hku.hk/cicid/3_events/91/91_ppt.pdf).

## **2. FOCUS GROUP MEETING OUTPUT**

Feedback on the interview findings was generally positive and the views expressed were in line with the interview findings. Lack of regulatory power for CIC was highlighted, while it was still felt that regulation should be the industry's last resort after all other attempts (i.e. to transform the culture and instil norms) had been tried. It was perceived that although, the Hong Kong construction industry is still facing problems of many kinds, the improvements achieved in the last 10 years should not be forgotten and should provide stimulus, inspiration and building blocks in the 'way forward'. The importance of a sustainable workload for industry initiatives to succeed was continuously stressed.

The key issue that emerged from the focus group was the question of what kind of an industry does Hong Kong want? How should the industry visualise itself in terms of where it should be in say, 20 years from now? What should be the right size of the industry? It was felt that any industry development initiative should fit within the answers to the above questions and all efforts should be synchronised to achieve that vision. Also, the vision needs to be revised from time to time, e.g., every 5 years. In the absence of those answers, it was felt that adhoc efforts at improving the industry would continue with periodic lamenting as to lack of improvements.

### **2.1 INSTITUTIONAL FRAMEWORK OF THE CONSTRUCTION INDUSTRY IN THE CONTEXT OF REFORM**

The introductory presentation focused on existing institutional framework of CIC in coordinating the industry towards improvement, against a background of how it was originally envisaged to fit in to the framework at the time of the 2001 CIRC report. The issues that were discussed are as below.

**Function of CIC** - CIC was set up as a coordination body for the entire, fragmented construction industry. Being a platform for different sectors of the industry, its role is to interact with stakeholders in terms of problem solving, sharing of ideas, implementations of guidelines, etc. It was re-clarified in the meeting that CIC is not a government body and therefore has no 'teeth', or regulatory power in enforcing any

guidelines although one of its objectives is to promote best practices and to propagate them.

**Future Directions for CIC** – It was felt that CIC has covered a lot of ground in preparatory work towards improvement initiatives for the industry. However, CIC’s role in linking the different industry associations together appears to need improvement. It was observed that not all representatives (of various industry associations) in CIC are proactive in terms of effectively transmitting CIC’s policies, promotions and voices back to the members they represented, particularly the ‘smaller’ / less involved members of large associations.

Although CIC has no regulatory power (or “teeth”), it was felt that it can perform its intended function provided it earns and retains respect from the industry. This was perceived to be vitally important for CIC to be able to coordinate the different interests from different stakeholders of the industry. On improvement initiatives not percolating to the ground level due to different reason such as lack of knowledge, lack of managerial skills, etc., a more proactive role of CIC in assisting small and medium enterprises and introducing additional channels or means to promote desired practices was suggested.

It was unanimously agreed by meeting participants that the Hong Kong government needs to step in to regulate safety in the renovation sector of the industry. It was suggested that through CIC, the industry can request certain guidelines to be translated to legislation. However, it was made clear that regulation should be the industry’s last resource, if all other attempts (i.e. nurturing relevant culture and norms) had not achieved satisfactory results.

## **2.2 DRIVERS OF CONSTRUCTION INDUSTRY REFORMS**

Although the Hong Kong construction industry is still facing problems of many kinds, the improvements achieved in the last 10 years should not be forgotten and could become a stimulus in the ‘way forward’. In the general sense, the culture was observed to have significantly changed in a positive way.

There was consensus in the meeting that a steady, stable, and sustainable construction work volume strategized by the Hong Kong government as well as the private sector (but not hitherto achieved) will ensure a healthy industry in the long run, and avoid any further upheavals. In this context, realistically identifying and mapping what the Hong Kong construction industry will be at in 5, 10, 20 and 30 years was deemed critical. A long term plan was considered vitally important for the industry’s well being, and as the main driver for the industry reforms.

Incentives were also seen as a driver for implementing industry reforms and continuing current incentives in the public sector was recommended. In addition, introducing new incentives in the private sector to those (developers) who are able to demonstrate excellent safety performance was also seen to be important. Many initiatives such as the worker’s registration scheme, contractor’s registration scheme, and subcontractor’s registration scheme which are all being implemented were seen as contributors for reforms.

It was observed that public and private sector, each having its own merits and shortfalls, were drivers of reforms in different areas. There are some good practices / experiences that the public sector could adopt from the private sector, and vice versa. For example, the private sector has demonstrated success in partnering with certain loyal contractors in a long term cooperative relationship, while the public sector has gained tremendous success in implementing schemes such as paying for safety, as well as other good practices, or norms within individual departments. Moreover, it was noted that the constraints and priorities in each sector precluded direct transplantation, and that some measures would in fact not work well in the other sector.

Focusing on safety improvements, it was observed that regulations had improved safety levels. However, improvements had not changed the safety culture of workers and the safety and environmental standards in Hong Kong are still behind some other advanced countries such as Germany and Japan. A combination of regulation, culture and public expectation pressure was recommended. The driver behind a desired change in culture was seen to be peer education and pressures by other construction workers during construction activities. It was felt that the industry should mobilise the strength of 'peer pressure' in other reform scenarios too.

Developing a supplementary external market targeted absorbing excess capacities when the local market dipped was seen to be essential in ensuring a sustainable workload. Given Hong Kong's experience in international contracts, partnering with construction organizations in China which are less experienced in international market, but possess solid support from the Chinese government and major banks to explore markets overseas was also considered as a viable option. It was felt that mutual benefits would accrue, compensating for each other's shortfalls and benefitting from strengths. This was considered a 'way forward' for the 'future of Hong Kong construction industry'. On promoting direct labour, which was a CIRC recommended driver for reforms, it was concluded that its impact could be negative as evidenced from unsuccessful implementation experiences in China over the last 40 years. It was also not realistic as per past Hong Kong experiences, where the workers themselves preferred to be 'indirectly employed' except in industry downturn periods. Streamlining workers training programme was considered more important in the light of the peak the industry will experience in the near future.

### **2.3 CHALLENGES TO CONSTRUCTION INDUSTRY REFORMS**

Different specific challenges were perceived for public and private sectors and hence it was considered necessary to devise different solutions to cater to each sector for some of the same problems. The aging work force was considered to be a major road block to the healthy development of the industry. Finding ways to attract new workers to join the construction industry was termed as the universal priority for all industry stakeholders. Meeting participants expressed concerns at the industry's inability to attract new pool of people as compared to other industries. Possible reasons were revisited and were considered to be many such as harsh work requirements, image of the industry, working conditions etc. It was recommended that the industry as a whole must go deeper into this problem in order to discover a workable solution.

The Hong Kong construction market's volatility together with low price focused tender selection was considered as another barrier to industry improvement. Also, utilizing the two-envelope method was seen to sometimes exacerbate the problem by compelling many relatively smaller contractors or consultants to further lower their fees, to compensate for their expected low mark's for their technical attributes, in order to win jobs and survive.

The need to nurture the local industry was discussed. However, it was considered difficult to achieve under the WTO framework, especially in public sector works where open tenders are required to give equal access to contractors and consultants overseas. This was seen to have caused many local professionals to seek other opportunities elsewhere in the world. However, deliberation did not yield any workable solution. It was also noted that other countries were subject to similar regulations, while European Union countries had European constraints as well.

Lax enforcement of regulations was another area where improvements were considered necessary, especially in the case of payment and safety problems. The poor labor department record of prosecuting offenders who delay payment of wages to workers was questioned and a stricter enforcement regime was deemed necessary. Wage arrears problems were considered as one of the causes in deterring potential new entrants to the construction work force. Record keeping of repeat offenders (workers) who violate safety regulations with appropriate penalties, apart from penalties enforced on the responsible main contractor or subcontractor was discussed as a possible way forward to improving safety culture. By doing so, it was felt that the safety performance will likely be elevated to a higher level, and accident rates will be further reduced.

Multiple layered subcontracting was another perennial problem that was discussed as an issue that still needs to be addressed. Although too many subcontract layers would theoretically inflate the contract price, it was perceived that it is better that they are ultimately determined by market forces as rigorous checks were deemed to be unrealistic.

### **3. FUTURE DIRECTIONS**

The Focus Group Meeting concluded with the opportunity given to each industry participant for a quick summary of their personal take on the 'way forward' in point form. In summary, sustaining and building upon the ground work achieved during the past decade while moving further forward to nurture a better culture and norms was recommended as the general way forward for the industry.

In achieving this, defining a vision for the industry, managing a sustainable workload, resolving the aging workforce crisis, and training of workers along with continued emphasis on safety were identified as key areas to be investigated. Designing sector specific strategies for cross-pollination of best practices between public and private sector together with improved strategies for promoting greater percolation of industry practices were also highlighted.

The research project team will draw on these meeting outputs, to help in refining the priorities for this research. This will be followed by a series of case studies, additional interviews (second round) with well positioned industry professionals from different backgrounds and sectors, surveys and workshops in the near future, as strategized in the project schedule.

#### **4. ACKNOWLEDGEMENTS**

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