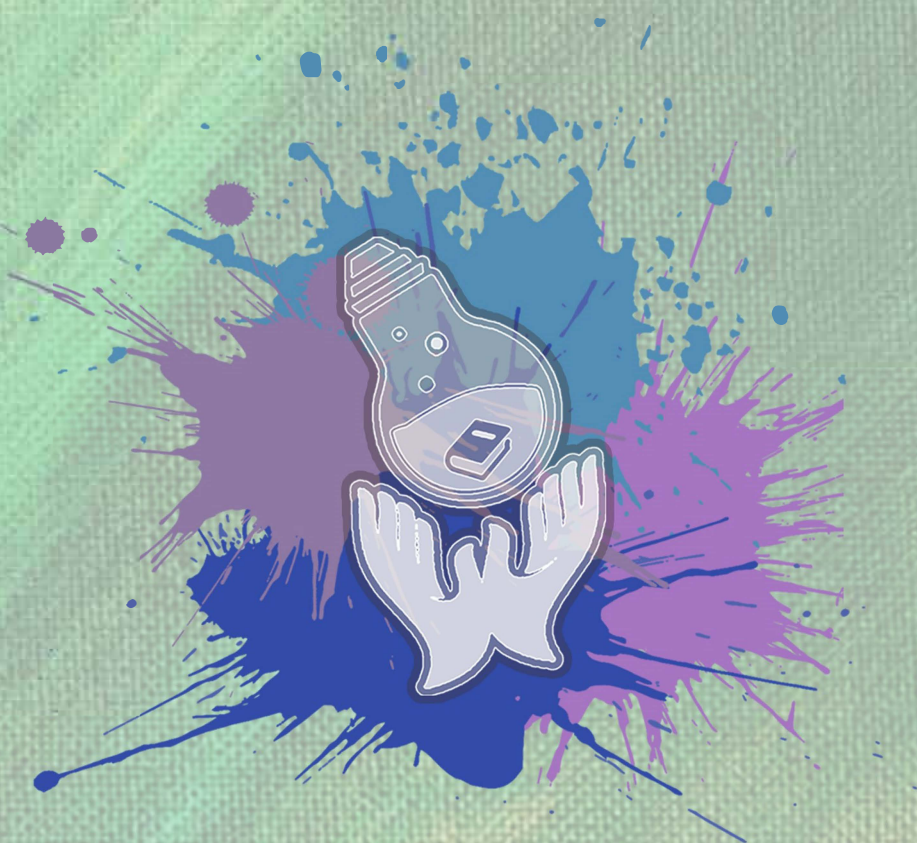




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FACTORS THAT INFLUENCING PAYMENT DISPUTES IN SUBCONTRACTING PROCUREMENT

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Abstract:

Construction disputes are common in the industry because involvement of various parties in a project. Because of that, the dispute occurs especially for payment to the subcontractors. Payment disputes occurs when a business have been provided by one side, but the other side refuse to pay the amount based on the work done by the other side. Even though our government has introduced many rules and obligation that have in form of subcontract to solve the problem of payment disputes, there are still many cases where the sub-contractors received the payment late than usual. The objective of this research is to identify the main factors of payment disputes from the main contractor to the subcontractors in the subcontracting procurement. The target respondent for this research is subcontractors from the grade G7 at the Klang, Selangor. The result was in form of descriptive statistics where the mean of each variable was identified by analyzing the data with the latest version of SPSS 25. The result indicates that factors influencing payment disputes is different by each party involved. This paper can contribute to the main factors towards the payment disputes in subcontracting procurement.

Keywords:

Payment disputes; Subcontracting Procurement

1.0 INTRODUCTION

Construction disputes are common in the industry because involvement of various parties in a project. Regardless, dispute also ensue in subcontract between main contractor and subcontractor. A dispute with a subcontractor is usually around contracts, payments disallowed costs and/or quality of the work done. The major problems that keep happen is payment disputes (Nor *et al.* 2014). This statement can be supported by Judi & Abdul (2010) said that it is often to hear the whether the main contractor or subcontractor will complaining of either not getting paid although have done the job and payment delayed by the employer. This can be supported by the survey that has been conducted by the CIDB about the payment disputes happens to contractors and sub-contractors. The percentage shows about 44.1% of the contractors had encountered with the late payment with the government as the client.

2.0 LITERATURE REVIEW

2.1 Subcontracting Procurement

Approximately about 90% of the total value of the construction is done by the subcontractors (Hartmann & Caerteling, 2010). It have been stated that the subcontracting system is economical and efficient in the use of the available resources (Arditi *et al.*, 2005). In Malaysia, the subcontracting procurement between main-contractors and sub-contractors must be in the standard form which is JKR 203A, PAM 2006, and CIDB 2000. Nevertheless, the subcontracting procurement also has the issue with the timeliness of payment by the main contractor, clauses added pay-when-paid, and the process to selecting the subcontractor.

2.2 Payment disputes

Payment disputes occurs when a business have been provided by one side, but the other side refuse to pay (Mohd Khairul Anas *et al.* 2016). Master Builders Association of Malaysia had conducted a survey from the contractors and sub-contractors to examine about the payment disputes, and 80.3% indicated they have encountered with the payment disputes (MBAM, 2005).

2.3 Factors of Payment Disputes

The first factor of payment disputes by the client is don't satisfy with the performance of the contractor or subcontractor. This poor performance of contractors has huge implications in terms of their competitiveness (Zulu & Chileshe., 2008). Besides, factors of payment disputes by consultant is S. O's/ Architect's disagree on the valuation of work done. When contractors fail to agree with valuation of work at site, it will leads to conflicts, and the claims process will be late (Mohamad *et al.*, 2012).

3.0 METHODOLOGY

The target respondent for this study is subcontractors from the grade G7 in Klang. They will be selected randomly by using the simple random sampling method. The questionnaire comprises of two (2) sections which are Section A: Background of Respondent and Section B: Main Factor that Contribute the Payment Disputes in Subcontracting Procurement. Out of the 200 questionnaires, 134 were collected, which represents a response rate of around 67%. This total is highly recommended by Krejchi and Morgan (1970) which suggested the ideal number of a population in sample would be 136.

4.0 ANALYSIS AND FINDINGS

Table 1: Client factors that contribute the payment disputes in subcontracting procurement

	Ranking	Mean	Std. Deviation
Don't satisfy with the performance of main contractor/ subcontractor	1	5.3507	.89491
Client withholding the payment to main contractor	2	5.2761	.83524
Poor decision by client	3	5.2090	.81411
Poor financial management	4	5.1716	.78065
Request the additional provision about payment from consultant	5	4.5672	1.03653

From the table 1, the result shows the main factor of payment dispute by client is they don't satisfy with the performance of main contractor/ subcontractor which made 5.35. It is agreed by previous study Mirawati *et al.* (2015) that performance of parties can affect the relationship between them in the construction period.

Table 2: Consultant factors that contribute the payment disputes in subcontracting procurement

	Ranking	Mean	Std. Deviation
S. O's/ Architect's disagree on the valuation of work done	1	5.3806	.70225
Lack of consultant skills and experience to solve problems	2	5.3134	.82642
Delay on Certification after received subcontractor's claim	3	5.2313	.84883
Quantity Surveyor delay or late in finalizing of payment	4	4.9851	.87561
Subcontract provisions about payment	5	4.9552	.79345

From the table 2 the result shows the main factor of payment dispute by consultant is S. O's/ Architect's disagree on the valuation of work done which made 5.38. It is agreed by Natasha (2014) that it is a normal situation in the project where contracting parties disagrees about the valuation of work done.

Table 3: Main contractor factors that contribute the payment disputes in subcontracting procurement

	Ranking	Mean	Std. Deviation
Main contractor withholding the payment to subcontractor	1	5.4478	.75161
Underpayment of certified amounts by the main contractor	2	5.2164	.73946
Conflict among parties involved such as Main contractor and Sub contractors	3	5.0970	.67020
Don't satisfy by the performance of subcontractor	4	5.0373	.73991
Contractor's default such as not research client ability to pay when tender for project	5	4.6716	1.25522

From the table 3 the result shows the main factor of payment dispute by main contractor is main contractor withholding the payment to subcontractor which made 5.45. It is agreed by Natasha (2014) that pay when paid method is used by the main contractor to protect their interest in term of payment, but can cause the payment disputes issues, especially to the subcontractor.

Table 4: Subcontractor factors that contribute the payment disputes in subcontracting procurement

	Ranking	Mean	Std. Deviation
Subcontractor have conflict with the main contractor	1	5.2687	.66224
Subcontractor default such as not research main contractor profile towards payment when tender for project	2	4.8657	.94822
Not read the clause in subcontract carefully	3	4.7463	.88161
Low performance works by subcontractor	4	4.6343	1.05873
Not calculate the risk evenly when tendering the project	5	4.6343	.89729

From the table 4 the result shows the main factor of payment disputes by subcontractor is subcontractor have conflict with the main contractor which made 5.27. Based on Jaffar *et al.* (2011), conflict occurs when parties involved fails to understand the responsibilities under the subcontract.

5.0 CONCLUSION

The findings show that majority of the respondents were come from Grade G7 subcontractor company. The research proved that the main factor of payment disputes will be different based on the parties involved. Thus, the level of awareness of effect on late and non-payment should be developed and increased through adjudication and arbitration approach. By highlighting the factors extracted, the payment disputes in subcontracting procurement could be solved successfully together with CIPAA implementation.

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