PROFILING OF CONSTRUCTION DISPUTES IN PRIVATE PROJECTS

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A thesis submitted in fulfilment of the requirements for the award of the degree of Doctor of Philosophy (Quantity Surveying)

Faculty of Built Environment
Universiti Teknologi Malaysia

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To my late grandparents,
may their memory be a comfort and a blessing.

To my beloved husband, parents, brother, aunties and uncles,
for always loving, supporting and believing in me.

And all of my friends especially Yoke Mei,
Without whom none of my success would be possible.
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Not forgetting all of my family members for their love, support, and understanding throughout the whole duration of my doctoral studies. Thanks for being understanding on the long hours that were required to finish this dissertation on time. I love and appreciate you all so much. Alecs, my husband, whom I adore for how much he understands me and what I am about, and for his unceasing love, support, humour, and encouragement.
ABSTRACT

Construction disputes often break out due to multiple causes and are attested by numerous court cases reported in law journals. While lessons could be learned from previous incidents, recurrence should be avoided. Profiling process comprised of studying patterns of conducts of particular data subjects and categorising such subjects in relation to exhibited conduct is found to be lacking in the subject of construction disputes. Hence, this research aims to develop a construction dispute profile based on legal cases to improve the contract management practice. The objectives of the research are to establish the attributes as well as the causes of disputes involved, to identify the legal issue(s) arising from construction dispute cases and finally to develop a validated dispute profiling framework. Doctrinal legal research and a review of the literature were adopted as the methodology of the research. This qualitative research approach used Issue, Rules, Analysis, Conclusion (IRAC) and content analysis techniques to analyse the data. Fifty four (54) Malaysian reported construction dispute cases related to contractual issues occurring in private construction projects between the years 2000 and 2013 were identified and used as the data. The three main attributes for identification were disputed projects, case and court process characteristics. Results indicated that there are six subgroups of causes of construction dispute emerging from the cases, namely contract law, law in tort, payment, determination, time, and site and execution of work. Under the payment subgroup, non-payment showed the highest frequency among others. Some legal issues pertaining to retention sum and winding up were also identified. The cases, attributes and causes of disputes established were used as a basis to develop a framework of the construction dispute profile. To validate the practicality of the proposed construction dispute profile framework, an online questionnaire survey validation process was carried out. Majority of the respondents concurred with the findings and agreed that the framework could be the basis for the development of construction disputes database system in the future.
# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td></td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATIONS</td>
<td></td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGMENT</td>
<td></td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td></td>
<td>v</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td></td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td></td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td></td>
<td>xiv</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td></td>
<td>xvi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td></td>
<td>xix</td>
</tr>
<tr>
<td>LIST OF CASES</td>
<td></td>
<td>xxi</td>
</tr>
<tr>
<td>LIST OF APPENDICES</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>

1 INTRODUCTION 1

1.1 Introduction 1

1.2 Background of Issues 2

1.2.1 Construction Disputes 2

1.2.2 Profiling 4

1.3 Problem Statement 6

1.4 Research Questions 8
1.5 Research Aim and Objectives 9
1.6 Scope of Research 10
1.7 Significance of the Research 11
1.8 Research Approach 13
1.9 Organisation of Research 14

2 CONSTRUCTION INDUSTRY AND CONSTRUCTION DISPUTES 16

2.1 Introduction 16
2.2 The Construction Industry 16
2.3 Nature of the Construction Industry 18
2.4 Definition of Disputes, Claims, and Conflicts 21
2.5 Construction Conflicts, Claims and Disputes 23
2.6 The Genesis of Construction Conflict and Disputes 27
   2.6.1 Organisational Disputes 31
   2.6.2 Technical Disputes 33
   2.6.3 Contractual Disputes 36
      2.6.3.1 Payment 38
      2.6.3.2 Time 41
      2.6.3.3 Site and Execution of Work 42
      2.6.3.4 Determination 43
      2.6.3.5 Tort 44
2.7 The Effects of the Construction Disputes 45
2.8 Current Dispute Resolution Approach 46
   2.8.1 Overview of Malaysian Legal System 47
      2.8.1.1 The Malaysian Judicial System 48
      2.8.1.2 Law of Contract 50
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8.1.2.1</td>
<td>Construction Law</td>
<td>50</td>
</tr>
<tr>
<td>2.8.1.3</td>
<td>Construction Contract</td>
<td>51</td>
</tr>
<tr>
<td>2.8.1.4</td>
<td>Specialist Reports</td>
<td>55</td>
</tr>
<tr>
<td>2.8.1.5</td>
<td>Litigation</td>
<td>55</td>
</tr>
<tr>
<td>2.8.1.6</td>
<td>Litigation in Construction Court</td>
<td>56</td>
</tr>
<tr>
<td>2.8.1.7</td>
<td>Reported versus Unreported or Published versus Unpublished</td>
<td>59</td>
</tr>
<tr>
<td>2.8.1.8</td>
<td>Ousting of the Jurisdiction of Courts</td>
<td>60</td>
</tr>
<tr>
<td>2.8.1.9</td>
<td>Procedure and Practice in the Courts</td>
<td>61</td>
</tr>
<tr>
<td>2.9</td>
<td>Categorisation of Attributes</td>
<td>63</td>
</tr>
<tr>
<td>2.9.1</td>
<td>Types of Projects</td>
<td>66</td>
</tr>
<tr>
<td>2.9.2</td>
<td>Project Development Stage According to RIBA Plan of Work 2013</td>
<td>67</td>
</tr>
<tr>
<td>2.9.3</td>
<td>Procurement Methods</td>
<td>71</td>
</tr>
<tr>
<td>2.9.4</td>
<td>Parties in Construction</td>
<td>73</td>
</tr>
<tr>
<td>2.9.4.1</td>
<td>Employer versus Contractor</td>
<td>74</td>
</tr>
<tr>
<td>2.9.4.2</td>
<td>Main Contractor versus Subcontractor</td>
<td>74</td>
</tr>
<tr>
<td>2.9.4.3</td>
<td>Employer versus Other Parties</td>
<td>75</td>
</tr>
<tr>
<td>2.9.4.4</td>
<td>Main Contractor versus Other Parties</td>
<td>76</td>
</tr>
<tr>
<td>2.9.4.5</td>
<td>Subcontractor versus Other Parties</td>
<td>76</td>
</tr>
<tr>
<td>2.10</td>
<td>Profiling</td>
<td>77</td>
</tr>
<tr>
<td>2.10.1</td>
<td>Adoption of Profiling in Various Field</td>
<td>78</td>
</tr>
<tr>
<td>2.11</td>
<td>Conclusion</td>
<td>86</td>
</tr>
</tbody>
</table>
## RESEARCH METHODOLOGY

3.1 Introduction ................................... 88
3.2 What is Research? ............................... 88
3.3 Research Approach .............................. 89
3.4 Research Method ................................. 90
   3.4.1 Literature Review ........................... 91
   3.4.2 Legal Research .............................. 94
      3.4.2.1 Doctrinal Research ...................... 95
      3.4.2.2 Interdisciplinary Research .............. 97
   3.4.3 Choice of Legal Research Methodology
      For Current Research .......................... 99
      3.4.3.1 Issue, Rule, Analysis/Application,
              Conclusion - IRAC ......................... 100
         3.4.3.1.1 Structure of Court Judgement ... 103
      3.4.3.2 Data Analysis Method ................... 107
         3.4.3.2.1 Sources of Law and Data ............ 119
   3.5 Framework Development and Validation ... 121
3.6 Conclusion ..................................... 123

## ANALYSIS AND DISCUSSIONS

4.1 Introduction ................................... 124
4.2 Attributes of Construction Disputes .......... 124
4.3 Overview of Construction Disputes Cases Profile 125
4.4 Causes of Construction Disputes Cases ...... 140
4.5 Case Analysis and Legal Issues ............... 150
   4.5.1 Formation of Contract ..................... 150
4.5.1.1 Invitation To Treat
4.5.2 Legality of Contract
4.5.3 Privity of Contract
4.5.4 Contract Performance/Breach of Contract
4.5.5 Limitation Period
4.5.6 Payment
  4.5.6.1 Rights to Payment
  4.5.6.2 Set Off
  4.5.6.3 Retention Sum
  4.5.6.4 Performance Bond/Bank Guarantee
  4.5.6.5 Pay When Paid Clause
  4.5.6.6 Variation
  4.5.6.7 Conclusiveness of Certificate
  4.5.6.8 Damages
  4.5.6.9 Winding Up
4.5.7 Determination
4.5.8 Time
4.5.9 Site and Execution of Work
  4.5.9.1 Material on Site
  4.5.9.2 Defects
4.5.10 Negligence
4.5.11 Fraud
4.5.12 Trespass to Land
4.6 Conclusion
5 FRAMEWORK OF CONSTRUCTION DISPUTES PROFILE

5.1 Introduction 211
5.2 Purpose of Developing a Framework 211
5.3 Framework Development 213
5.4 Conclusion 240

6 FRAMEWORK VALIDATION

6.1 Introduction 241
6.2 Validation Technique 241
6.3 Validation Process and Background of Respondent 244
6.4 Framework Validation Results 245
   6.4.1 Section A: Respondent’s Background Information 245
   6.4.2 Section B: Survey Questions’ Result 247
      6.4.2.1 Proposed Framework Content 247
      6.4.2.2 Proposed Framework Structure and Applicability 254
6.5 Conclusion 257

7 CONCLUSION, LIMITATION AND RECOMMENDATION

7.1 Introduction 259
7.2 Satisfaction and Achievement of the Research Aim and Objectives 259
7.3 Findings From the Framework Validation Survey 261
7.4 Limitation of the Research 262
7.5 Recommendations for Future Research 262
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE NO.</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Dispute Values and Length of Disputes According To Region from Year 2010 – 2016</td>
<td>3</td>
</tr>
<tr>
<td>2.1</td>
<td>Characteristics and Differences of Conflict, Claims and Dispute</td>
<td>26</td>
</tr>
<tr>
<td>2.2</td>
<td>Causes and Categories of Conflicts or Disputes in Construction</td>
<td>28</td>
</tr>
<tr>
<td>2.3</td>
<td>Adoption of Profiling in Various Field</td>
<td>79</td>
</tr>
<tr>
<td>3.1</td>
<td>Relationship Between Research Objectives And Research Method</td>
<td>91</td>
</tr>
<tr>
<td>3.2</td>
<td>Construction Dispute Data Sources Analysis</td>
<td>120</td>
</tr>
<tr>
<td>4.1</td>
<td>Attributes of Construction Disputes Based on Literature and Cases</td>
<td>125</td>
</tr>
<tr>
<td>4.2</td>
<td>Parties in Dispute</td>
<td>132</td>
</tr>
<tr>
<td>4.3</td>
<td>Hierarchy of Courts Hearing Construction Disputes Case</td>
<td>133</td>
</tr>
<tr>
<td>4.4</td>
<td>Summary of Dispute Cases brought to Prior Court and/or Appeal Court along with the Court Judgement/Decision</td>
<td>135</td>
</tr>
<tr>
<td>4.5</td>
<td>Causes of Dispute</td>
<td>140</td>
</tr>
<tr>
<td>4.6</td>
<td>Payment Subgroup</td>
<td>142</td>
</tr>
<tr>
<td>4.7</td>
<td>Time Subgroup</td>
<td>144</td>
</tr>
<tr>
<td>4.8</td>
<td>Site and Execution of Work Subgroup</td>
<td>145</td>
</tr>
<tr>
<td>4.9</td>
<td>Determination Subgroup</td>
<td>146</td>
</tr>
<tr>
<td>4.10</td>
<td>Contract Law Subgroup</td>
<td>148</td>
</tr>
</tbody>
</table>
4.11 Law of Tort Subgroup 149
4.12 Summary of Disputes Associated with Determination of Contract 200
5.1 Identification of Subgroupings 236
6.1 Validation Techniques 242
6.2 Background of the Respondents and Comments Made on the Proposed Framework 257
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE NO</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>The Spectrum of Conflict</td>
<td>23</td>
</tr>
<tr>
<td>2.2</td>
<td>Relationships Between Conflicts, Claims and Disputes Along With Potential Outcome In Construction</td>
<td>23</td>
</tr>
<tr>
<td>2.3</td>
<td>The Malaysian Judicial/Court System</td>
<td>48</td>
</tr>
<tr>
<td>3.1</td>
<td>Legal Research Styles</td>
<td>95</td>
</tr>
<tr>
<td>3.2</td>
<td>Structure of Court Judgement or Case Law Example</td>
<td>103</td>
</tr>
<tr>
<td>3.3</td>
<td>A Streamlined Codes-To-Themes For Qualitative Inquiry</td>
<td>109</td>
</tr>
<tr>
<td>3.4</td>
<td>Data Extraction using Content Analysis</td>
<td>111</td>
</tr>
<tr>
<td>3.5</td>
<td>Flow Chart Showing Research Methodology For Model Development</td>
<td>122</td>
</tr>
<tr>
<td>3.6</td>
<td>Flow Chart Showing Research Methodology For Construction Dispute Profile Framework Development</td>
<td>122</td>
</tr>
<tr>
<td>4.1</td>
<td>Reported Dispute Cases From Law Journals</td>
<td>126</td>
</tr>
<tr>
<td>4.2</td>
<td>Number of Construction Dispute Cases Reported From Year 2000 to Year 2013</td>
<td>127</td>
</tr>
<tr>
<td>4.3</td>
<td>Type of Construction Projects Involved in Disputes</td>
<td>128</td>
</tr>
<tr>
<td>4.4</td>
<td>Project Development Stages Where Disputes Occur Frequently</td>
<td>129</td>
</tr>
<tr>
<td>4.5</td>
<td>Procurement Methods Adopted in Construction Dispute Cases</td>
<td>129</td>
</tr>
<tr>
<td>4.6</td>
<td>Standard Form of Contract and/or Agreements Adopted in Construction Dispute Cases</td>
<td>130</td>
</tr>
</tbody>
</table>
4.7 Disputed Amount Involved in Construction Dispute Cases

4.8 Duration of Proceeding to Resolve Construction Disputes via Litigation

4.9 Dispute Causes Subgroup In Relation To Construction Dispute Cases Reported From Year 2000 – 2013

5.1 Context of the Past, Present and Future Research in Construction Dispute

5.2 Dispute Profile Related to Contract Law

5.3 Dispute Profile Related to Payment

5.4 Dispute Profile Related to Determination

5.5 Dispute Profile Related to Site & Execution of Work

5.6 Dispute Profile Related to Time

5.7 Dispute Profile Related to Law of Tort

5.8 Framework of Construction Disputes Cases Profile

6.1 Respondent’s Nature of Employment

6.2 Respondent’s Experience

6.3 The Need To Create A Dispute Case Profile

6.4 Right Identification of The Disputes Groupings

6.5 Right Identification Of The Dispute Causes

6.6 Right Identification of The Relevant Disputes Cases

6.7 Right Identification of Dispute Attributes

6.8 Description on The Causes of Disputes Groupings

6.9 Description on The Legal Issues/Case Principle with Case Name

6.10 Description on The Dispute Attributes

6.11 Utilisation of Key Information From Case Law By Having A Dispute Case Profile

6.12 Ease of Understanding of the Proposed Framework
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.13</td>
<td>Ease of Adoption of the Proposed Framework</td>
<td>255</td>
</tr>
<tr>
<td>6.14</td>
<td>Proposed Framework Applicability For All Construction Related Projects</td>
<td>255</td>
</tr>
<tr>
<td>6.15</td>
<td>Framework Benefiting Industry Player</td>
<td>256</td>
</tr>
</tbody>
</table>
**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Law Reports Appeal Cases</td>
</tr>
<tr>
<td>ADR</td>
<td>Alternative Dispute Resolution</td>
</tr>
<tr>
<td>All ER</td>
<td>All England Law Reports</td>
</tr>
<tr>
<td>AMR</td>
<td>All Malaysia Reports</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia</td>
</tr>
<tr>
<td>BQ</td>
<td>Bill of Quantities</td>
</tr>
<tr>
<td>BR</td>
<td>Broadcasting Reports 1979-</td>
</tr>
<tr>
<td>CA</td>
<td>Court of Appeal</td>
</tr>
<tr>
<td>Ch</td>
<td>Cases in Chancery</td>
</tr>
<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
</tr>
<tr>
<td>CIDB</td>
<td>Construction Industry Development Board</td>
</tr>
<tr>
<td>CIPAA</td>
<td>Construction Industry Payment and Adjudication Act</td>
</tr>
<tr>
<td>CJ</td>
<td>Chief Judge</td>
</tr>
<tr>
<td>Cl/cl</td>
<td>Clause</td>
</tr>
<tr>
<td>CLJ</td>
<td>Current Law Journal</td>
</tr>
<tr>
<td>EPU</td>
<td>Economic Planning Unit</td>
</tr>
<tr>
<td>FBI</td>
<td>Federal Bureau of Investigation</td>
</tr>
<tr>
<td>FBI</td>
<td>Federal Bureau of Investigation</td>
</tr>
<tr>
<td>FCJ</td>
<td>Federal Court Judge</td>
</tr>
<tr>
<td>FIDIC</td>
<td>International Federation of Consulting Engineers</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ICE</td>
<td>Institution of Civil Engineers</td>
</tr>
<tr>
<td>ICR</td>
<td>Industrial Cases Reports</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
</tr>
<tr>
<td>IEM</td>
<td>The Institution of Engineers Malaysia</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>J</td>
<td>Judge</td>
</tr>
<tr>
<td>JCT</td>
<td>Joint Contracts Tribunal</td>
</tr>
<tr>
<td>JKR/PWD</td>
<td>Jabatan Kerja Raya / Public Works Department</td>
</tr>
<tr>
<td>KB</td>
<td>Law Reports King’s Bench</td>
</tr>
<tr>
<td>LAD</td>
<td>Liquidated Ascertained Damages</td>
</tr>
<tr>
<td>LOU</td>
<td>Letter of Undertaking</td>
</tr>
<tr>
<td>LRT</td>
<td>Light Rail Transit</td>
</tr>
<tr>
<td>MBAM</td>
<td>Master Builders Association Malaysia</td>
</tr>
<tr>
<td>MLJ</td>
<td>Malayan Law Journal</td>
</tr>
<tr>
<td>MLJU</td>
<td>Malayan Law Journal Unreported</td>
</tr>
<tr>
<td>MPW</td>
<td>Master Work Programme</td>
</tr>
<tr>
<td>O/o</td>
<td>Order</td>
</tr>
<tr>
<td>OSS</td>
<td>Office of Strategic Services</td>
</tr>
<tr>
<td>PAM</td>
<td>Pertubuhan Akitek Malaysia / Malaysian Institute of Architects</td>
</tr>
<tr>
<td>PMBOK</td>
<td>Project Management Book of Knowledge</td>
</tr>
<tr>
<td>QB</td>
<td>Law Reports Queen’s Bench</td>
</tr>
<tr>
<td>RFI</td>
<td>Request For Information</td>
</tr>
<tr>
<td>RFID</td>
<td>Radio-Frequency Identification</td>
</tr>
<tr>
<td>RHC</td>
<td>Rules of the High Court</td>
</tr>
<tr>
<td>RIBA</td>
<td>Royal Institute of British Architects</td>
</tr>
<tr>
<td>RICS</td>
<td>Royal Institution of Chartered Surveyors</td>
</tr>
<tr>
<td>S/s</td>
<td>Section</td>
</tr>
<tr>
<td>SLR</td>
<td>Singapore Law Report</td>
</tr>
<tr>
<td>S.O.</td>
<td>Superintending Officer</td>
</tr>
<tr>
<td>TLR</td>
<td>Times Law Reports</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNSUB</td>
<td>Unknown Subject</td>
</tr>
<tr>
<td>V.O.</td>
<td>Variation Order</td>
</tr>
<tr>
<td>WLR</td>
<td>Weekly Law Reports</td>
</tr>
</tbody>
</table>
LIST OF CASES

Abdul Razak Ahmad v Majlis Bandaraya Johor Bahru [1995] 2 MLJ 287

Antah Schindler Sdn Bhd v Ssangyong Engineering & Construction Co Ltd [2008] 3 MLJ 204

Antara Elektrik Sdn Bhd v Bell & Order Bhd [2002] 3 MLJ 321

Artic Building and Civil Engineering Sdn Bhd v Ahmad Zaki Sdn Bhd & Ors [2009] 9 MLJ 328

Asiapools (M) Sdn Bhd v IJM Construction Sdn Bhd [2010] 3 MLJ 7

Bandar Builder Sdn Bhd & Ors v United Malayan Banking Corporation Bhd (1993) 3 MLJ 36


Bina Jati Sdn Bhd v Globe Engineering Sdn Bhd [2013] 5 MLJ 258

Bina Jati Sdn Bhd v Sum-Projects (Bros) Sdn Bhd [2000] MLJU 235

Boyo v Lambeth London Borough Council [1994] ICR 727

Caltex Oil Malaysia Ltd v Classic Best Sdn Bhd & Ors [2007] 4 MLJ 772

Chamber Colliery Ltd v Twyerould [1915] 1 Ch 268

Chase Perdana Sdn Bhd (formerly known as Chew Piau Bhd) v CIMB Bank Bhd [2010] 1 MLJ 685

China Airlines Ltd v Maltran Air Corp Sdn Bhd (formerly known as Maltran Air Services Corp Sdn Bhd) and another appeal [1996] 2 MLJ 517

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Esal (Commodities) Ltd and Esso Petroleum Malaysia Inc v Kago Petroleum Sdn Bhd

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Ganad Corp Bhd v Flobright Trading Sdn Bhd & Anor [2000] 6 MLJ 830

Gibbs v Guild (1881) 8 QBD 296

Guan Heng Construction Works (suing as a firm) v IMM White Button Mushroom (M) Sdn Bhd and another suit [2013] 10 MLJ 465

Gunung Bayu Sdn Bhd v Syarikat Pembinaan Perils Sdn Bhd [1987] 2 MLJ 332

Hap Aik Construction Bhd v HPC Engineering (M) Sdn Bhd [2002] MLJU 105

Highceed Corp Sdn Bhd v Warisan Harta Sabah Sdn Bhd & Anor [2000] 5 MLJ 337

Hock Hua Bank (Sabah) Bhd v Yong Liuk Thin & Ors [1995] 2 MLJ 213

Hopkins v Norcross plc [1993] 1 All ER 565

Inter Maritime Management Sdn Bhd v Kai Tai Timber Co. Ltd, Hong Kong (1995) MLJ 322

Jallcon (M) Sdn Bhd v Nikken Metal (M) Sdn Bhd (No 2) [2001] 5 MLJ 716

JB Kulim Development Sdn Bhd v Great Purpose Sdn Bhd [2002] 2 MLJ 298
JKP Sdn Bhd v PPH Development (M) Sdn Bhd and another appeal [2007] 6 MLJ 239

Juahir bin Sadikon v Perbadanan Kemajuan Ekonomi Negeri Johor [1996] 3 MLJ 627

Joceline Tan Poh Choo & Ors v V Muthusamy [2008] 6 MLJ 621

Joo Leong Timber Merchant v Dr Jaswant Singh A/L Jagat Singh [2003] 5 MLJ 116


Karya Lagenda Sdn Bhd v Kejuteraan Bintai Kindenko Sdn Bhd & Anor [2008] 6 MLJ 636

Keet Gerald Francis Noel John v Mohd Noor bin Abdullah [1995] 1 MLJ 193

Kerajaan Malaysia lwn Cheah Foong Chiew dan lain-lain [1993] 2 MLJ 439

Kleinwort Benson Ltd v Birmingham City Council [1996] 4 All ER 733

KM Quarry Sdn Bhd v Ho Hup Construction Co Bhd [2006] MLJU 157

Knight v Knight (1840) 49 ER 68

LEC Contractors (M) Sdn Bhd (Formerly Known as Lotteworld Engineering & Construction Sdn Bhd) v Castle Inn Sdn Bhd & Anor [2000] 3 MLJ 339

LEC Contractors (M) Sdn Bhd v Castle Inn Sdn Bhd (No2) [2001] 5 MLJ 510

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Loh Chiak Eong & Anor v Lok Kok Beng & Ors [2013] 1 MLJ 27

Luxor Holdings Sdn Bhd v Hainal-Konyi (M) Sdn Bhd [2006] 3 MLJ 727

Mahkota Technologies Sdn Bhd (Formerly Known as the General Electric Co (M) Sdn Bhd) v BS Civil Engineering Sdn Bhd [2000] 6 MLJ 505

Man B&W Diesel S E Asia Pte Ltd and another v PT Bumi International Tankers and another appeal [2004] 2 SLR 300

Manks v Whiteley [1912] 1 Ch 735


Mascon Sdn Bhd v Kasawa (M) Sdn Bhd [2000] 6 MLJ 843

Master Plumbers Sdn Bhd v Kemajuan Amoy Sdn Bhd [2009] 9 MLJ 519


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Pasukhas Construction Sdn Bhd & Anor v MTM Millenium Holdings Sdn Bhd & Anor [2009] 8 MLJ 1

Pembenaan Leow Tuck Chui & Sons Sdn Bhd v Dr Leela’s Medical Centre Sdn Bhd [1995] 2 MLJ 57

Pembinaan Pau Wah Sdn Bhd v Wira Tertib Sdn Bhd [2008] 8 MLJ 534

Pembinaan Perwira Harta Sdn Bhd v Letrikon Jaya Bina Sdn Bhd [2012] 4 MLJ 774

Pembinaan Purcon v Entertainment Village (M) Sdn Bhd [2004] 1 MLJ 545


Percy Bilton Ltd v Greater London Council [1982] 26 BR 1

Pesticides India v State Chemicals & Pharmaceuticals Corp of India AIR 1982 Delhi 78

Poh Geok Sing v HB Enterprise Sdn Bhd [2006] 1 MLJ 617

Qimonda Malaysia Sdn Bhd (in liquidation) v Sediabena Sdn Bhd & Anor [2012] 3 MLJ 422

Rawley v. Rawley [1876] 1 QBD 460 C.A

Reeves v Butcher [1891] 2 QB 509

Ribaru Bina Sdn Bhd (dahulu dikenali sebagai Ribar Resources Sdn Bhd) & Anor v Bakti Kausar Development Sdn Bhd & Anor [2003] 5 AMR 165

Richards v. James [1848] 2 Ex 471

Ryoden (M) Sdn Bhd v Syarikat Pembenaan Yeoh Tiong Lay Sdn Bhd [1992] 1 MLJ 33

Sa Shee (Sarawak) Sdn Bhd v Sejadu Sdn Bhd [2000] 5 MLJ 414

Saw Gaik Beow v Cheong Yew Weng & Ors [1989] 3 MLJ 301

Seloga Jaya Sdn Bhd v UEM Genisys Sdn Bhd [2010] 3 MLJ 721

Selvaduray v Chinniah [1939] 1 MLJ 253

Selva Kumar a/l Murugiah v Thiagarajah a/l Retnasamy [1995] 1 MLJ 817
Setegap Bhd (in creditors' voluntary winding up) v Ranhill Engineers and Constructors Sdn Bhd [2011] 6 MLJ 684

Sia Siew Hong & Ors v Lim Gim Chian & Anor [1995] 3 MLJ 141


Simaan General Contracting Co v Pilkington Glass Ltd (No 2) [1988] QB 758

Sim Chio Huat v Wong Ted Fui [1983] 1 MLJ 151

Sims v London Necropolis Co [1885] 1 TLR 584

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Tan Sri Khoo Teck Puat & Anor v Plenitude Holdings Sdn Bhd [1994] 3 MLJ 777

Techno Land Improvements Ltd v British Leyland (UK) Ltd [1979] EGD 519

Teh Khem On & Anor v Yeoh & Wu Development Sdn Bhd [1995] 2 MLJ 663
Teknik Cekap Sdn Bhd v Public Bank Bhd [1995] 3 MLJ 449

Teknik Cekap Sdn Bhd v Villa Genting Development Sdn Bhd [2000] 6 MLJ 513

Teknik Segala Sdn Bhd v Salcon Engineering Berhad [2012] 9 MLJ 529

Thamesa Design Sdn Bhd v Kuching Hotels Sdn Bhd [1993] 3 MLJ 25

Tradebond (M) Sdn Bhd v Halim-O Construction Sdn Bhd [2005] 7 MLJ 624

Tweddle v Atkinson (1861) 1 B & S 393

United Exploration (M) Sdn Bhd v IJM Corp Bhd [2011] 8 MLJ 161

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Yong Mok Hin v United Malay Sugar Industries Ltd [1966] 2 MLJ 286

YPJE Consultancy Service Sdn Bhd v Heller Factoring (M) Sdn Bhd [1996] 2 MLJ 482

Zasalim Development Sdn Bhd v Lum Siew & Sons Sdn Bhd [2002] 7 MLJ 119
## LIST OF APPENDICES

<table>
<thead>
<tr>
<th>APPENDIX</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Validation Questions</td>
<td>296</td>
</tr>
<tr>
<td>B</td>
<td>RIBA Plan of Work 2013</td>
<td>299</td>
</tr>
<tr>
<td>C</td>
<td>Case Summary</td>
<td>300</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Introduction

Construction is one of the important industry that significantly contribute to the growth and development of a nation’s economy (Jelodar and Yiu, 2012). Despite Malaysia’ national gross domestic product (GDP) in year 2016 grew at an average rate of 4.2%, an annual growth rate of 7.4% was recorded for the construction industry (CIDB, 2017). A list of implemented large-scale projects are also found under the 10th Malaysia Plan for a period of five years from 2011 to 2015 (EPU, 2015). This further indicates the significance of the construction industry, as a main driving force for the national GDP and economy of the nation as a whole (CIDB, 2016).

In order for economic and social activities to be carried out, the construction industry is therefore accountable for planning, design, construction, maintenance and the ultimate demolition of the buildings as well as infrastructures and the like. Although the contributions and role played by the construction industry are well acknowledged (Mohd Danuri et al., 2015), yet, the construction industry could not break away from conflict and/or disputes which is part and parcel of the industry’s nature (Cheung, Yiu, and Suen, 2004).
1.2 Background of Issues

Conflict and disputes in the construction industry has always been a great concern as it may involve high stakes i.e. multi-million dollar investments, professional reputations or even business survival. Construction disputes inhibit prompt completion of projects and within budget. High attendant cost is also associated with both direct cost i.e. attorneys, claims consultants, time management, project delays) and indirect/ consequential costs (disintegration of working relationships, distrust between parties, lacking of teamwork and follow-on poor workmanship). Although the construction industry is very prone to conflict and disputes, yet it plays an important role in contributing to a country’s economy.

1.2.1 Construction Disputes

Despite the important role and contribution played by the construction industry, yet, the construction industry is also well-known for its highly adversarial nature (Mustaffa, 2009; Rahman and Kumaraswamy, 2001; Rhys Jones, 1994) and its fertile sources of conflicts and disputes (CIDB, 2016; Mohd Danuri et al., 2015; Zuhairah et al., 2010; Oon, 2003). The construction industry is highly fragmented and complex (Khalfan, McDermott, and Swan, 2007; Sommerville, Craig, and Bowden, 2004) which, conflicts and/or disputes are inevitable in construction projects. Conflicts occur when there is a divergence of interest (Fenn, et al., 1997) and if the conflict is not resolved, it would then escalate into a dispute (Yates, 1998), as disputes is a conflict of claims or rights (Garner, 2009). In the construction industry, contractual disagreements are cited as one of the main sources of disputes (Chong and Zin, 2010; Thompson, 1998).

Disputes require resolution and various method of dispute resolution are made available. Dispute resolution can be categorised into two: traditional and also alternative dispute resolution (ADR). Conventionally, disputes are normally resolved
via litigation (court) (Harmon, 2003). However, due to some of its shortcoming, ADR i.e. arbitration, mediation, adjudication, negotiation, expert determination, mini trial, dispute review board (DRB) and hybrid methods were developed and promoted (Zuhairah et al., 2010; Hussin and Ismail, 2015). However, Zulhabri et al. (2008) found that the Malaysian construction industry experience of alternative dispute resolution (ADR) is rather low as compared to the traditional dispute resolution i.e. litigation, in spite of its widespread advocacy. This explains why courts are facing backlog.

**Table 1.1:** Construction Dispute Values and Length of Disputes According To Region from Year 2011 – 2016

<table>
<thead>
<tr>
<th>REGION</th>
<th>AVERAGE DISPUTE VALUES (US$ MILLIONS)</th>
<th>AVERAGE LENGTH OF DISPUTE (MONTHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
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<td></td>
</tr>
<tr>
<td>Asia</td>
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<tr>
<td>UK</td>
<td></td>
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<td>Continental Europe</td>
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<tr>
<td>GLOBAL AVERAGE</td>
<td>32.2</td>
<td>31.7</td>
</tr>
</tbody>
</table>

Source: ARCADIS (2017)

It would also be beneficial to look into the construction disputes value and the length of disputes. Table 1.1 depicts that Asia region recorded a higher average construction dispute value along with the average length of construction dispute consistently in comparison with the global average from year 2011-2016. Although the time needed to resolve the construction disputes reduce significantly in year 2016, however the construction dispute values in Asia documented otherwise as compared to the year before with a recording value of USD84 million.

In Malaysia alone, it is also found that the total claimed amount of all construction disputes in year 2016 currently stands at RM1.4 billion (KLRCA, 2016). According to Lim (2014), the average time frame to commence and conclude a construction dispute case takes about a year, based on recent years workings of the High Court. From the statistics presented, this further proofs that the construction industry is plague with disputes.
Disputes and litigation are so prevailing that the courts have become backlogged thereby justifying the establishment of the construction courts with its sufficient case load (CIDB, 2016). The specialist construction court is established by the Malaysian Judiciary effective from 1 April 2013, at the joint request of the Construction Industry Development Board (CIDB) and the Bar Council Malaysia. Two courts of the High Court of Malaya, in Kuala Lumpur and Shah Alam were dedicated to hear the construction disputes (Chief Registrar’s Office, 2013). Since its establishment on 1 April 2013, 831 cases were registered up to December 2014 (CIDB, 2016). Despite the establishment of the construction courts, there are still considerable outstanding cases being recorded for year 2015 based on the statistics reported in CIDB Construction Law Report 2015. Thus, it is evident that the construction industry has been laden with too many time-consuming and costly disputes.

Before the establishment of construction courts, a construction dispute is usually heard in the civil courts such as High Court. However, a construction dispute is now heard in the construction court instead, upon its establishment. The jurisdiction of the construction court includes building and construction disputes; engineering disputes; claims by and against engineers, architects, surveyors, accountants and other specialist advisers; claims relating to the quality of goods sold or hired and work done, materials supplied or services rendered; claims relating to the environment including pollution cases. Construction court also deals with the challenges to decisions of arbitrators in construction and construction related matters; and appeal from Subordinate Courts in construction and construction related cases (Chief Registrar’s Office, 2013).

1.2.2 Profiling

‘Profiling’ originate from a latin word and is defined as the act or process of learning information about someone or something based on what is already known
Information on a specific subject could be captured via profiling. It is a process management of any specific mechanism (Salahuddin and Othman, 2016). Profiling provides an opportunity to review the information it contains for further inquiry or guidance such as a case profile of a particular construction dispute can give details about the dispute in certain point. In summary, profiling produces knowledge, rather than just data (Hildebrandt, 2007).

Profiling had been successfully adopted by various fields, namely business and product development, marketing and customer management, crime/fraud detection and healthcare (Brand et al., 1995; Germain, 2000; Feinberg et al., 2002; Inhoff, 2004; Deveryr, 2010; Thomas, 2012). They collect and profiled a set of identified data from individuals, transactions and/or events.

The work by Watts and Scrivener in 1993 and 1995b suggests ways of improving documentation and administration processes used in the construction industry so that the number of disputes and their cost may be lessened. Knowledge of the frequency of occurrence of disputes within the building industry and the manner in which they are settled is an essential basis for this study. Data have been taken from cases which finally reached the Australian and United Kingdom courts between 1989 and 1991. By reviewing of the claims discussed in the judgments for these construction cases the types and frequency of the sources of dispute were able to be identified. While, the research done by Abidin (2007) aims to develop the profile of construction disputes feature or characteristic of the dispute consisting of the nature of disputes, the parties involved, type of the project, when do the disputes occurred and standard form of the contract for the project involving 72 Malaysian cases which were collected between year 1997-2007.
1.3 Problem Statement

It is well aware that the construction industry is laden with disputes. There are many court cases in relation to construction projects (Kong and Yeow, 2016). This finding is in congruent with the recent statistics presented by CIDB (2016) on the high number of disputes cases which are referred to the Malaysian courts for settlement. In view of the increasing construction disputes, the construction industry continues to struggle in finding ways to resolve them equitably and economically (Arditi and Pulket, 2005; Cheng et al., 2009). The postponement in settling construction disputes would pose a negative effect on project progress, which eventually leads to cost and time overrun besides detrimenting the relationship between the contracting parties in disputes (Iyer et al., 2008). As such, in managing the construction disputes, two efforts which can be made were identified by Kumaraswamy (1997) namely dispute resolution and dispute prevention. However, it is found that much of the managerial effort centres around the development of dispute resolution processes instead of dispute prevention (Cheung, Yiu, and Suen, 2004; Cheung and Yiu, 2006; Zulhabri et al., 2008; Cheng et al., 2009; Tazelaar and Snijders, 2010; Thirunavakarasu and Mathew, 2010; Zuhairah et al., 2010; Mohd Danuri et al., 2015; Mohd Danuri et al., 2016; Lee et al., 2016). Nevertheless, a perceptible shift towards a better approach to resolve a construction dispute via mitigation, prevention or avoidance is crucial (Whitfield, 1994; Vallero and Vesilind, 2006; Mehany, Gad and Esmaeili, 2017).

Dispute resolution is a reactive approach in managing construction disputes as the resolution efforts does not exist unless and until the disputes occurs. Information on construction disputes is mainly utilised by lawyers and judges as well as construction players which could also be the disputants. Massive amount of information needs to be collected, analysed and presented by lawyers in a construction dispute resolution. Precedent knowledge and cases are adopted as reasoning by lawyers and judges in a construction dispute (El-adaway, 2008). In contrast, individual’s knowledge and experience is relied on heavily without proper referencing of precedence knowledge by construction players in the effort to resolve the construction disputes (Shin, 2000). If the disputants (construction players) are
made aware of the court’s decision in advance with some certainty, they would most likely settle the disputes out of court instead of undergoing the aggravation and expenses in relation to court proceedings (Iyer, Chaphalkar and Patil, 2013). The desirability of profiting from the experiences of others as well as of avoiding re-invention of the wheel are the reasons for learning the problems addressed (Brooker and Lavers, 1997). There is a lack of research which adopts/uses documented work similar to legal cases/case law. Most of the research on dispute resolution are found to have adopted the fieldwork approach, for example, via questionnaires surveys and interviews (Lu et al., 2017; Mohd Danuri et al., 2016; Lee et al., 2016) which have not been found to be very effective in reducing the number of cases brought to court. Therefore, there are precious knowledge and experience hidden in the legal cases/case law that can be reviewed and profiled, subsequently a framework can also be developed from it.

On the other hand, as of current, much of the construction dispute mitigation, prevention or avoidance research revolved around project management such as risk allocation and monitoring (Cheung, 2014; Burr, 2016), as well as the understanding and appreciation of a well written construction contract apart from the drafting of terms/ clauses of the contract (Cheung and Yiu, 2006; Chong and Zin, 2010; Chong and Phuah, 2013). There is limited research on dispute mitigation, prevention or avoidance which involved legal cases/case law. Watts and Scrivener (1993,1995a, 1995b) looked into Australian and United Kingdom building cases from 1990-1991 while Abidin (2007) studied Malaysian construction cases from 1997-2007, but both researchers did not attempt to address the legal issues leading to the judicial decision nor develop a framework in relation to construction disputes profile. Hence, the initiative to develop the construction dispute profile framework based on legal cases/case law would be able to make up on this especially in the Malaysian scene by offering an informative approach or practical guide which would assist in dispute avoidance, prevention or mitigation.

In order to develop the abovementioned framework, the attributes of the disputed cases would need to be established which highlight the disputed project characteristics, case characteristics and court process characteristics as it has relation to the court cases. For example, who are the parties in the disputed court cases, type
Besides that, it is also crucial to find out the reason behind a dispute along the way, in order to avoid it rather than resolving it, as the resources which are used to resolve the problem can be better utilised elsewhere in improving the construction project (Fenn, 2007). Therefore, the causes that contribute to the disputed cases are identified as well. Lastly, would be the identification of legal issues which is the foundation of a case as it lays down the principles leading to the judicial decision making. By having access to this framework, construction players would be able to benefit from precedent knowledge from past disputed cases that were brought to court apart from rely on their individual’s knowledge in resolving disputes. Besides that, they could also pre-empt a dispute from occurring whereby construction players could taking preventive measure or extra caution during the progress of their project with the available knowledge that had been established based on the attributes set out in the framework.

Finally, the result from this research forms the basis for subsequent research. Other researchers could cite this research to support their work. This is very similar to what some of those researchers (Ngacho and Das, 2014; Supardi et al., 2010; Supardi et al., 2011; Kenyatta et al., 2015; Ramachandra and Rotimi, 2014; Supardi et al., 2012; Makori et al., 2015; Nawi, 2015; Fauzi and Aripin, 2016) had done by citing the work of Abidin (2007) in order to support their research work.

### 1.4 Research Questions

1. What are the attributes of construction disputes? (i.e. what are the nature/different types of construction dispute cases brought to court, who are the parties involved, what kind of the project is involved, what type of procurement is adopted, when do the disputes occurred, what are the standard form of the contract used, how long is taken to resolve the disputes)

2. What are the causes of the construction dispute cases?
3. What is the legal issue(s) arising from the dispute cases and the decision made by the court judges?

4. How information found in dispute cases can be put into good use/reference to legal and industry professionals?

Some of these questions were researched by other researchers of which majority of it are based on fieldwork data gathered and hardly any court cases data research upon or referenced. Therefore, it would be wise to look into these using court cases accordingly.

1.5 Research Aim and Objectives

The aim of this research is to develop a construction dispute profile framework based on legal cases/case law that will help to improve the contract management practice. The following objectives have been established to achieve the aforementioned aim of this research:

1. To establish the attributes for the construction dispute case profile.
2. To determine the causes that contribute to the construction dispute cases.
3. To identify the legal issue(s) arising from each construction dispute cases.
4. To develop a framework of the construction dispute case profile.
5. To validate the framework of the construction dispute case profile.
1.6 Scope of Research

The research is confined to the following scope and limitations:

1. Construction disputes can be classified into three categories namely contractual disputes, organisational disputes and technical disputes. In this research, the emphasis would be on contractual disputes. As according to Iyer, Chaphalkar and Patil (2013), construction contract is found to be the recurrent feature towards disputes occurrence.

2. The source of data collection is from library database consisting of court cases which record the dispute and judgement (Lexis-Nexis, 2000). Malaysian construction disputes cases which had been brought to the High Court, Court of Appeal or Federal Court from year 2000 to 2013 are selected for analysis in the data collection process. Disputes cases from year 2000 to 2013 were selected as it is believe that recent cases dated not older than 20-30 year are much better and it is advisable to stop when there are changes in the law (Côté and MacGregor, 2014). The duration was selected by taking into consideration the implementation of PAM Standard Form of Contract 1998. Generally, construction projects may take averagely two years to complete (Long and Young, 2009; CIDB, 2016b). Hence, cases starting from year 2000 were selected. Despite this, there is also possibility that construction dispute cases in relation to PAM Standard Form of Contract 1969 were included as well, due to the protracted duration in settlement of cases in Courts. As there is changes in the law with the new Construction Industry Payment and Adjudication Act 2012 (CIPAA) which came into force on 15 April 2014 (Bar Council Malaysia, 2014), the cases that had been taken into consideration stop in year 2013 as highlighted by Côté and MacGregor (2014). However, this does not render the research invalid as there are precedence knowledge and lesson to be learnt from the problems addressed in the cases still to avoid re-invention of the wheel.

3. Although the construction industry consist of public construction projects and private construction project, but the focus of this research is primarily on private construction projects. This is due to the contribution of private
construction projects based on the value of project awarded. There is a total of 5091 private construction projects which contributed 77.78% (RM178.14 billion) value of project awarded as compared to 22.21% (RM50.88 billion) for 1764 public construction projects in 2016 (CIDB, 2017b). From these figures, it is further reflective that private construction projects are having a lion’s share in the construction industry and of higher potential for disputes to occur.

4. Arbitration cases that was brought to court was not taken into consideration in this research because under Section15(5) and Section 18(10) of the Malaysian Arbitration Act 2005, there are very limited grounds of appeal against an arbitration award (Zuhairah et al., 2010). Furthermore, it is revealed that there are several indirect factors, which influence the decision making of arbitrators namely, their experience, technical expertise, cognitive skills, decision making approach, background characteristic, human nature, etc of the arbitrator, apart from the facts of the case, evidences and documents presented during the arbitral proceedings (Singhi amd Jangir, 2010; Goel, 2011; Seth 2011; Iyer et al., 2013). As such a ‘pure’ judgement from the court judges’ perspective is preferred over others in respect of the disputed cases for this research.

1.7 Significance of the Research

The contribution of the research is in developing a construction disputes’ profile in Malaysia which serves as an instrument to put precedence knowledge into good use. This research project advances knowledge of disputes in construction by converting precedence disputes into a source of valuable knowledge for identification of dispute characteristics in current and future projects in our local scene. In addition, there is much emphasis put forth with regards to the best practices in construction industry as well as professionalism of late (Bordass and Leaman, 2013; CIDB, 2016). It is also hope that the legal and construction players are able to
better advice clients on the preparation of contracts and documentations needed in cases of dispute. By having the framework, the construction players would be able to gain insight into the various types of construction cases brought to court, the decisions, and the principle/basis of those decisions made by the judges. The cases also can be referred to as precedence for judgement in similar cases. It is of the aspiration that with such knowledge and information, legal and construction players would be able to improve their practices for a healthy and vibrant construction industry thereby rid the perception that the industry was laden with disputes eventually.

From this profile, construction players will have a clearer picture on the background of the disputes or potential dispute issues and sound judgements can be made based on defined dispute characteristics. Disputes are anticipated at an early stage of project before it occurs and deteriorate to a devastating stage. Besides profiting from the court analysis, construction players are able to avoid re-invention of the wheel. Thus, this research also assist in the decision making process with reference made to past court cases rather than solely relying on individual’s knowledge and experience. These all together would be able to assist the construction players in managing a construction project better off.

The parties in construction such as employer, an architect, project manager, main contractor, sub-contractor and supplier will be more responsible in carrying out their duties. Duties could be carried regularly, diligently, efficiently and effectively based on lesson learned from previous disputes, i.e. without making similar mistakes of which was made in previous dispute cases. This would also indirectly facilitate the creation of a more harmonious working relationship among the construction team members. A healthier competitive environment could also exist, whereby construction parties will work together to prevent dispute from occurring in their projects besides ensuring a successful project delivery. In addition, this research which consist of analysis of court cases would be useful to make recommendations on industry practices, law amendments where necessary, apart from minimising the number of disputes for the smooth implementation of construction projects.
The current research framework also helps to develop a general and comprehensive base for future research especially in construction disputes. It will help construction players and researchers to be aware and understand that profiling practice that can also be applied in the construction industry. This research will act as a guidance to mitigate, prevent or avoid construction disputes. Furthermore, the construction players will also be exposed to the attributes and causes as well as the principle/legal issues that are needed in order to minimise a dispute from occurring which would hamper a project’s progress.

1.8 Research Approach

Literature review is conducted which provided an insight in relation to profiling and the relevant attributes in relation to construction disputes, construction disputes and its management, the causes of construction disputes and legal issues that are related to construction disputes. It also assist in setting up the direction of this research as in the determination of the research aim and objectives apart from providing a better understanding on the subject matter and methodology to be adopted as well as the sources of data to be included i.e. law journals, books in relation to construction disputes, etc.

Legal research using doctrinal methodology is also adopted for this research. This research approach is library based with no specific methodology required (Thornton, 2004). In carrying out this legal research, court cases were examined. A four step legal analytical process which is known as Issue, Rule, Analysis/Application, Conclusion (IRAC) was conducted. The court cases are synthesized to come to a conclusion. The facts of the cases and the reasoning for each court decisions in order to establish the legal principles applied by the courts in deriving their decision are studied, of which would also assist in the identification of the legal issues aring from each construction dispute cases.
Subsequently, thematic content analysis technique is adopted in extracting data manually via a thorough study of court cases. Data is extracted according to the attributes established through literature review which had been conducted earlier. Content analysis is found to be less biased compared to a survey or interview as existing court cases in the form of text data are utilised.

Subsequently, a construction dispute profile framework is developed utilising the information gathered according to the predetermined attributes, causes of disputes as well as the legal issues from the review of court cases. This framework is then validated through online questionnaire survey which was distributed to construction stakeholders i.e. contractors, consultants, experts in construction law and academics in Malaysia.

1.9 Organisation of the Research

The research is organised into seven chapters. An introduction to the essence and problems that necessitate this research can be found in chapter one. The context of the research is also briefly discussed. The research aim and objectives are being addressed together with the scope that highlights the limitations of the research.

Chapter two is a review on related literatures and works (published or unpublished) on construction industry along with project and/or construction management. Reviews are done in relation to construction disputes and the attributes of construction disputes.

Chapter three then discusses the research methodology; consisting of data collection methodology and analytical methodology in ensuring the attainment of the aim and objectives of this research.
This is then followed by chapter four, which is the analysis and discussion chapter of the research highlighting the attributes of construction disputes, the causes of dispute cases, the case analysis and legal issues. Subsequently, chapter 5 addressed the discussion of the proposed framework of construction dispute case profile.

Chapter six attempts to validate the proposed framework of construction dispute case profile via a web-based/online questionnaire survey and lastly chapter seven then concludes the dissertation along with subsequent recommendation for future research.
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