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A PATH FOR HORIZING YOUR INNOVATIVE WORK

## STANDARD SUBCONTRACTING PROCEDURE AND ITS MANAGEMENT

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**Abstract:** The history of subcontracting is as old as contracting history. In early ages labour subcontractors existed who used to bring Labours from small villages to work on construction site. In modern days uses of this practices increasing day by day. Modernization & urbanization are giving the stress on the infrastructure development, which results the boom in construction industry. Due to the boom in construction industry the bigger construction companies are getting overloaded with works. But due to the resources and time constraint those big companies are subletting most of the part of their work to the subcontractors. Thus the subcontracting practices are increasing.

**Keywords:** Subcontractors, Labours, Construction, Procedure

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## INTRODUCTION

In the past general contractors used subcontractors only to perform the “specialized” tasks of the construction projects, and accomplished most of the tasks with their own labour. The current general contractors, subcontract’s much of the project work. Subcontractors are used on the construction project for the following reasons

### **Specialized labour for particular construction tasks**

Skilled craftspeople trained in the specific assembly perform the task correctly, enhancing the quality of the installation. The also complete the task efficiency, with the minimal amount of labour for the appropriate task.

### **Lower cost for subcontract work**

As the labour for the subcontractor is specialized and only a narrow range of work is done, subcontractor costs are generally less. When utilizing subcontractors, the contractor has reduced overhead costs, as well as reduces labour and payroll costs.

### **Reduce risk for the contractor**

Subcontracting work reduces several areas of risk rather than accomplishing it with the contractor’s own forces. The risk of labour productivity, where actual labor cost need to be less than or equal to he estimated labour cost, is eliminated for the contractor, the subcontractor now being held responsible. Other types of risk general contractors attempt to avoid by using subcontractors include:

### **Productivity and/or cost control, from the estimate to the project’s completion**

- Lack of expertise in specialized area
- Control of potential liquidated damages
- Cash flow
- Quality from lack of expertise or the right crafts people
- Clean-up, warranties, and other general condition areas

Subcontract management is extremely valuable in today’s legal climate. Because much of the risk has been shifted to the subcontractor, contracts between contractors and subcontractors have increased in importance. Informal agreement and understanding generally have been replaced by contractual agreements. The subcontract agreement is a serious legal contract, with binding provisions for both parties. Fulfillment of the obligations of the subcontract agreement is

necessary for completion of the construction project. Subcontractor's can affect the projects profitability by delay, poor workmanship, and default of contract. Subcontractor management relates directly to the profitability of the project.

Subcontracting function is an important aspect in execution of projects by the company as their performance has a direct bearing on deliverables to the owner / client.

The procedure of registering and appointment of a subcontractor is formulated to ensure the proper selection of subcontractor who would deliver as envisaged in the company's objectives and fulfilling all clients/ owners stated requirements.

### **SUBCONTRACT AGREEMENT CONTRACT FORM**

Many firms use a standardized contract form for the subcontract agreement.

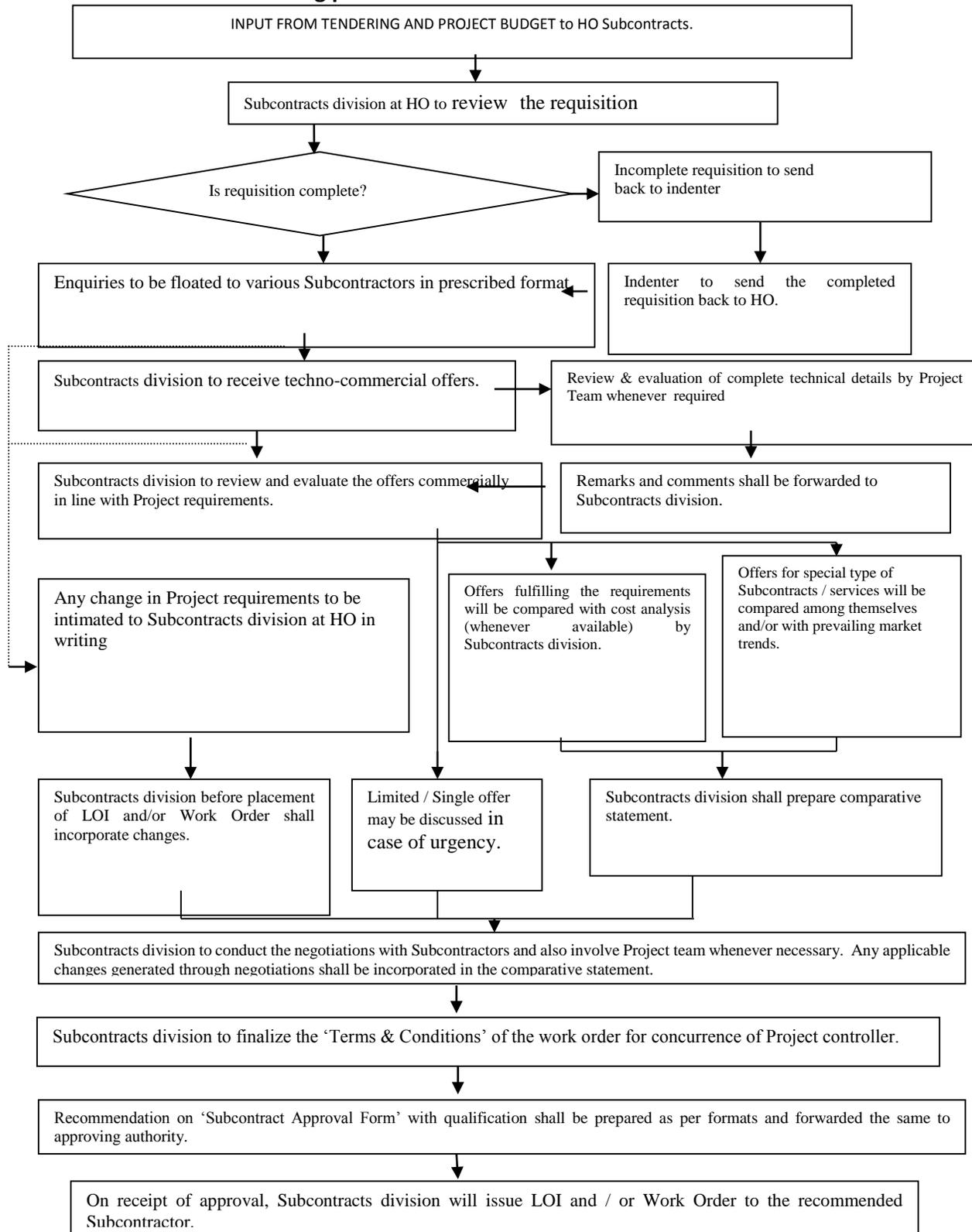
The advantage of using standard contracts is that they are "tried-and-true", both with parties in the industry and courts. These contract forms are familiar to contractors and subcontractors, containing standard language and requirements. Most contracts have some bias, however. Both parties have the right to modify sections of the subcontract agreement, subject to specific approval by the other party. Discussion about contract language and modifications is part of the negotiation process. When a discussion cannot be resolved the contractor must decide on the feasibility of awarding the subcontract to the second bidder. Both parties need to carefully consider their position in these discussions, determining the value of the contract language. The contractor may incur additional cost by subcontracting with another team, and the subcontractor may lose the contract. Many contractors will use an in-house subcontract, written by their attorneys. These contracts usually are biased heavily in favor of the contractor. Most contractors will not allow modifications to this custom agreement, particularly in residential construction. These contracts are usually brief, intended to project the subcontractor's right to payment. In commercial building construction, some large specialty subcontractors, such as elevator subcontractors, will prefer to use their own subcontract agreement. The bargaining power of subcontractors is enhanced when they are in an exclusive area and/or are a large firm.

Proper procedure should be followed for the appointment of subcontractors to ensure the proper selection of subcontractor who would deliver as envisaged in the company's objectives and fulfilling all clients/ owners stated requirements.

### Why departmental procedure?

- To ensure that defined Objectives, Policies, Work Procedures and Roles & Responsibilities are properly communicated.
- To achieve standardization by making uniform methods and procedures.
- To have a sufficient control over regular functioning.
- To create standard formats required for various purposes.
- To ensure that works are carried out through registered Subcontractors, who will meet the requirements of the specific works.
- To ensure that works to be carried out as per the scope defined.
- To ensure that works executed shall conform to quality requirements of final product as specified in the requisition & in work order.
- To ensure Performance evaluation of all the Subcontractors directly appointed by HO.
- To ensure Continuous improvement in the existing system and procedure.

**Flow chart for sub-contracting procedure:**



### **FUTURE SCOPE OF THE STUDY:**

The scope of this procedure covers the followings.

- Registration of Subcontractor.
- Selection of Subcontractor.
- Subcontracting Process.
- Performance Evaluation of Subcontractor.

### **CONCLUSIONS**

In India lots of construction companies exist and with increase in the demand in construction, number of companies are also increasing. Almost every company follows sub-contracting practice but there is no standard procedure followed by most of the companies, very few companies are having their separate subcontracting division who follows standard procedure for subcontracting.

Because of lack of standard procedure many problems arises between the contractor and the sub-contractor, which ultimately results in low quality of work, delay and unfavorable working condition. This ultimately hampers progress of whole construction industry in India.

In specialized sub-contracting works, many critical activities are involved, and it becomes an important part of whole contract. When any company goes for such specialized subcontracting work, it should take care of the followings:

- company should not stick to its regular contract conditions, they must be flexible with contract condition for specialized work according to nature of work
- The specialized subcontractors must have trades men with desired experience for executing that work.
- Give proper importance to the subcontract procedure.
- Make a balanced subcontract, so that it would be win-win conditions for both the parties and avoid future complication.
- The procedure suggested in chapter 4 should be useful as a starting point.
- The main contractor should follow a proper registration procedure of the subcontractor. He should not only rely on a particular subcontractor but also go for competitive bidding.
- Company should follow a proper evaluation system for selecting of subcontractor, which is missing for most of the company.

- For selection of specialized subcontractor maximum weightage should be given to the technical capability of the subcontractor
- Company should have standard procedure for the performance appraisal of the subcontractor work.
- High importance should be given to the safety aspect, which is generally neglected by the subcontractor. The main contractor should appoint safety officer.
- The main contractor should always take feedback from the subcontractor, which can helpful for self-assessment for the main contractor.

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