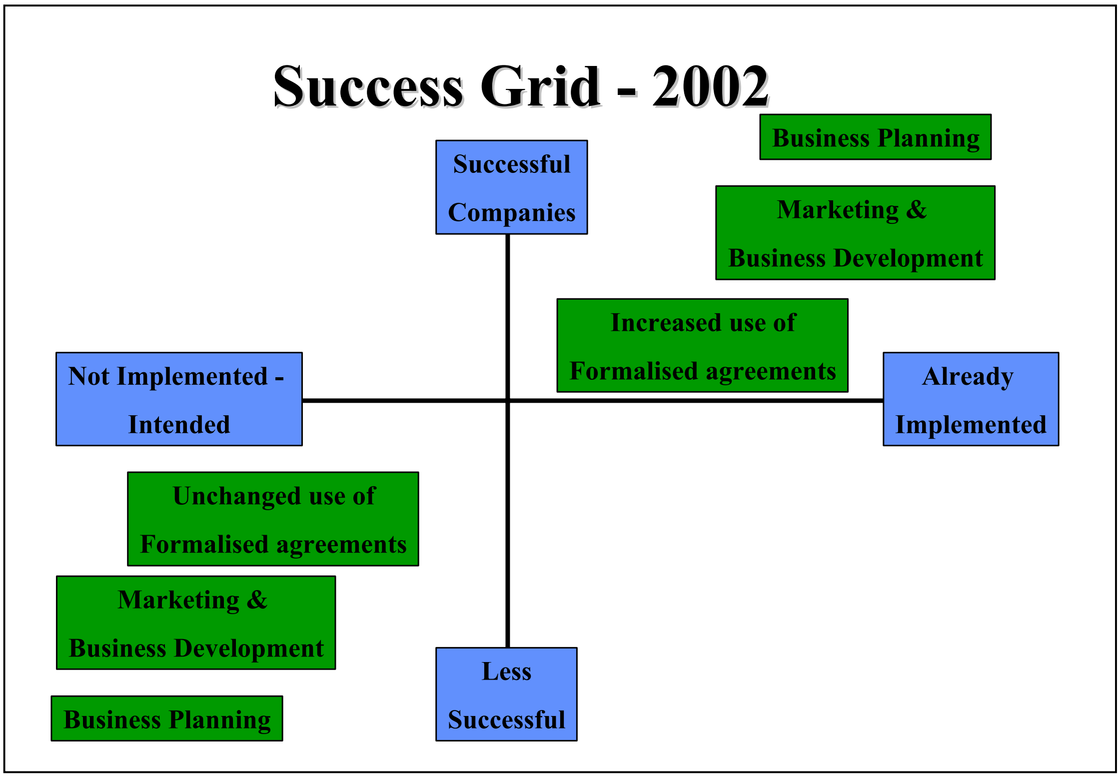
AUSTRALIAN PROCUREMENT AND CONSTRUCTION COUNCIL

Perceptions of the Construction Industry in Australia

CEO Survey — 2002



Report of the findings of the Australian Procurement and Construction Council's second annual survey of chief executives in the construction industry in Australia.

An insight into aspects of business management and development that are being pursued by construction industry leaders.

Executive Summary

The Australian Procurement and Construction Council's 1997 paper *Construct Australia: Building a Better Construction Industry in Australia* included strategies for developing information to improve strategic decision making within the construction industry. One strategy was for the APCC to work with industry to establish a set of national key performance indicators for each of the industry attributes (seamless, efficient and profitable, innovative and environmentally responsible) described in *Construct Australia*. There was a similar strategy in the New South Wales Government's July 1998 white paper Construct New South Wales.

The first set of New South Wales indicators for profitability, innovation, environmental practices and use of formal agreements or alliances (proxy for seamless) were established from a perception survey of construction industry chief executives conducted in February 2000. The first set of national indicators were built up from a New South Wales survey in February 2001 and its extension to other states and territories in June 2001. The second set of national indicators has now been developed from a perception survey of construction industry chief executives throughout Australia conducted in November 2002.

The second national survey sought the perception of the industry about:

- Issues affecting the industry and the respondent's business in the past twelve months and expected for the following twelve months.

- Progress towards the four attributes of *Construct Australia*, ie efficient and profitable, innovative, environmentally responsible and seamless.

Industry Issues

The main issues with a positive effect on the industry were:

- Quantity of work available
- Availability of materials
- Occupational Health and Safety
- First home owners' grant (relevant for the past 12 months but not the future)

The main issues with a negative effect were:

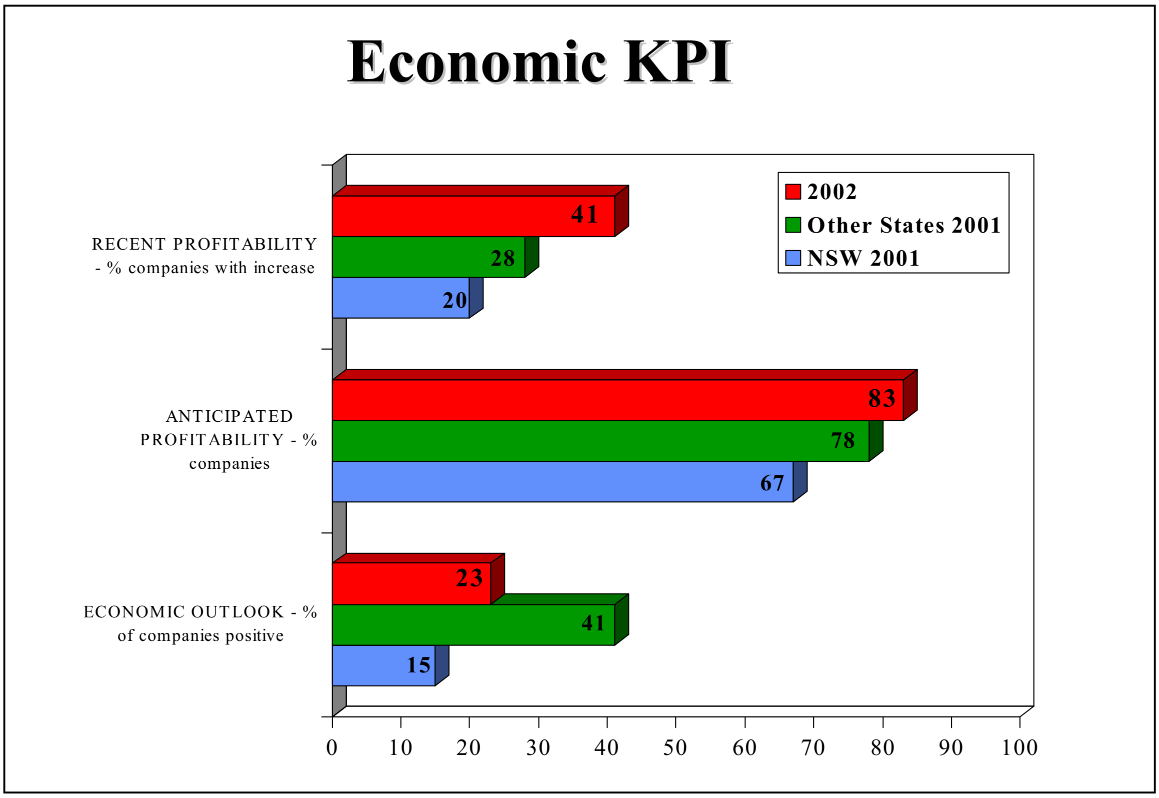
- Insurance
- Extreme price competition
- Availability of skills

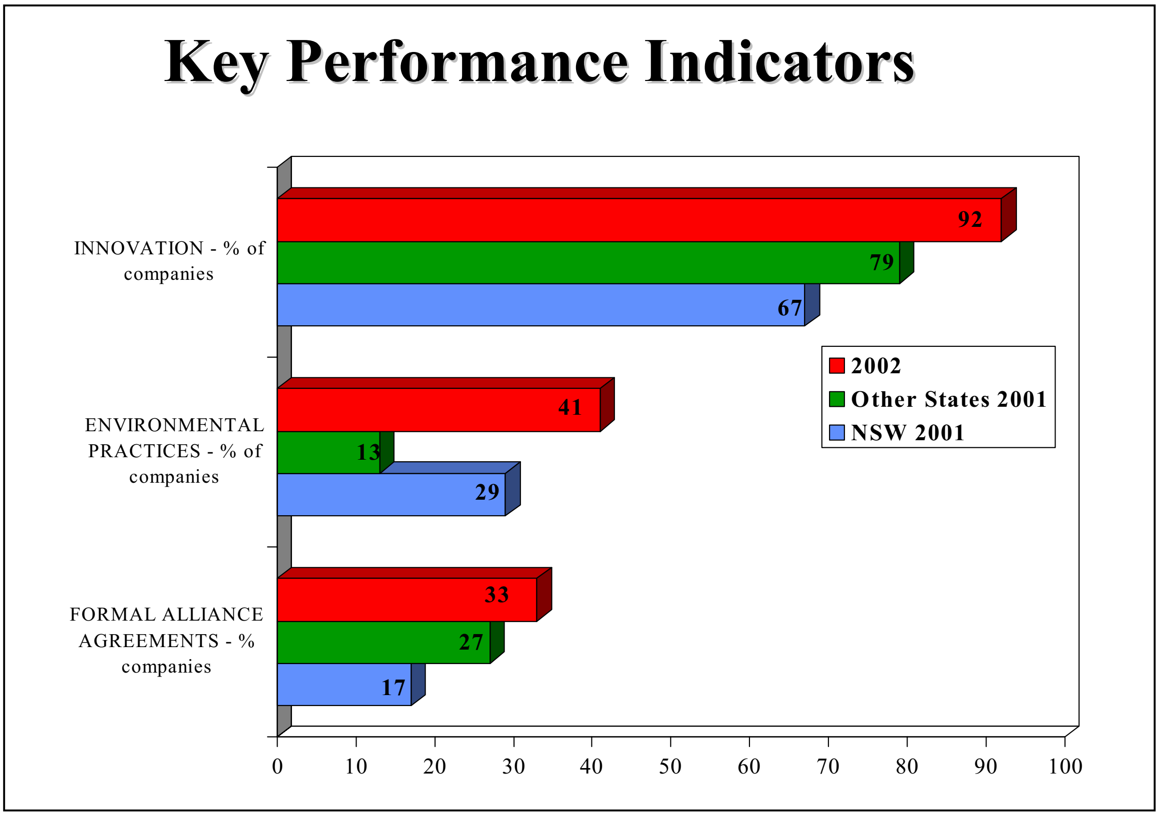
Key performance indicators — scorecard

The indicators are designed to show trends over time, so the second survey provides the first significant indication that the construction industry is moving towards the *Construct Australia* vision. Results for the industry attributes compared with previous surveys are:

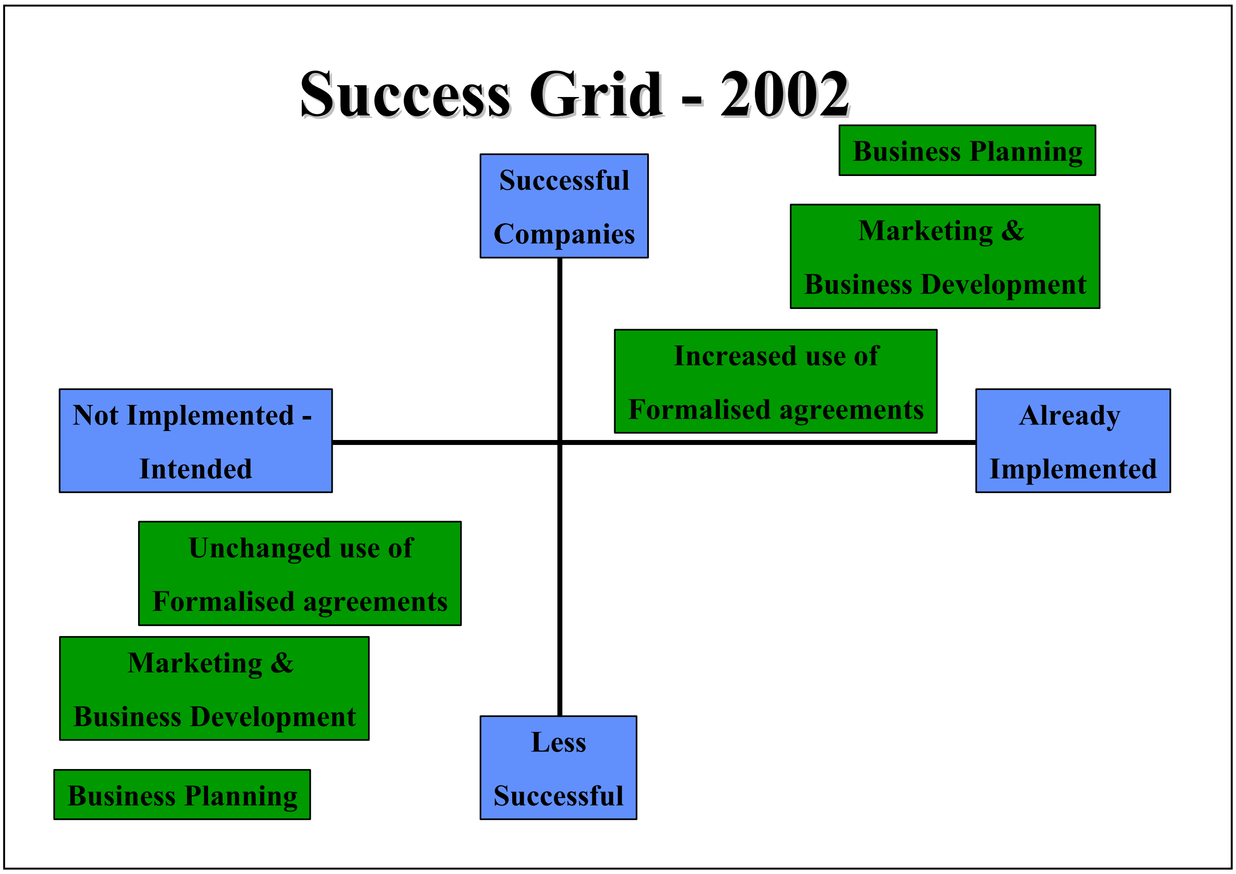
	November 2002	June 2001 (other than NSW)	February 2001 (NSW)
Profitability			
Profitability increased (compared with same quarter of previous year)	41%	28%	20%
Future profitability (same or increased level)	83%	78%	67%
Improved economic outlook expected	23%	41%	15%
Innovation			
Innovation	92%	79%	67%
Environmental practices			
Environmental practices	41%	13%	29%
Seamless			
Formal alliance agreements used (seamless)	33%	27%	17%

The indicators are for the percentage of companies by number that responded to the relevant survey questions.





Overall, the more financially successful businesses showed that they are using business planning, marketing and business development and formalised agreements. Less financially successful businesses indicated that these activities were planned but not yet implemented.



Methodology and Demographics

The sample

The lists of names, companies and contact details for each state or territory used in the 2001 survey were updated. Other companies were added, where appropriate, to maintain a suitable sample size and range of company sizes, industry sectors and geographic locations. An APCC representative in each state or territory was responsible for the relevant list. In 2002, Tasmania was included and the ACT was not.

Owners/managers, CEOs, state, territory and divisional managers of service providers were invited to complete the survey. Non-CEOs were asked to respond only to their state, territory or division, not the whole company. The survey questionnaire, designed to take 10 minutes to complete, did not require detailed answers but sought to either gain a broad picture or draw out a 'gut' feeling. There were 741 invitations sent with New South Wales the highest share at 23%.

The questionnaire

The survey questionnaire for 2002 (available on the APCC website, www.apcc.gov.au) was similar to the previous surveys but with significant changes to the format of the questions on the issues affecting the industry, innovation and seamless (alliance practices).

There were four ways to complete the questionnaire: online (through the Minter website), email, fax or mail. Up to three phone calls, with the offer of a telephone interview, were made to boost the response rate. A web-based survey format was used for the first time and proved a popular method of completion.

Method of completion	**Number**	**Share**
Web	114	45
Fax	71	28
Phone	36	14
Mail	20	8
Email	11	4
Total	**252**	**100%**

The responses

The response rate was 34%, a similar rate to the 2001 survey, which was 35%, including NSW, or 31%, excluding NSW. While response rate for surveys of chief and senior executives is usually low, 34% is about average for this type of sample.

	Number of invitations	Number of responses	Response rate	Share of responses
New South Wales	170	58	34%	23%
Victoria	111	32	29%	13%
Queensland	150	34	23%	13%
South Australia	101	50	49%	20%
Western Australia	106	32	30%	13%
Tasmania	53	30	57%	12%
Northern Territory	50	16	32%	6%
Total	**741**	**252**	**34%**	**100%**

Weighting of results

Some data in the report has been weighted because the proportion of responses does not reflect the level of construction activity in each state or territory. The weighting is based on shares of national construction activity taken from the APCC's Australian Construction Industry Forecasts published in July 2002 and is an average of the forecasts for 2001-02 and 2002-03.

Area of Responsibility

Respondents identified themselves as the head of the whole company, a state or territory, or a division of the company in the following numbers:

Area of responsibility	Number	Share
The whole business or company	150	60
A state or territory within a business	55	22
A division or unit within a business	47	18
Total	**252**	**100%**

Construction Industry Sector

Respondents were asked to identify the sector or sectors of the building industry that their company operates in. Many organisations reported that they operate in more than one sector. The most common segment was non-residential building (91%), 50% were in residential building followed by 36 % involved in civil infrastructure.

Respondents by sector

	NSW (58)	VIC (32)	QLD (33)	SA (50)	WA (32)	NT (16)	TAS (30)	Avg (252)
Residential	57%	47%	52%	44%	31%	63%	47%	**50%**
Non-residential	86%	100%	82%	92%	94%	75%	77%	**91%**
Civil infrastructure	38%	22%	52%	32%	47%	44%	47%	**36%**

Type of Business

Contractors made up half of the sample with consultants accounting for over one third with the remainder sub-contractors or suppliers. The results therefore reflect how respondents representing a range of roles within the industry perceive the industry.

Type of business	Share
Contractor	51
Consultant or professional services	38
Sub-contractor	7
Supplier	4
Total	**100%**

Geographical reach

On average, the respondents conducted 84% (by revenue) of their business within the home state or territory. The Northern Territory worked the least outside its boundaries with only 5% of revenue coming from outside the territory. Queensland, on the other hand, received 32% of its revenue from outside the state, primarily from New South Wales.

Geographical reach

State of operation	Location of work						
	NSW	**VIC**	**QLD**	**SA%**	**WA%**	**NT%**	**TAS%**
NSW	**79%**	3%	16%	4%	2%	0%	4%
VIC	7%	**88%**	7%	4%	1%	0%	3%
QLD	5%	2%	**68%**	4%	4%	0%	2%
SA	1%	1%	3%	**81%**	1%	2%	0%
WA	3%	1%	2%	3%	**90%**	3%	0%
NT	1%	0%	2%	2%	0%	**95%**	0%
TAS	0%	0%	0%	0%	0%	0%	**90%**
ACT	1%	0%	0%	0%	0%	0%	0%
Overseas	3%	4%	3%	1%	3%	0%	0%

Analysis of results

The questionnaire sought information about five aspects of the construction industry:

- Issues affecting the industry
- Efficient and profitable industry
- Innovation
- Environmentally responsible industry
- Seamlessness

Cross-analysis of responses was done by state and territory, industry sector and size of company (both number of employees and annual revenue).

Construction industry issues

Insurance was the major concern for the construction industry generally and for individual businesses with over 80% of respondents citing it as a negative issue. Extreme price competition, availability of skills and lack of definition in the scope of work also had major negative impacts on the industry over the previous year. These concerns were also expected to remain for the industry over the coming year with industrial relations increasing in its negative impact.

The main issues with a positive effect on the industry were improvements from the previous year in quantity of work available, availability of materials and Occupational Health and Safety. The first home owners' grant scheme was still positive in its effect in 2002. While there has been an improvement in amount of work availability, there are still staffing issues as highlighted by the shortage of skills.

The Cole Royal Commission, sitting at the time of the survey, was expected to have a positive impact over the coming year, along with the payment of employee entitlements and security of payment.

Efficient and profitable industry

Revenue

Construction industry revenue had increased since the previous survey with 46% of businesses surveyed reporting higher revenue in the July-September 2002 quarter compared with the April-June 2002 quarter and 48% reporting increased revenue compared with the July-September 2001 quarter. While 24% of respondents reported a revenue decline compared to the previous quarter and year, this is down from between 51% and 60% reporting declining revenues in the 2001 survey and indicates that nearly three-quarters of those surveyed experienced either improved or stable revenue.

Increasing revenue was expected by 50% of respondents over the next 6 months (to April 2003) flowing through to increased profitability for 40%. Over the next 12 months (to October 2003), there was an expectation of increased revenue for 54% of respondents with similar rise in expected profitability to 44%. Where declining revenue was expected, 15% expect this to occur over the next 6 months, rising slightly to 18% of respondents foreseeing declining revenue over the next year.

…… by industry sector

There was a noticeable difference between the three sectors of the industry. The civil infrastructure (engineering) sector reported a much better improvement in revenue with 59% showing increased revenue over previous year compared with 48% for the whole industry.

…… by business turnover

Businesses with gross annual revenue in excess of $150 million were most likely, at 57%, to have experienced increased revenue over previous quarter against an industry average of 46%. Compared with the previous year, large businesses showed an even stronger position with 66% reporting increased revenue.

Conversely, if the business was a small revenue company, then it was most likely to have experienced a decline in revenue. For businesses in the lowest revenue bracket, $0.5 million $1.5 million, 38% reported a decline in revenue over the previous quarter and 36% a decline over the previous year. This is a respective difference of 14 and 12 percentage points over the industry average of 24% for both periods.

The largest companies, those with revenues in excess of $150 million a year, were more optimistic in their revenue and profitability outlook for the next 6-12 months (to October 2003) where 60% expect those revenues to increase over the next 6 months and this increases to 68% for the 12 month expectation. Meanwhile only 6% expect of respondents expected their revenue to decline over the next 6 months but this rose sharply to 22% expecting declining revenues over the next year to October 2003.

…… by state/territory

In Queensland 59% of businesses reported increased revenue compared to the previous quarter and 65% compared to the previous year.

Businesses in Western Australia reported showed the worst position with 37% reporting increased revenue compared to the previous quarter and 31% compared to the previous year (9 and 17 percentage points below the industry average respectively). Furthermore, more businesses experience a recent downturn with 22% of reporting declining revenues compared to the previous year slipping to 44% compared to the previous quarter.

Tasmania appears to have had a recent improvement in the business environment with 27% reporting increasing revenue compared to the previous year increasing by three-quarters to 47% reporting increasing revenue compared to the previous quarter.

The other states and territories results were similar to the industry average.

The Northern Territory was the least optimistic about the future as only 20% of respondents expected increasing revenue over the next six months (to April 2003), compared to 59% of respondents in Victoria expecting better times. There was an improved expectation for the longer term as the number of Northern Territory respondents expecting increasing revenue over the next 12 months (to October 2003) doubled to 40%.

Thee Northern Territory also showed the greatest expectation of declining revenues with 33% of respondents expecting them over the next 6 months and 27% over the next 12 months. Victoria was the second least pessimistic, after Tasmania, with 13% expecting declining revenues over the next six months to April 2003.

Profitability

While revenue was increasing across the industry from the previous survey, the increased revenue did not translate to higher profits. While 46% of business reported increased revenue compared to the previous quarter, 38% reported increased profit over the same period and 48% reported increased revenue compared to the previous year falling to 41% reporting increased profits. The number of businesses reporting declining profits is similar to the number reporting declining revenue.

The number of business reporting increased profits, when compared to the previous quarter, has increased dramatically for NSW doubling from 19% in the 2001 survey to 38% in the 2002 survey. The increase for the other states was not as large, increasing from 28% to 38% for the same period and the results when compared to the previous year are similar. The bigger improvement for NSW can be explained by survey timing because the NSW survey was undertaken 4 months or so before the other states by which time the construction industry was coming out of the painful downturn of 2000-01.

Perhaps more importantly, there was substantial reduction in the number of business reporting declining profitability, down from 62% for NSW in the 2001 survey and 52% for the other states to 26% in the 2002 survey. Not all businesses returned to increasing profitability, some moved into the same or no change category.

…… by industry sector

The results for profitability by industry sector are similar to revenue. Civil infrastructure showed the best results with 48% stating improved profitability in the July-September 2002 quarter compared to the previous quarter, April-June 2002.

For expectations of future revenue and profitability, there were no major differences between the three sectors of the industry.

…… by business turnover

Larger sized companies, those with revenues over $150 million, reported the highest change in profitability with 46% reporting more profitability in the July-September 2002 quarter compared to the April-June 2002 quarter and 43% more profitability in the July-September 2002 quarter compared to the same quarter in 2001.

Interestingly, businesses within the $50 million to $150 million band had the highest increase in profitability with 55% reporting an increase over the same period in 2001.

Small sized companies, those with revenues between $0.5 million and $1.5 million, were more likely to report declining profitability. This was the only revenue band with more businesses reporting that profitability was declining rather than increasing. Compared to the previous quarter and the same quarter in 2001, declining profitability was reported by 46% of small-sized companies, almost the opposite to increasing profitability in large-sized companies.

…… by state/territory

Businesses in Queensland were most likely to report increased profitability compared to the previous quarter and to the same quarter the previous year while Tasmanian businesses were least likely to report increasing profitability.

At the other end of the scale, in Western Australia, Northern Territory and South Australia between 38% and 41% of business reported declining profits for the July-September 2002 quarter compared to the previous quarter, April-June 2002. In Tasmania, Northern Territory and Western Australia between 31% and 37% of businesses reported declining profits when compared to the same quarter the previous year.

Queensland's profitability matches its revenue profile with 59% of business reporting an increase in profitability in the July-September 2002 quarter over the previous quarter, April-June 2002, increasing to 65% reporting improved profitability over the July-September 2001 quarter.

While in Tasmania a large number of business did not see the increased revenue translating into increased profitability, as 47% of businesses reporting increased revenue compared to the previous quarter but only 17% reported increased profitability. The difference between increased revenue and increased profitability when compared to the same quarter the previous year is less dramatic, falling from 28% to 16%.

In South Australia the experience was similar to Tasmania. 54% of businesses reported increasing revenue over the previous quarter falling to 34% of business reporting increased profitability, a 20 percentage point decline. When comparing revenue and profitability against the same period the previous year, 48% of businesses reported increased revenue and 30% reported increased profitability.

Utilising profits

The survey asked respondents if the level of profit was sufficient to invest back into the business, spend on training or pay shareholders or owners. Around 45% of businesses stated the level of profit was mostly or totally sufficient for training or reinvestment in the business while only 39% felt it was sufficient to pay shareholders/ owners.

…… by industry sector

For the sector breakdown, the priorities were also training, reinvestment and paying shareholders/ owners, although only 35% of residential respondents reported the profits were sufficient to pay shareholders/ owners, a slightly lower level compared to non-residential and civil infrastructure.

…… by business turnover

Businesses with the highest revenue, over $150 million a year, showed a high level of satisfaction with 86% reporting that profits were sufficient to spend on training, 70% to invest back into the business and 64% to pay shareholders or owners. Spending on training was a priority for businesses in the $50 million to $150 million band with 57% reporting sufficient profits, but only 42% reporting enough profits to pay shareholders/ owners and 34% to invest back into the business.

Companies with smaller revenues, between $0.5 million and $1.5 million, fared the worst with 14% reporting sufficient profits for reinvestment and training and only 5% reporting enough profits to pay shareholders/owners. Perhaps a special environment exists for companies in the $1.5 million to $5 million band because the level of sufficient profit increased dramatically to over 42% yet fell in the $5 million to $25 million band to around 30% for training and pay shareholders/ owners and 42% for investing into the business.

…… by state/territory

Western Australia and the Northern Territory reported that their profits were the least sufficient for reinvestment, training or payment to shareholders/ owners with 25% to 28% for WA and 20% to 33% for NT. One might have expected Queensland's increasing profitability to translate into the highest sufficient levels but Victoria was the leader with levels between 50% and 59% while Queensland's levels were much lower, between 39% and 42%.

Expected Economic Environment

An improving economic outlook for the construction industry over the next six to twelves months was not seen by as many survey respondents as the previous survey. In 2001, 40% of respondents indicated an improved economic environment over the next 6-12 months (or the period June 2001 to May 2002) while in this survey that number has fallen to 23% expecting an improving situation over the next 6-12 months (or the period November 2002 to October 2003). However, the outlook is still optimistic as the number of respondents expecting no change increased from 37% in the 2001 survey to 51% in 2002 and there was only a three percentage point increase in those expecting a decline in the economic environment, from 23% in the 2001 survey to 26% in 2002.

…… by industry sector

Looking at the three construction sectors, residential respondents were more pessimistic in outlook with 31% expecting the economic environment for the construction industry to decline over the next 6-12 months.

In the civil infrastructure sector, the expectation is more optimistic with 31% of respondents expecting an improvement of the next 6-12 months. This might be explained by the nature of engineering projects; that they have a longer lead in time and construction is committed.

…… by business turnover

There are some interesting differences in outlook for businesses of different sizes. The largest revenue businesses, those with revenues over $150 million a year, are the most pessimistic with 43% expecting a declining construction environment. Yet this same revenue band is also the second most optimistic with 32% expecting an improvement in the environment. The most optimistic are the $50 million to $150 million band where 36% expect the construction industry economic environment to improve.

…… by state/territory

The outlook in two of the larger states is quite pessimistic with 33% of Queensland respondents and 31% of NSW respondents expecting a declining construction industry economic environment over the next 6-12 months.

The optimistic states are Northern Territory with 44% expecting an improvement and Tasmania with 37%. Oddly, a third of Queensland respondents also expect brighter times ahead, with 33% foreseeing an improved economic environment for the construction industry over the year to October 2003.

Environmentally responsible industry

The survey questionnaire asked if environmental criteria were used in the selection process for materials or subcontracted services. Those who mostly use environmental criteria were 33% of responses while 39% responded sometimes.

This 2002 question was different to the 2001 survey and so direct comparisons are difficult. However, in terms of the businesses that do not include any environmental component into the selection process, in the 2001 survey 26% of respondents did not include environmental criteria in any of the procurement while in the 2002 survey 20% rarely used environmental criteria. This result indicates that about a fifth fewer businesses are ignoring environmental in their selection process.

At the other end of the scale, 14% of NSW businesses and 6% of other state businesses reported in the 2001 survey as always used environmental criteria in the selection process. In the 2002 survey, 8% of respondents reported always using environmental criteria.

In a change from the 2001 survey, respondents were not asked if they intended to increase the use of environmental criteria in the selection of materials and contracted services as it was felt that the likely response would be 'yes'.

…… by industry sector

In 2002, the civil infrastructure (engineering) sector was the most frequent user of environmental criteria in the selection process with 48% of businesses mostly or always using environmental criteria, followed by non-residential at 39% and residential at 35%.

…… by business turnover

Looking at the size of the company by revenue, 59% of the businesses with revenues above $150 million mostly or always used environmental criteria and 48% of business with revenues between $50 million and $150 million responded mostly or always.

Businesses within the $5 million to $25 million and $25 million to $50 million ranges were likely to use environmental criteria rarely or sometimes with 69% and 71% respectively. Lower revenue businesses' results showed 68% of businesses with revenues between $0.5 million and $1.5 million sometimes or mostly using environmental criteria and 89% in the $1.5 million to $5 million range also in the sometimes or mostly categories.

…… by state/territory

In the state/territory breakdown, 19% of Western Australian businesses stated they always use environmental criteria in the selection of materials or subcontracted services. However, Western Australian also had 32% of businesses stating they rarely using environmental criteria (the highest response).

In Victoria, while only 3% of businesses reported always using environmental criteria, 16% reported rarely with the remaining 82% mostly or sometimes using environmental criteria.

New South Wales and Queensland share a similar profile to Victoria with most businesses reporting they mostly or sometimes use environmental criteria.

Seamless industry

Construct Australia outlines seamless as "client and service focused enterprises delivering seamless services through integrated alliances that provide packaged, high value, single source solutions for clients through long-term contracts". The three questions in the 2002 survey about seamless were different to the 2001 survey with a focus on asking about long-term relationships – if these were formalised and if the number of long-term relationships in future projects were expected to be more, the same or less.

Overall, the majority of respondents had only sometimes engaged in long-term relationships over the previous year with 7% always, 22% mostly and 18% rarely.

…… by industry sector

There was little difference in the use of long-term relationships between the residential, non-residential and civil infrastructure sectors.

…… by business turnover

In terms of size of company by revenue, the results showed that while companies with revenues between $1.5 million and $5 million most often participated in long-term relationships with other service providers.

Larger companies reported they were least likely not to engage in long-term relationships. No company with revenues over $150 million reporting that it rarely engaged in such relationships.

…… by state/territory

The use of long-term relationships over the previous year was least common in the Northern Territory where only 19% of business reported always or mostly engaging in them over the previous year. Victoria followed with 23% reporting always or mostly.

Long-term relationships were most common in Western Australia where 44% of businesses reported engaging always or mostly over the past year followed by South Australia with 40%.

Innovative industry

The survey sought to identify what companies were doing in the area of innovation. The questionnaire asked respondents to highlight up to three substantial innovative approaches implemented over the past year and planned for the coming year.

Most businesses saw themselves as being innovative with 92% reporting at least one area of innovation in the past year. This was an increase from the 2001 survey where 70% of NSW respondents and 79% of other state respondents indicated they had implemented substantial innovative approaches that have been effective in the past 12 months.

Business planning was highlighted as an area of focus in 2002 with 45% of respondents indicating a substantial innovative approach from the past year. Business planning was also an important area in the 2001 survey where it was placed second, after marketing and business development, at 62%. However, the concern to improve business planning does not flow through to planning further innovation for the coming year with a 14 percentage point fall to 31%, the largest gap between innovation over the past year and the coming year.

The survey responses were analysed to see if there was a correlation between innovation and increasing or decreasing profitability. Increasing profits was taken to mean increased profit in 2002 and expected to increase again in 2003 (53 respondents). Declining profits was the opposite where profit declined in 2002 and is expected to decline again in 2003 (21 respondents).

Business planning came through as lead feature where 55% of companies who selected business planning as an innovation had increased profits in 2001-02 and looking to have increasing profits for 2002-03. Risk management (48%), marketing and business development (45%) and client management (39%) were the next frequent areas for innovation by companies with increasing profits.

The top four areas of innovation declining profit companies focused upon were cost planning, budgeting and estimating (38%), client management (34%), OHS management (32%) and risk management (30%).

For the future, businesses with declining profit were looking to focus on innovation in marketing and business development, business planning, client management and construction technique. These were some of the areas that businesses with increasing profit were focusing on in the past year (and in the 2001 survey). Meanwhile, the increasing -profit businesses will be addressing risk management, training, client management, environmental management and cost planning, budgeting and estimating.

AUSTRALIAN PROCUREMENT AND CONSTRUCTION COUNCIL

The Australian Procurement and Construction Council (APCC) is the peak council of departments responsible for procurement and construction policy and practice for the Commonwealth of Australia, State and Territory Governments, and the New Zealand Government.

At November 2002, the APCC member agencies with construction responsibilities were:

- Department of Public Works and Services, New South Wales
- Building Commission, Victoria
- Department of Public Works, Queensland
- Department for Administrative and Information Services, South Australia
- Department of Housing and Works, Western Australia
- Department of Infrastructure, Planning and Environment, Northern Territory
- Department of Treasury, Australian Capital Territory (ACT was not included in the 2002 survey)
- Department of Finance and Administration, Commonwealth of Australia
- Ministry of Economic Development, New Zealand (New Zealand was not included in the surveys).

Through a series of surveys over several years, the APCC is seeking to develop performance indicators for four characteristics (attributes) of the construction industry in Australia:

- Efficient and profitable
- Innovative
- Environmentally responsible
- Seamless.