MAN-YEAR ENTITLEMENTS AND PRODUCTIVITY

Introduction

This paper will trace the history and events that led to the formulation and implementation of various manpower policies and the current emphasis on measures to enhance productivity.

The formulation and changes in our industry's manpower policies in particular those affecting foreign labour and the pace at which they are implemented are inevitably dictated by market forces and the way the industry reacts to prevailing conditions.

The Early Era

In the seventies and early eighties, freehold land was in abundance and there was no undue concern with regard to land prices. Land cost then constituted a relatively low 25% of total development cost giving it a ratio of 25 – 75. There was no exigency to complete the project in the shortest possible time and tenders were called some nine to ten months after the land had been procured. The availability of cheap financing meant that the economic viability of a project was not a pressing issue.

Land Price Pressure

Things changed in the nineties. Freehold land became a scarcity. In response, the government released land via public tenders. Land prices soared and eventually the component of land cost made up 75% of the total development cost giving a ratio of 75 – 25. In some projects, this ratio was an incredible 80 – 20. This was a dramatic reversal of the 25 – 75 norm we had been accustomed to in the seventies.

Land prices climbed upwards relentlessly. Cash flow became an inherent and critical consideration in the planning of a project. A laissez faire approach to optimal implementation would certainly sound the death knell of a company. The market forces now clearly dictated a change in procurement approach in ensuring a project was completed expeditiously.

Need to Change

In the late 80's / 90's, I studied the various procurement practices of other countries. I concluded that Hong Kong was very similar to ours and would be a good benchmark that we could learn from and emulate. In Hong Kong, piling works commenced three months after land had been secured.

Our industry therefore needed to cut short the development period and to aim for early commencement of work to counter the rising land cost. The latter at 75% of total development cost essentially meant that the proportion of cost allowed for construction was now at an incredulous low of 25%. To achieve the latter, construction work had to speed up and at lower cost than before.

To achieve an early start, the approach adopted by developers was to enter into framework agreements in advance of full documentation with contractors based on lump sum pricing or unit cost of GFA through negotiation or competitive tenders. The lowest bid would be offered the contract.

While the process was proper and business like for the developers, the stark reality was that the contractor's seemingly low tender price was made possible by the massive deployment of cheap foreign labour that was in copious supply and readily allowed into our country by the government.

Generations benefitted from the property boom and cheap labour. However, the implications of cheaper labour were not fully understood.

The influx of foreign workers grew gradually and inexorably. To give you a sense of the magnitude, the number of construction work permit holders reached a staggering 293,400 as at December 2012. This number represents one-third of the total work permit holders in Singapore. The number was 180,000 at December 2007. At one stage, we were building at a breakneck speed and at relatively low cost with cheap foreign workers.

It was inevitable BCA became increasingly concerned with our cost competitiveness and in turn, productivity levels.

Cost Studies

Over the years, I was involved in four different studies initiated by CIDB / BCA. They were as follows,

1. Cost Competitiveness of the Construction Industry in Singapore (Feb 1989).

2. Cost Impact of Regulatory Differences between Singapore, Malaysia, Hong Kong and Sydney (May 1999).

3. Construction 21 (Aug 1999).

4. A Study on Comparison of Construction Costs between Singapore, Malaysia, Hong Kong and Sydney (2006).

Concern Over Cost Competitiveness

In 1989, BCA was clearly concerned with the happenings in the industry and sought findings with regards to our cost competitiveness. The study concluded that while labour costs in Australia and United States were 4 to 5 times more than in Singapore, their final unit construction costs were only marginally higher at between 10% and 15%. This obviously meant that workers in other countries were more efficient and productive. One of the other recommendations was the use of alternative designs by contractors in order to exploit the expertise and know-how of contractors. Yet another recommendation was the adoption of mechanisation to raise productivity.
The 2nd study in 1999 was carried out again due to concerns that construction cost in Singapore was the highest amongst the ASEAN countries. The study concluded that

the cost differences due to more stringent regulations in Singapore translates into an additional cost ranging from 2.40% to 4.58% and if the more stringent regulations in those other countries were taken into consideration the additional cost would be only 2%. Overall, this meant that regulatory differences have minimal impact, if at all, on construction costs.

The Construction 21 Study was initiated to address the problems in the construction industry, in particular the heavy reliance on unskilled foreign workers and the low level of productivity. The study reviewed the entire spectrum of construction work.

One of the recommendations was the implementation of Man Year Entitlements (MYE). The system aims to ensure that contractors are allowed to engage foreign workers up to a certain limit. Another recommendation was on increasing productivity through schemes such as buildable designs and the use of more productive construction methods. Subsequent to the Report, there was also the setting up of Best Practice Awards whereby recognition was accorded to companies that demonstrate innovation and best practices in construction. It was clear that the focus was now on improving the level of productivity in the industry.

In the 4th study in 2006, one of the objectives of the study was to review measures that will improve the cost competitiveness of Singapore. One of the conclusions was that in view of our reliance on foreign workers and by virtue of the transient nature of such workers, productivity level would inevitably be lower than in the case of utilising local workers. Singapore was obviously pretty inefficient in terms of construction productivity.

With the emphasis on the need to boost Singapore's productivity level, BCA, on 1 June 2010, launched a $250 million Construction Productivity and Capability Fund (CPCF). The objective was to steer the construction industry towards higher productivity and build capability. With CPCF, came the revisions to MYE.

The concept of MYE was borne out of necessity. In the initial stages of Singapore's industrialisation drive to attract investment and in turn employment to Singapore many years back, labour intensive industries were the order of the day. It had to be, in order to provide employment to workers.

Wages and Productivity

Over the years, in an attempt to raise productivity, wages were increased through wage recommendations announced by the National Wages Council. Every year, it was almost a ritual that wages would be increased by a certain percentage. The resultant higher wages became a bane to labour intensive industries like garments and electronic assembly plants. It was no surprise that these industries eventually moved out and relocated to Malaysia.

Singapore then embarked on its next stage of attracting foreign investments that were focused on value intensive industries. Even at this stage, we were diligently looking into cost competitiveness across all industries and implementing measures to keep abreast with global competition. Unfortunately these measures were not enforced strictly for the construction industry due to extraneous reasons. One example was the two IR projects where MYE requirements were not observed and a large number of foreign construction workers were granted work permits.

In this case, the relaxation of rules was well and truly justified. Otherwise the cost of constructing the two IRs would be prohibitive (without the cheap foreign labour) and the ambitious plan to have IRs completed on time would have failed.

In comparison with other countries, our productivity level is at the lower stratum. Productivity level of Singapore is one-third that of Australia and half that of Japan. The introduction of MYE was the appropriate measure under the circumstances. We needed to contain the unrestrained influx of cheap foreign workers. Besides the social ills and other communal problems that came with it, their continued presence would perpetuate our unfavourable cost competitiveness and render ineffective any effort to increase productivity. With low productivity, cost will remain high and inefficient and industries would be compelled to invest elsewhere.

The main objective of MYE which was part of the C21 blueprint is to reduce the reliance on foreign workers and to raise productivity levels. Over the years, MYE entitlements have been gradually reduced. Effective 1 July 2013, the entitlement was reduced to a total of 45% ie 100 workers that would be approved under earlier guidelines would now be reduced by 45 workers. In other words, only 55 workers will be allowed in.

The New Epoch

Undoubtedly the lower number of foreign workers allowed in would mean higher cost to the companies as they now would need to either engage the more expensive workers from local or traditional sources, or to invest and implement labour saving techniques and equipment. The higher cost might seem discouraging but it is only a temporary glitch or irritant. This present situation is very similar to the time when labour intensive industries were being replaced by value intensive industries to address the cost competitiveness, but which did result in the successful implementation of having value intensive industries.

It was a natural consequence but ultimately the unit cost of production would achieve the level of cost competitiveness needed. My reckoning is that companies would have no choice but to increase productivity through investments in labour saving techniques. Of course the other alternative is for them to cease business but this is unlikely. The imposition of new guidelines on MYE and other productivity measures will in my view result in the construction industry achieving better results in the longer term.

Furthermore with the reduction in foreign workers, there will be less pressure on logistics and social ills will be greatly reduced.

As a matter of fact, I could see that this transformation to higher productivity is already in motion. Precast construction, modular designs, climbing forms and other productivity enhancing techniques are happening on site. There would be higher capital expenditure initially on implementing the labour saving measures, but in the final analysis the unit cost will come down and enhanced cost competitiveness will prevail.

With the reduction in MYE entitlements, the main contractors no doubt will worry about the pricings by their subcontractors. This is understandable but the fact remains that new guidelines will be in force, and contractors and subcontractors alike have no alternative whatsoever but to manage and overcome the constraints and consequently become more productive and cost efficient. The adage “the end justifies the means” can be aptly applied here. The objective of the MYE is not to impose an unjust levy or to generate additional income for the government but rather to provide a control that becomes a means for contractors to improve productivity and to be cost efficient.

Conclusion

Minister Tan Chuan Jin has stated as follows,

“Foreign manpower is transient. They will not grow old here. Their numbers will expand or contract depending on how situations evolve over time. We will manage the manpower downwards – halving our overall labour force growth rate to 1 - 2% as mentioned earlier; and 1% thereafter in the next decade. Growth means we will no longer rely on just cheap foreign workers.

In 2012, our economy grew by 1.3%. But overall jobs growth was 4.0%, outstripping GDP growth by a considerable amount. So, it is not surprising that we ended up with negative productivity growth of 2.6%. To put it another way, we had a net increase of some 59,000 locals joining the workforce last year. Our economy generated about 130,000 jobs. The balance was filled by foreigners amounting to about 70,000”.

It is clear that reliance foreign labour has to be addressed and contractors must play their part by investing in labour saving techniques.

A former top civil servant Mr. Ngiam Tong Dow once said “Technology will drive everything” and indeed it will. It is not denied that technology is already an ubiquitous feature in our every day life. What is happening now is pure realisation of a vision of yester years.

Allow me to cite his quote, as was stated with great foresight.

Low Cost, Low Tech
Low Cost Medium Tech
High Cost Medium Tech
High Cost High Tech

To maintain a high tech economy, we cannot avoid high cost. Hence our progression to a knowledge-based economy can only be sustained when we increase our productivity. The resultant savings in labour can be effectively used elsewhere for better gain. It is imperative that we work smart and at the same time remember to increase our safety safeguards.
This is the only way to survive.

We have been less than industrious in improving our cost competitiveness and we are woefully lacking behind other countries in productivity levels. Undeniably we still have a lot to learn from countries like Japan and Australia.

Ladies and gentlemen, the above illustrates what I meant when I said market forces will dictate the characteristics of our industry. I thank you for your patience.

Seah Choo Meng is currently a Director of Langdon & Seah. He was the Executive Chairman from 1999 to 2008. Among other appointments, Choo Meng sits on a Public Listed Board and is also the Immediate Past President of the Society of Project Managers, Council Chairman of the Singapore Institute of Surveyors and Valuers, Chairman of the UniSIM Bachelor of Building and Project Management's (BBPM) Programme Advisory Committee. He is also an Accredited Mediator and a Member of the SMC's Adjudication Committee.