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Factors that influence late payments in government new build infrastructure projects in Gauteng Province, South Africa

Djokoto, Vincent Kojovi Tengey

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ABSTRACT

Payments are an essential component of construction contracts (Murdoch and Hughs, 2015). The nature of the payment regime has an effect on the contractor's cash flow, project performance and therefore achievement of project objectives.

Finance has been claimed as the most important resource in the construction process (Mawdesley et al., 1997). As such, proper financial planning to ensure healthy cash flow during the lifespan of a project is central to its performance and ultimate success. The obligation of an employer is to pay the contractor timeously, as per agreed payment plan and likewise the obligation of a contractor is to produce the build works according to an agreed schedule of works and to set standards of quality. Project finance in its totality is therefore of major importance to the progression of the construction process.

Purpose - The main purpose of this study is to identify current problems in relation to late payment issues encountered by contractors that have been commissioned to construct public infrastructure for the government of South Africa. The paper seeks to highlight the extent of occurrence, to measure, and to assess the extent of late payment, in public infrastructure projects in the Gauteng Province. This study is done with a view to study the correlative relationship between the deviance in contractually scheduled payment time and time of actual payment and to identify factors that influence these.

Design methodology and approach – With regard to research methods, the study adopts a mixed approach. Both Qualitative and Quantitative approaches to the study were adopted. This was done by collecting data through structured questionnaires and the research instruments administered to key personnel in the various Sector Departments as well as the Finance Department and the Gauteng Department of Infrastructure Development. Sample invoices were gleaned and scrutinized from 189 projects with regard to invoice payment data. Respondents were asked to provide information on Invoice Date, Date Invoice Received By Department and Date Invoice Paid On. This information was gathered for approximately half the total number of invoices received per project. Adopting a project by project approach, respondents were asked to provide data and causal factors linked to late payment. The results were then analyzed to

determine significant relationships between late payment patterns and the factors that influence these.

Information gathered from questionnaires responses and interview notes were used to help identify the various stages involved in the certification and payment process to assist in the effective evaluation of the extent of late payment, in order to obtain a clear understanding of the causes of late payment in government new build infrastructure projects in the province of Gauteng.

Key Concepts – Late payment, Cash flow, Factors influencing late payment in public construction projects.