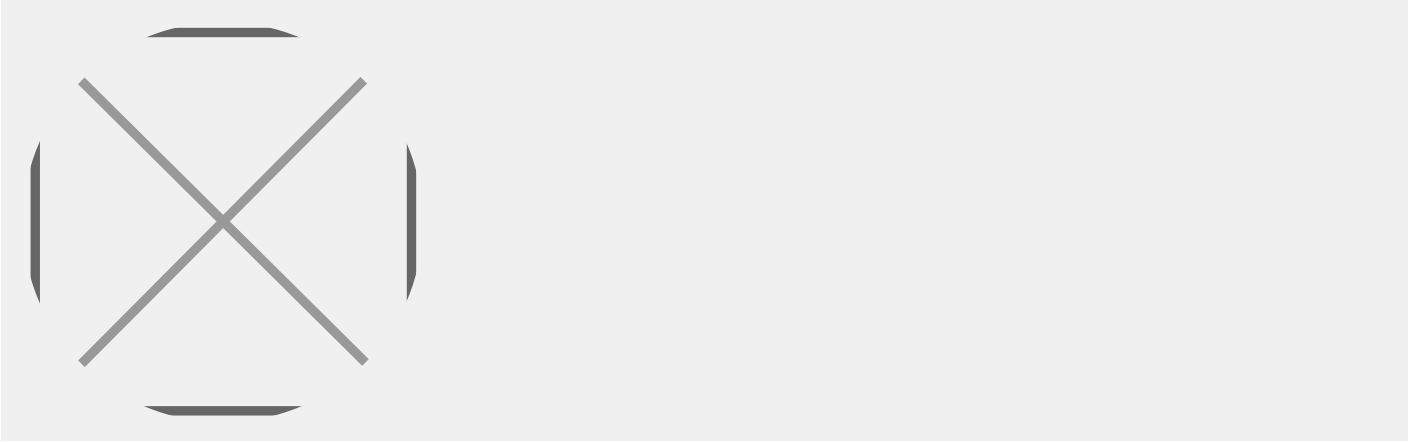
Interview with Greg Mithen, General Manager – China, Hooker Cockram – China



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Hooker Cockram is a well established company with an, impressive and rich history. Could you give us some background on both your operations in Australia and your operations in China since 1993?

Hooker Cockram is Australia's oldest construction company, in existence for 149 years. For 125 years, the firm was a lump sum, fixed price builder but as the industry has developed, construction companies have moved towards construction management and project management including design management. Thus we have expanded into these fields and today now cover the whole spectrum for our clients. There are four global divisions including Australia, America, Asia and new projects in India and the Middle East.

Our Australian operations have traditionally been based on the British model that separates the design process from the construction management process. In the Australian market we work across all industries such as government, education, pharmaceutical, and all manufacturing sectors. However, we don't do any residential or high-rise commercial construction.This is slightly different to our operations in China, where we offer an Engineering, Procurement and Construction Management (EPCM) model. This is the preferred delivery model for our clients in this market. We do a number of projects for manufacturing companies with the majority of these in the Pharmaceutical / Biological field. Our projects here in China have been for clients such as Pfizer, Novo Nordisk, GSK, Wyeth, J&J, Baxter, Stryker, Fresenius Medical Care, amongst others.

Our focus on the pharmaceutical market started about 25 years ago in Australia, This extended into China in 1993 when we won a project with Upjohn, which is now part of Pfizer, building their first plant in Suzhou. In those days, it was pioneering to complete a Sterile Manufacturing facility for a multinational company in China so we were ushered in under Pfizer's banner. At that time we were not yet a Whole Foreign Owned Enterprise (WFOE). As the industry developed we established ourselves in China with our own offices and registration. Today we are a stand alone division of Hooker Cockram. We don't think of ourselves as a truly global company, but rather one that focuses on the primary markets and growth areas of the industries we service.

How did you become so specialized in pharmaceutical projects outside of Australia?

While still a solely Australian based company ,we moved into the pharmaceutical market. About 20 years ago, our Managing Director recognized the domestic market was limited in scale, so if we wanted to continue in this niche we had to look overseas. We spoke with the same clients we were working with in Australia and offered our expertise in other locations which led to our arrival in China. The pharmaceutical industry is not our only market in China. We work with food and beverage, electronics, heavy industrial and education clients among others, but these projects are built off our initial platform. With that said, we are happy to do any project for the right client. Some great examples of this are our recent project for Alcan Cable, who required a relatively straight forward manufacturing facility in Tianjin and Fuji Xerox who were looking for a state of the art commercial fit out in downtown Shanghai. We are very capable of doing this work and will continue to do so – especially where a MNC's enters China for the first time and is a little nervous about the outcome

The anticipated healthcare reforms here in China will lead to an increase in the construction of rural health centers and an overall expansion of infrastructure in Tier 2 & 3 cities. Do you have plans to expand into this business in China and take advantage of this market?

It's definitely under consideration but Hooker Cockram is a conservative company. In some ways we are also selective in whom we work for, so depending on the structure of these projects and the suitability to our delivery methodologies we could get involved. In the past we have done design work for local companies but to date have not done any construction work for this side of the market. Our feeling is that local companies tend to appreciate the value of foreign design but believe they can use domestic construction contractors for the construction phase, without a management company. Their expectations are still high as in the pharmaceutical sector, to meet SFDA standards. In our opinion this will be difficult to achieve purely with the use local construction contractors only.

From a constructability point of view, the local market hasn't matured to the point where we feel we can deliver our benchmark service and still be profitable. Regarding design, local firms are starting

to pay international rates but the market still needs to develop for construction management services. Thus if we felt the healthcare infrastructure projects were delivered under a model where we could add-value without compromising our safety and quality standards, then we would be interested.

We will monitor the progression of these projects, but I would envisage there will be heavy foreign design input which will then be pushed toward the local general contractor market. This doesn't exclude us completely, but it restricts the value that we can contribute to the projects and does contradict our full EPCM model. Many companies sell the project management model, which means they contractually manage the project but depend on the domestic contractors to physically manage the work. This means in part that the responsibility for safety, quality, budget and schedule is pushed onto the local contractor. Some clients believe in this project management model but most of them have not built in China before. Our full service model delivers a project in precisely the same manner as the US, Australia and China, which is important for our international clients.

What are the challenges you face in terms of working to maintain international standards in your projects here in China?

In regards to producing an international facility, the correct delivery model is absolutely essential. Our EPCM model doesn't necessarily mean we do the concept design and in fact this is sometimes best done in the client's home country. However, we do encourage full management and involvement during the detail design through to construction. When it comes to construction, we prefer to avoid a single general contractor approach and rather subdivide the various activities. This setup allows us to access the specialist contractors, that have a proven track record of getting the job done correctly. This flexibility in managing who does the work is the critical factor that allows us to deliver a successful project. By default this model means we also take on responsibility of budget management and scheduling etc rather than delegating it to a third-party.

In the early 1990s, the execution model was to bring in contractors and materials from overseas. For our first project for Upjohn in 1993, we imported somewhere in the range of 50-70% of the materials including the steel. This situation would be unheard of now. At this time we also brought in the tradesmen to teach the local workers how to use these materials they had never seen before. These days all construction materials are available domestically and the skills of the local tradesmen are vastly improved. The industry has evolved quite a bit in the past 15 years.

Moreover, we cannot afford to have a failure in one of our projects and we have to keep our benchmark in safety and quality at the same level as the US and Europe. Safety is particularly important for our US clients and if you don't bid a contract with safety as your number one priority then you are not meeting their number one concern. Of course there is a high focus on quality, budget and time etc but if you deliver a project with multiple Lost Time Injuries then you can forget repeat business and your reputation in the industry as a whole will suffer.

When it comes to design there are probably a lot of specific characteristics to the Chinese market. Could you give us an example of the most important ones?

There are dozens of examples all throughout China that are unique to the country. Sometimes companies don't have the clearest vision of their facility requirements in China, so we work with them to ensure their needs are met and the product is tailored. The initial plan for many is to enter the market with a facility similar to what they may have elsewhere, but it takes time to understand the regulatory system and predict real capacity needs. We have been through the SFDA process many times, and understand the necessary steps and the relationships that have to be built along the way. Staff numbers and local lifestyle can also have a major impact on the facility design that clients need to be mindful of before deciding to copy their US or European facility.Construction Codes and SFDA rules are quite often subject to local interpretations by the various provincial authorities. When we create a design, it is done on a basis of what we believe will work in China, from our knowledge and past experience., Quite often this design will need to be adjusted after discussions with the local authorities. For example, in Jiangsu you may need a separate laundry facility where as in Tianjin we could negotiate that differently.

Another big issue in China is managing your talent, how do you maintain and retain your employee relationships especially with your top people?

Resources are probably the number one issue for running a business in China and not just in our business. Hooker Cockram relies, in the most part, on its reputation to attract the right people. As a whole, our company has a very low turnover rate so the retention issue is not as prominent as it is in the rest of the industry.

Hooker Cockrams compensation levels are considered fair. We don't want to be recognized as a company that pays the highest salaries in order to keep its staff. After 149 years of existence there is a strong company culture at Hooker Cockram; we look after our employees and offer them a career path. Just as we are selective in our clients we are selective in our staff as well and as a result we don't hire a lot of the people we interview. We believe that our new hires should have the right skills for the job, but it's sometimes more important to hire someone who fits with your company culture. You can always improve a person's skill levels and make a good engineer a better one by exposing them to different managers, different projects and training. By the time someone is in their later twenties or thirties, you will not change them as a person, so finding the right people that fit with your organization is key. As a result of this philosophy our employee turnover is under 5% whilst the average for engineering companies in China we believe is around 30% and higher.

Low turnover is a positive thing but we're not focused on achieving it. Instead we aim to have a strong, profitable company with a good company culture. We have several employees that have

been with us here for a number of years and even some that have been here since we began in China in 1993. In many ways our company history and strong culture has come to China naturally, not by intention.

If a potential employee is focused only on obtaining the highest salary, they may not be immediately attracted to Hooker Cockram. We do however offer a fair market salary, a career path and a good working environment. Moreover, we look after our staff and coordinate social activities such as company conferences, barbeques and the like. Interestingly, 10 to 15 years ago in China these kinds of extras were something most Chinese staff would not value, but today these benefits are becoming more attractive.

Over the next five years what do you foresee happening for Hooker Cockram in China, what will be the big changes?

At the moment our head office is in Shanghai with satellites in Suzhou, Tianjin, and Guangzhou. I believe we will increase our presence in Northern China as the Beijing-Tianjin area at present has a high percentage of the nation's capital investment. Shanghai-Suzhou areas and Tianjin have been great locations for Hooker Cockrams projects, but there are many other regions now that are attracting investment – we too need to expand our businesses in these directions also.

The majority of the developed area in China is along the eastern coast, so naturally things need to progress westward. We dont intend to setup an office in every city in China but we do want to service the right clients in the right industries in these locations. At the moment our Guangzhou office is relatively new and our focus is to ensure this is well established before consider something further afield. The industry is changing, and the days of working only in Shanghai-Suzhou are predominantly over: at the moment we only have one project in Shanghai.

Do you have a final message that you would like to send to the readers of Pharmaceutical Executive?

I would say to new companies that the method of project execution is critical to the successful delivery of any manufacturing facility in the Chinese market. For established companies, I would say we're here and we're ready for business. We bring with us a reputation reinforced by 16 years in China and 149 years internationally. We have a solid base of highly successful projects, quality staff and a structure that will not only support and deliver to an international level of Safety and Quality but also add value to your projects in China.

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