

The Characteristics of Subcontractors in Construction

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THE CHARACTERISTICS OF SUBCONTRACTORS IN CONSTRUCTION

1. INTRODUCTION

This article discusses the role of subcontractors in the construction industry. A subcontractor is an individual or business firm hired by a general contractor to perform specific portion of the work for a construction project (Reference 1, Web Source). In construction, the owner of the project normally recruits an engineering firm for the design work. The design is to produce a set of construction plans. Based on the plans, the owner sends out a bid package to choose a firm of the general contractor. The firm reviews the construction plans and divides the project into different tasks. The subcontractor businesses are hired to work on some portions of the tasks. For the building construction project, for example, it has many tasks such as site work, foundation and footings, framings and trusses, siding and roofing, refinement jobs, and the MEP systems (Reference 2, ACA).

In general, it is beneficial for subcontractors to participate in various construction projects. As a participant in the project, the subcontractor can gain experience and reputation. This article identifies the advantages of being a subcontractor in construction. It also specifies the rights and obligations as a subcontractor. In order to have a better opportunity being selected for a project, the subcontractor business should have specific skills and good reputation. In addition, the firm of general contractor may present a bid package in selecting subcontractors. The business must have knowledge in cost estimating to bid and earn the position as a subcontractor for the project.

Minority certification is another criterion for a business to be chosen as a subcontractor. For example, an Asian-owned firm can be certified as a minority contractor such as MBE or Minority Business Enterprise (Reference 3, COA). This certification identifies the business's minority ethnicity and its profile so that the business may have a better opportunity to be contracted as a subcontractor.

2. THE PROCESS OF A CONSTRUCTION PROJECT

The construction projects consist of a series of processes (Reference 2) as listed below:

- (1) Plans preparation: Owner of the project signs contract with an engineering firm for the preparation of the construction plans. An engineering report is associated with the plans.
- (2) Bidding process: The construction plans and a bid specifications are distributed to the construction firms to start a bidding process. In response to the bid request, these firms submit a price and/or a project proposal for consideration. The owner normally picks the best valued submission to work with. Then the selected firm would be the general contractor for the project.

- (3) Contracting: Based on the construction plans and other related documents, the owner will sign a contract with the general contractor to begin the project. Subsequently, the contractor shall take the construction plans to the local authority for permitting.
- (4) Subcontracting: Upon plans reading and analysis, the contractor is to schedule and divide the construction into different tasks. These tasks may be contracted to some talented constructors. At this stage, the subcontractor businesses are taken into consideration.
- (5) Constructions: The building construction, for example, includes many tasks that several subcontractors may be involved in. Permitting and inspections may be needed for each of these tasks. In this regard, the selection of subcontractors is very important.

3. THE SELECTION OF SUBCONTRACTORS

A construction project may have many tasks as specified. The general contractor firm for the project hires subcontractor businesses to take care of these tasks. Based on some criteria listed below, the contractor selects and sets up work contracts with these businesses.

- (1) The quality of subcontractors such as their specialties, experience, reputation, and resources.
- (2) The price and/or proposal that the subcontractors submitted.
- (3) The certification of the subcontractor as a minority business.

4. TIERS AND TYPES OF SUBCONTRACTORS

In construction, subcontractors are organized in tiers based on who they have a direct contract with. First-tier subcontractors are those who have a direct contract with the general contractor. The firm of the general contractor has a contract with the owner.

Second-tier subcontractors are those who have a contract with a first-tier subcontractor. They do not have a direct contract with the general contractor. The tier you fall into is important because it determines what notices you must send and the deadlines for sending them, especially on public projects. First-tier subcontractors must notify the general contractor and surety by the 15th day of the third month following each month work was performed. Second-tier subcontractors must send an additional notice to the general contractor by the 15th day of the second month. The subcontractors must also give written notice of their bond claim within a specific time after their work is completed. Unlike private projects, there is no lien to file, but strict notice of deadlines still applies.

As classified by Ng (Reference 4, Ng, etc.), there are two types of subcontractors, equipment-intensive and labor-intensive. The study shows that the general contractor may prefer to use equipment intensive subcontractors for their specialized skills and equipment.

On the other hand, the labor-only subcontracting offers economic advantages by reducing the cost of mobilization and material purchases.

5. QUALIFICATIONS OF SUBCONTRACTORS

To bid and take part in a project, a subcontractor must have adequate qualifications. This may include items below.

- (1) **Knowledge in cost estimating:** The contractor can evaluate project cost by knowing the costs of materials, equipment, and labor. In addition, it's necessary to know the prices of bonding, insurance, and overhead costs such as site visits, bid preparation, and the desired profit. Sometimes hiring subcontractors may save some insurance and labor costs. Cost comparisons with similar jobs of the past can play an important role too.
- (2) **Application of value engineering (VE):** The contractor is able to apply VE to minimize the cost of construction. VE is a systemic, organized approach to provide necessary functions in a project at the lowest cost (Reference 5, Investopedia Team).
- (3) **Adequate resources:** The contractor must have adequate resources in order to bid or present a bid package. The resources may include labor, equipment, and insurance and bonding.
- (4) **Registration and certification:** The contractor should have registered with the authority of the construction project before bidding. To be a minority business, pursuing and obtaining minority certification is generally a necessity for being selected as a subcontractor.

6. PROJECT MANAGEMENT FOR SUBCONTRACTORS

In construction, selecting and securing good subcontractors does not guarantee the success of the project (Reference 6, Lew, etc.). Problems like safety and schedule delay issues may arise with subcontracting. Effective project management is to avoid these problems. This includes signing good contracts, keeping communications, and detailed documentation. Frequent communications with subcontractors during and before construction are essential in resolving their issues and concerns.

7. ADVANTAGES OF BEING A SUBCONTRACTOR

In today's competitive business landscape, many companies are choosing to work as subcontractors rather than competing directly as prime contractors. This business model offers numerous advantages, whether working on private commercial projects or government-funded public contracts (Reference 7, Indeed).

- (1) One of the most significant benefits is reduced financial risk. Subcontractors typically need far less working capital since they are not responsible for the entire project.

- (2) They avoid many of the heavy upfront costs, bonding requirements, and large-scale project financing that prime contractors must manage. This makes it possible for small and medium-sized businesses to take part in major projects that would otherwise be beyond their financial reach.
- (3) Another key advantage is lower administrative burden. Prime contractors must handle extensive paperwork, insurance requirements, legal compliance, safety regulations, and reporting obligations. Subcontractors are generally responsible only for their specific scope of work, allowing them to focus their time and energy on execution rather than bureaucracy.
- (4) Subcontracting also provides greater flexibility and stability. By working with multiple prime contractors, a subcontractor can support a diverse project portfolio. This reduces dependency on any single client and helps ensure more consistent cash flow throughout the year, even during slow economic periods.
- (5) Specialization is another major benefit. Subcontractors can concentrate on perfecting their particular trade or ability, whether it's electrical work, HVAC installation, specialized manufacturing, or technical services. This focused approach often leads to higher quality work, greater efficiency, and stronger reputation within their niche.
- (6) Working as a subcontractor also offers excellent learning opportunities. Companies gain valuable experience working on large, complex, and high-profile projects. They can learn best practices, advanced project management techniques, and industry standards while working under the systems and supervision of established prime contractors.
- (7) In the public sector specifically, being a subcontractor often provides easier entry into government contracting. Many government projects have strict requirements for small business participation, making subcontractors a vital part of winning bids.

8. DISADVANTAGES OF BEING A SUBCONTRACTOR

While subcontracting can be a smart business strategy, it also carries risks that companies should avoid. Subcontractor businesses may face serious challenges that can threaten their financial and business health.

- (1) One of the biggest dangers is payment risk. Subcontractors are typically paid only after the prime contractor has been paid. If the prime contractor experiences cash flow problems or disputes with the client, the subcontractor may have to wait or never get paid at all.
- (2) Another major risk is work scope problems. Subcontractors often face pressure to perform extra work that was not included in the original agreement. Without clear contract language and proper documentation, they can end up doing substantial other work without compensation.

- (3) Unclear contract terms stand for a serious risk. Many subcontractors sign a contract holding unfavorable clauses regarding payment schedules, orders change, retainage, or liability. Once signed, these terms are very difficult to avoid.
- (4) Subcontractors must also be cautious about over-reliance on a single prime contractor. When too much of a company's revenue comes from one source, they become vulnerable if that relationship ends, or if the prime contractor loses a major contract.
- (5) On public projects, compliance requirements can be unexpectedly burdensome. Strict rules regarding safety, labor regulations, minority business requirements, and documentation can lead to heavy fines or withheld payments if not properly managed.
- (6) Reputation risk can be significant. If a subcontractor underperforms or gets caught in a dispute with a prime contractor, word spreads quickly within the industry, making it much harder to win future jobs.

9. RIGHTS AND OBLIGATIONS OF SUBCONTRACTORS

To succeed in business, the subcontractors must know their rights and obligations in construction projects. A contract between the general contractor and the subcontractors normally defines what the working relationships are (Reference 1). It's the subcontractor's obligation to carefully review the contract. Manage cash flow effectively and avoid being overly dependent on any single client or the prime contractor. On the other hand, the subcontractors have the right to perform and receive compensation in accordance with the schedule. The rights and obligations must be specified in the work contract.

(1) Rights for contract

A detailed written subcontract is essential. It should clearly define scope of work, payment schedule, deadlines, order change procedures, and dispute resolution. Any verbal agreement is risky and difficult to enforce.

(2) Rights for Timely Payment

Timely payment is essential after the owner pays the general contractor. Late payments shall accrue interest, and the subcontractor can suspend work after proper notice.

(3) Rights for Mechanic's lien - Private Projects Only

Contractors or subcontractors have the right to privately owned property. The contractors must send written notice by the fifteenth day of the third month after each month's work and file a lien affidavit by the fifteenth day of the fourth month after completing the job. Missing these deadlines usually eliminates their lien rights.

(4) Rights for Protection in Public Projects (When the owner is City, County, or State Agency)

When working on a public project, the contractors cannot file a mechanic's lien against government property. Instead, the payment protection comes from a payment bond required by the government entity.

(5) Rights when orders change

Always secure written, signed "change of orders" before doing extra work. The change of order notice must specify the new scope, price, and any scheduled adjustments.

(6) Obligations to purchase insurance and bond

Most contracts of contractors require general liability insurance, workers' compensation, and sometimes builder's risk coverage. Payment and performance bonds may also be required. Keep certificates of insurance current and name required parties as additional insureds.

(7) Other obligations

Perform work professionally, meet deadlines, coordinate properly, and follow all safety rules. Warrant their work is free of errors or defects.

10. CONCLUSION

The above study described the role and their properties of subcontractors. This information may be useful for businesses engaging in subcontracting work.

In most of the larger-scale constructions, the owner of the project first hires an engineering firm to produce a set of construction plans. Based on the plans, the owner presents the bid package to recruit a general contractor firm. Then the subcontractors take place when the general contractor distributes tasks to a group of specialty firms. Subcontracting jobs are so popular that the contracting business has plenty of opportunities to engage in construction projects.

Participating in construction as a subcontractor can be a smart strategic choice. It allows businesses to grow steadily, reduce risk, develop specialized expertise, and build strong industry relationships while avoiding many of the heavy burdens faced by general contractors. On the other hand, whether the business can be selected as a subcontractor depends on its qualification and the past working relationship. A contractor business should have adequate resources, knowledge in cost estimating, and being registered and certified if the business is a minority.

A subcontractor business has many rights in practice. Most importantly, the business must have a contract of agreement with the general contractor. The contract may schedule payments, conditions for mechanical lien, and other protections. The business's obligations are clear. The main obligation is to perform work in accordance with the requirements, i.e., working professionally and following the time schedule.

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