

U.S. copyright law (title 17 of U.S. code) governs the reproduction and redistribution of copyrighted material.

INFO #: 19182630



CustID: 3369
University of Melbourne
Lesley Caelli
Doc. Del. & ILL Information Resources Access
Baillieu Library
Parkville , Australia 3010

Customer No: **3369 / 814127**
Date of Order: **04/06/2009**
Date of Shipping: **10/06/2009**
Orderer: **Lesley Caelli**
Department:
Bill Ref: **1620800@mill**
Order No: **Vaccari, Angela Linda**
Shipping method: **Ariel**
128.250.128.82

Standard

Journal: Chartered Building Professional
Citations: *(July):8-21 1999
Author: J Service
Title: Alliancing - For richer, for poorer
ISSN: 13240900

**This work was copied under licence from the Copyright Agency Limited (CAL).
A licence is required from CAL for the making of further copies by any means.**

Infotrieve Australia Pty
344 Ferntree Gully Road
Notting Hill VIC 3168
AUSTRALIA

Ph: +61-3-9544 4911
Fax: +61-3-9544 3277
Email: status@infotrieve.com.au
www.infotrieve.com

CHARTERED

BUILDING PROFESSIONAL



The national magazine of the
Australian Institute of Building

JULY 1999

Contents

President's Page	2	It's time to see ourselves as Darwin saw us	16
Changes to Excellence Award categories	2	Recycled concrete as aggregate passes test	18
30 State award winners face national judging	3	Relationship marketing: a focus study of the Perth Construction Industry	19
AIB gets its fourth honorary fellow	7	Managing human resources in construction	22
Alliancing...for richer, for poorer	8	Government engineering explained simply	24
Newcastle's cultural heart beats again	11		
Government and industry commit to action agenda	12		
Melbourne's Docklands Batmans Hill site up for grabs again	14		

COVER PICTURE: Newcastle's Longworth Institute restored. Story Page 11.

The Australian Institute of Building

Established 1951 Incorporated 1955 Incorporated by Royal Charter 1969

Executive Board of Management

John D. Thomas FAIB, National President
Peter Fardoulis FAIB, Sen. Nat. Vice President
Graham Fricker FAIB, Nat. Vice Pres (Finance)
Ron Beslich, FAIB, Immed. Past Nat. President
Ian Eilenberg FAIB, Victorian Chapter
Bob Greaves AM, FAIB, WA Chapter
Michael O'Connor FAIB, SA Chapter
Ron Swane LFAIB, NSW Chapter
Greg McLean FAIB, Queensland Chapter
Patrick Toomey FAIB, Tasmanian Chapter

National Office

Construction House,
217 Northbourne Avenue,
Turner, ACT
GPO Box 1467, Canberra 2601
Tel: (02) 6247 7433
Fax: (02) 6248 9030
email: ausbuild@aib.org.au
web page: www.aib.org.au
Membership inquiries 1800 644 715

Chartered Building Professional is published three times a year by the Australian Institute of Building and is distributed to members and nonmembers of the Institute. Neither the Institute nor the editor accept responsibility for opinions expressed by correspondents or contributors or for the accuracy of editorial content.

NSW Chapter

623 Harris Street, Ultimo, 2007
Tel: (02) 9281 5066
Fax: (02) 9281 5159
email: bicep@australis.net.au

Victorian Chapter

President: Tom Morris FAIB
332 Albert St, East Melbourne 3002
Tel: (03) 9419 1353
Fax: (03) 9419 0150
email: vicbuild@aib.org.au

Queensland Chapter

President: Greg McLean FAIB
PO Box 21 1, Fortitude Valley 4006
Tel: (07) 3252 7529
Fax: (07) 3852 1482

South Australian Chapter

President: Brenton Trenordon MAIB
81 Greenhill Road, Wayville 5034
Tel: (08) 8373 0155
Fax: (08) 8373 2696
email: sabuild@aib.org.au

Western Australian Chapter

President: Christopher Pratt MAIB
PO Box 8241
Perth Business Centre 6849
Tel: (08) 9310 2168

Tasmanian Chapter

President: Graham Keating MAIB
GPO Box 1300, Hobart 7001
Tel: (03) 6272 4444
Fax: (03) 6273 1697

Singapore Chapter

President: Dr A.T. Ong FAIB
545 Orchard Road #16-08/09
Far East Shopping Centre
Singapore 239992.
Tel: 65 732 2777
Fax: 65 732 2555
email: bpinet@singnet.com.sg

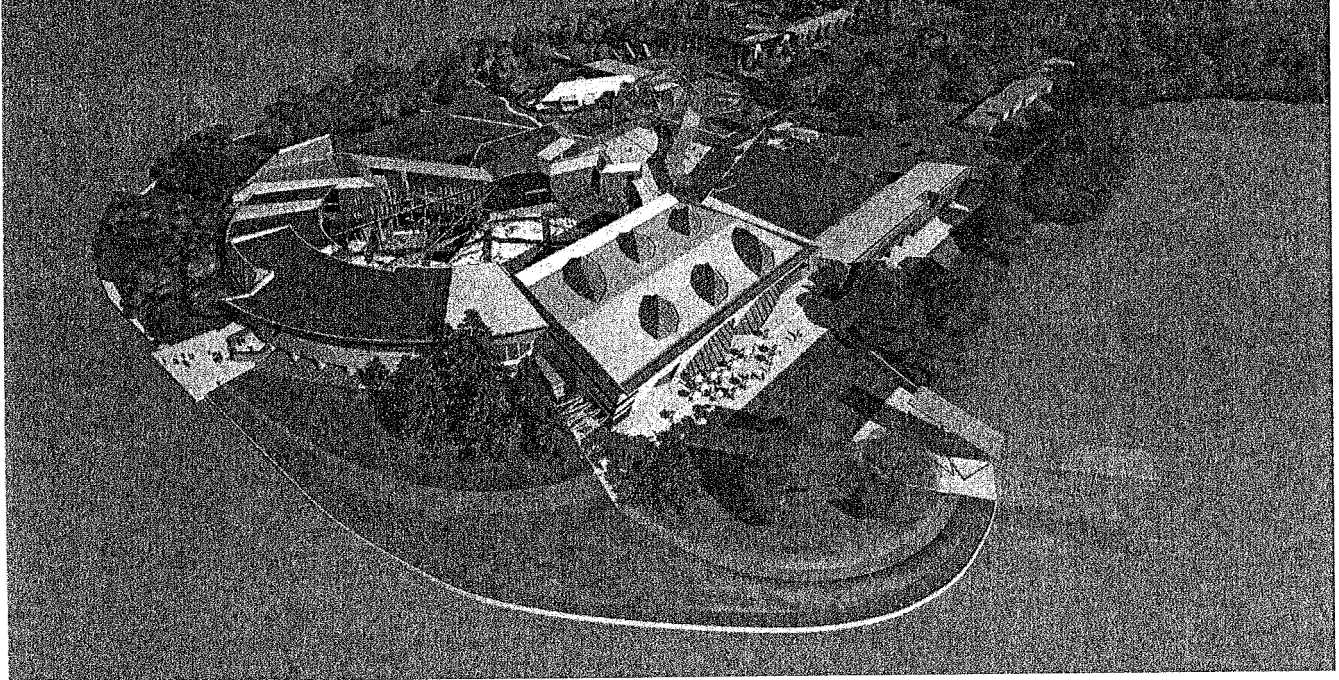
Hong Kong Chapter

President: Kays Wong MAIB
c/- Dept Building & Real Estate
Hong Kong Polytechnic University
Hung Hom, Hong Kong
Tel: 852 2766 5811
Fax: 852 2764 2572
email: aibhk@bre.poly.edu.hk

Chartered Building Professional

Editor: David Green
Green Editorial Services
PO Box 671, Dickson ACT 2602
Tel: (02) 6248 0963 Fax: (02) 6247 1692
email: dgreen@interact.net.au

ALLIANCING...



For richer, for poorer

The National Museum of Australia is being built with a contracted alliance between the architects, builders, exhibition designers and the clients, the Commonwealth and ACT Governments. It is believed to be a world first in applying alliancing to a traditional building project.

As Chairman of the National Museum and of the Construction Coordination Committee appointed by the Commonwealth for the project, AIB Honorary Fellow JIM SERVICE takes pride in being involved in what he hopes will prove to be a genuine leap forward in the way the Building and Construction Industry does business.

Mr Service spoke at an Australian Constructors Association's conference on relationship contracting in construction at the end of last month. This is an edited version of his speech in which he outlined his views on alliancing in the Building Industry.

The National Museum of Australia, due to open in Canberra on 12 March 2001 at a cost of approximately \$155 million, is the Commonwealth's flagship for the Centenary of Federation celebrations. The museum will be collocated with the Australian Institute of Aboriginal and Torres Strait Islander Studies on what was the site of the old Royal Canberra Hospital.

Our industry suffers from a fundamental lack of trust. We start with the idea that all the other guys — client, designer, contractor — are out to do us down. Our response is a response, a contract, that is not about quality outcomes but about how to beat the 40 thieves.

The consequences are:

- clients don't get the product they want, when they want it;
- designers see good ideas turned into bad buildings, with a miserable fee;
- contractors have to use their skills making claims instead of making a decent job;
- the lawyers get rich.

We went wrong a long time ago when we opted for a system constructed on these principles:

- Assume all the other guys are crooks or, at the very least, incompetent.
- If anyone else gets something out of this job it will be at my expense.
- Focus on penalties for the bad, not rewards for the good.

Let's look at those three principles.

While I have just agreed that we have too many rotten eggs, the fact remains most of the players in our game are fundamentally not crooks and prequalification isn't that difficult.

Now my second principle of today's system, 'if you win I lose'. Wouldn't it be better if it was like good sex - mutual satisfaction for a win-win.

The fact is that every construction job starts with a simple objective: fulfil the need of the client on a value-for-money basis

The thinking that converts that to 'you win I lose' breaks into three pieces:

The client says all I am on about is the cheapest tender price; forget utility, forget time, forget quality, forget life cycle cost.

The designer says the client wants an impossibly low fee so forget working to find the best solution of client need - it'll have to be the first one I think of.

The contractor says I can only win this job if I forget a profit margin in my contract price - so beef up the claims department and to hell with the interests of the subbies.

The outcome is absolutely predictable and the simple objective we started with is not met in any sense. Everyone loses.

Which brings me to the third principle — penalties instead of rewards.

Read any of our standard contracts and they are jam-packed with clauses about the pain you will suffer for poor performance, but where are the clauses which cover the pat on the back or the cheque in the bank for exceptional performance?

You don't have to be Einstein to know that the promise of reward is a more powerful motivator of good behaviour than the threat of punishment.

In my view, the fact that very many of our construction projects deliver the client's need on a value-for-money

basis is in spite of the formal system not because of it.

In truth we have a large volume of relationship contracting. We sign tough contracts but then all the parties put them in the bottom drawer and get on with the job.

Of course we all know that our industry has a major problem with the way we do business. The trouble is that there has been more talk than you get even in parliament, but not much more effective action than you get in the same place.

The Australian Constructors Association has produced a thoughtful and, I believe, valuable document on relationship contracting.

The Property Council is, I think, a firm supporter of the principles that lie behind the relationship concept. If you look at the new PCA standard contract you might not think that — but that contract is intended, from a client perspective, to deal with the framework we have — not the one we should have.

The associations of the various design professions have nibbled at the edges of our common problems but in an essentially reactive way. However, I suspect that there is some momentum developing to accept radical change.

The financiers have remained essentially passive. One of our long-standing mistakes is not to have brought them in as active players in the search for industry reform.

So I'm an advocate of action — an advocate of a basic change in the way all the industry players relate to one another.

I begin by putting to you that the ultimate heart of the issue is attitudes.

All of the changes that we are trying in our formal frameworks will fail if we

don't genuinely think differently. That change of thinking has to be by all the players and at every level.

It is just as important that the claims manager, the junior labourer, the receptionist, the just-graduated architect, genuinely believe we are one team working to a common objective as it is to have the managing director convinced.

Culture change in any business is enormously difficult but, as many have found, immensely rewarding.

To have any hope of achieving this change we need two things:

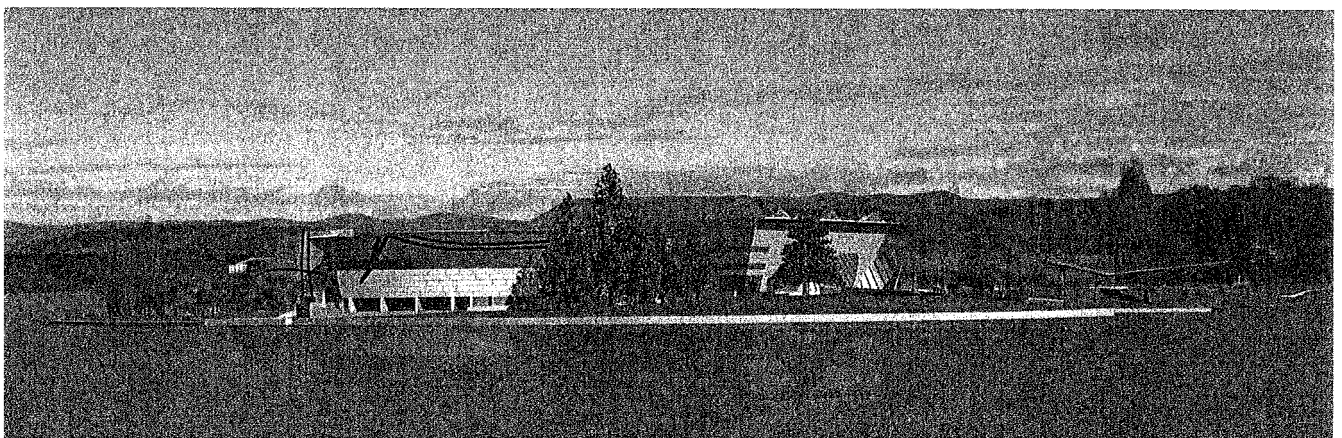
First, a real conviction among industry leaders that our emphasis on confrontation is bad business and that cooperation can be good business. That conviction has to be based on real world experience and real world dollars - not just the warm feeling of all mates together.

Second, a contractual and operating framework which builds on shared objectives and delivers visible, measurable rewards for performance - together with viable, understandable bases for managing and sharing risk.

Alliancing is a formalised approach to these concepts. It is about putting the concepts of relationship contracting into a practical framework for a real project. In practical terms full alliancing is only suitable for large projects say, of the order of \$100 million plus.

I want to make some points about the issues of principle that have emerged in our practical experience with the National Museum of Australia.

The first, and without doubt, the most critical is attitudes. The only sure foundation for an alliance is a genuine commitment by all the players to the



How the National Museum of Australia will look from Canberra's Commonwealth Avenue Bridge.

For richer, for poorer

achievement of a common set of objectives.

It follows that the selection of the players, which is a client responsibility, absolutely must focus on the mind-set, the philosophy, the skill sets, the demonstrated performance of potential parties. That process is difficult, time-consuming and expensive for the client and for what I will call bidders.

What needs to be understood is that, at that point, what is being bid is not price but quality of performance.

What also needs to be understood is that this selection process should apply not just to a head contractor but to all the critical players - architects, engineers, services contractors and maybe others.

A proper alliance is not just client/contractor but one of all those parties.

In the case of the National Museum, the architects had to be selected by a different and earlier process. As a consequence there was an extra layer of complexity in settling the risk/reward content of the Alliance, so as to accommodate existing fee expectations. I cannot overemphasise the importance of the partner selection process and I would not want to underestimate the difficulty and cost of doing it properly and fairly.

You may say all this about selection and attitudes is well and good but what about money?

There are some basic concepts:

- First, the process is absolutely transparent, open book in respect of all costs.
- Second, that transparency applies to overheads and profit margins for all the players. In the National Museum case the profit margins offered by each player were independently tested against industry norms and audited against margins included in other tenders by the relevant players.
- Third, the client having established its own budget and obtained independent pricing advice, the Alliance team, which includes the client, establishes what we called a Target Outcome Cost.
- Fourth, the TOC is the monetary basis for determining rewards for exceptional performance and the way in which pain is borne for unsatisfactory performance.
- Fifth, there are extensive written quality benchmarks to measure performance; quality in this sense is not just physical quality of construction but everything which bears upon the meeting of the client objective.

Those five concepts are all about building trust through transparency and about a visible, workable reward system.

As to trust, I commend to you a recent report with the rather long title, *Building Relationship Capital in High Risk Conditions Through Workable Trust*. While it is directed to mergers and reorganisations it is a first-class analysis of how to build trust in the face of the human condition where mistrust is always there first.

Getting the concepts right is not that difficult. As always the devil is in the detail.

How do you settle the target outcome cost? How do you agree the performance quality benchmarks and how they

are to be measured? How do you negotiate the dollar basis of the reward package and the dollar basis of risk sharing? And, indeed, how do you identify the risks? None of those things are easy.

Now I come to the vital issue of dispute resolution.

There are two aspects of what I loosely label disputes. First, there is the solution of construction problems - unexpected ground conditions as an example. Second, what should be very rare in a properly constructed alliance, is the traditional contract dispute. The alliancing approach to these challenges rests on two principles:

The whole project is ultimately managed by the alliance leadership team, and all the alliance partners are represented on the team. The responsibility for problem resolution rests with the leadership team and the members are committed to unanimously reaching the best solution for each problem — and best is best for the project, not an individual party.

The incentive to work that way is that every party shares the benefit of a good outcome or the pain of a bad one. The control element is that nearly all the parties are construction people and can instantly pick a poor performer or, heaven forbid, a dishonest one.

The second principle is that an alliance contract effectively bans litigation. Almost the sole exception is that the client can terminate on the grounds of wilful negligence.

It follows that the structuring of the actual alliance contract is a big challenge. You need a commercially smart lawyer who understands the construction business and is genuinely responsive to alliancing concepts.

At this stage of alliancing development those lawyers are pretty thin on the ground and, for a while, that may be a problem.

There is one problem we haven't really solved. It's how to get the workforce involved. If we are to reap all the potential benefits of trust building, problem solving and reward sharing, we need the guys and girls doing the physical work to be players.

Government sees benefits in improving disabled access

The Commonwealth Government believes Australia can cash in on tourism by disabled people whose awareness of Australia is triggered by the Olympic and Paralympic Games next year.

The Department of Family and Community Services has developed a Gold Medal Disability Strategy which will be launched next month.

It is looking at improving access for disabled people in the areas of premises, employment, transport and tourism.

The strategy aims to increase knowledge of the access needs of people with disabilities in the four target areas and to use the Olympic and Paralympic Games to create opportunities to improve access.

The government believes that people with disabilities are a major untapped market and that recent research indicates that the market will continue to grow.

Benefits will not be limited to the disabled, the government says. Improving access will also benefit many older people and people with young children in prams and pushers.