Construction Industry Development Board

DEVELOPMENT THROUGH PARTNERSHIP

The cidb Construction Industry Indicators: Summary Results

2014

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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 summary results presented in this publication reflect selected indicators measured for projects completed in the 2013 calendar year. The survey results were obtained from clients for 535 construction projects, and for contractors and sub-contractors on 1 519 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 16% of the projects surveyed in 2014 – which reflects a slight but noticeable decrease compared to the 2013 survey results.
- Around 18% of the projects surveyed had levels of defects which are regarded as inappropriate – which reflects a slight decrease compared to the 2013 survey results..
- Contractors were neutral or dissatisfied with the performance of clients on 20% of the projects surveyed.
- Contractors were neutral or dissatisfied with the quality of tender documents and specifications obtained from clients on around 22% of the projects surveyed.
- Contractors were neutral or dissatisfied with the management of variation orders on 25% of the projects surveyed.
- 42% of payments to contractors were made in 30 days or longer after invoicing.
- Quality (or functionality) was not taken into account in the adjudication on around 45% of tenders evaluated.
- The recommendations of the tender committee were overruled in the award of around 12% of public sector projects – with overruling of tender recommendations highest in Limpopo.
- Only 3% 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.

The full report will be available on the cidb's website http://www.cidb.org.za.

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*

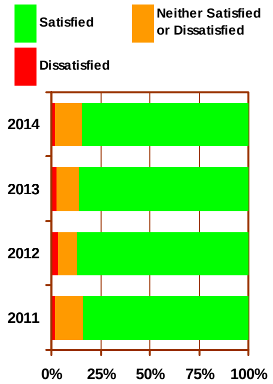
These are but a few benefits that are possible through improved practice.

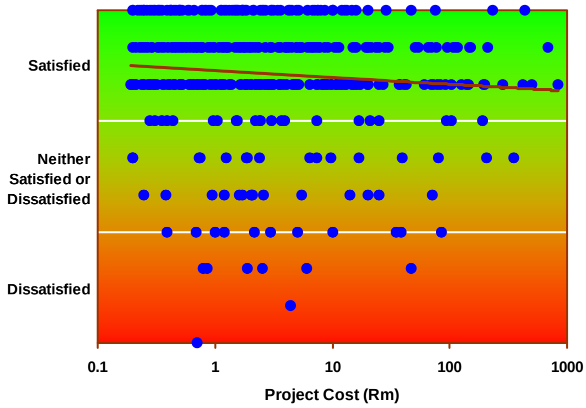
By capturing and publishing these CIIs, the cidb's aim is to encourage the construction industry and its supply chain to strive to improve their performance.

Client Satisfaction

Performance of the agent / consultants' team: Clients were satisfied with the overall performance of the agent employed on 84% of the projects surveyed in 2014. On the other hand, clients were neutral (i.e. neither satisfied nor dissatisfied) or dissatisfied on 16% of the projects. This shows a slight decrease compared to the 2013 results.

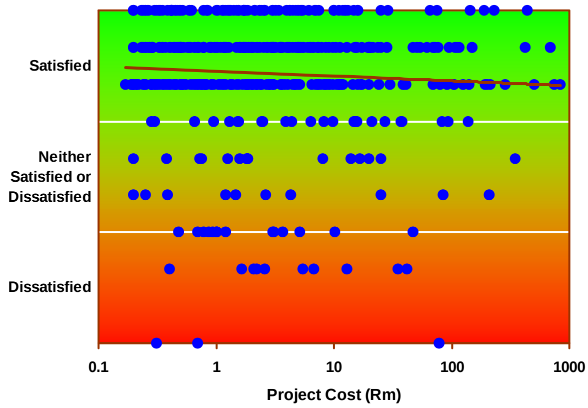
A slight decrease in client satisfaction with the client's agent was recorded with increasing project size. However, the variation in client satisfaction was smaller with the larger projects.



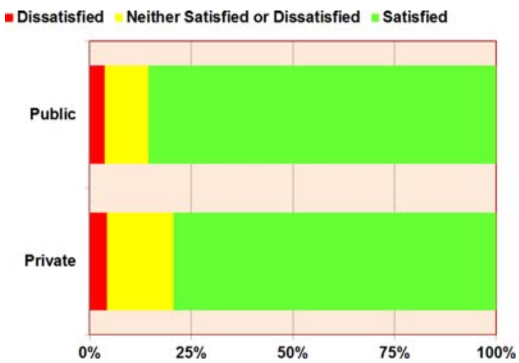


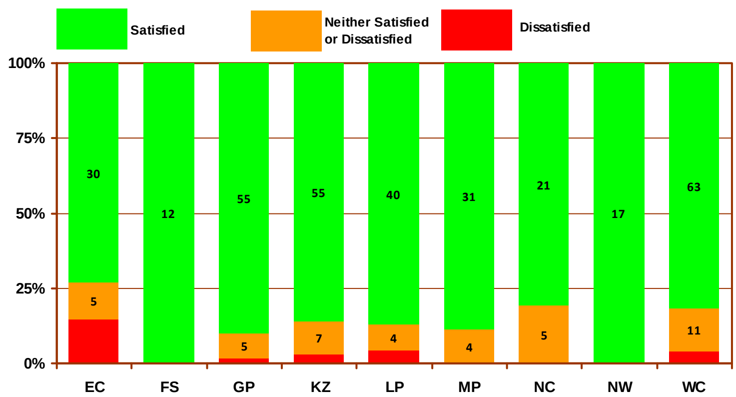
Performance of the contractor: Clients were satisfied with the overall performance of the contractor employed on 84% of the projects surveyed in 2014. On the other hand, clients were neutral or dissatisfied on 16% of the projects. The client satisfaction results observed in the 2014 shown a slight (but noticeable) decrease when compared to the 2013 survey 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. Client dissatisfaction was observed on projects of a value of between R1 million to R100 million.

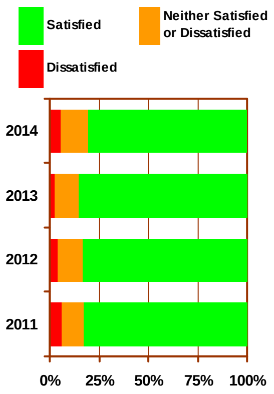


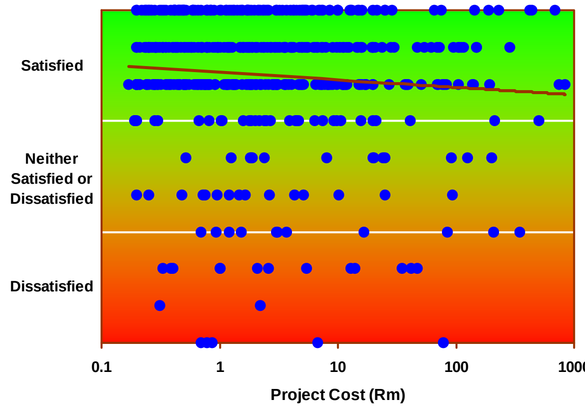
The 2014 survey reflects that the level of client satisfaction with the overall performance of the contractor is higher in the public sector than in the private sector. A breakdown of public sector client satisfaction with the overall performance of the contractor employed shows that client satisfaction was highest in the Free State and the North West. The lowest client satisfaction was obtained for the Eastern Cape, Northern Cape and Western Cape.



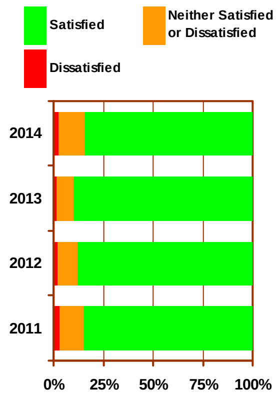


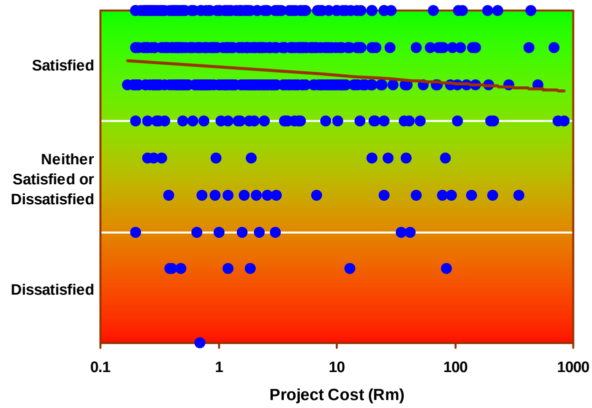
Construction schedule: Clients were satisfied that contractors completed the project within the tendered construction schedule (excluding the impact of variation orders) on 80% of the projects surveyed in 2014, and were neutral or dissatisfied with the construction schedule on 19% of the projects. This represents a significant decrease in client satisfaction compared to 2013.





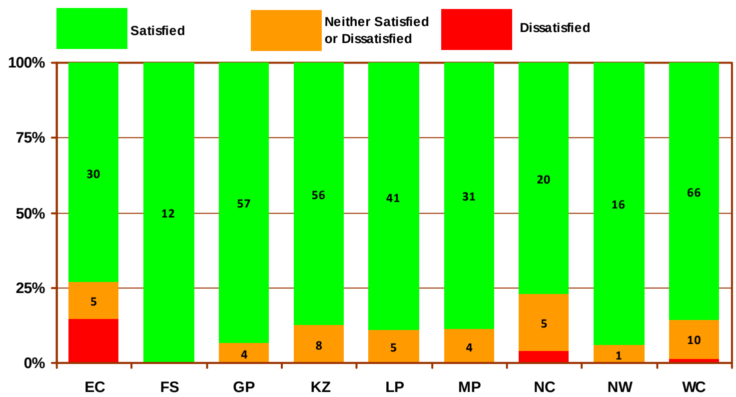
Quality of work delivered: Overall, clients were satisfied with the quality of the completed work at handover on 85% of the projects, and were neutral or dissatisfied on 15% of the projects surveyed in 2014. This represents a significant decrease in client satisfaction compared to the 2013 survey results, for which clients were satisfied with the quality of the completed work was at 90%.





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 the Free State followed by North West, Gauteng and Limpopo. Similarly, clients are least satisfied with the quality of the completed work in Eastern Cape, Northern Cape and Western Cape.

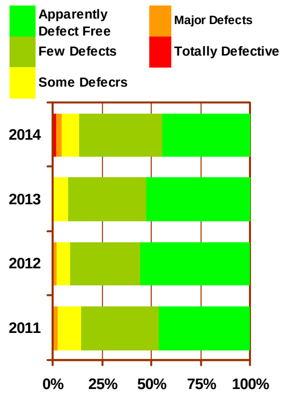
Again, it should be noted that the differences in client satisfaction between the provinces reflects both differences in the overall quality of the completed work at handover and differences in client expectations of quality.

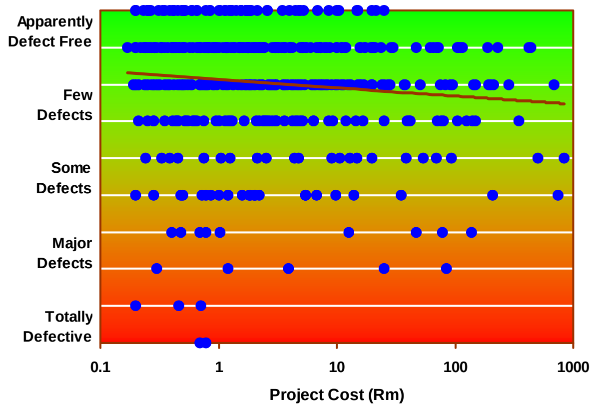


Resolution of defects: Clients were satisfied with the resolution of defective work during the construction period on 82% of the projects surveyed in 2014, and were neutral or dissatisfied on 18% of the projects surveyed. Satisfaction with the resolution of defects observed in the 2014 survey is slightly lower that than observed in the 2013 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 86% of projects surveyed in 2014 were "apparently defect free" or had "few defects" at practical completion / handover and 14% of facilities had “some defects" or “major defects”. The survey results show an increase in the level of defects (apparently defect free" or had "few defects") compared to the 2013 survey results.



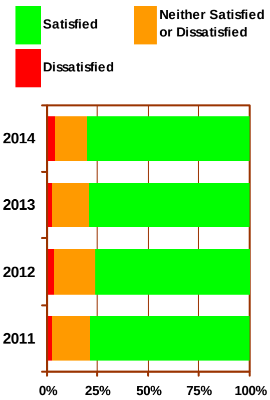


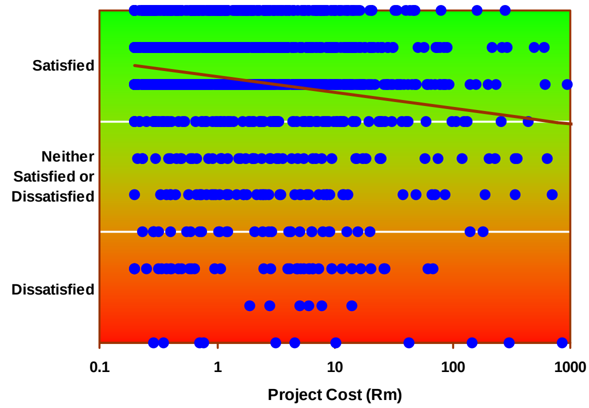
Client satisfaction is a key factor in determining client loyalty and repeat business in the private sector. Quality is also increasingly being taken into account in the tender adjudication process in the public sector – and the cidb continues to advocate for the use of quality to be taken into account 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 16% of projects surveyed. Significantly, client satisfaction with the performance of contractors in the 2014 survey has deteriorated compared to the 2013 survey.

Contractor Satisfaction

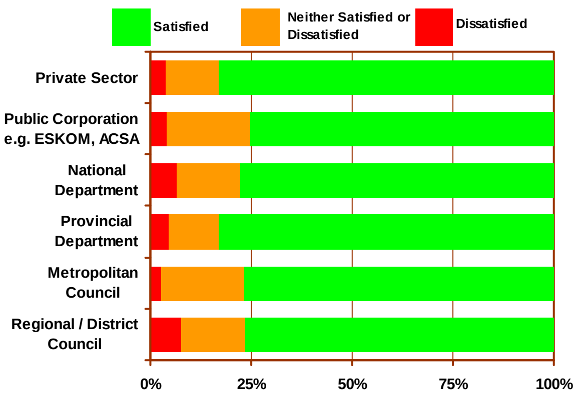
Performance of the client: Contractors rated the performance of clients as satisfactory on 80% of the projects surveyed in 2014, and were neutral or dissatisfied with the performance of the client on 20% of the projects surveyed. Contractor satisfaction with the performance of the client remains largely the same as the 2013 survey results. Of significance is that contractors' satisfaction with the performance of the client decreased significantly with increasing contract size, and that the variation in contractor satisfaction remained high with increasing contract size.

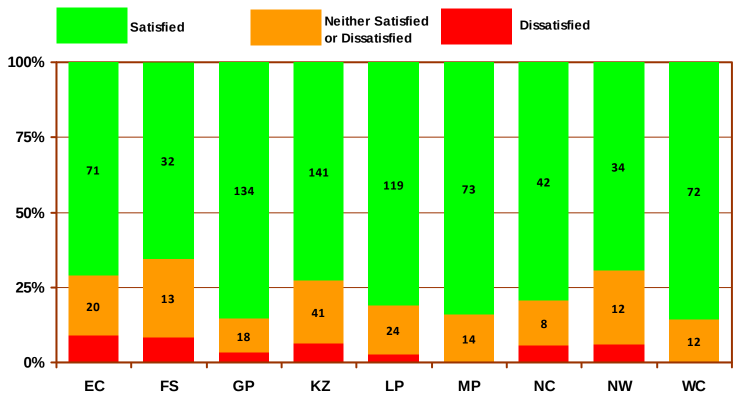




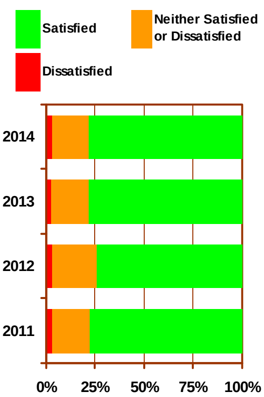
Contractor satisfaction with the performance of the client was highest with private sector clients and provincial departments, and contractors were least satisfied with public corporations, regional and district councils and metropolitan councils. Furthermore, contractor satisfaction with the performance of public sector clients was highest in Western Cape followed by Gauteng and Mpumalanga. Compared to the 2013 survey, contractor satisfaction with the performance of the client has deteriorated noticeably in Eastern Cape, Free State and Limpopo.

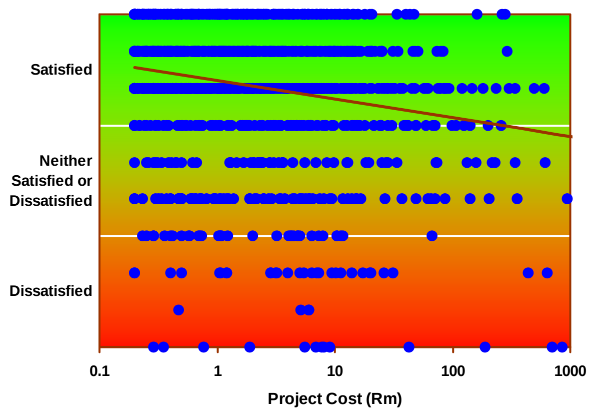
However, it is again important to stress that the differences in contractor satisfaction between provinces is context specific, and conclusions should not necessarily be drawn such as the performance of clients in on province is necessarily higher that the performance of a client in another province. 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.



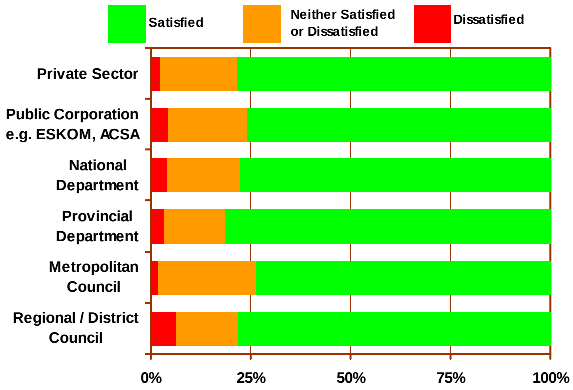


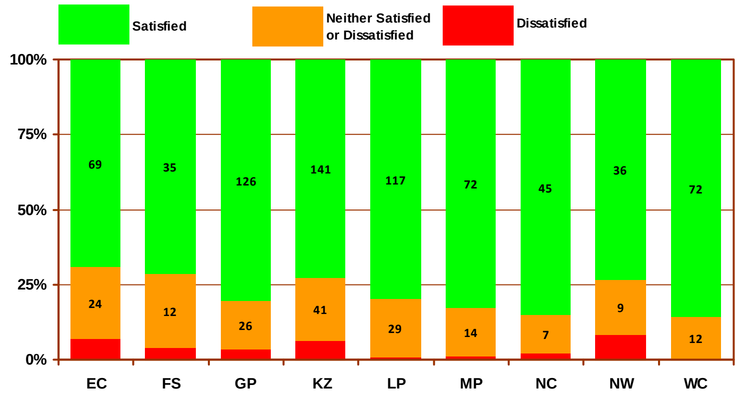
Quality of tender documents and specifications: Contractors rated the quality of tender documents and specifications of clients as satisfactory on 78% of the projects surveyed in 2014, and were neutral or dissatisfied on 22% of the projects.



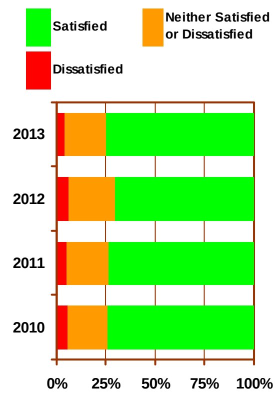


Contractor satisfaction with the quality of tender documents and specifications was highest for provincial departments and regional and district councils – although this trend has shown quite significant changes from survey year to survey year. Furthermore, contractor satisfaction with the quality of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





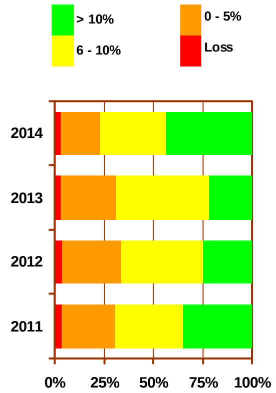
Management of variation orders: Contractors were satisfied with the management of variation orders on 75% of the projects surveyed in 2014, but were neutral or dissatisfied on 25% of the projects. Contractor satisfaction with the management of variation orders remains largely unchanged compared to previous years.

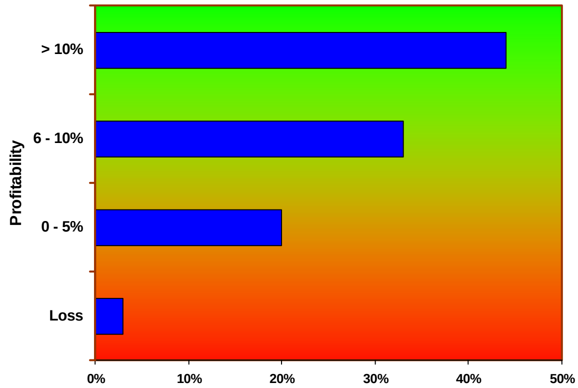


Contractors were neutral or dissatisfied with the performance of the client on 20% of the projects surveyed. This dissatisfaction of contractors with the performance of the client is reflected in dissatisfaction with the quality of documentation and the management of variation orders.

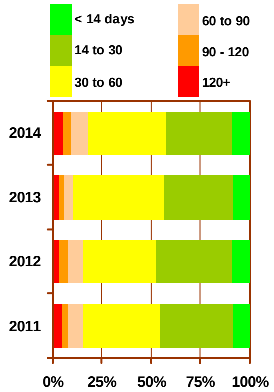
Economic Indicators

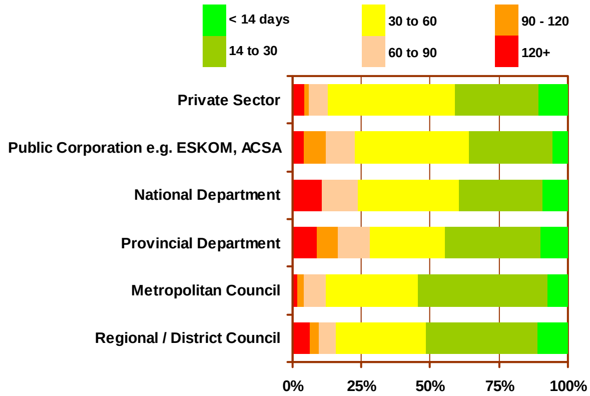
Profitability: Contractors achieved profit margins of greater than 10% on 44% of the projects survey in 2014, while 33% of projects surveyed were undertaken at profit margins of around 5% to 10%. Of the projects surveyed in 2014 only 3% made a loss.



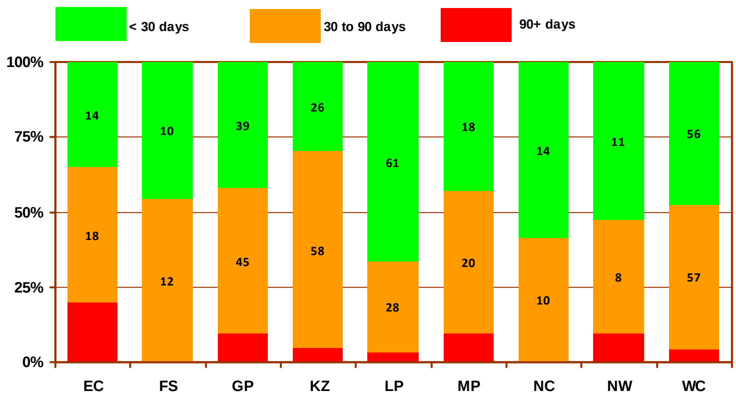


Payment of Contractors: In the 2014 survey, 42% of payments to contractors were made within 30 days of invoicing, 53% between 30 to 90 days, and 5% over 90 days. This reflects a slight deterioration in prompt payment practices compared to the 2012 survey, and remains similar to the 2013 survey. Within the public sector, regional/district councils had the highest payment rates within 30 days or less, while national and provincial departments and metropolitan councils displayed similar payment practices within 30 days.

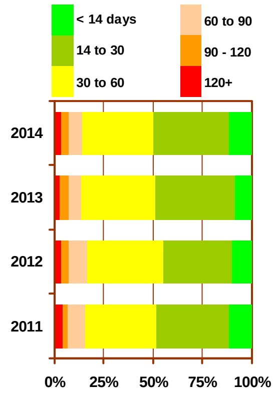


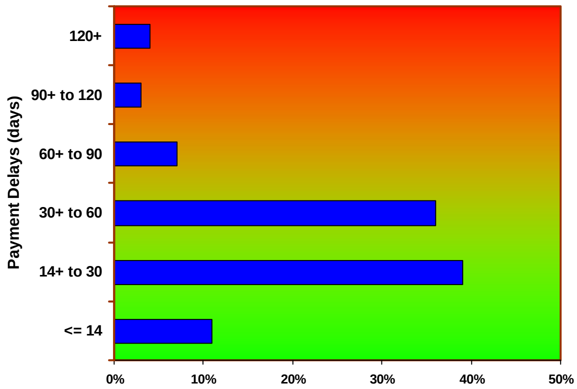


Within the public sector, the highest prompt payments occurred in Limpopo and the Northern Cape, and the highest payment delays occurring in KwaZulu-Natal and the Eastern Cape.



Payment of Client's Agent: In the 2014 survey, 50% of payments were made to the client's agent within 30 days of invoicing, 43% between 30 to 90 days, and 7% over 90 days.

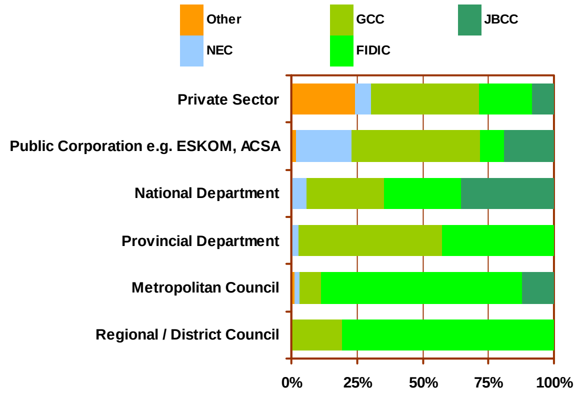




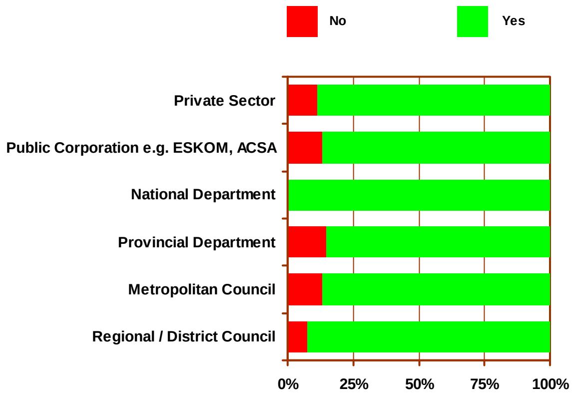
Prompt payment of contractors and the client's agent within 30 days remains at below the 50% level for contractors, with around 5% of contractors and client's agents receiving payment at over 90 days.

According to the survey results there has been a noticeable increase in the number of contractors who made more than 10% profit from 22% to 44% when compared to 2013 survey results, but the profit margins of between 6% to 10% have decreased from 47% to 33%.

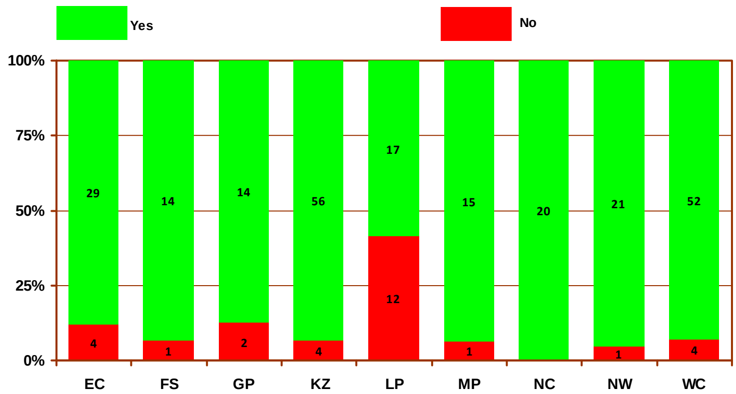
General Conditions of Contract: The results of the 2014 survey show that, overall, the majority of projects were undertaken with contract documents that are in accordance with the cidb's Standard for Uniformity. There has been an improvement on the compliance with the cidb requirements for contract documents.



Adjudication of tenders: The results of the 2014 survey show that quality (or functionality) was not taken into account in the adjudication of tenders on 12% of projects. The lowest use of quality (functionality) in the adjudication of tenders was highest amongst metropolitan councils.



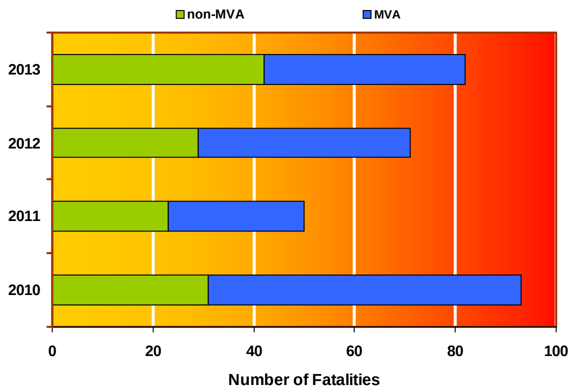
A further assessment of tender adjudication on public sector projects is the award of tenders in accordance with the tender committee's recommendations. The results of the 2014 survey suggest that overruling the recommendations of the tender committee occurred on around 12% of projects. Overruling of the recommendations of the tender committee appears to be most prevalent in Limpopo.



Quality (or functionality) was not taken into account in the adjudication of tenders on around 88% of projects, and the recommendations of the tender committee were overruled in the award of around an average of 12% of public sector projects.

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 2010 to 2013 (corresponding to the 2011 to 2014 surveys) show an increase in the number of fatalities due to both MVAs (Motor Vehicle Accidents) and Non-MVA fatalities.



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