



**A STUDY ON DOMESTIC SUBCONTRACTOR IN KOTA BHARU : CRITICAL
ANALYSIS OF CONSTRUCTION MANAGEMENT IN HANDLING LOCAL PROJECT**

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A thesis submitted in fulfillment of the
requirement for the award of the degree of
Bachelor of Civil Engineering

Faculty of Civil Engineering & Earth Resources

Universiti Malaysia Pahang

MAY 2011

ABSTRACT

Construction project involve many parties namely the contractor, consultants, clients, suppliers, subcontractor and so on. The main contractor normally gives the works to the subcontractor to transfer the risks. The relationship between the main contractor and the subcontractor at times are problematic with the subcontractor at the mercy of the main contractor. This study is carried out to study the works generally carried out by the subcontractor and to analysis the management also the financial of the subcontractor. The study is carried out in district Kota Bharu. This study is carried out by interviews and questionnaires. The data are analyzed using statistical analysis and average index. From the study, the types of works carried out by the subcontractor are earthwork and piling works. The problems faced by the subcontractor are financial and late payment from the main contractor. The main factors that encourage the subcontractor to take the jobs are relationship network. The main sources of funding are payment from main contractor and profit from previous job.

ABSTRAK

Sesuai projek pembinaan melibatkan banyak pihak, antaranya kontraktor, perunding, pelanggan, pembekal, sub-kontraktor dan lain-lain. Kontraktor utama selalunya memberikan kerja kepada sub-kontraktor untuk mengurangkan risiko yang akan dihadapi. Sefalunya hubungan antara kontraktor utama dengan sub-kontraktor akan bermasalah kerana akan ditindas oleh kontraktor utama. Kajian ini dilakukan bagi mengenal pasti kerja yang sering dilakukan oleh sub-kontraktor, dan menganalisis sistem pengurusan dan kewangan dari pihak sub-kontraktor. Kajian ini dilakukan di daerah Kota Bharu. Kajian ini dijalankan dengan melakukan temubual dan mengemukakan beberapa soalan. Maklumat yang diperolehi dianalisis dengan menggunakan kaedah analisis pengiraan dan index purata. Daripada kajian tersebut, jenis kerja yang sering dilakukan oleh sub-kontraktor adalah kerja tanah dan kerja pemasangan cerucuk. Masalah yang dihadapi oleh sub-kontraktor adalah masalah kewangan dan kelewatan pembayaran dari pihak kontraktor utama. Perkara utama yang menyebabkan sub-kontraktor menerima tawaran kerja adalah kerana pertalian antara kontraktor utama dan subkontraktor. Punca utama yang membiayai kerja sub-kontraktor adalah pembayaran daripada kontraktor utama dan keuntungan daripada kerja sebelumnya.

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LIST OF SYMBOLS

Σ	-	Sum or total
$<$	-	Less than
\leq	-	Less or equal to
$\%$	-	Percentage

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Construction industry is a complex and important industry that involve raw material, machineries, and finance, technology and human recourses. Construction plays the main role in the development and contribution of economic to our country. It is also directly has influence to other industry in our country. This industry has fast growth from day to day and this trend shows more demand from the construction sector for infrastructure project in Malaysia.

The construction project is one of the challenging fields where it shall be done perfectly and wisely in order to prevent any problem which will delay it. The ultimate aim for any construction is to maximize the profit. So it has to manage all different level of people, from professional to un-skill worker to achieve the final result, quality product, confine completion period and minimum cost. Therefore under such complicated circumstances, problem always exist along the construction process.

Construction Industry Development Board (CIDB) and Contractor Service Centre (Pusat Khidmat Kontraktor) are the organizations that play an important role for the development of construction industry in Malaysia. They are helping the construction to produce quality and responsive structure for the demand of the country. These organizations are directly involve in maintaining the quality standard in construction.

However, the problem of the domestic subcontractor have not been given due attention. This is due to some of these contractors not being registered either with CIDB or PKK. Furthermore, the job undertaken by this domestic subcontractor is small as compare to the main contractor.

1.2 Problem Statement

In tender for the construction of a building, these are many element of the building that contractor has to carry out. For mechanical and electrical work, the works are carried out by nominated subcontractor. This subcontractor is select by the client separately by the main tender as the main contractor does not have the required head and sub-head. The main contractor will sub-let the works to their own contractor. The main aim is to transfer the risk and also to reduce capital cost need. This subcontractor known as the domestic subcontractor.

A brief interview was carried out on two of the domestic subcontractors and it was found that these subcontractors do not have proper personnel to manage their firm.

These subcontractors do not have proper agreement drafted out between the main contractor and themselves.

On many occasion, the domestic subcontractor are being bullied by the main contractor. They were paid late or not paid at all. How do these subcontractor do manage their firm? How do they carry out their work to the required scope, cost, time and quality?

1.3 Objective

The objective o the study is as follow:

1. To study the works generally carried out by the domestic subcontractor.
2. To identify the main problems face by the subcontractor.
3. To identify the main factor that encourages the domestic subcontractor to undertake the works from the main contractor.
4. To identify the main source funding the domestic subcontractors.

1.4 Scope of Work

The scopes of this study are:

1. The study is carried in the district of Kota Bharu.
2. Domestic subcontractor is selected from the local construction industry.
3. The domestic subcontractors are for building work and infrastructure only.

1.5 Research Methodology

This study is divided into two parts, which are the literature study and questionnaire. In the literature study, some the difficulty in the construction business of the subcontractor may be cover. Neither less, will the questionnaire be sending out to the target group of the subcontractor. The result will be studied then.

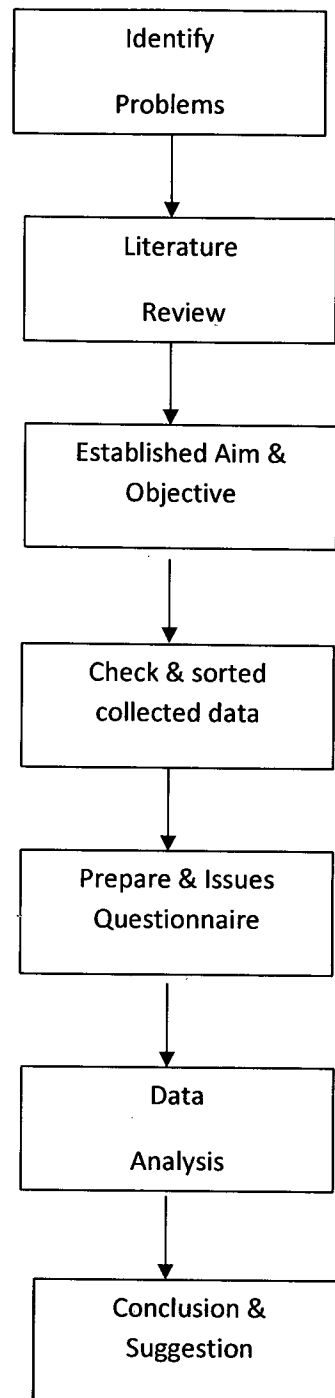


Figure 1.1 Research Methodology Flowchart

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The construction industries constitute an important element to the Malaysia economic. During the regional economic crisis in 1997-1998 the construction industry experienced a bust cycle with a sharp drop in output. However the industry has continued to show the compromising trend today. There are several indicators pointing to a further rebound in the confidence in the industry. These indicator include higher number of sales and advertising permits, rise in the number of house approve, increased production of construction material, higher new loan of approve to the construction sector and higher import of construction material and mineral. Total loan approved pick up from RM7921 million in 1999 to RM 11029 million in 2000 and increasing. The increase in confidence and activity in the construction can be attributing to a number of factors, which include the government fiscal pup priming, low interest rate environment and higher investor and consumer confidence.

For a subcontractor business, not only growth and expansion but even ongoing operation means changing. A change can make or break the whole company. Past success is not the indicator for the future success. When a company expand in size, takes on larger project or goes after project for different kind or in different territories, it required management decision to reduce the risk inherent in such change. Any weak component can be fatal component. Construction the most highly competitive and highly risk industry. If a contractor can survive a mistake, correct it and learn from it, he known something his competitors might not know. This information gives him a competitive edge.

2.2 Contractor

2.2.1 Definition of contractor

The meaning taken from OXFORD ADVANCED LEARNER DICTIONARY is a person or firm that does job or provides goods or service under contract.

2.2.2 Registration of contractor

Every contractor need to register with PKK (Contractor Service Center) in order to tender any project of federal or government Malaysia. According to the registration procedure of PKK, the related company, business, cooperation or organization which is interest to register as contractor in Malaysia is supposed to register with any one of department below:

1. Company Registration
2. Business Registration
3. Cooperation Development Department

For any contractor the company must own a minimum capital to be qualified for the class considering as shown below:

CLASS	MINIMUM COLLECTION CAPITAL(RM)
A	600, 001
B	400, 001
C	100, 001
D	35, 001
E	17, 501
F	5, 001

Figure 2.1 Minimum Capital Must be Own According to The class of The Company

These are some reasons why the application company is rejected for the registration as contractor. It was because:

1. The company fails to present relevant supporting document and additional information such as *Annual Return*.
2. The company has no appropriate management member in the technical file such as engineer.
3. Insufficient capital.
4. The company has within member who is involved in the other company which had register with PKK.

2.2.3 Problem Faced by the Contractor

Problem faced by the contractor themselves

1. Management weakness
2. Technical weakness
3. Finance management problem
4. Construction material problem

Outside problem

1. Supply of construction material

2. Relationship between government agency
3. Labor
4. Relationship with local people

2.3 Subcontractor

2.3.1 Definition

Subcontractor can be defining as one who enters into subcontract, individual or company that is hired to perform part of the work of principal contractor.

2.3.2 Responsibilities

The responsibilities are:

1. Perform well and take seriously in completing the work
2. Understand the management of the waste and recycle material before start the work.
3. Need to commit to the overall waste minimization program
4. Undergo any training program to became familiar with the requirement of the program
5. Have the all responsibilities as for the other site workers

2.3.3 Subcontracting Bidding

In the construction context, the subcontractor bid is the offer. When a subcontractor submit the bidding, is promise to render a stated performance. The general contractor will make decision to accept and likely to pay the bid price inthe request term.

For a subcontractor who is committed to a subcontract, he must know all the aspect of the contract, including the legal ramification. Normally contract is prepared by the buyer and not by the seller. His situation may put the contractors who play the role as a seller. This situation may put the subcontractor at an advantage for the owner or general contractor. There is not much a subcontractor can do to change or alter a contract to be advantage and protection.

Subcontractor too often subcontract form which are give to them by general contractor without having any knowledge of the very serious legal implication of many of subcontractor clause. They only concern about their name and the sum of money is correct before signing the subcontract form. Their neglect will create un suspected liabilities on the part of the subcontractor. Subcontractor may gain their knowledge about contract through education programs. They should be aware of the practical problems and legal pitfalls of subcontract clauses and try to negotiate changes in the clauses before signing the contract.

2.3.4 Relationship between Contractor and Subcontractor

Sometimes the client may wish to exert influence over the subcontractor employ over their project. Most standard form of building contract enable the client to select the subcontractor known as the nominated subcontractor, employed by the main contractor.

The difference between nominated and domestic subcontractor is that with domestic subcontractor, the main contractor is free to choose which subcontractor to employ and the term on which they are employ. Nominated subcontractor is selected by the client. The clients negotiate the term of the contract with subcontractor and instruct the main contractor to employ that particular subcontractor.

2.4 Nominated Subcontractor

2.4.1 Definition

Refer as all specialist, merchant, tradesmen and subcontractor who execute any work or supply any good and ho have been or are nominated or selected by the employer or engineer, shall be engage by the contractor and shall, in execution of such work or the supply of such good, be deemed to be subcontractor employed by the main contractor.

2.4.2 Provision of Subcontractor

The nominated subcontractor shall identify the contractor against liability arising from :

1. Failure of the subcontractor works to the extent the design of the works is undertaken by the nominated subcontractor.
2. Failure of the good to his extent that the good are manufactures and supplied by the nominated subcontractor.
3. Any negligence by the nominated subcontractor , his agent and employees
4. Any misuse by the nominated subcontractor of any constructional plant, temporary works or material provided by the main contract for the purpose of the contract.

Replacement of nominated subcontractor

If any intended nominated subcontractor shall refuse into the subcontract or if any reason the main contractor shall not be obligated to enter into such subcontractor to carry out and complete subcontract work. Any different between the original subcontract sum and the total cost of carrying out and completing the subcontract works shall be for the employers account.

2.5 Domestic Subcontractor

2.5.1 Definition

According to The Association General Contractor of America (AGCA), it means the independent contractor who perform the works, normally for a portion of the work