CONTRACTOR’S LIABILITY TO THIRD PARTY FOR DEFECTIVE WORKS

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To my beloved Father and Mother,
    Sister and Brother.
    And Mustakim.

Thank you for your support, guidance and everything.
ACKNOWLEDGEMENTS

In the name of Allah most gracious most merciful

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Thank you and God bless.
ABSTRACT

In recent times, there have been increasing incidents of defective work in Malaysia and elsewhere due shoddy workmanship, cheating and sometimes, design errors. The consequences could be catastrophic and fatal as in collapsing buildings, and sometimes less dramatic, but no less catastrophic from a financial point of view. Most defects occur after the 18-month defect liability period but the problem arises when negligence action is brought by non-contracting party, who may be a subsequent owner of the building. With that in mind, that contractor’s liability does not stop with the contract and liability may rest in the field of torts: the objective of this research is determine the contractor’s liability to third party for defective works and look into the circumstances in which that the contractor liable or not liable towards those defects. The scope of this research is confined under conventional system where the contractor not involved in design and liability of contractor to third party in tort. The methodology of this research adopts from: the judicial decision of defective work (cases concerning contractor and third party), four-stage test and observation. After analyzing the data, the main findings signify the contractor’s liability to third party only in tort no duty in contract are, injury to third party, damage to property but not economic loss. As a conclusion with this research, a contractor owes a duty to exercise all ordinary and reasonable care and diligence in the performance of its work according to terms of contract; if he fails he is liable for resulting damages.
ABSTRAK

Kebelakangan ini, kecacatan kerja di Malaysia dan di tempat lain sering terjadi, lantaran kemahiran kerja yang kurang baik, penipuan dan adakalanya kesilapan reka bentuk bangunan. Ia boleh membawa bencana dan menyebabkan kematian sekiranya bangunan yang rosak itu runtuh dan ia juga memberi kesan dari sudut kewangan. Biasanya kerosakan terjadi selepas 18 bulan tempoh tanggungan kecacatan dan masalah timbul bila tindakan kecuaian itu di tuntut oleh pihak yang bukan berkontrak seperti pemilik bangunan yang berikutnya iaitu penghuni selepas pemilik bangunan yang asal. Tanggungan kontraktor tidak hanya terbatas kepada kontrak dan dalam keadaan tertentu kontraktor juga bertanggungjawab dibawah tort. Oleh itu matlamat kajian ini adalah untuk menentukan tanggungan kontraktor mengenai kecacatan kerja terhadap pihak ketiga yang tidak berkontrak dan melihat didalam keadaan yang bagaimana kontraktor boleh dipertanggungjawabkan atau tidak bertanggungjawab terhadap kecacatan tersebut. Skop kajian ini terbatas kepada kaedah biasa yang mana kontraktor tidak terlibat didalam mereka bentuk bangunan dan kajian hanya menumpu kepada tanggungan kontraktor dibawah undang-undang tort sahaja. Metodologi kajian adalah dengan mengambil keputusan mahkamah mengenai kecacatan kerja (kes berkaitan kontraktor dan pihak ketiga), pengujian empat peringkat dan penilikan. Selepas menganalisa data, penemuan menunjukkan kontraktor bertanggungjawab terhadap pihak ketiga dibawah tort (bukan di kontrak) hanya apabila pihak ketiga cedera dan mengalami kerugian atau kerosakan kepada harta tetapi bukan kerugian wang semata-mata. Kesimpulan dari kajian ini ialah kontraktor mempunyai kewajipan terhadap melaksanakan kerja dengan ketekunan dan kemahiran yang munasabah menurut terma kontrak, jika dia gagal, dia bertanggungjawab kerana mengakibatkan kecederaan, kerugian atau kerosakan kepada pihak ketiga.
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CHAPTER 1

INTRODUCTION

1.1 Background of the study

Contractor is someone who contracts to build things or someone who contracts for and supervises construction, as of a building (Ashley, 1985). According Chan (2002), contractor’s obligation in a traditional contract to carry out and complete the works would require him to provide the workmanship and materials as required by the specifications given by the architect and engineers. Ficken (2006) similar acknowledge that the contractor is required to perform construction fully in accordance with the contract documents, usually consisting of at least plans, specifications and the building code within required time. Thus, if the contractors fail to construct in accordance with applicable contract documents, he is responsible for resulting damages.

All too often contractors believe that liability is limited to what is written in the contract. This is a grave misconception. Simon (1979) noted that there are many areas of contractual liability which are implied and not expressed. This implied contractual liability might be the contractor’s obligation to perform its work in a good workmanlike manner. Therefore, even when dealing with contractual liability,
the contractor is often subject to a scope of liability different from, and often more comprehensive than, that set forth in the written contract. Frank (1988) further supports that liability, obligations and responsibilities do not stop with the contract. There are broader and more inclusive. Liability may rest in the field of torts. Although the contract may specify that the contractor is obligated to act in a reasonable manner, even if the contract does not specify it the law of torts does.

As highlighted by Simon (1979), under the law of torts, every person owes every other the obligation to exercise reasonable care and skill. This obligation extends beyond the contracting party. It applies to all persons. The contractor may be liable for its failure to exercise reasonable care in the performance of his duties, even though it is fulfilling its contractual obligations. A contractor who lives by its contract is merely inviting potential liability.

As stated by Frankel (2005), the recent explosion in new construction has spawned, increased construction defect litigation. Construction defect litigation involves all types and sizes of building projects, but homes are its current focus, with the intensity of the concern growing rapidly. And he adds constructions defects can be defined is a failure by the contractor to comply with the terms of their contract regarding the standard and quality of workmanship and materials required. Supported by Holland (1992) where the Building Research Establishment Advisory Service study found that 58% all failures were due to faulty design, 35% of faults were due to the builder’s faulty execution of the work, 12% to failure of components or materials to meet acceptable performance, 11% of failures were due to misuse by the user of the building, see Figure 2.1. While, Frankel (2005) noted that the construction defects can arise from improper soil analysis / preparation, site selection and planning, architectural design, civil and structural engineering, negligent construction or defective building materials.

The number of construction-defect cases has surged in recent years because houses are being constructed in record numbers to meet the high demand for
housing. Many general contractors are inexperienced and others mass produce thousands of houses. The home construction industry is intensely competitive. Many builders respond to the competition with low bids for contracts, then cut corners, and frequently employ unskilled or overworked subcontractors and poorly supervise subcontracted work (Summerlin and Ogborn, 2006).

The reality of the problem is that it is extremely difficult to avoid claims in construction industry. This is because of one very simple factor. It is human to err. As we know the production of construction products is a risky, complex and lengthy process. It involves several specialists such as the project manager, architects, landscape architects, engineers, land surveyors, quantity surveyor, general contractor, specialist contractor and suppliers.

1.2 Statement of issues

A contractor is responsible to rectify at his own cost ‘any defects, shrinkages or other faults’ which appear during the specified Defective Liability Period specified in the Appendix of the contract. But, sometimes we heard or read in the newspaper that building or structure has failed and collapsed. Normally the collapsed building is not under the Defect Liability Period anymore e.g. Highland Tower case. The news often highlighted the financial loss suffered by some people. In the worse scenario a number people were reported to be injured or have died as a result.

1 Clause 15.2, The PAM 1998 Form
As Nicholas Mun (2001) stated in New Straits Time on Towards Defect Insurance, the Federation of Malaysian Consumer Associations (Fomca) deputy president N. Marimuthu said, "Most defects occur after the 18-month defect liability period. Such a move would be well-received by purchasers as they will know which party they can claim from when a defect occurs”. Borja and Stevens (2002) supports that where an apparently completed building is found to contain defects of design or construction. While Cama (2004) noted that most construction defects are latent defects, where the defects only become apparent at some later date. Supported by Frank and James (1988) that defects appears beyond the date issue of a Certificate of making goods defects if what are known as "latent” defects arise, then the employer retains a right to pursue a claim against the contractor for damages, provided of course that the defect is a result of the contractor's breach of contract and that it is not time-barred.

Nicholas Mun (2001) found that poor quality and shoddy workmanship are two issues the property industry has been wrestling with since the boom in mass housing began in the early 80s. Ter Kah Leng (1989) supported that in construction, structural or other defects may be caused by a number of factors including negligent design, inferior materials, inadequate supervision, shoddy workmanship or other forms of negligent construction. Rajendra Navaratnam (2004), similar indicated that there have been increasing incidents of defective construction works in Malaysia and elsewhere due to shoddy workmanship, negligent, cheating and sometimes and design errors. And he adds “The consequences could be catastrophic and fatal, such as in collapsing buildings and sometimes less dramatic, but no less catastrophic from a financial point of view”.

Clearly that defective construction works give the bad implications and effects, where, Summerlin and Ogborn (2006) found that poor quality workmanship can result in a long list of defects. And he add that hundreds of thousands of homeowners realize their new homes suffer from some type of construction defect that will cost thousands of dollars to repair, depreciate the value of their home, or force them to leave their home. Borja and Stevens (2002) similar indicated, each
year, homeowners and commercial property owners bring numerous lawsuits, alleging damage resulting from defective construction of faulty repair work. Also, Marianne (2005) supported that thousands of homeowners nationwide have sued or turned to contractor and insurers for repair costs, a daunting process that takes a financial and emotional toll. Thus, building defects spoil homeowners' dreams.

Besides, in the context of defective buildings, Rajendra Navaratnam (2004) stressed that the major stumbling block in majority of cases is the recovery of the costs of rectification of defects, which are discovered before physical damage occurs. This loss, which is the cost of repair, lost profits or diminution in value of the building, is classified as “pure economic loss”. Nevertheless, as stated by Borsook and Cook (1998), if the building was negligently constructed, the building owner will eventually be faced with task of repairing the defects. Depending on the terms of the construction contract between the owner and the contractor, the initial owner of a building will usually have recourse against the contractor. The problem arises when negligence action is brought by a non-contracting third party as a subsequent owner of the building with the contractor. Also, the issue here, is they have any recourse against the contractor for the cost of repairs?

The worse scenario could be catastrophic and fatal, such as in collapsing buildings. According Ter Kah Leng (1989), if the defective building collapses and can causes personal injury or physical damage to other property, therefore the injured person may bring an action in negligent construction to claim compensation for injury or loss of life against the contractor, surveyor, architect or engineer at fault. The problem arises when a negligence action is brought by a non-contracting third party or there are no privity of contract between the injury person and wrongdoer, for example between contractors to the third party.

The gist of the problems really is ‘a defect for which there is no contractual remedy available to the plaintiff and a breach of tortious duty by the defendant.’ Is contractor liable? How is he liable and what is his liability to third party?
1.3 Objective of Study

The objective of the research is to determine the contractor’s liability to third party for defective works and look into the circumstances in which that the contractor liable or not liable towards those defects.

1.4 Limitation of Study

The main thrust of this dissertation is on determining the contractor’s liability in relation to defective work. This study is limited the contractor’s liability to third party. The scope of this study will be confined to the following areas:

a. Under conventional system
b. Contractor’s liability in tort only.

c. Cases related in construction defects brought in England, New Zealand, Australia, Canada, Singapore and Malaysia.

This study is limited under the conventional system because contractor not involves in design and planning, where the employer will enter into separate contracts with a professional for the design of the building works and contractor for the construction of the building works.

While, this study will be confined just contractor’s liability in tort because there is no privity of contract between the contractor and the third party. Refer diagram 1.1. Also, this is because, in practice, damage arising from defective work will not usually arise at the same time when the defective work is carried out but only after, and, in certain cases, much later than the completion of the works.
Diagram 1.1: Illustration of relationship between contractor and third party under conventional system

1.5 The Significant of Research

This research is very important in order to guideline the contractor’s liability to third party for defective works. This is because, in practice, damage arising from defective work will not usually arise at the same time when the defective work is carried out but only after, and, in certain cases, much later than the completion of the works.

Furthermore, this research also gives some information to the victim regarding their rights, when they have suffering from the defective building. The contractor must also be aware of what its legal rights are against the other contracting party. Thus, this research is perhaps would contribute towards enhancement of the contractor’s knowledge regarding their liability to third party under law of tort.
1.6 Research Method

In pursuance of the aim or objective as stipulated above, the primarily methods that have used to complete this project are research by literature review.

Sources for literature review are from books, journals, newspaper article, lecturer notes and magazines. These sources provide lots of data that can help to determine the background of the research, defective building, and nature of contractor’s liability relating to defective works.

All these reading sources can be obtained at the internet sites that are related to this dissertation and library; Perpustakaan Sulatanah Zanariah, UTM and Perpustakaan Tunku Abdul Razak, UiTM. Analysis of cases collected from Malayan Law Journal (MLJ).

The introduction stage of this research started with the overall overview of the defective building and present type of common defective building as in Chapter 2. This was followed by an extensive Literature Review on principle of liability under topic professional liability as in Chapter 3.

After setting the performance indicator and data collection stage, the following stage is the data analysis stage as in chapter 4. In this analysis will be focus on the contractor’s liability in relation to defective construction works to third party. The data analyses results make from the judicial decisions as reported in law reports and further explore related cases. This study also will be focus on what circumstances that the contractor is liable or not liable towards those defects. In this chapter, four-stage test will be use to in order to look the relevant situations concerning contractor and the third party in terms of defective works. Finally as in chapter 5, present the conclusion of research.
1.7 Organisation of the report

The dissertation consists of five chapters. The brief descriptions of each chapter are as follows:

**Chapter 1: Introduction**
This chapter presents the overall content of the whole project writing. It introduces the subject matter, the problems that are purported to solve. The objective is specified with an appropriate research method to achieve them.

**Chapter 2: Defective works**
This chapter with the overview the common type of building defects, general causes of building defects and classification of defects.

**Chapter 3: Professional liability**
This chapter reviews the various definitions of liability and the different of liability under contract and tort. Also, highlights what are the extent of liability in relation to defective works, standard of skill and care and limitation of actions of their liability. It starts with identify the nature of professions.

**Chapter 4: Results and Analysis - Contractor’s liability**
This chapter analyse the results from the judicial decisions as reported in law reports and further explore related cases regarding the contractor’s liability to third party for defective construction works and what circumstances that the contractor liable or not liable. Attempts were made to analyse the reported judicial decisions and to state the law there from. This would allow not only the law to be stated, but equally important, it allows the law to be assessed in relation to the facts as found by the court.

**Chapter 5: Conclusions**
This chapter presents the conclusions for the overall dissertation.
d. If a third party fails to initiate proceedings within the applicable period will be 
barred from obtaining any remedy. If the damage is not discovered until after 
limitation runs out (more than 6 years from the damage occurs), the claim is 
statute barred.

Nevertheless, the limit of contractor liability was explained in case *D & F Estate v Church Commission* (1989)\(^{81}\), where any duty owed by a contractor to a home owner 
with respect to the quality of the construction must arise, raised on a claim in contract 
not in tort. The decision in *D & F Estate* was followed by House of Lords again in 
*Murphy v Brentwood District Council*\(^{82}\). In this case that contractor’s liability in tort is 
limited to defects which cause either injury to person or physical damage to property 
other than building itself. Damage to the building item itself is regarded as pure 
economic loss and therefore irrecoverable.

\(^{81}\) [1989] AC 177  
\(^{82}\) [1990] 2 All ER 908
References


