The cidb Construction Industry Indicators Summary Results

2012

development through partnership

The cidb Construction Industry Indicators (CIIs) are measures of the performance of the industry, focusing on clients, the client's agent / consultant and contractors. The CIIs have been captured annually since 2003, and are currently being captured by the cidb in partnership with the Department of Quantity Surveying and Construction Management of the University of the Free State.

The Construction Industry Development Board

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Summary Results: 2012

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The summary results presented in this publication reflect selected indicators measured for projects completed in the 2011 calendar year. The survey results were obtained from client for 498 construction projects, and for contractors and sub-contractors on 1006 projects across all nine provinces. The indicators presented here cover:

- client satisfaction;
- contractor satisfaction;
- profitability and payment delays;
- procurement indicators; and
- health and safety.

Key Focus areas – the "*bottom 30%*":
As in previous years, while the overall performance results for the industry are encouraging, and in many cases show an improvement over previous years, the challenge is to raise the performance of the industry as a whole, and in particular the performance of "*the bottom 30%*":

- Clients were neutral or dissatisfied with the performance of contractors on 13% of the projects surveyed in 2012.
- Around 9% of the projects surveyed had levels of defects which are regarded as inappropriate.
- Contractors were neutral or dissatisfied with the performance of clients on 24% of the projects surveyed.
- Contractors were neutral or dissatisfied with the quality of tender documents and specifications obtained from clients on around 26% of the projects surveyed.
- Contractors were neutral or dissatisfied with the management of variation orders on 30% of the projects surveyed.
- 52% of payments to contractors were made in 30 days or longer after invoicing.
- Quality (or functionality) was not taken into account in the adjudication of tenders on around 51% of public sector projects.
- Around 13% of the recommendations of the tender committee were overruled in the award of public sector projects.
- Around 11% of projects surveyed in the public sector were undertaken using contract documents other than those recommended in the cidb's Standard for Uniformity.
- Safety on building and construction sites as well as transportation to the sites remains a concern.

Performance Improvement; Why is it Important?

What is client satisfaction?

The level of satisfaction of a client with a contractor's performance on a project is an important indicator (or measure) of the contractor's ability to execute and complete a project within the required expectations of the client. "*Feedback is the food of champions*", and it is important for contractors to get feedback from clients on their projects so that they can improve their performance on future projects. These CIIs represent an aggregated industry view of the satisfaction of clients, contractors and the client's agent.

Why is it important to improve?

The contractor's survival depends on repeat work from clients, which is linked to the contractor's performance on past projects. Contractors need to provide value for money to the client, as many clients are no longer awarding contracts on the lowest tender price, but also include the performance of the contractor on past contracts.

Contractors who improve their performance and, typically, who are above the industry norm will have a competitive advantage over their competitors. Contractors will also be able to complete the projects in less time, at less cost and higher quality and adding value for money to the client and higher profit margins for contractors.

> *"Clients in construction want their projects delivered on time, on budget, free from defects, efficiently, right the first time, safely and by profitable companies. Regular clients expect continuous improvement from their construction team to achieve year on year reductions in project cost and reductions in project time."*
>
> *Movement for Innovation (M4I), UK*

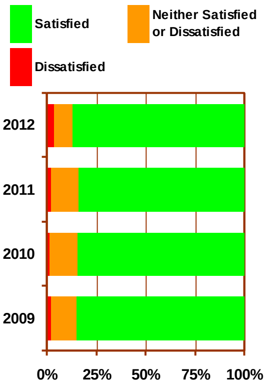
These are but a few benefits that are possible through improved practice.

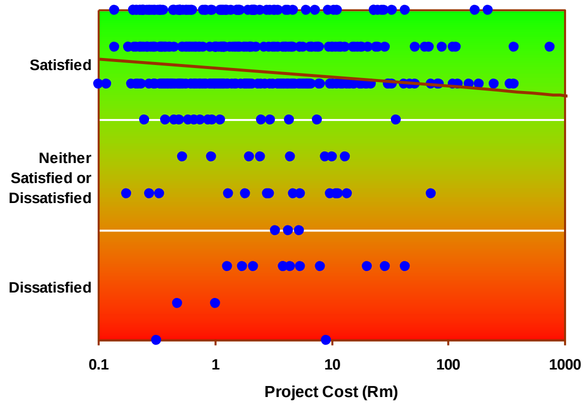
By capturing and publishing these CIIs, the cidb's aim is to encourage the construction industry and its supply chain to strive to improve their performance.

Client Satisfaction

Performance of the agent / consultants' team: Clients were satisfied with the overall performance of the agent employed on 87% of the projects surveyed in 2012. On the other hand, clients were neutral (i.e. neither satisfied nor dissatisfied) or dissatisfied on 13% of the projects. This shows an improvement over previous results.

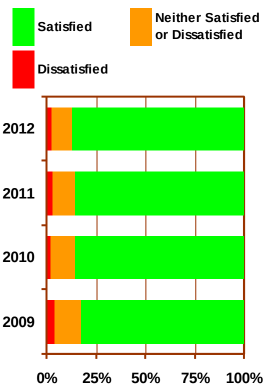
A slight decrease in client satisfaction with the client's agent was recorded with increasing project size. However, the variation in client satisfaction was smaller with the larger projects.

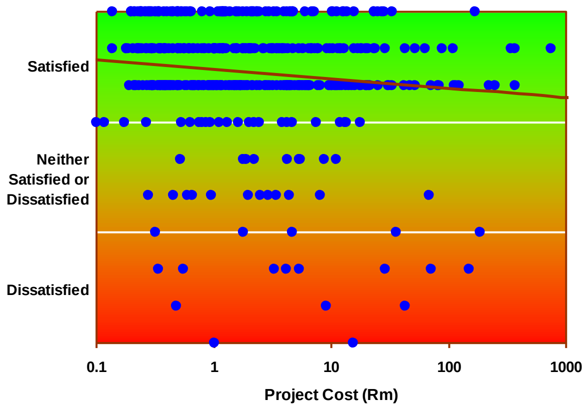




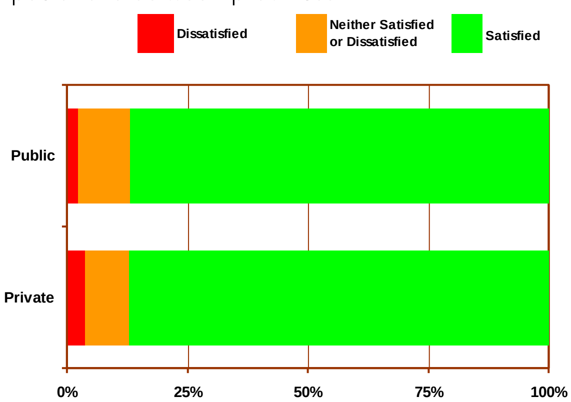
Performance of the contractor: Clients were satisfied with the overall performance of the contractor employed on 87% of the projects surveyed in 2012. On the other hand, clients were neutral or dissatisfied on 13% of the projects. As shown below, the client satisfaction results observed in the 2012 shown a slight improvement over previous results.

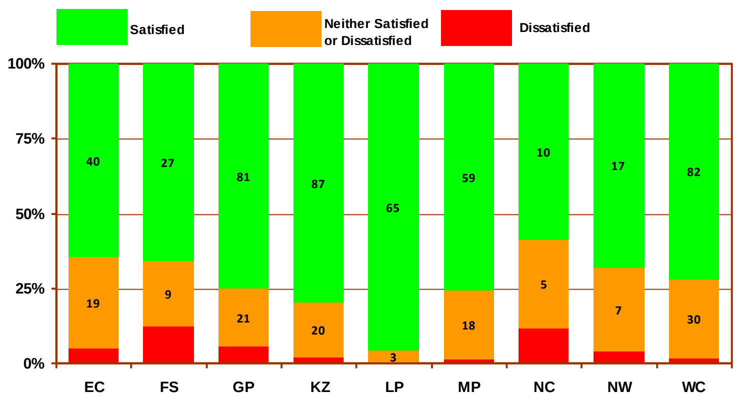
Client satisfaction with the overall performance of the contractor decreased noticeably with increasing project size, although the variation in client satisfaction was smaller on larger projects (i.e. the performance is more consistence on large projects). The decreasing client satisfaction with increasing project size may reflect the complexity of larger contracts and/or may be attributable to the fact that clients may be more discerning on larger projects.



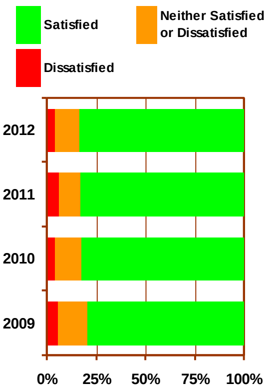


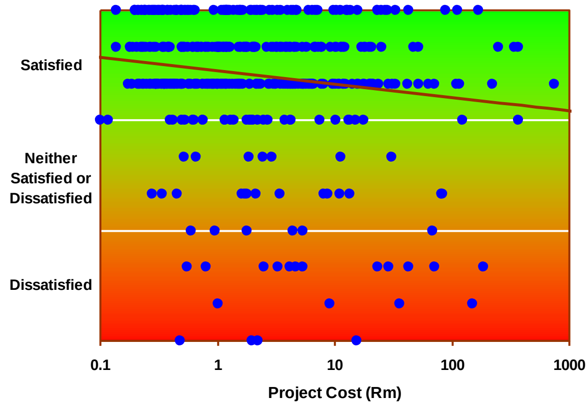
Although the level of client satisfaction with the overall performance of the contractor in the 2012 survey is same in the public and the private sectors, the private sector has slightly higher levels of dissatisfaction. A breakdown of public sector client satisfaction with the overall performance of the contractor employed shows that client satisfaction was highest in Mpumalanga followed by Limpopo. These differences in client satisfaction with the overall performance of the contractor between provinces are likely to reflect both differences in the performance of contractors and differences in client expectations between provinces.



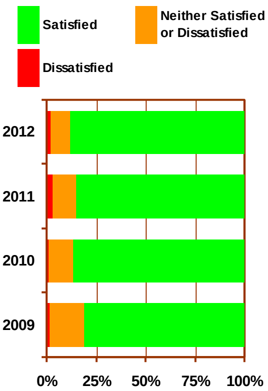


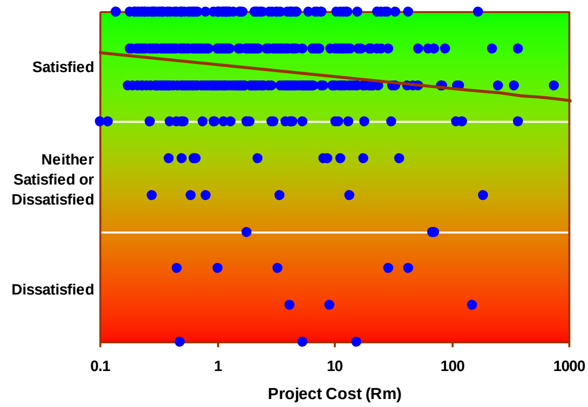
Construction schedule: Clients were satisfied that contractors completed the project within the tendered construction schedule (excluding the impact of variation orders) on 83% of the projects surveyed in 2012, and were neutral or dissatisfied with the construction schedule on 17% of the projects.





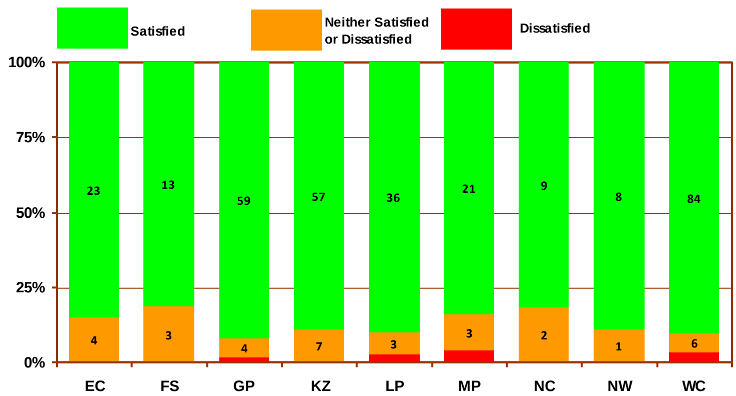
Quality of work delivered: Overall, clients were satisfied with the quality of the completed work at handover on 88% of the projects, and were neutral or dissatisfied on 12% of the projects surveyed in 2012. This reflects a slight increase in client satisfaction on the quality of work delivered in the 2012 survey compared to the 2011 survey.





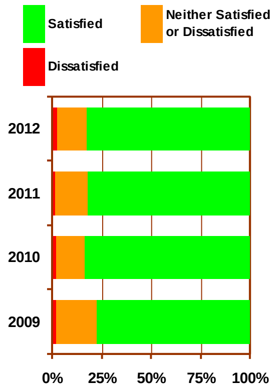
A breakdown of client satisfaction in the public sector with the overall quality of the completed work at handover shows that client satisfaction was highest in Gauteng followed by Limpopo and KwaZulu-Natal. Similarly, clients are least satisfied with the quality of the completed work in the Northern Cape (which could be due to limited data), followed by the Free State, Mpumalanga and the Eastern Cape province.

Again, it should be noted that the differences in client satisfaction between the provinces reflects both differences in the overall quality of the completed work at handover and differences in client expectations of quality.

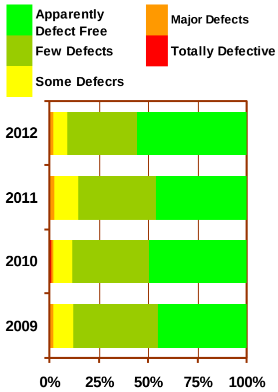


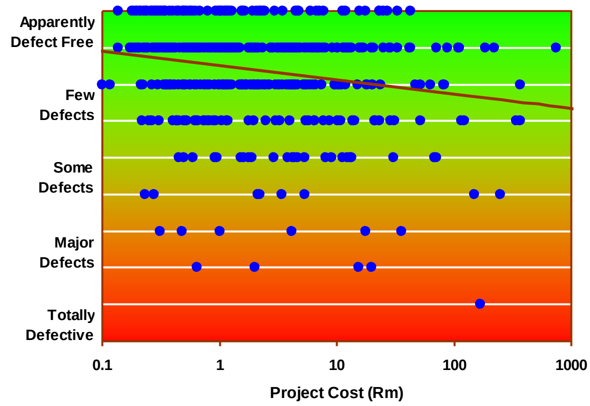
Resolution of defects: Clients were satisfied with the resolution of defective work during the construction period on 82% of the projects surveyed in 2012, and were neutral or dissatisfied on 18% of the projects surveyed. Satisfaction with the resolution of defects observed in the 2012 survey is significantly better that than observed in the 2009 survey, and a slight increase over the 2011 survey.

As with most aspects of client satisfaction with the performance of contractors, client satisfaction with the resolution of defects also tended to decrease with increasing project size.



Level of defects: Around 91% of projects surveyed in 2012 were "apparently defect free" or had "few defects" at practical completion / handover, 7% of facilities had "some defects", and 2% had "major defects" or were "totally defective". The results in the level of defects shows significant improvement compared to the 2011 survey results.





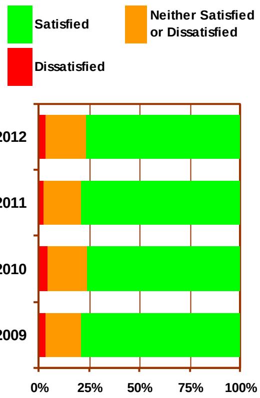
Client satisfaction is a key factor in determining client loyalty and repeat business in the private sector. Quality is also increasingly being taken into account in the tender adjudication process in the public sector – and the cidb continues to advocate for the use of quality to be taken into account in the tender adjudication process.

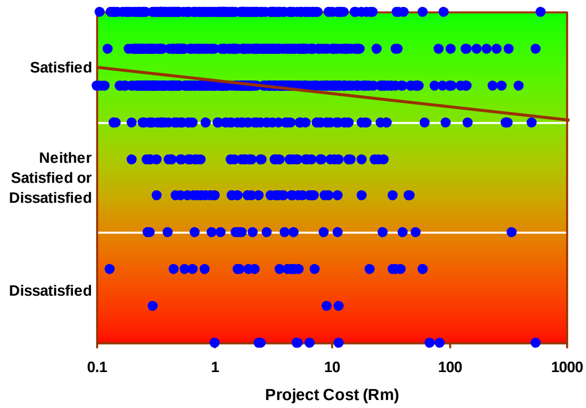
While the overall results for client satisfaction continue to remain encouraging, clients remain neutral or dissatisfied with the performance of the client's agents and contractors on around 13% of projects surveyed. These organisations should better manage their performance as it could substantially influence their ability to attract repeat business.

Of interest, it appears that public sector clients in Mpumalanga and Limpopo provinces are most satisfied with the overall performance of contractors and with the quality of completed work at handover, but it should be noted that client satisfaction reflects both the perceptions of clients of the overall quality of the work of contractors and the clients' own expectations of quality.

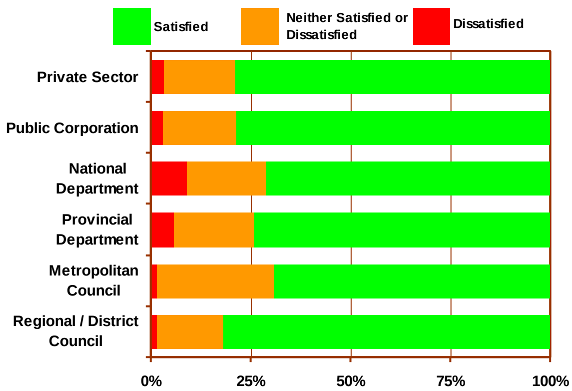
Contractor Satisfaction

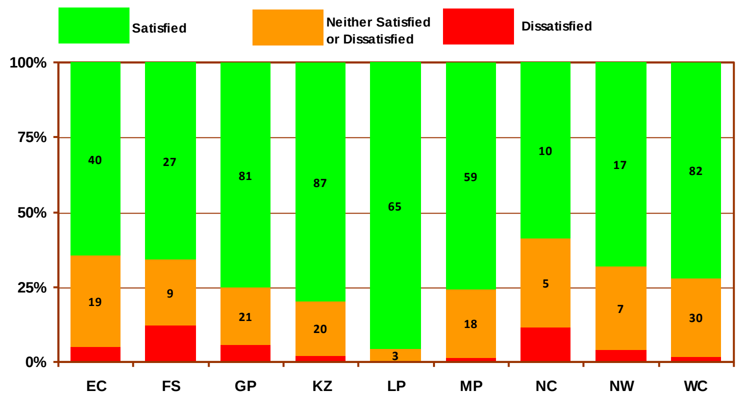
Performance of the client: Contractors rated the performance of clients as satisfactory on 76% of the projects surveyed in 2012, and were neutral or dissatisfied with the performance of the client on 24% of the projects surveyed. Contractor satisfaction with the performance of the client appears to have decreased when compared to the 2011 survey results. Of significance is that contractors' satisfaction with the performance of the client decreased significantly with increasing contract size.



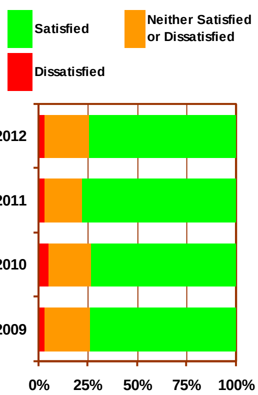


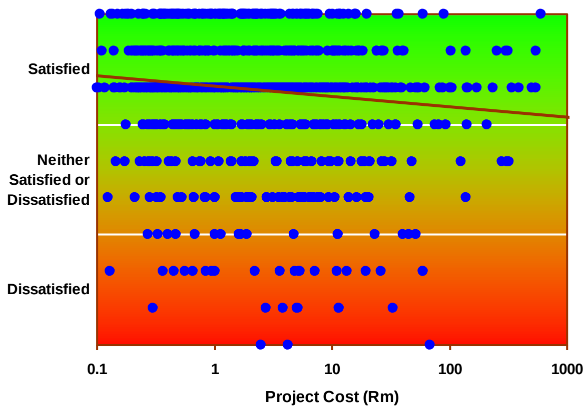
Contractor satisfaction with the performance of the client was highest with regional/district councils, public corporations, private sector, lowest in the national department and metropolitan councils. Furthermore, contractor satisfaction with the performance of public sector clients was highest in Limpopo followed by KwaZulu-Natal and Mpumalanga. Contractor satisfaction was lowest in the Eastern Cape, Free State and the Northern Cape. However, it is again important to stress that the differences in contractor satisfaction between provinces is context specific, and conclusions should not necessarily be drawn such as whether the performance of clients in one province is necessarily higher that the performance of clients in another province. However, it is important to understand the underlying reasons for such perceptions of contractor performance of clients – many of which are highlighted in the following sections.



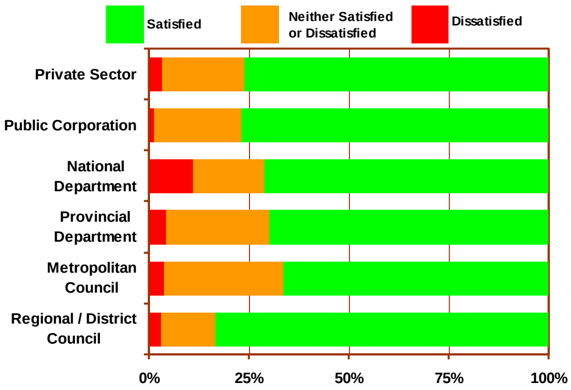


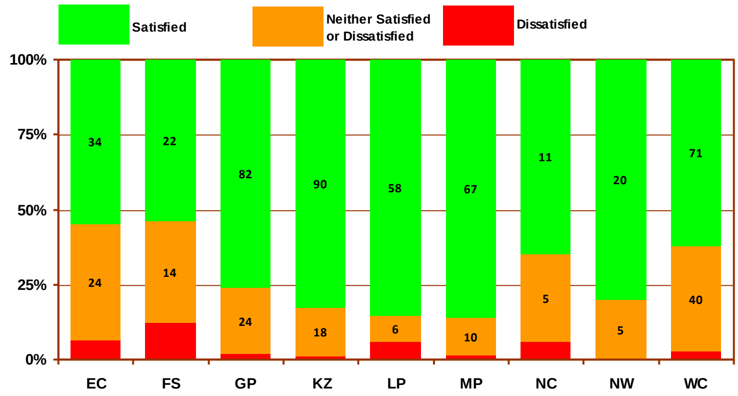
Quality of tender documents and specifications: Contractors rated the quality of tender documents and specifications of clients as satisfactory on 74% of the projects surveyed in 2012, and were neutral or dissatisfied on 26% of the projects. Again, a noticeable decrease in satisfaction was observed with increasing project size.



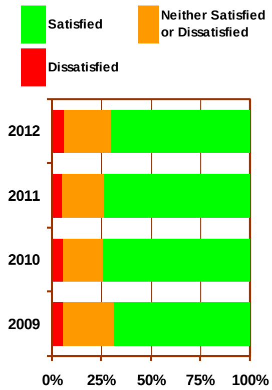


Contractor satisfaction with the quality of tender documents and specifications was highest for regional/district councils and public corporations – although this trend has shown quite significant changes from survey to survey. Furthermore, contractor satisfaction with the quality of documentation on public sector projects was lowest in the Eastern Cape, Free State and the Western Cape.





Management of variation orders: Contractors were satisfied with the management of variation orders on 70% of the projects surveyed in 2012, but were neutral or dissatisfied on 30% of the projects. Contractor satisfaction with the management of variation orders has somewhat decreased when compared to the 2011 survey results.

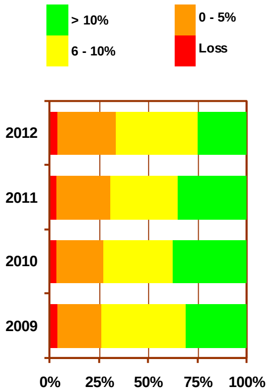


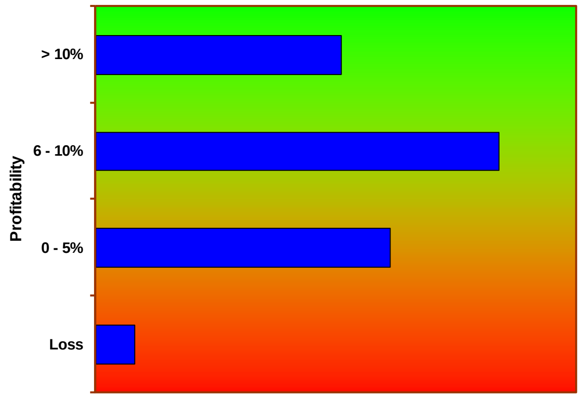
The 2012 survey results indicate a slight decrease in the levels of contractor satisfaction with the overall performance of the client and the quality of documents and specifications. The dissatisfaction of contractors with the quality of tender documents and specifications as well as the management of variation orders could be a reflection of the procurement capability of clients and their agents.

There is a noticeable miss-match between the perceptions of the satisfaction of clients with the performance of contractors, and the satisfaction of contractors with the performance of clients on larger projects – with contractors being less satisfied with the performance of clients than clients are with the performance of contractors.

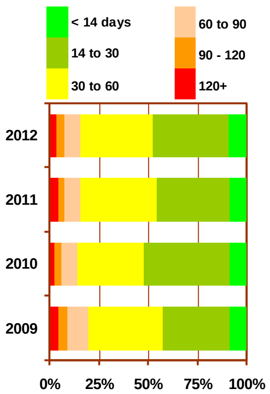
Economic Indicators

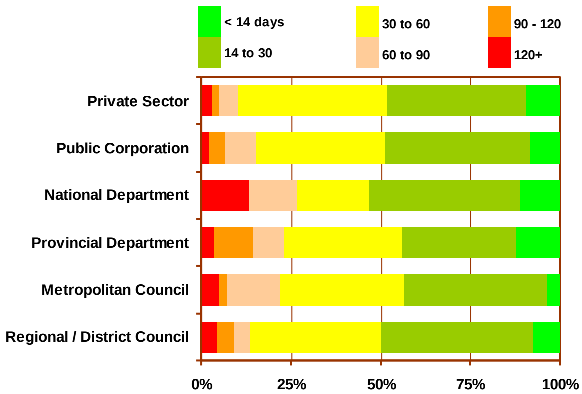
Profitability: Contractors achieved profit margins of greater than 10% on 25% of the projects survey in 2012, while 41% of projects surveyed were undertaken at profit margins of around 5% to 10%. Of the projects surveyed in 2012 only 4% made a loss. The profitability of contractors shows a deterioration compared to 2010 and 2011 surveys, and is attributed to the worsening economic conditions in 2011.



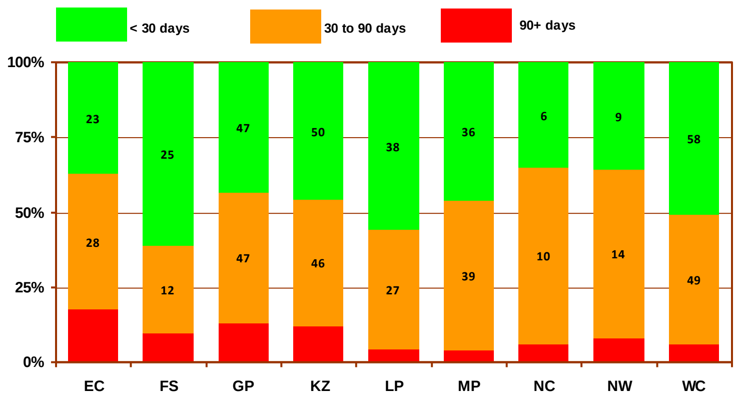


Payment of Contractors: In the 2012 survey, 48% of payments to contractors were made within 30 days of invoicing, 45% between 30 to 90 days, and 8% over 90 days. Within the public sector, national departments and regional/district councils had the highest payment rates of within 30 days or less.

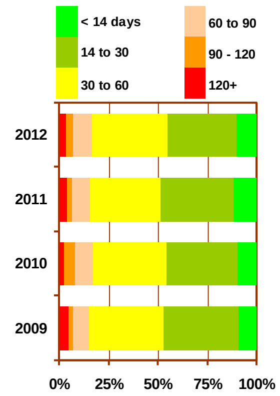


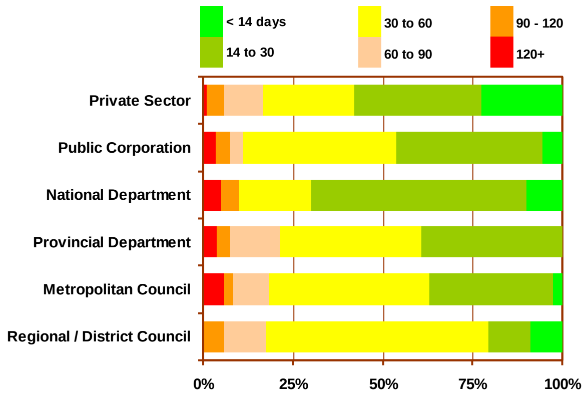


Within the public sector, payment rates are reasonably consistent across all the provinces, but with the highest rate of payments within 30 days taking place in the Free State, Limpopo and the Western Cape.



Payment of Client's Agent: In the 2012 survey, 45% of payments were made to the client's agent within 30 days of invoicing, 48% between 30 to 90 days, and 7% over 90 days. No significant improvement in the payment of the client's agent has been observed since 2009. Within the general government sector, payment turnover rates are lowest within regional / district councils and metropolitan councils.



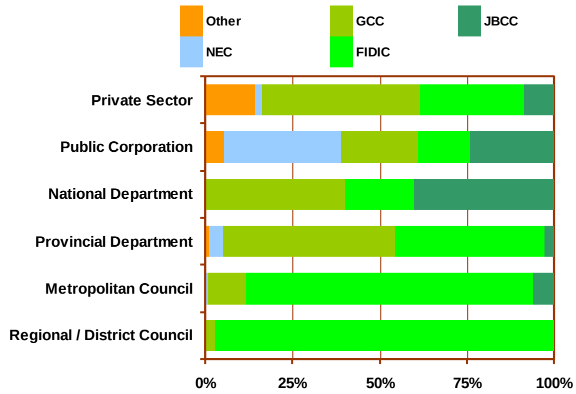


There has been a noticeable increase on the payment delays for both contractors and the client's agent when compared to the 2011 survey results.

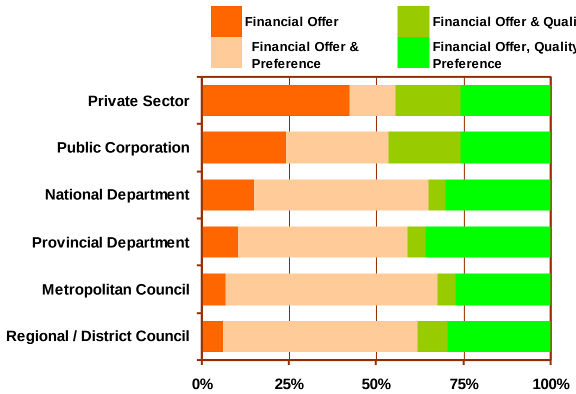
According to the survey results, the number of contractors who made more than 10% profit has decreased from 35% in the 2011 survey to 25% in the 2012 survey, but the profit margins of between 6% to 10% have increased from 34% to 41%. The lowering of profit margins is likely to be due to difficult economic conditions.

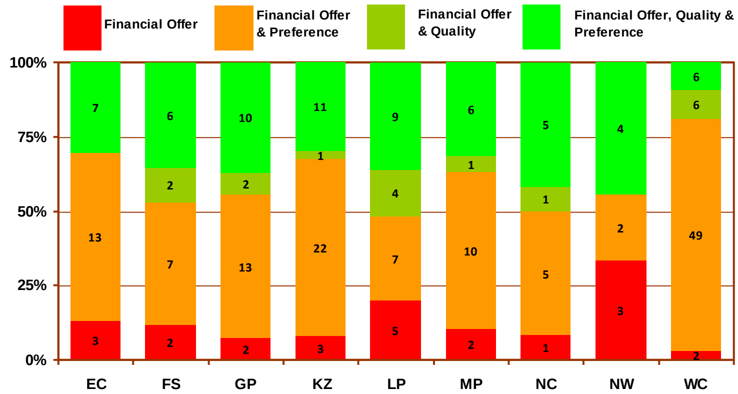
Procurement Indicators

General Conditions of Contract: The results of the 2012 survey show that, overall, the majority of projects were undertaken with contract documents that are in accordance with the cidb's Standard for Uniformity. There has been an improvement on the compliance with the cidb requirements for contract documents.

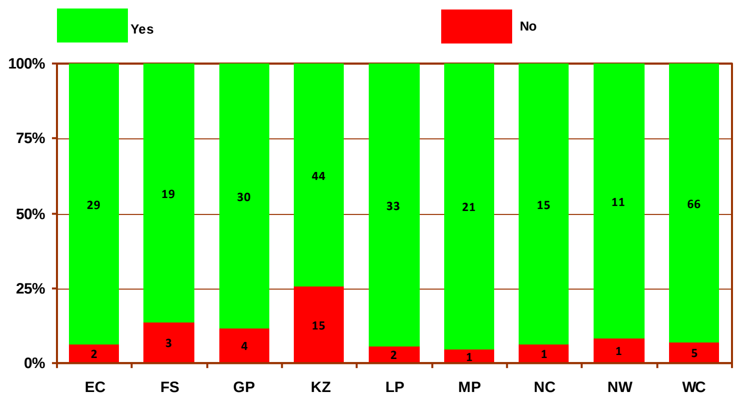


Adjudication of tenders: The results of the 2012 survey show that quality (or functionality) was taken into account in the adjudication of tenders on around 45% to 60% of projects in the private sector, public corporations and provincial departments. Of interest is that an improvement is noticeable in that quality (or functionality) was taken into account in the adjudication of around 30% to 40% of projects in the national departments, and metropolitan and regional /district councils. Furthermore, there is an apparent low application of quality in the adjudication of tenders in the Western Cape, KwaZulu-Natal, Eastern Cape and Mpumalanga.





A further assessment of tender adjudication on public sector projects is the award of tenders in accordance with the tender committee's recommendations. The results of the 2012 survey indicate that overruling the recommendations of the tender committee in the public sector appears to be most prevalent in KwaZulu-Natal and to a lesser extent in the Free State.

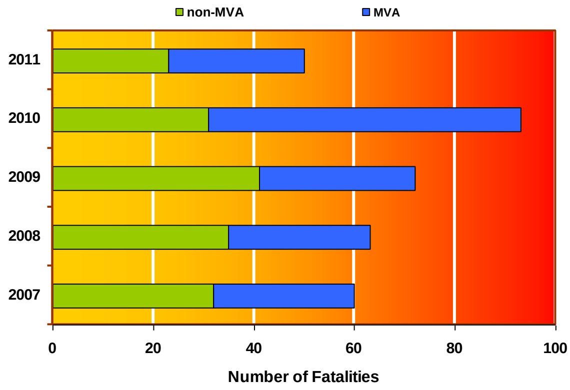


There has been a noticeable increase on the evaluation of quality (or functionality) in the adjudication of tenders in the public sector.

Of concern is the apparent overturning of public sector tender committee recommendations in KwaZulu-Natal.

Health & Safety Indicators

Health & Safety: Construction related injuries and fatalities remains unacceptably high. Records of Health and Safety claims by the Federated Employers' Mutual Assurance Company Limited (FEMA) for 2007 to 2011 (corresponding to the 2008 to 2012 surveys) show a decrease in both the number of MVA (Motor Vehicle Accidents) and non-MVA fatalities. Non-MVA fatalities in fact continued to decline from 2009.



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