

Procedures and Issues within the Contractors Classification System in Saudi Arabia

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Abstract

Research has shown that construction projects in Saudi Arabia have exhibited poor performance for the past three decades. The Saudi construction environment lacks many of the best practices found in more developed countries, such as: prequalification, bonding, and 3rd party insurance. The government's construction relies on the low bid delivery method and prequalified contractors using the Contractors' Classification System (CCS). However, the current CCS does not accurately represent contractors' capabilities and performance. This paper reviews all of the parts of the Saudi CCS, including the workflow and the evaluation criteria. This paper proposes to analyze the current classification system and identify the issues incorporated in the CCS regulations and classification process. This paper summarizes the author's critical review through interviews that have been carried out with key persons in the CCS. Several issues with the CCS are identified, such as: no performance feedback, complexity of the system, and high resource requirements. The findings identify that the current CCS must be modified to be able to accurately reflect contractor capability and performance.

Keywords

Saudi's Contractors classification, Saudi's construction, MOMRA, Contractors' performance.

1. Introduction

Saudi Arabia is one of the strongest economies in the Middle East where oil is considered one of the most important economic resources. Over the past 30 years, the Kingdom of Saudi Arabia (KSA) has seen a considerable growth of the construction industry and a major increase in large scale projects. With investments growing in the construction sector in Saudi Arabia, between 2008 and 2014, to total approximately \$574.7 billion (Ventures Middle East, 2011). However, several studies by construction

researchers have shown that the construction industry in Saudi Arabia is suffering from poor performance (e.g. causing the delay or halt of projects and significant financial losses). Poor time management is thought to be amongst the most continuous and difficult issues in development ventures (and their completion) in the KSA. According to Zain Al-Abiedien it was found that postponements were the standard for 70% of the tasks taken up by the Ministry of Housing and Public Works (1983). Six years later Al-Sultan reported the same rate (1989). He reported that 70% of Saudi Arabia's open undertakings had time delay issues. (Al-Khalil and Al-Ghafly found the normal schedule delay in the open utility undertakings in Saudi Arabia is 58% longer than originally proposed (1999). Al-Ghafly studied the contractual workers and the specialists and found that the temporary workers believed that 37% of the tasks experienced deviations (1995). Advisors also agreed that 84% of the undertakings under their watch experienced deferrals. In 2006, it was found in Eastern Province that 70% of ventures experienced time differences and the normal time discrepancies between 10% and 30% (Assaf and Al-Hejji, 2006). A study directed by Al Turkey identified that more than 300 undertaking administrators from various divisions and controls in the development industry determined that 80% of the activities were liable to negatively impact budgets, while 97% experienced time issues (2011).

Saudi government relies on the low-bid delivery method and the Contractors' Classification System (CCS) as the basis for prequalifying contractors for most of the public agencies work to ensure contractors' capabilities and performance (Bubshait and Al-Gobali, 1996). According to the Ministry of Municipal and Rural Affairs (MOMRA). website (2016), the Contractors' Classification System was originally established in 1973. The CCS was administrated by the Contractors Classification Committee. Following administration by the Contractors Classification Committee, the Ministry of Housing and Public Works took over the responsibility from 1979 to 2004. In 2004, the administration of the CCS was taken over by MOMRA. There are 4,113 classified contractors in 5 grades across 29 disciplines. In the past 3 years, 884 certificates have been issued per year (registration, renewal or upgrade in grade status).

The current classification system operates within 29 fields and 5 grades. The function of the classification grades is to determine if a contractor is classified in a certain field. Through grades 1-5, the contractor will be limited to a certain maximum financial value of a project and a contractor can carry out the project in his specific field. If a project does not exceed its upper limit, the contractor is not required to have a grade. An example of some of these fields and financial limits are given as follows in Table 1.

Table 1: Example of fields and financial limits (in Millions of Saudi Riyals)

Field	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	No Grade
Buildings	>280	280	70	21	7	4.2
Roads	>420	420	140	42	14	4.2
Water and sanitation work	>420	420	140	42	14	4.2
Electrical Works	>280	280	70	21	7	4.2
Building Maintenance	>140	140	42	14	4.2	1.4

From the literature, researchers have studied the Saudi contractors' classification system. Alsugair and AbuThnain conducted a questionnaire to assess the Government Contractor Classification System in Saudi Arabia (2011). The main conclusion of this study was that the current classification system does not properly reflect the contractors' capabilities. However, the study has not been able to determine the reasons of this issue. Mahamid, (2014) conducted a research study to identify the common direct and indirect (micro and macro level) dispute causes in residential building projects in Saudi Arabia. This study refers that the Contractor Classification System in Saudi Arabia is one of the highly relevant causes to construction problems that lead to dispute between construction parties. In 2012, Riyadh Chamber of Commerce conducted a study of the difficulties facing the contractor sector, the study found that the system and procedures of the contractors' classification is the important and influential factors and the relative

importance is 88%.

2. Problem

The Saudi construction industry has had poor performance for the last 3 decades as a result of contractors' low performance. The literature shows that the contractors' classification system (CCS) is the only system used in most of the public agencies in Saudi that prequalify contractors to ensure their capability and performance. However, the contractors' classification system is facing difficulties in accurately reflecting the contractors' capabilities and performance. The reasons behind these difficulties have not yet been identified in previous research.

3. Proposal

Current literature suggests that CCS is inefficient. However, no credible research has conducted an in-depth investigation of the issues of the current classification of workflow, evaluation criteria, regulations and process. This paper proposes to research the CCS and identify the issues incorporated in the CCS regulations and classification process.

4. Methodology

The methodology in this research starts by reviewing and analyzing the current CCS process including the workflow and evaluation criteria. The author will identify the main issues in the system by conducting interviews with MOMRA. The authors interviewed the strategic plan team in MOMRA and key persons in the CCS in several meetings starting from October 2015. In total, 10 officials were selected and interviewed based on their experience in the CCS system (average 15 years) and their positions in MOMRA and CCS agency (general, legal, technical, services directors, and consultants who work with the agency). Interviews were conducted face to face and the objective of the open ended questions was to evaluate the current CCS process and identify the root causes of the incorporated issues.

The methodology in this research starts by reviewing and analyzing the current CCS process including the work flow and evaluation criteria. Authors will identify the main issues in the system by conducting interviews with MOMRA. The authors interviewed the strategic plan team in MOMRA and key persons in the CCS in several meetings starting from October 2015. In total, 10 officials were selected and interviewed based on their experience in the CCS system (average 15 years) and their positions in MOMRA and CCS agency (general, legal, technical, services directors, and consultants who work with the agency). Interviews were conducted face to face and the objective of the open ended questions was to evaluate the current CCS process and identify the root causes of the incorporated issues.

In order to answer the main question of the study, "Why doesn't the current CCS accurately evaluate and reflect contractor performance and capability?" face-to-face panel interviews were scheduled with the 10 chosen members of MOMRA. The following questions were asked:

- Could you describe the flow of the current CCS structure?
- What are the evaluation criteria of contractors' capabilities?
- What are the main issues in the CCS system?
 - What are the internal issues in the CCS system?
 - What are the external issues to the CCS system?
- Does MOMRA have any strategic plan to improve the CCS system?

5. Results and Discussion

In the interviews, the authors asked the interviewees to describe how the current CCS worked. The collected information shows that contractors bid on projects that have been assigned grades based on project budget, and the CCS plays the role of assigning contractors the maximum grade of projects they can bid on. MOMRA manages the CCS, and contractors are assigned a maximum grade through certifications which expire after 4 years. Interviewees explained that contractors can apply for any project-grade certification regardless their current certification status. MOMRA reviews the contractor's application and determines whether the contractor can receive their requested certification through an evaluation process. Contractors apply by first filling out classification forms based on the requested certification grade. MOMRA then performs an evaluation based on legal, technical, and financial criteria. After MOMRA performs the evaluation, MOMRA informs the contractor if their application is accepted or denied. If accepted, the contractor is then certified to bid on projects for 4 years without additional evaluation until the certification expires. After the certification expires, the contractor must renew his classification. The contractor may choose to apply for a higher grade certification, in which the application and evaluation process must be repeated. (See Figure 1)

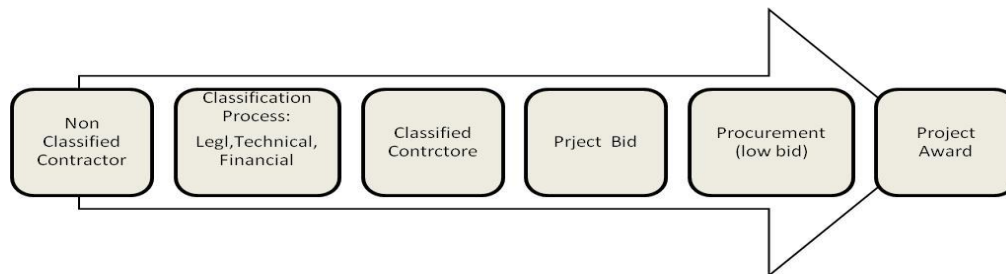


Figure 1: CCS Structure

The main requirements in the legal analysis include items such as the address of contractor's main office (Saudi contractor and non-Saudi), client endorsement, names of the owners of the company, partners or major shareholders (with their nationality), the proportion of capital into the company, the field of grade classification being sought and commercial register. In order to receive this information, MOMRA has created forms that all contractors must complete and submit to be eligible for classification. There are a total of 10 general forms to be filled out by the contractor, 4 forms filled out by MOMRA employees, and 1 form filled out by the contractor's clients. If the contractor passes the legal analysis, then they will proceed to technical and financial.

The technical criterion contains 5 major elements including: the client's survey of the contractor, equipment, a site visit, personnel involved, and project details. The personnel element includes managers, engineers, technicians, and specialists. The project element includes project value, monthly value, yearly load, high value project, and continuity. The total estimated weight in classification rating for the technical criteria is 70%. (See table 2)

The financial analysis contains three major elements including: balance sheet, profit/loss, and financial ratios. The balance sheet includes total assets, net worth, and working capital. The profit/loss includes total revenue, net income, net cash and income. The financial ratios include liquidity, profitability, leverage and efficiency. The total estimated weight in classification rating for the financial criteria is 30%. (See table 2 and 3)

Table 2: Classification Rating of Technical Analyst

Criteria	<i>Clients' Certificates</i>	<i>Personnel</i> Managers Engineers Technicians and Specialists	<i>Visits</i> Head Office Visit Site Visits	<i>Projects</i> Project Value Monthly Load Yearly Load High Value Projects Continuity	<i>Equipment</i>
Weight	10%	8%	10%	30%	12%

Table 3: Classification Rating of Financial Analyst

Criteria	<i>Balance Sheet</i> Total Assets Net Worth Working Capital	<i>Profit & Loss</i> Total Revenue Contracting Revenue Net Income Net Cash Income	<i>Financial Ratios</i> Liquidity Profitability Leverage Efficiency
Weight	9%	13%	8%

After the interviewees described the current CCS, the author then requested feedback on potential issues within the system. Among the main criticisms of the CCS is that it does not accurately prequalify contractors. Interviewees expressed multiple frustrations and described contractor behavioral issues due to the CCS. The interviewees explained certification is only important to contractors every 4 years since there is no contractor regulation within the 4-year period.

The interviewees then described internal system issues, which were broken down into two categories: system philosophy and evaluation process.

System philosophy issues:

The traditional approach of the CCS System includes attempts to collect and utilize technical information from contractors to predict future contractor performance over the course of 4 years.

Once a contractor is classified, it can be assumed that they can perform projects in their classification grade and field for 4 years. However, this assumption may not be valid as the 4 years period is too long in which the contractors level of performance and capability may change due many reasons such as projects overload or financial issues

The CCS agency employs technical experts to make decisions on the technical information obtained from the contractors to predict future. These decisions are considered subjective and are not related to the actual contractors' capability or performance.

The CCS only required contractors to turn in information once every 4 years; the contractors are not tracking and providing their performance (cost and time deviation or doing risk mitigation) to MOMRA which results in MOMRA not being able to analyze the actual performance of the contractors, the industry and the CCS.

Evaluation process issues:

Due to the large quantity of technical information required, there is an increase in the complexity of the system (e.g. increased subjective decision making, decreased transparency and increased need for more technical information to attempt to mitigate risk).

The complexity of the system creates confusion for both agencies and contractors involved in the CCS process. The confusion creates complaints and increased effort from CCS stakeholders.

Site visits are only an assessment of one project. The main office visit aims to verify the contractor's financial, technical, and administrative information provided in the forms with records and documents calculations for the contractor and evaluation. This is also the verification of engineers and technicians employed by the contractor. The method of performing office visits is aimed to provide an audit of the applicant contractor; however, a large quantity of information is required to be checked in a single short visit. In addition, contractors sometimes delay the site visit which has a negative effect on the process of the classification.

The visit is considered very costly to the CCS organization and proven to be non-sustainable. Site and office visits annually take 31.8 % of the MOMRA employees' workload and 11.9% of the agency expenses. Also, the visits may not be an effective control measure.

The financial analysis consists of 11 criteria and most of the financial criteria are repeating information and are complex for the contractor to understand.

After explaining the issues within the current CCS, interviewees described issues external to the system which affected contractor performance. These issues are not currently included in the evaluation process. Saudi Arabia has no mature bonding program, no effective 3rd party insurance system that covers workmen compensation, no building, health, or safety insurance, and no regulatory Occupational Safety and Health Agency (OSHA) organization. The KSA has no mature prequalification system that uses financial organizations such as Dunn and Bradstreet (D&B) that gives a benchmark check of a contractor's financial stability. The licensing bureau in Saudi Arabia is not a regulatory entity that can affect a contractor's classification rating. In addition, there is no integrating system in the Saudi Arabia to utilize the risk mitigation capability of timely and accurate classified contractor performance information. MOMRA has the responsibility to mitigate the construction risk through its contractor classification system (CCS).

The authors then asked the interviewees if MOMRA had any strategic objectives for improving the CCS. The interview results suggest that MOMRA's strategic plan seeks to simplify and minimize the subjectivity of the CCS, motivate contractors to participate in the CCS, and improve performance. Additionally, MOMRA's plan states that they want to develop, support, and improve the construction sector performance by creating a state of the art knowledge and information system.

6. Conclusion

This paper examines the results of interviews structured to examine the Saudi CCS, including the workflow and the evaluation criteria. Several issues incorporated in the CCS regulations and classification processes have been identified. The main issue in the CCS system philosophy is that there is no contractor regulation within the 4-year classification period. Contractors are not tracking and providing their performance to MOMRA resulting in MOMRA not being able to analyze the actual performance of the contractors. The 4-year period is considered too long as the contractors' level of performance and capability may change drastically in 4 years due to several potential reasons such as, employees' expertise, projects overload or financial issues.

The underlying issue of the evaluation process is that it requires a large amount of technical information from the contractors. This requirement increases the complexity of the evaluation, increases subjective decision making, and decreases transparency by making it difficult for multiple parties to clearly understand. Many parties consider the evaluation process to be highly inefficient because it is too costly and time consuming. In addition, the financial analysis criteria are repetitive and too complex for the contractor to understand. Finally, the CCS does not adhere to proven standards procedures in contractor

evaluations such as prequalification, bonding, and 3rd party insurance in the Saudi construction environment made the situation more difficult on CCS. It is recommended that the current CCS should be re-evaluated and revised to accurately reflect contractor capability and performance.

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