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Risks of Abandonment in Residential Projects Caused by Subcontractors

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Abstract

Implementation housing policies for new homebuyer had triggered construction activities and demands in residential projects. However, many residential projects were either uncompleted or abandoned. The abandonment in residential construction projects was seriously concerned by government. The study investigated the risks of abandonment in residential construction projects which were caused by subcontractors. The surveyed was collated through reviewing of existing literatures, personal interview and questionnaire which data were formed. The questionnaires were sent out with the return rate of 74.15%. The quantitative method was introduced to obtain data for analysis. The data gathered included in the main six categories of the research. The results showed that delays in interim payments, financial difficulties faced by the owner, financial difficulties faced by the contractor, incompetent contractors or subcontractors, instability in politics were the most important factor which caused abandonment in construction residential projects. The research suggested that owners and contractors need for strengthening on selection of merit subcontractor. It helped to minimise and mitigate these identified risks factor caused abandonment in residential construction project.

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1. Introduction

Subcontractor is responsible for adhering to completion dates and project specifications. However, subcontractors are vulnerable to risk of managing their own work as well as risk borne from subcontractor's failure to performance. Creating protection mechanism such as subcontract bonds, surety industry and subcontractor default insurance (SDI), it helps to mitigate subcontractor default risks through a process of subcontractor prequalification¹. In Thailand, it is rarely to be found that subcontractor submits financial instruments liabilities to main contractor against their defaults. The costs of subcontractor default are significant when it is compared with their agreed payment from main contractor. Addition, a main contractor often goes to great lengths to avoid terminating a subcontractor during construction stage. This includes on renegotiating the contract, reducing the scope of the subcontractor's work, providing supplemental staffing, assisting with payroll and directly procuring equipment or materials. Alleviating subcontractor problems continually, it causes main contractor significant sums of payment and additional of time. It is often to be seen that subcontractor is forced to leave before their works are completed. Consequence, the performance of main contractor is declined² and quality of work is defected³. The payment was eventually ceased. Especially, main contractor who offered the lowest bid to owner or lack of experience in manage unforeseen problems. These main contractors are likely to breach the contract and abandon construction project. The article present focused on risk factors caused abandonment in residential construction projects which are solely caused by subcontractors.

2. Literature reviews

Construction projects involve many construction practitioners (owner, consultant, main contractor and subcontractor). Identifying damage in the construction works can be literally done by project manager. However, the lost or damaged is not always straightforward even responsibility of each party is clearly allocated. It is common practice for the majority of the work to be subcontracted to subcontractor while main contractor manages a contract (Matthews et al., 1997). The Civil law in Thailand does not specific the passing of risks from subcontractor up to their employer when loss or damage is found. It does not specifically address subcontractor's liability which provides guidance for claims. Those risks are assumed by the main contractor under the agreement contract between main contractor and owner which is passed down to the subcontractor. The issue of abandonment construction projects is becoming norm in Thailand⁴. The abandoned projects are range from building, highway, water irrigation, industrial structure, and so on. When making a decision on selecting either main contractor or subcontractor to provide a service, both owner and main contractor use the common decision criterion in selecting. That is of the lowest price⁵ and familiarity. The improper of selecting a main contractor or subcontractor leads not only to problems during construction, but also several unexpected situations occur during the initial exploitation phase. The other causes of project abandonment were government policies⁶, unsuitable location⁷, misunderstanding of the work requirement⁸, poor quality control by regulatory agencies⁹. Addition, main contractor and consultant team seldom to monitor and measure the performance of subcontractors in a systematic manner¹⁰. For residential projects, several of home buyer victims are reportedly every year. The down payment of home buyer was lost by abandoned contractors¹¹. The home buyers cannot move in to their purchased properties but home buyers still have obligation to pay loan back to the bank^{12,13}. A good subcontractor will complete and delivery a promised works within the given timeframe and budget¹⁴. There is a need to monitor subcontractor performance more closely¹⁵. The determination to improve the practice of subcontractor performance will ease or prevent the occurrence of abandoned construction project, Addition, it will also help to protect the home buyers from the downfall of subcontractor default.

3. Methodology

This study was descriptive, designed to obtain point of view from construction practitioner (owner, consultant, contractor and subcontractor) in regard to risk of abandoned construction potentially transferred in residential projects by subcontractors. In order to identify the risks of abandoned construction potentially transferred by subcontractor, the questionnaire approach was adopted. Expert's opinions were collected during survey. In this survey, semi-structured interviews with construction practitioners involved in residential construction projects were conducted. The selected interviewees for survey were comprised of twelve experts who familiar with abandonment in construction

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