

# [The main contractors and subcontractor business relationship construction essay](https://assignbuster.com/the-main-contractors-and-subcontractor-business-relationship-construction-essay/)

## 3. 1 Introduction

The investigation has been carried out via the extensive literature review, questionnaires and semi structured interviews. The review will be on the negative and positive outcomes within the main contractor and subcontractor relationship. The interviews will reveal the current business situation and how the relationship has changed since 2008 recession.

## 3. 2 Primary research

This is the collection of original data from the people within the construction industry. To carry out the research the questionnaires have been prepared and issued to different contracting companies and individuals who work in the construction industry. The questions used were emphasising on the hypothesis of the dissertation which is; What has changed between the main contractors and subcontractor business relationship since 2008? The research will look into how the contractor and subcontractor companies survive through recession by considering their supply chain performance and financial positions since 2008. The questionnaire also asks about the measure which the company is taking to improve the subcontractor main contractor relationship. The questionnaires were used to gather information from the companies regarding their views on the contractor and subcontractor relationship. Brief interviews were also conducted with some of the students who have been on placement year working contractor companies, which were used as case studies (Kier and Costain). The information gathered from student interviewees was cross checked with the company websites and annual reports to verify if there is relevance about the company to the information which will be given during the interviews.

## 3. 3 Secondary research

This is referred to as desk research; it involves processing data that has already been collected by another party. In this dissertation most of the information used will be coming from secondary sources such as academic reading text books, government journals and websites. Also the information will be gathered from the construction recommended institutions such as RIBA, RICS and CIOB. Also I will be using some companies as case studies these will include looking into their financial trend through recession period and non-recession period. The annual reports of the chosen companies will be carefully analysed. The case studies will include two big contractor companies (Kier and Costain), an extensive research on their supply chain management and the company policies on the supply chain will be the main target for the research. Looking into supply chain performance and the policies which support the supply chain relationship will be the instruments to measure the contractor and subcontractor relationship. This will be linked together with the primary research to verify if the subcontractors agree with the policies of the main contractors.

## 3. 4 Managing the study

The programme of study was established from the commencement of research to writing up. The initial has been rephrased to make it look more academic. Time management was so critical for the study success. Finding the sources relevant to the study was more time consuming, so much data was collected and the author had to select the secondary data which constituted primary data to come up with a robust critical analysis.

## 3. 5 Writing up

This was the most important aspect of the research as it was not just picking information, but it was scrutinising and considering the quality of the data. The depth of literature has to flow to give the readers a clear picture of the links between contractors and subcontractors within the construction industry. Looking back to the main question of the study investigation which is:

## " What has changed between the main contractors and subcontractor business relationship since 2008?

The main contractor supply chain management was the most significant instrument to reflect the position of their relationship with the subcontractors. The study was written by the third person and contains a reference list and bibliography in the Harvard style.

## Chapter 4

## Case Studies

## 4. 0 Introduction

The case study will focus on two different contractor companies( Kier and Costain), on how they manage the contractor subcontractor relationship since recession. This will involve looking into the company supply chain management, policies and evaluate the supply chain performances since 2008.

## 4. 1 Case Study A

## Kier Group

Company Profile extracted from their website.

## 4. 1. 2 About Kier

Kier Group operates through three main divisions, each focused on being best in its class. Our activities span building, civil engineering, surface mining, facilities management, residential and commercial property investment and PFI project investment. Kier Construction comprises a UK-wide network of regional contracting business and major projects expertise in the UK and overseas. Kier Services provides a full life-cycle service for buildings in both public and private sectors including reactive and planned buildings maintenance, grounds maintenance and a host of other services. Kier Property is also private house builder and commercial property developer with an infrastructure investment arm specialising in the delivery of Private Finance Initiative projects. Fig 4. 1Fig 4. 1 shows that the Group recognises the importance of supply chain management as a means of bringing together all the team members under a common goal, allowing involvement in the entire project lifecycle and developing the benefits of better management and more innovative solutions. The development of an open culture, involvement in the team process and sharing of rewards, is the key drive for change in the contractor subcontractor relationship. Therefore by implementing a fully integrated supply chain, Kier Group claims it has been able to improve project processes, relationships and benchmark performance. They have identified key performance measures to target and monitor design within their corporate benchmarking manual. They have also continuous improvement and best value solutions that extend to their construction partners, meeting the Group policy and exceeding industry requirements.

## 4. 1. 3 Kier business ethic

These encompass on how Keir as the organisation implement their vision and core values in the way they conduct business with stakeholders and other organisations. Also the Kier payment policy shows that the company is working fairly with their supply chain. Vision and Core ValuesKier states that maintaining their core values and remaining focused on improvement & delivery, their vision became reality. By providing their clients with the highest possible quality of service and through sustainable, profitable growth, their vision is to be the most highly respected company in the industry as they also compromise their supply chain. Kier core Values are: Be enthusiastic, open and honest; be proactive, committed and safe; and be a team and be Kier.

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## 4. 1. 4 Payment Policy

This is very important when considering the contractor and subcontractor relationship because mostly the payment issues triggers disputes and litigation. To overcome the payment issues Kier practices fair and transparent payment which is most essential to achieve successful integrated working on construction projects. In working with each other in good faith and in a spirit of mutual trust and respect as shown in (Fig 4. 1), Kier meets the " Fair Payment" commitments set out as follows: Companies have the right to receive correct full payment as and when due. Deliberate late payment or unjustifiable withholding of payment is ethically not acceptable; The process will be transparent in order that members of the supply chain have certainty of how much and when they will be paid; Companies will consider, where appropriate, operating relevant contracts on an open book basis; The correct payment will represent the work properly carried out, or products supplied, in accordance with the contract. Any client arrangements for retention will be replicated on the same contract terms throughout the supply chain. Any withholding of payment due to defects or non-delivery will be proportionate and demonstrably justified in line with arrangements made at the time of contract; To ensure effective and equitable cash flow for all those involved, all contracts will provide for regular payments and equitable payment periods; In order to avoid payment delays, the client and all supply chain members will agree payment procedures at the outset of their contracts. Payment will be through electronic BACS transfer and will apply throughout the supply chain.

## 4. 1. 5 Strategic Frameworks and Alliances

Kier combines the resources of its various business units to deliver co-ordinated and consistent services bespoke to market sector customers and their specific needs and specialisations. Kier has developing number of frameworks and procurement partnership throughout the UKMany are large scale frameworks which see Kier involved in the construction of schools, libraries, offices, bus stations, day centres and other public sector work over a long-term period.

## 4. 1. 6 Kier Summary

Kier supply chain management policies show that they are concerned about their suppliers. They are doing much to strive for better relationship with their stakeholders and to be a well-respected contractor company in the industry. For them to gain a good status they have to maintain their business ethics which includes their vision and core values. This is the most important instrument to change the contractor subcontractor attitude. This will also encourage continuous development within the looking into the strategic frameworks and alliances policy it show that they are moving towards collaboration and partnering.

## 4. 2 Case Study B

## COSTAIN GROUP

## Review of Company policies on the contractor subcontractor relationship since recession.

Company Profile Extracted from their website

## 4. 2. 1 About Costain

Costain focus on intelligent solutions to meet national needs. As a Tier One engineering solutions provider, they provide front-end engineering consultancy, construction and on-going care and maintenance services across market sectors including water, waste, power, rail, hydrocarbons and chemicals, highways and nuclear process.

## 4. 2. 2 Supply chain management

Costain states that they operate a collaborative, responsible supply chain where their partners support them in delivering efficient, innovative and sustainable solutions. They understand the impact of their procurement activities and are committed to the responsible management of our supply chain and the economic, environmental and social issues within it. They ask their suppliers to share their values and standards and to support them in delivering efficient, innovative, sustainable solutions. In turn, Costain is committed to engaging and supporting its supply chain to ensure compliance, continuous improvement and the achievement of mutual goals. Fig 4. 2 Source Costain annual report 2012

## 4. 2. 3 Responsible Procurement Policy

The Costain Group have introduced the Responsible Procurement Policy, because of their understanding of the impact of their procurement activities and, in line with their Corporate Responsibility Policy; they are committed to the responsible management of their supply chain. They achieve this by educating and training their procurement and commercial teams to comply with policy. This will also ensure continual improvement and best practice through on-going dialogue and two way feedbacks with their supply chain, resulting in added value and sustained business performance. The diagram show how costain supply chain performance have been improved since 2008, this is because performance of the Supply Chain will be monitored and reported regularly. Wherever possible on contracts, Costain will use suppliers who have been pre-selected. This will involve an open evaluation against specific criteria involving inputs from both operations and procurement staff.

## 4. 2. 4 Partnering and collaboration

For Costain partnering and collaboration form a central part of an approach which has become essential for them to deliver complex engineering and services. Their suppliers value the importance of this partnership approach and work in collaboration to deliver required projects and services. Partnering and collaboration helps Costain to identify risk early and to work out solutions to mitigate risk as they arise. To accomplish this Costain has to consider that if a subcontractor, joint venture partner or supplier of goods or services fails financially or is responsible for late or inadequate delivery or low quality work, it could damage the Group’s reputation or cause it to suffer financial losses. Therefore Costain seeks to ensure that it is not over-reliant on any one subcontractor, supplier or joint venture partner. In addition, the Company maintains a list of preferred subcontractors and suppliers which is reviewed regularly. Costain also undertakes financial monitoring of subcontractors and suppliers and endeavours to maintain a dialogue with them in order to identify any issue or cause for concern. The Company has an external audit system to ensure compliance by their preferred and strategic suppliers. The suppliers are ranked hierarchically depending on the relationship they have with Costain, from " Unverified to Verified, then Preferred" with the eventual possibility that a few will achieve Strategic Partner Status. In return, Costain anticipates that these " Preferred Suppliers" will always submit the most economic costing, work safely and continuously improve their delivery performance.

## 4. 2. 5 Acquisitions

Costain ramped up their services to 40 per cent of company revenue by recruiting skilled workers and making acquisition. The firm target engineering consultancy and maintaining services acquisitions according to chief executive Andrew Willie and finance director Tony Bickerstaff. Costain reported a 2 per cent rise in revenue to £477. 9 million for the six months to 30 June 2012, with operating profit up to 16 per cent to £10. 7m (June 2011: £9. 2m). Infrastructure has risen profits up 91 per cent from £5. 7m to £10. 9m. Support services from the acquired firms now represents 28 per cent of the £850m revenue secured for 2012, and is on track to increase to 40 per cent in the long term.

## 4. 2. 5 Costain summary

Constain was able to pull through the economic down turn because of its well managed supply chain, in which they have work collaboratively with their suppliers to share their values and standards and to support them in delivering efficient, innovative, sustainable solutions on every project. The firm introduced a Responsive Procurement Policy, which will also ensure continual improvement and best practice through on-going dialogue and two- way feedbacks with their supply chain, resulting in added value and sustained business performance. Costain group is taking advantage of the economic downturn by acquiring small companies to increase their economic advantage. Hence the contractor subcontractor relationship will be strengthened, by going into long term relationships with their sub-contractors.

## Chapter 5

## Questionnaires and interviews

## 5. 0 Introduction

The chapter discuss questionnaires and interviews which were conducted during the research the author had four questionnaires response and one full interview carried out using the questionnaire. Two other interviews were just brief from the students who had been on placement with the contractor companies and the information has been used on the previous chapter as case studies. Two questionnaires from the subcontractors were used in the study these are referred as A and B. the other source to be used is the interview from the main contractor which is referred as C.

## 5. 1 What is your opinion on the current position of the UK construction industry?

A - Whilst the country as a whole has been subjected to a prolonged and painful recession, the construction industry has been particularly affected. In construction it has been deeper and lasted longer than previous recessions. B - It has contracted, but is showing signs of improvement. C - The industry is getting better gradually. The good thing is that the game has been changed in recessing. A lot has been improved because all the companies which were not good enough for the industry went out of business to remain with the best of best. Which means the current position of the construction industry is changing for the better

## Was your business relationship with the Contractor/Subcontractor affected during 2008 recession?

A - Yes it affects relationships as pressure is put on both parties in respect of reduced profit, cash flow and forward workload which inevitably must affect relationships. B - Yes, certain contracts from contractors stopped, which meant less work for my businessC – Yes, because some of the subcontractors were trying to get as much money as possible from our pockets to survive, so they try to do all sorts of things such as claims, overprizing and changing the quality product for cheaper substitutes etc. All this have impact on our relationship with the supply chain

## 5. 3 How do you procure your contracts for contractor/subcontractor since 2008 recession?

A - The procurement is partly led by the form of contract and upstream procurement with the client, but generally it is based on a select list invited to tender the works on a single stage basis. In some instances a two stage process would be considered. B - Competitive tendering and framework partnerships. C - Mostly we select the subcontractors within the framework partnership competitive tender because we regard every project as different. We are using a strategy of evaluating and managing the subcontractors which working very effective for procurement. It makes life easy and had improved our relationship with subcontractors drastically

## Are you involved in partnering or long term collaborative relationships with other companies?

A – NoB - I have collaborative relationships with my sub-contractors (plumbing, electrical, roofing and decorating. I also have collaboration with a national company, who I carry out their building requirements as needed. C – Yes we work collaboratively with the subcontractors on most of our projects, as mentioned before; that every project is unique it comes with different challenges. We are trying to build our own balance score card for subcontractor evaluation and procurement so for us to achieve this it means we have to be in a long term relationship with the subcontractor so that we can bench mark their performance with our Key performance indicators (KPI) which are set on every project

## Has competition in your business sector increased since 2008

A - Yes due to reduced opportunities with a shrinking workload. B - No, certain competitors have moved out of the market. C – Yes because there have been shortage of work for some time the clients are also using competitive tendering. There is always competition in construction everyone is aiming high and if you prove to be the best sky is the limit.

## 5. 6 Does the number of claims and arbitrations within your business increase or decrease during a recession as compared to boom time? If so why?

A - Unable to specifically answer this due to not having the raw date to validate and as such this is an informed opinion. I consider more disputes occur as with less money around everyone is trying to get as such money out of the contracts they have. However, even in a recession, this still has to be balanced with maintaining relationships therefore allowing opportunities for future workload. B - Yes they increase this because there is less money around and clients are more likely to withhold payment. C – Litigation and claims were at the top of the game during recession, with some companies even trying to raise issue of the past and also manipulating claims. Most companies wanted every penny to count and survival was the game, so many smaller companies went out for business even larger ones for example contractors Connaught and Rok had gone burst. This shows how bad the industry had gone there have been disputes everywhere within the construction industry.

## Do you manage to maintain the contractor and subcontractor relationship and still provide the same level of attention to environmental concern that was evidence a few years ago?

A - Even in this recession the environment is an important issue and has grown (and will continue to grow) in importance over the next few years. The planet does not recognise good or bad times! B - Yes, although financial pressure makes this difficult. C – Environment is the major concern in the in the industry everyone needs to work with people with who are considerate, therefore sustainable procurement is a the way forward.

## Has your business improved in terms of contractor and subcontractor relations since 2008?

A - No. B - No, I don’t believe it has changed. C - Yes business has improved for us as we have been acquiring and merging with some subcontractor companies. I can say recession has been a good crisis for us

## How do you see the contractors and subcontractor relationship developing in the next 5-10 years?

A -To a degree this will depend upon the financial state of the UK and the construction industry. On the assumption things will gradually improve I believe relationships will improve as the recession has removed a lot of Main-contractors and Sub-contracts which means relationships will improve due to fewer parties. B - Closer collaborative relationships because this makes it easier to carry out business by building trust and sharing of ideas. C – The subcontractor main contractor relationship will change drastically; so far the recession was a wakeup call for industry. And now we have realised how important is to use a well-planned subcontractor procurement strategy. We have benefited a lot since we introduce this system. I can see that the relationship will be developing into a partnering and collaboration in a few years to come.

## 5. 10 Chapter summary

The research reveals that subcontractors have less confidence in the contractors as they all (A and B) have admitted that there was no change in the relationship since 2008. But the contractor (C) uses it as an opportunity to maximise the profit as subcontractors were scrambling for work. Both the contractor and subcontractors also admitted that their relationships were affected by the impact of recession as prove by the research that there was more litigation in the industry, which means trust and faith in the industry was eradicated. The research proves that a lot needs to be changed in the subcontractor main contractor relationship.

## Chapter 6

## Analysis of findings

## 6. 0 Introduction

This chapter analyses the study on the data that has been obtained from the literature review, and other research methodology used during the investigation of the changes in subcontract and main contractor relationship since 2008.

## 6. 1 Way forward between subcontractor and main contractor

The study analyses that companies have recognised the weakness of the industry adversarial, cost-driven approach. In the current economic down turn there is an increasing beneficial for all the participants in the design and construction process to work together in cooperation, recognising that each of them needs to make profit whilst providing good value. Considering the 2008 recession impact the many contractors have therefore developed closer harmonious links with their subcontractors and suppliers. The main contractors and subcontractors had to look into aspects of construction which hinders the progression of the relationship.

## 6. 2 Competition

This is the most important aspect of construction industry, for it drives changes and continuous improvement if it used for a good cause. Research has proven that in the current economic environment, the construction competition is based almost solely on price. Time and quality play a role but contracts are most frequently awarded to the lowest bidder. Competition has pushed some subcontractors into suicide bidding which has left some filing for administration. Competitive tendering can push the subcontractor into cutting corners to maximise their margins, but in a negotiated tendering process a fair outcome can be achievable for both parties. Hence disputes can be avoided.

## 6. 2 Partnering

In response to Latham's appeal for an improved relationship between the main contractor and subcontractors, Palaneeswaran et al (2002) proposed extending the concept of relational contracting to subcontracting, while (Kumaraswamy and Matthew, 2009) emphasizing on the best value rather than the lowest price. Kumaraswamy, M. M and Mathews, J. D (2009), postulated that by bringing in the concept of partnering to main contractor and subcontractors, project quality, coordination and schedule management in subcontracted works shall improve. Partnering is now a criterion of some main contractors when selecting subcontractors as reflected on the case studies. In the current economic climate many clients would wish to increase their involvement in subcontractor procurement irrespective of the approach chosen hence they have more influence over the selection of subcontractors. In the current marketplace, where the nomination of subcontractors is now almost impossible, negotiation rather than commercial tendering is increasingly common, requiring greater post-contract discipline to ensure that the contractor does not recover low tender/negotiated costs through claims for delay, rework and disruption.

## 6. 3 Supply Chain Management viability

In the industry where the antagonism between the main contractor and subcontractor is the order of the day, where settling disputes through courts is almost standard practice (Burnes, 2009), it is not easy to promote the supply chain relationship. Even though SCM sustain the construction partnership through industry the economic downturn, it has intense implementation challenges. Some companies are likely to exploit supply chain management benefits and prove detrimental to any planned operational efficiency advantage. According to the table above the adversarial history of the industry makes it difficult to create involved cooperative relationships with other construction-related entities. According to Benton, W. C and McHenry, L. F (2009) SCM necessitates sharing of traditionally proprietary information, strategy, planning and goals, and most construction firms do not feel comfortable exposing such elements to other firms, fearing loss of control especially during the current economic situation. Furthermore, inter firm collaboration requires each participating firm to create a high level of awareness of their partners and themselves, and such cognition is often difficult to accomplish effectively. Also another problem involves the inability of chain members to focus on one mutual goal of the supply chain rather than individual performance (Benton and McHenry 2009).

## 6. 4 Business ethics

It is vital for the construction industry to promote business ethics within contractor subcontractor relationship as it encourages fairness, sensitivity and transparency. According to Fewings P, (2008), the ethical values of an organisation and its accountability to stakeholders impacted by building developments. There is a business and a professional accountability which affect built environment organisations such as design, legal and costing services and contracting supply chain (Fewings, 2008). Ethical conducts during the economic down turn have been mostly considered to sustain business and reduce abuse of the construction relationship and promote companies reputation within the industry. However unethical practice will have negative long term consequences for example a construction manager tenders low knowing he is going to make exaggerated claims to enhance profit margin. This will give that organisation a bad reputation. Maintaining ethical values will create a long term supply chain relationship which will enhance their business prospects of continual development through collaboration and partnering.

## 6. 5 chapter summary

Basing on the investigations carried out, the author concluded that a lot improvement is needed within the contractors and subcontractors relationships. The main contractor has to put in place a subcontractor control strategy in terms of procurement and cost. In accordance to my findings in my questionnaires, the 2008 recession had an inevitable impact on the relationship as pressure was put on both parties in respect of reduced profit, cash flow and forward workload which must affect relationships. This has removed a lot of Main-contractors and Sub-contracts which means relationships will improve due to fewer parties.

## Chapter 7

## Conclusion and recommendation

## 7. 1 Conclusion

According to the research many contractors are showing an interest to invest in their supply chain but it is risky for them to depend on the same suppliers/subcontractors all the time considering the current economic climate. The reality is that they just aren’t structured to manage direct labour forces or to get right alongside the local client. The contractors need to establish relationships with subcontractors in all the regions they operate. With the increase in the use of frameworks and partnering to procure for subcontractors, the main contractors will have to carefully consider their investment in developing a supply chain that is trusted and well proven and that supports and believes in their own values.  These close relationships benefit those involved and the client, as they produce harmonious working relationships that get the job done right first time. Partnering will not be more efficient for a main contractor who operates nationwide in different region because the locally based subcontractors have extensive local knowledge, great local purchasing credentials, are very strong in their own patch and most importantly of all have an association with the communities within which they operate (Chambers, 2011). Partnering is one way to improve performance within the construction process; it can create synergy and maximize the effectiveness of each participant’s resources. Not only can partnering greatly improve project performance; it can also directly benefit the entire supply chain. Therefore, subcontractor evaluation and management processes must include factors that will enhance cooperative relationships, in particular, sharing mutual objectives, improving communication, participating in collaborative work, and developing cooperative relationships. Currently, the construction industry is facing costly progress delays due to inaccurate and untimely communication between project members. Sharing up-to-date information between participants reduces errors and time delays, thereby facilitating project efficiency and ultimately improving collaboration and teamwork. Increasing collaborative work enhances mutual relationships, also contributing to enhanced levels of cooperation and productivity.

## 7. 2 Recommendations

To improve the contractor and subcontractor relationship some contractors have come up with the strategy of evaluating and managing the subcontractors. Literature Review recommends that: The main contractors have to establish a subcontractor database so that they are able to know the information about subcontractors and their performance; It is important to have formal procurement standards for subcontractors for example as shown within the study discussion on Chapter 4. 2. 3 (Costain Responsible Procurement Policy). It helps main contractors to make decision easier and faster whether the subcontractors are qualified with the commitment; Consider a two-way lead times built into subcontract agreements. Two-way means that the main contractor and subcontractors agree on an appropriate time for the main contractor to notify the subcontractor when to begin work and an appropriate amount of time for the subcontractors to inform the main contractor of any conflict (Tannay, 2010); Main contractor should consider monitoring subcontractor’s schedules by adopting IT system that allow tracking their schedule (Tannay, 2010); Main contractor should consider developing comprehensive project safety policies and safety programs which make provisions for subcontractor safety; Aim for cost-effective and best-value outcomes; Ensure a transparent and fare method of procurement; andAvoid suicide bidding

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