

## Discounting of quantity surveying fees in South Africa

*Peer reviewed and revised*

### Abstract

The discounting of professional fees has become a cause for concern among South African Quantity Surveying practitioners. These discounts are often 30% to 40% and, in some cases, substantially below the Tariff of Professional Fees published by the South African Council for the Quantity Surveying Profession (SACQSP). The firms which offer these excessively high discounts may be pricing their services well below their in-house operational costs which, with the quality of their professional services, eventually become unsustainable. A quantitative approach was used to conduct a research study to determine the effect of discounting of fees on the Quantity Surveying profession. The data was obtained by circulating a structured web-based questionnaire to registered professional Quantity Surveying firms in all nine provinces in South Africa. Results indicated that when Quantity Surveyors discount their fees, this impacts negatively on the quality of their professional services. Respondents further recommended that there should be some form of regulation regarding the discounting of fees, while others suggested that the current SACQSP recommended fee scale be replaced by the re-introduction of a statutory minimum fee scale which was applied prior to 1988. The findings arising from this research could support potential efforts by the SACQSP to resolve issues regarding this practice and serve to raise awareness among Quantity Surveying practitioners of the dangers inherent in, and resulting negative consequences of discounting their fees.

**Keywords:** Discounting, professional fees, quantity surveying, service quality

### Abstrak

Afslag op professionele fooie het 'n bron van kommer geraak onder die geleedere van die Suid-Afrikaanse Bourekenkunde praktisyns. Hierdie afslag is soms tussen 30% en 40% en in sommige gevalle ver minder as die Tarief vir Professionele Fooie soos gepubliseer deur die Suid-Afrikaanse Raad vir die Bourekenaars Professie (SARBRP). Firms wat hierdie buitensporige hoë afslag aanbied, mag moontlik hul direkte operasionele kostes onderprys, wat met die kwaliteit van hul dienste, uiteindelik onvolhoubaar raak. 'n Kwantitatiewe benadering is gebruik vir hierdie navorsingstudie om die effek van afslag op fooie, op die Bourekenaars Professie te bepaal. Die data is verkry deur 'n gestruktureerde

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web-gebaseerde vraelys aan geregistreerde professionele Bourekenaars in die nege provinsies van Suid Afrika te sirkuleer. Resultate het aangedui dat waar Bourekenaars afslag op fooie toestaan, dit 'n negatiewe effek het op die kwaliteit van hul profesionele dienste. Respondente het verder aanbeveel dat daar 'n vorm van regulering moet wees betreffende die toestaan van afslag op fooie en sommige het voorgestel dat die huidige SARBR-fooieskaal vervang moet word met die her-instelling van die statutêre minimum fooieskaal wat van toepassing was voor 1988. Die uitslae van die studie kan van hulp wees vir die SARBRP om oplossings te vind rakende kwelpunte rondom hierdie aspek asook om Bourekaars te waarsku van die gevare en die negatiewe uitwerkings, waar afslag op fooie toegestaan word.

**Sleutelwoorde:** Afslag, professionele fooie, bourekenkunde, dienskwaliteit

## 1. Introduction

In 2008, the world credit crisis and the ensuing global economic recession did not spare the South African construction industry. A modest amount of work was available to firms which negatively affected their annual turnover and growth. The South African construction industry had a large economic injection from the 2010 FIFA Soccer World Cup. However, this benefitted mainly large professional firms and ultimately forced smaller practices to compete for smaller projects. To keep their firms in business and to ensure cash flow, firms resorted to intensified offers of discounts on their professional services to prospective clients. The above was confirmed during a general debate session at the 2011 SACQSP Research Conference in Port Elizabeth.

The Quantity Surveyors' (Private) Act 1927 and the Quantity Surveyors' Act 1970 (Act No. 36 of 1970) limited practitioners to charging statutory (minimum) fees for their professional services which, in effect, prohibited competitive tendering on the basis of fees, or offering discounts on fees, thereby preventing firms from cutting their fees to the extent that they would not be able to cover their operating costs or price themselves into bankruptcy, as well as limiting opportunities for bribery and corruption.

However, on 12 December 1987, an amendment to Act 36/1970 was Gazetted which:

- introduced a Recommended Tariff of Professional Fees for Quantity Surveying Professional Services to be applied instead of the previous statutory tariff, and coincidentally
- removed the Section which had prohibited firms from advertising their services.

Subsequently, the recommended tariff and permission to advertise within limits prescribed by the South African Council for the Quantity

Surveying Profession in its Code of Professional Conduct (30 September 2005) have been maintained in terms of the most recent legislation, viz. the Quantity Surveying Professional Act 2000 (Act No. 49 of 2000).

Accordingly, while there is no legal prohibition that prevents practitioners from granting 'fare' discounts on their fees, this could encourage unethical behaviour.

Furthermore, the national media portray government tenders as often being linked to fraudulent deals. This has fuelled perceptions with regard to 'normal' discounts as a form of bribery or corruption to 'buy commissions'.

It was further debated and revealed at the 2011 SACQSP Research Conference debate that, after Quantity Surveying consultants started offering fee discounts, clients responded by not only requesting reduced fees, but, in some instances, also forcing the discounting issue in their quest for the best deal or lowest project price. These actions by clients have forced Quantity Surveying firms into competition with one another, creating another form of tendering. Competition on the basis of fee discounts does not appear to take cognisance of whether or not the discount will support practice/operational sustainability of the firm that wins the tender.

A recent report (Adendorff, Botha, Van Zyl & Adendorff, 2012: 131) mentioned that, since 2008, conditions for consultants operating in the Built Environment industry have unrelentingly become more challenging. By July 2010, professionals' fee income had decreased by 8%, compared to the prior six months, or by 16.9% year-on-year adjusted for inflation as per the 2011 Consumer Price Index. The high level of discrepancies among consulting firms indicated that, while some firms had managed to report an increase in earnings, the majority of firms reported a decrease. Although a larger number of consulting firms were dissatisfied with their profit margins, the majority remained of the opinion that profit margins ranged between satisfactory and good.

It is argued that competition generally increases during a time when the availability of work decreases, and intensifies during periods of severe work shortages. Currently, competition undoubtedly remains fierce in the construction industry in South Africa. It can further be argued that, since 2008, levels of competition escalated significantly, leading to increased rates of discounts offered by firms on fees (Adendorff *et al.*, 2012: 131).

Furthermore, 43% of consulting engineering firms were discounting their fees at a rate of 20% or more, the highest being 45%. Larger

firms leveraged their discounts at an average rate of 21% during 2009 (Adendorff *et al.*, 2012: 131). Similar action is evident in the Quantity Surveying profession.

This article reports on a research study done to determine the effect of discounting of fees on the Quantity Surveying profession which tested the hypothesis: Discounting of fees have a negative effect on the rendering of Quantity Surveying services.

## **2. Literature review**

### **2.1 What is a “profession”?**

A profession has been defined as a “career founded upon specific educational training, where the principle is to supply unbiased counselling and services to others, for an express and distinct compensation, separately from the hope of other business gain” (Webbs, 1917, cited in The UK Monopolies and Mergers Commission, 1977: 44). Consulting Quantity Surveyors provide professional services to clients for which they receive payment based on an agreed scale of fees. Nokes & Kelly (2007: 295) define tendering (also known as “bidding”) as the action of confirming a price offered to a client, for performance of specified tasks/activities (in accordance with a prescribed method), and the client responds by accepting the offer and engaging in a procurement process to acquire products and services.

### **2.2 Services rendered by quantity surveyors**

According to the System of National Accounts (SNA) of 1993,

*services are not separate entities over which ownership rights can be established. It cannot be traded separately from its production, and services are heterogeneous outputs produced to order and typically consist of charges in the condition of the consuming units realised by the activities of the producers at the demand of the customers (UN, 2002: 148).*

Quantity Surveyors apply their skills to offer services to determine the feasibility and cost of construction projects. These services can be classified into two distinct groups, namely traditional and non-traditional services.

### 2.2.1 Traditional quantity surveying services

The Association of South African Quantity Surveyors (ASAQS, 2014: online) stipulates that the Quantity Surveyor's duty is essentially one of cost control. This involves the measuring and valuating of work in progress, determining the value of variations to the contract in order to establish the final contract value of the contract.

According to Burnside & Westcott (1999: 93), a general overview of traditional Quantity Surveying services is:

- preparation of tender documents;
- examination and appraisal of tenders;
- interim valuation of contractors' work for payment certificates;
- cash-flow prediction and cost reporting;
- measurement and valuation of variation orders/contract instructions;
- advising on anticipated final project costs, and
- preparation and agreement of final accounts.

Burnside & Westcott (1999: 93) further refer to additional services that can be rendered by Quantity Surveyors, including:

- the preparation of feasibility studies and estimates to establish project budgets;
- analysis of the effects of design changes on project budgets;
- cost planning, and
- preparation of contract documents.

The Association of South African Quantity Surveyors (ASAQS, 2014: online) lists the following range of services that can be offered by Quantity Surveyors:

- Estimating and cost advice;
- Cost planning;
- Property development advice;
- Advice on tendering procedures and contractual arrangements;
- Financial control over contracts;
- Valuation of work in progress, and
- Cash-flow budgets and final account in respect of the contract.

Figure 1 illustrates a typical project life cycle, indicating the modest range of Quantity Surveying services rendered during the early

stages of project development in comparison with the broader scope of services potentially applicable during the latter phase of a construction process.

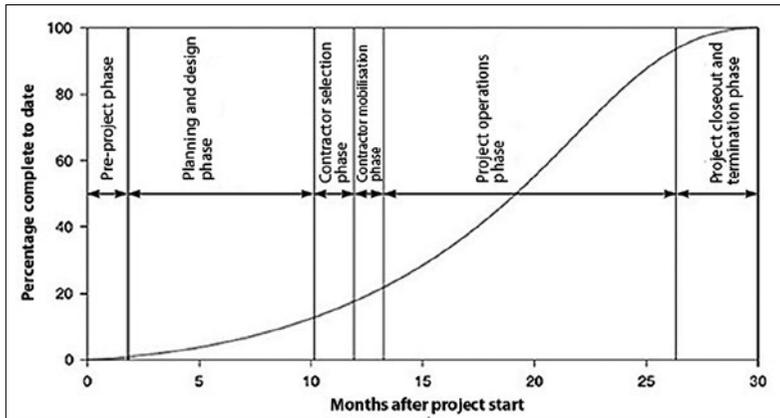


Figure 1: Project life cycle

Source: Bennett, 2003: 7

According to the SACQSP (2013: 10-13), Quantity Surveyors may claim remuneration for their services during the following stages:

- Stage 1: Inception
- Stage 2: Concept and viability
- Stage 3: Design and development
- Stage 4: Documentation and procurement
- Stage 5: Construction
- Stage 6: Close-out.

When Quantity Surveying services include the preparation of Bills of Quantities (BoQ), the fee is payable as follows:

- 2.5% of their total fee is payable during Stage 1;
- 5% during Stage 2;
- 7.5% during Stage 3;
- 35% during Stage 4;
- 45% during Stage 5, and
- 5% during Stage 6.

This clearly indicates that the major portion (80%) of fees becomes due and payable during the documentation and construction stages of a contract which includes BoQ.

Cruywagen & Snyman (2006: 29) state that the SACQSP Tariff of Professional Fees is used for fee negotiation and that the economic conditions in 2006 created a market that forced Quantity Surveyors to submit discounted fee proposals that fall far below the recommended fee scales which will ultimately compromise quality of service.

Hoxley (2007: 181), however, concludes from a research study done on competitive fee tendering and client's perceptions of service quality in the United Kingdom's property industry that, although fees were discounted at high levels and clients did not perceive any decline in service quality, professional firms must have become efficient by still offering services of reasonably accepted standard as required.

The above practice of discounted fees has given rise to the following questions:

- On what basis is the tariff of professional fees calculated?
- Are there differences between types of construction projects?
- How do Quantity Surveyors determine their proposed fees on construction projects?
- How can an affordable fee be calculated on construction projects?  
(Cruywagen & Snyman, 2006: 30).

Mbatha (2013: 11) is of the opinion that, before Quantity Surveyors decide to discount their fees, they need to be aware of their own in-house cost structures as minimal, if any, surplus funds will be available to cover skills development which is essential to maintain quality services. In predicting erosion of the foundation of professional services, he anticipated the demise of training and development, expert workmanship, research and the good reputation of Quantity Surveying as a respected profession, which would eventually result in the services traditionally provided by Quantity Surveyors being perceived as unnecessary and becoming redundant.

The South African Government's drive to create transparency in procurement processes includes a proposal that consultants should tender to provide professional services, stating price and Black Economic Empowerment (BEE) status. Generally, price is the major issue, regardless of many other factors that should also be taken into account. The reduced quality of professional services, resulting

from consultants' having discounted their fees, cannot be justified as a way of cutting overall project costs, particularly when the overall negative effects on the project are evaluated. Staff turnover experienced in government departments has been exacerbated by the intake of mainly untrained junior staff which needs mentorship and skills training. This highlights the importance of total project cost as the pivotal factor, rather than ensuring that tenders are awarded on the basis of experience and competence (Mbatha, 2013: 11).

Clause 3.7 of the SACQSP Code of Professional Conduct (2005: 3) states that registered Quantity Surveyors "must provide work or services of a quality, scope, and to a level, which are commensurate with accepted standards and practices in the profession".

If, due to the excessive fee discounts granted to clients, a Quantity Surveying firm knowingly cannot afford to render the required standard of professional services, this constitutes a breach of the Code and improper conduct in terms of Section 27(3) of the Quantity Surveying Profession Act 2000 (Act No. 49 of 2000).

### **2.2.2 Non-traditional services**

In addition to the customary means of income generation, implemented by Quantity Surveying or cost consultancy firms, include providing services related to project management and facilities management (Page, Pearson & Pryke, 2001: 2). Quantity Surveying services are also offered in the fields of dispute resolution, civil engineering works, banking and finances (taxation, guarantees and bonds, security and indemnity insurances), process engineering, chemical engineering plants and oil rigs, maintenance and demolitions (RICS, 2010: online).

### **2.3 Recommended fees for Quantity Surveyors**

Clause 2 of the 2013 Tariff of Professional Fees Schedule, Gazetted by the SACQSP in accordance with Section 34 of the Quantity Surveying Profession Act 2000 (Act No. 49 of 2000), describes three alternative methods of calculating fees to be charged by a registered professional Quantity Surveyor (PrQS) for Building work, Engineering work, Management and Supplementary Services, viz:

The fee shall be a basic fee, multiplied by an appropriate percentage and shall be apportioned as set out in the distribution of fees to stages provided that:

- The basic fee shall be calculated on the value for fee purposes in the case of building work and engineering work

on the value for fee purposes but with exclusions for building work where the final value of any mechanical and electrical installations and of any civil engineering works ancillary to building works in respect to the quantity surveyor only performs a minor service, not applicable in the case of management and supplementary services.

- Where a singular contract includes categories covered by more than one appropriate percentage the basic fee shall be apportioned to each category before multiplying each apportionment by the applicable appropriate percentage, or
- Where, in respect of replication, minor differences and work measured provisionally, are individually adjusted in the final account, the value of measured work of both omissions and additions in respect of such adjustments shall be added to the value of non-replication work for fee calculation purposes.

### **3. Research methodology**

A quantitative research method was employed, described by Borrego, Douglas & Amelink (2009: 54) as good for approaches, in which a theory or hypothesis justifies the variables, the purpose statement, and the direction of the narrowly defined research questions. The hypothesis 'Discounting of fees have a negative effect on the rendering of Quantity Surveying services' is being tested through the phrasing of the research questions which all aim to determine to what extent Quantity Surveyors allow discount on their fees for professional services rendered.

The review of the literature resulted in the formulation of a questionnaire divided into two sections, namely a biographical section and a section related to discounting practices. The biographical section was included in order to test for significant differences between the selected biographical factors. The section on discounting practices consisted of five questions pertaining to the construction life cycle stages.

Closed-ended questions were preferred, as they reduce the respondent's bias (Akintoye & Main, 2007: 601). The respondents were given the opportunity to make relevant personal opinions and general comments at the end of the questionnaire.

Structured questionnaires were distributed electronically, with the assistance of the Association of South African Quantity Surveyors (ASAQS), to a random sample of 67 Quantity Surveying firms to avoid

bias of views. It must be noted that the views of clients on discounting of fees did not form part of this study. The data were captured using a Micro-Soft Excel spreadsheet, upon which the findings were evaluated and deduced in terms of the benchmarks derived from the foregoing literature review.

According to Moyo & Crafford (2010: 68), contemporary built-environment survey response rates range from 7% to 40% in general. The questionnaire achieved an acceptable response rate of 40.3%. From analysis of the data provided, conclusions were reached and recommendations formulated. Although strict confidentiality was guaranteed, the majority of the respondents were hesitant to disclose information regarding their discounting or "fee-cutting" practices, which resulted in some questionnaires being somewhat incomplete.

### **3.1 Data analysis and interpretation of findings**

A 5-point Likert scale was used to obtain the opinions of the respondents and to analyse the results. Leedy & Ormrod (2005: 185) maintain that Likert scales are effective to elicit participants' opinions on various statements.

For the purpose of analysis and interpretation, the following scale measurement was used regarding mean scores: 'never' ( $\geq 1.0$  &  $\leq 1.8$ ); 'seldom' ( $> 1.8$  &  $\leq 2.6$ ); 'frequently' ( $> 2.6$  &  $\leq 3.4$ ); 'usually' ( $> 3.4$  &  $\leq 4.2$ ) and 'always' ( $> 4.2$  &  $\leq 5.0$ ).

When using Likert scale-type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales (Gliem & Gliem, 2003: 88). Reliability is the extent to which a measuring instrument is repeatable and consistent (Maree & Petersen, 2007: 214). Maree & Pietersen (2007: 216) suggest the guidelines for the interpretation of Cronbach's alpha coefficient as follows: 0.90 – high reliability, 0.80 – moderate reliability and 0.70 – low reliability.

## **4. Results and findings**

### **4.1 Responses**

The majority of responses were received from senior Quantity Surveying practitioners:

- Seventy-two percent (72%) were between 30 and 59 years of age;
- Eighty-three percent (83%) were male;

- Sixty-four percent (64%) held an Honours degree, and
- Sixty-four percent (64%) were the firm's Managing Director, Director or Partner.

The above profiles indicate that the responses were received from senior members of the Quantity Surveying profession and that the results could thus be considered reliable.

#### 4.2 Project costs and relative discounts

Figure 2 reflects project costs ranging from R500 000 to R16 million, and related fee discounts offered. Of the respondents, 3% indicated that they were willing to allow up to 5% discount; 14% were prepared to allow between 5% and 10% discount; 17% would allow between 10% and 15%, while 10% of the respondents would grant discounts of between 15% and 20%.

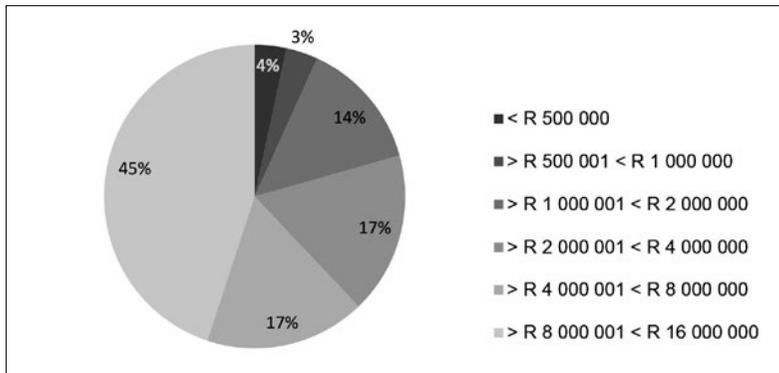


Figure 2: Discounts per project cost ranges

Respondents also commented that, for projects exceeding R100 million in value:

- discounts of between 25% and 40% had been given;
- any discount below 25% would provide a good return for services rendered;
- a project of straightforward design and larger in value would elicit a higher discount, while lower discounts would apply to more complicated designs of lesser value, and
- regular clients would receive preferential discounts of 10% (average).

A number of respondents mentioned that they made use of a proportionate scale of discounting linked to construction costs. For example, up to a certain project cost, discounting would be at a flat rate which would decrease proportionately as the project costs increased.

Furthermore, the survey results clearly illustrated that the higher the project cost, the greater the willingness on the part of consultants to allow discounts on their professional fees.

### **4.3 Construction life cycle stages**

This section focused on the traditional services rendered by Quantity Surveyors during the construction life cycle from inception through to project close-out in terms of the SACQSP Tariff of Professional Charges, 2013. Although respondents indicated different discount rates for the various stages of the project cycle, it is evident that Quantity Surveyors ultimately give an overall discount rate on the total fee package. The results as per stages were according to the questionnaire structure. The Cronbach's alpha coefficient of reliability was determined for each of the scale scores derived from the group items, as indicated in Tables 1 to 5. The results are shown in each table. Cronbach's alpha interpretation levels as evidence of reliability (internal consistency) are described as 'excellent' ( $\geq 0.80$ ) (Nunnally, 1978: 85). The fact that the alphas are almost equal to 1.00 implies that the items per factor are highly correlated.

#### **4.3.1 Stage 1: Inception**

With the core project deliverable for Stage 1, advising on the procurement policy for the project, the majority of the respondents (68%) frequently to always allowed a discount on their fees during Stage 1. It could be argued that Quantity Surveyors are willing to allow for a discount factor (in some instances, a substantial discount rate) due to the relatively low input during this stage. No table needed to present the results, as only 1 variable is applicable.

### 4.3.2 Stage 2: Concept and viability

Table 1 represents core activities rendered during the concept and viability stage of a project. These activities were tested individually to determine whether discount is allowed on the fees for professional services rendered.

Table 1: Concept and viability

Services	1 = Never, 3 = Frequent, 5 = Always					Unsure	Mean
	1	2	3	4	5		
Agreeing the documentation programme with the principal consultant and other professional consultants	7%	18%	29%	18%	25%	3%	3.37
Attending design and consultant meetings	4%	25%	21%	21%	25%	4%	3.41
Reviewing and evaluating design concepts and advising on viability in conjunction with other professional consultants	4%	32%	14%	21%	21%	8%	3.27
Preparing preliminary and elemental or equivalent estimates of construction cost	7%	24%	29%	11%	29%	0%	3.29
Liaising, co-operating and providing necessary information to the client, principal consultant and other professional consultants	11%	22%	19%	15%	30%	3%	3.31
Preliminary estimate(s) of construction cost*	12%	31%	23%	7%	27%	0%	3.08
Elemental estimates*	11%	37%	19%	14%	19%	0%	2.93
Average							3.24
Cronbach's alpha: 0.96 (high reliable)							

\* Project deliverables

According to the responses presented in Table 1, the majority of the respondents (67%) frequently to always allow a discount in attending design and consultation meetings; over half (56%) of the respondents frequently to always grant a discount on the review and evaluation of design concepts and advice on project viability, and 69% allowed a discount in the preparation of preliminary and elemental or equivalent estimates of construction cost.

Regarding preliminary estimates of construction cost and elemental estimates, more than half of the respondents (57% and 52%, respectively) frequently to always allow a discount.

An average mean score of 3.24 related to all activities listed in Table 1 clearly indicates that Quantity Surveyors frequently discounted fees relating to Stage 2.

**4.3.3 Stage 3: Design and development**

Table 2 represents core activities rendered during the design and development stage of the project cycle. These activities were tested individually to determine whether discount is allowed on the fees for professional services rendered during this stage.

Table 2: Design and development

Services	1 = Never, 3 = Frequent, 5 = Always					Unsure	Mean
	1	2	3	4	5		
Reviewing the documentation programme with the principal consultant and other professional consultants	7%	31%	29%	18%	11%	4%	2.93
Attending design and consultant meetings	4%	39%	14%	25%	14%	4%	3.07
Reviewing and evaluating design and outline specifications and exercising cost control in conjunction with the other professional consultants	7%	36%	18%	21%	14%	4%	3.00
Preparing detailed estimates of construction cost	11%	36%	18%	21%	14%	0%	2.93
Preparing detailed estimates of construction cost	11%	28%	18%	21%	18%	4%	3.07
Detailed estimate(s) of construction cost*	15%	48%	11%	15%	11%	0%	2.59
Average							2.93
Cronbach's alpha: 0.97 (high reliable)							

\* Project deliverables

The results illustrate that the majority of the respondents (63%) seldom or never allow discounts on detailed estimate(s) of construction cost, and that the highest percentage of respondents per activity falls in the 'almost never' range. It can be interpreted that Quantity Surveyors are reluctant to allow any form of discount during Stage 3 of the project cycle due to the extent of input during this stage. This is further supported by an average mean score of 2.93.

#### 4.3.4 Stage 4: Documentation and procurement

Table 3 indicates the core activities relative to the documentation and procurement stage of the project. These activities were tested individually to determine whether discount is allowed on the fees for professional services rendered during this stage.

Table 3: Documentation and procurement

Services	1 = Never, 3 = Frequent, 5 = Always					Unsure	Mean
	1	2	3	4	5		
Attending design and consultants meetings	7%	33%	26%	19%	11%	4%	2.92
Reviewing working drawings for compliance with the approved budget of construction cost and/or financial viability	7%	37%	26%	19%	7%	4%	2.81
Preparing documentation for both principal and subcontract	11%	25%	39%	11%	14%	0%	2.93
Assisting the PA	11%	39%	25%	11%	11%	3%	2.70
Assisting with financial evaluation of tenders	11%	37%	22%	7%	19%	4%	2.85
Assisting with preparation of contract documentation for signature	11%	31%	31%	11%	12%	4%	2.80
Budget of construction cost*	19%	42%	19%	12%	8%	0%	2.46
Tender documentation*	15%	27%	35%	15%	8%	0%	2.73
Financial evaluation of tenders*	15%	35%	27%	12%	11%	0%	2.69
Priced contract documentation*	15%	31%	27%	15%	12%	0%	2.77
Average							2.77
Cronbach's alpha: 0.98 (high reliable)							

\*Project deliverables

Results revealed that the majority of Quantity Surveyors frequently to never allow some form of discount on fees during this stage. With a supportive average mean score of 2.77, indicating lesser willingness of Quantity Surveyors to allow for a discount, it could be argued that Quantity Surveyors are of the opinion that due to the time spent during this stage, lesser discount, if any, will be granted.

#### 4.3.5 Stage 5: Construction

Table 4 stipulates the core Quantity Surveying functions during the construction stage. These functions were tested individually to determine whether discount is allowed on the fees for professional services rendered during this stage.

Table 4: Construction

Services	1 = Never, 3 = Frequent, 5 = Always					Unsure	Mean
	1	2	3	4	5		
Preparing schedules of predicted cash flow	4%	39%	25%	25%	7%	0%	2.93
Preparing pro-active estimates for proposed variations for client decision-making	4%	43%	21%	25%	7%	0%	2.89
Adjudicating and resolving financial claims by the contractor(s)	11%	43%	18%	18%	10%	0%	2.75
Assisting in the resolution of contractual claims by the contractor(s)	18%	39%	14%	18%	11%	0%	2.64
Establishing and maintaining a financial control system	14%	39%	22%	14%	11%	0%	2.68
Preparing valuations for payment certificates to be issued by the principal agent	7%	50%	18%	14%	11%	0%	2.71
Preparing final account(s) for the works on a progressive basis	11%	48%	15%	19%	7%	0%	2.63
Schedule(s) of predicted cash flow*	11%	43%	21%	18%	7%	0%	2.68
Estimates of proposed variations*	7%	43%	29%	14%	7%	0%	2.71
Financial control reports*	14%	43%	18%	14%	11%	0%	2.64
Valuations for payment certificates*	7%	39%	29%	14%	11%	0%	2.82
Progressive and draft final account(s)*	10%	43%	25%	11%	11%	0%	2.68
Average							2.73
Cronbach's alpha: 0.99 (high reliable)							

\*Project deliverables

It is evident from Table 4 that, with an average mean score of 2.73, Quantity Surveyors almost frequently allow for discounts on fees during Stage 5 of the project cycle. However, Table 4 also reflects that more than half of the respondents never to almost never (rankings 1 and 2) allowed discounts on their fees for services rendered during the project construction stage. It can be interpreted that this stage generates the highest proportion of professional fees, and that discounts allowed could be detrimental (to the client, the firm and the project) in terms of the delivery of services.

#### 4.3.6 Stage 6: Close-out

Table 5 shows the core activities for the close-out stage. These activities were tested individually to determine whether discount is allowed on the fees for professional services rendered during this stage.

Table 5: Close-out

Services	1 = Never, 3 = Frequent, 5 = Always					Unsure	Mean
	1	2	3	4	5		
Preparing valuations for payment certificates to be issued by the principal agent	14%	36%	25%	11%	14%	0%	2.75
Concluding final account(s)	18%	36%	21%	11%	14%	0%	2.68
Valuations for payment certificates*	18%	32%	25%	14%	11%	0%	2.68
Final account(s)*	19%	31%	23%	15%	12%	0%	2.69
Average							2.70
Cronbach's alpha: 0.99 (high reliable)							

\*Project deliverables

Opinion was equally divided (50%) on discounting of fees to be charged for preparing valuations for payment certificates and final accounts, but fees due for concluding final accounts would be discounted by only 46% of the respondents.

Responses supported by the average mean score of 2.70 reflected in Table 5 indicate that Quantity Surveyors frequently allow discounts on Stage 6 of the project cycle.

#### 4.4 Respondents' general opinions/comments

Respondents were given the opportunity to express general comments related to discounting of fees. The comments could be summarised as follows:

- Respondents were aware that fees were discounted at various levels and that this practice has a negative impact on the quality of services rendered.
- Discounting of fees encourages negative unethical behaviour among professionals in the built environment.
- Less than half of the respondents (42%) commented and are of the opinion that procurement documents do not meet the pre-requisite minimum standard.
- The majority of the respondents admitted that they have discounted their fees.

In response to the question as to whether or not they would approve a return to the statutory minimum professional fee scale (withdrawn on 12 December 1988) rather than maintain the current recommended tariff of professional fees, the majority of the respondents:

- 67%, stated their supportive agreement;
- 81%, strongly recommended that the current SACQSP Recommended Tariff of Professional Fees be expanded to include a clause that would regulate fee discounts.

The majority (78%) of the respondents reported an increasing frequency among clients who expected a discount on consultants' professional fees, and 74% noted that these demands had significantly increased since 2008.

In response to the question related to the effect of discount on service quality, which also tested the hypothesis, results indicated that 74.5% of the responding Quantity Surveyors agreed that, where discount is given, it will have a negative impact on the quality of services to be rendered.

Furthermore, less than half (46%) of the responding Quantity Surveyors spend less time on estimating, while 48% of the respondents admitted that they have reduced the input time in producing procurement documents, which resulted in incomplete documents.

Over half (57%) of the respondents also indicated that they 'cut time' on the preparation of the final account; instead, they are leaving it up to the contractor to do most of the work.

## **5. Conclusions**

As indicated in the results in Tables 4 and 5 (the two stages where the most discounts are allowed) as well as in 4.4, the findings relative to the hypothesis show that, where discount is given, it will indeed have a negative impact on the quality of services to be rendered. This is supported by the results of less time spent in producing procurement documents and 'cutting time' on the preparation of the final account.

Findings emanating from the study indicate that, under current South African economic conditions (dating from 2008 to current), discounting of professional fees is widely practised by PrQSs. Many of the practitioners are taking advantage of discounting merely as a tool to compensate for the shortage of work due to the shrinking economy. However, this practice rests on a two-edged sword. When a firm enjoys sustained cash flow arising from a substantial number of appointments, the increased turnover will support discounts being

granted to clients. However, when work is scarce during low-growth, highly competitive market conditions, fewer projects are developed, firms' cash flow (generally) is reduced and discounting of professional fees should be treated with caution. Furthermore, firms that have engaged in allowing excessive discounts over an extended period may find that their financial stability is severely threatened beyond break-even point and eventually be unable to absorb their day-to-day operating expenses, resulting in insufficient funds being available to cover unforeseen expenditure.

It is further confirmed by PrQs that discounting of fees has a negative effect on service quality to a certain extent; this is detrimental to the Quantity Surveying Profession and constitutes a breach of the Code of Professional Conduct (2005).

## **6. Recommendations**

With respect to the hypothesis, the findings show that an effort to investigate the effect of discounting on Quantity Surveyors' fixed fee agreements is necessary. In addition, it is recommended that further research be conducted on discounting of fees charged by Quantity Surveyors for rendering non-traditional services.

According to the results, it is imperative that the SACQSP should introduce regulations governing the rate of discount offered by Quantity Surveyors for professional services rendered, to be linked to the value of the project.

It is recommended that the current international economic environment necessitates assessment and, accordingly, adaptation of the SACQSP recommended Tariff of Professional Fees Schedule.

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