

PAYMENT CULTURE IN MALAYSIAN CONSTRUCTION INDUSTRY

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PAYMENT CULTURE IN MALAYSIAN CONSTRUCTION INDUSTRY

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## DEDICATION

*Especially for*

*My beloved parents*

***Mohd Badroldin Bin Mohd Rejab and Rajemah Binti Hamzah,***

*“Your unrepayable love motivates me endlessly”.*

*My beloved Friends*

***Syazwani Binti Abdul Raman, Friends From Sekolah Menengah Teknik Pendang,***

***Politeknik Kota Bharu and Uitm Shah Alam***

*Who give me moral supports and inspiration in your own way, Your encouragement*

*makes me forget the meaning of being a quitter.*

*You know who you are.*

*May Allah have mercy on you and gives you blessing for the rest of your life.*

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## ABSTRACT

Cash flow is the life blood of the construction industry and basically cash flow is majorly contributed by payment that gain. Unfortunately, late payment becomes a habit in the construction industry and this practice could turn the construction company to many implications such as bankruptcy, the higher the contract sum due to the risk, uncomfortable relationship between the payer and payee, disturbance supply chain and others. The objectives of this master project are to study the construction industry payment scenario, impact of late payment to contractors, to identify the factors of late payment in the construction industry and to identify methods for tackling late payment in the construction industry. Literature review by performing focusing on issues related to late payment and primary data were collected by distributing 100 sets of questionnaires based on convenience sampling. The collected data were analysed by using frequency distribution and relative important index. The results of the study show that the late payment is one of the most critical problems in the Malaysian construction industry. The majority of the contractor experienced late payment quite frequently and even beyond the stipulated term. The top 3 impact of the late payment problems is the negative chain effect on other parties, results in delay in completion projects and leads to bankruptcy or liquidation. The top 3 factors that contribute to the late payment problem are disagree with the valuation of work done, technical problem and conflict among parties involve. The top 3 method for tackling late payment problem are uses of technology, sector based approaches and fair and clear payments practice.

## ABSTRAK

Aliran tunai adalah nadi industri pembinaan dan pada dasarnya aliran tunai disumbang daripada bayaran yang diperolehi. Malangnya, pembayaran lewat menjadi kebiasaan dalam industri pembinaan dan amalan ini boleh menyebabkan syarikat pembinaan untuk mendapat banyak implikasi seperti muflis, jumlah kontrak yang lebih tinggi disebabkan oleh risiko yang tinggi, hubungan tidak selesa antara pembayar dan penerima, gangguan rantaian bekalan dan lain-lain. Objektif projek ini adalah untuk mengkaji senario pembayaran industri pembinaan, kesan pembayaran lewat kepada kontraktor, untuk mengenal pasti faktor-faktor pembayaran lewat dalam industri pembinaan dan untuk mengenal pasti kaedah untuk menangani pembayaran lewat dalam industri pembinaan. Kajian literatur dengan memberi tumpuan kepada isu-isu yang berkaitan dengan pembayaran lewat dan data primer telah dikumpulkan dengan mengedarkan 100 set borang soal selidik berdasarkan kaedah persampelan mudah. Data yang dikumpul telah dianalisis dengan menggunakan taburan kekerapan dan indeks penting relatif. Keputusan kajian menunjukkan bahawa pembayaran lewat adalah salah satu masalah yang paling penting dalam industri pembinaan Malaysia. Majoriti kontraktor mengalami pembayaran lewat agak kerap dan walaupun di luar tempoh yang ditetapkan. Tiga kesan tertinggi daripada masalah pembayaran lewat adalah kesan negatif kepada rantaian terhadap pihak lain, menyebabkan kelewatan dalam menyiapkan projek dan membawa kepada kebangkrapan atau pembubaran. Tiga faktor tertinggi yang menyumbang kepada masalah pembayaran lewat adalah tidak bersetuju dengan penilaian kerja yang dilakukan, masalah teknikal dan konflik di antara pihak yang terlibat. Tiga kaedah tertinggi untuk menangani masalah pembayaran lewat ialah penggunaan teknologi, pendekatan berasaskan sektor dan amalan yang wajar dan pembayaran jelas.

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**LIST OF ABBREVIATIONS**

ACDA	As Completed Detailed Abstract
CIDB	Construction Industry Development Board
CIMP	Construction Industry Master Plan
CIPAA	Construction Industry Payment and Adjudication Act
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
LAD	Liquidated and Ascertained Damages
MBAM	Master Builders Association Malaysia
PAM	Persatuan Arkitek Malaysia
PWD	Public Work Department
RII	Relative Importance Index
RM	Ringgit Malaysia
S.O.	Superintending Officer
SOCSSO	Social Security Organization
UK	United Kingdom
UM	Universiti Malaya
VOP	Variations of Price

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Introduction**

The construction industry is a catalyst of a nation's growth, even it only contribute 3% - 4% of total a nation gross domestic product (GDP) but it accelerates other industry for example manufacturing, tourism, agriculture and others. There are involving several parties, various process, different phases, and different stages of work and get a lot input from private and public sector (Sambasivan, 2007). Therefore, the practice of efficient and timely payment in construction projects is a major factor leading to a project's success. However, payment default is considered as a major problem in the construction industry (MBAM, 2012).

The Government has long been aware of the problems faced by parties in a construction project in securing regular and timely payment that impacts cash flow during project implementation. To ensure the smooth implementation of construction projects, problems of this nature have been addressed at the onset of the 10th Malaysia

Plan. On 15th July 2009, Cabinet has agreed that CIPAA be enacted to resolve payment problems in the construction industry.

The construction industry, in particular, the Construction Industry Development Board (CIDB) and Master Builders Association Malaysia (MBAM) and other related promoters have been instrumental in getting the government to enact this piece of legislation since 2003 to address the cash flow problems plagued by the industry (KLRCA, 2012).

## **1.2 Problem Statement**

Payment has been said to be the lifeblood of the construction industry. Yet there remains a chronic problem of delayed and non-payment in the Malaysia construction industry affecting the entire delivery chain (Naseem, 2006). Many parties are being affected from delayed or non-payment and these results in the issues raised about the livelihood and welfare of workers and also on the continuity of the affected projects.

MBAM had long been lamenting the problems of delayed and non-payment and the construction industry had been waiting far too long for the CIPAA to be in place since the Cabinet approved its enactment in 2009 (MBAM, 2011). Cash flow in the construction industry is critical because of the relatively long duration projects. A planned, expected revenue flow is usually represented by an S curve. Any deviation due to either project delays or cash flow delays can have a major impact on the project (Naseem, 2006). Therefore, the Construction Industry Development Board (CIDB)

Malaysia is working together with the construction industry has moved forward to the enactment of Construction Industry Payment Adjudication Act 2012 to improve cash flow problem in the Malaysian Construction Industry.

According to survey by University of Malaya, reported in CIDB presentation, out 49 consultants, 31 which 63.3% of them already encounter late payment of professional fees in government project and 73.5 % which 36 of them have experienced late payment of fees from in private sector project. From the contractor sides, out 333 contractors, 44.1 % had faced late payment from the government project and 53.5% from the private sector project.

Late payment may affect the performance and financial of the contractors. This problem needs to be studied in depth because it involves a high and a major barrier to the success of the project.

### **1.3 Aims and Objectives**

The aim of this master project is to examine the practice of payment in the construction industry and the objectives of this study are as follows:

1. To study the construction industry payment scenario, impact of late payment to contractors.



2. To identify the factors of late payment in the construction industry.
3. To identify methods for tackling late payment in the construction industry.

#### **1.4 Scope of Study**

The scope of study is to study the construction industry payment scenario, impact of late payment to contractors, factors of late payment and method for tackling late payment. This study will be focusing on contractor grade G7 in Selangor. The contractor was chosen because they conveyed the large categories on the construction industry team player. The respondent chosen area contractors as they spend and receive the most amounts of monetary sources in a project.

This study will be focusing on contractors and sub-contractors for construction projects in Malaysia where a regular disbursement of interim payment is the main method of payment to the contractor. A contractor is a person or firm that undertakes a contract to provide materials or labour to perform a service or do a job. In this study, contractors include main contractors as well as subcontractors doing any construction in Malaysia. If anything involved payments, they will be directly affected. The questionnaire is distributed to contractors within Malaysia.

## **1.5 Methodology of Study**

Careful thought and planning in the preparation of the methods of study, data collection techniques and measurements is very important for conducting studies. A framework of the methodology has been designed to show the distinct stages and the sequence in which they occur.

Primary Data will be collected by distributing the questionnaires to the related personnel within the scope of the study. The questionnaires are designed to answer the objective that has been outlined. Both Main contractors and sub-contractors will be the respondents to these questionnaires. The next step after data collection would be data analysis. This method includes compiling all the data collected.

Secondary Data is collected through literature review, the latest secondary data and information can be collected from different sources which can be used for the survey being conducted. The sources include books, journals, magazines, dissertations, conference papers, periodicals and information from the internet. Due to the evolution of information technology, using the data from the internet that can be collected from many websites and web pages is the easiest way to retrieve the related information. These materials were used for background reading to obtain full understanding and information needed for discussion and analysis in the study.

## 1.6 Arrangement of the Report

Briefly, this study is related to construction industry payment scenario and from law aspects. In order to achieve final project objectives, some of the methodical programmes of study were undertaken. This is presented by 5 chapters.

The first which is introduction chapter, will describe the general overview of the whole study. In this chapter, the problem statement is clearly defined which leads to the aim and objectives of the study. The scopes of study are also clarified to avoid any confusion and misconception arises.

The second chapter which is literature review, consists of literature review regarding the construction industry payment scenario, impact of late payment, factors of late payment, how to tackle it and the challenge the implementations.

The methodology of study which is third chapter it describes in more details on the study methodology being used in this project report. This chapter will clearly state how the related information and sample data are being collected such as through literature review and questionnaire survey. It also discusses the procedure and techniques for analysing the collected data.

Results and discussions will be write on the fourth chapter and it explains the results and the discussion was related to the literature review in the second chapter, questionnaire survey and interview findings in relation to the three (3) objectives of the study as stated in the first chapter.

The last chapter is conclusions, this chapter will discuss the conclusion and concludes all findings that leads to the achievement of the three (3) objectives of the study as stated in the first Chapter. It also suggests some recommendations for the betterment of future study.

## **1.7 Conclusion**

The study was conducted in order to meet certain interest and will be useful to the parties involved in the construction especially contractors.

- Study the scenario of payment in the construction industry and late payment impact. This result can be used as an indicator of the parties involved in order to prevent the problems in their projects.
- Propose several approaches to encounter late payment. This approach can be taken by the parties involved in order to reduce the risk of late payment in the project.
- Expands and develops the country's construction industry equivalent advanced in terms of project managements.

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The Malaysian automotive industry is Southeast Asia's sole pioneer of indigenous car companies, namely Proton and Perodua. In 2002, Proton helped Malaysia become the 11th country in the world with the capability to fully design, engineer and manufacture cars from the ground up.[104] The Malaysian automotive industry also hosts several domestic-foreign joint venture companies, which assemble a large variety of vehicles from imported complete knock down (CKD) kits. The expansion of the construction industry has been catalysed by major capital expenditure projects, and a key factor has been the government's Economic Transformation Programme (ETP) and public-private partnership (PPP) mega-projects like Tun Razak Exchange, KVMRT and Iskandar Malaysia.[105].

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Payment disputes in the Malaysian construction industry are ancient issues that have been causing problems among construction players for decades. The settlement of disputes can be done by using the Alternative Dispute Resolution (ADR) in lieu of other alternatives or as a complement to Litigation. This paper is focused on Adjudication as a preferred dispute resolution method for the Malaysian construction industry. The enforcement of the Construction Industry Payment and Adjudication Act (CIPAA 2012) in 2014 is intended to provide swift dispute resolution and relief to unpaid construction ind... The booming construction industry in Malaysia has contributed to the trend of setting up the construction companies in the country. Starting a construction company in Malaysia involves procedures that are similar to that of setting up a Malaysian company. Still, there are a few specific tasks that have to be completed when registering a construction company. Here are the steps in setting up a construction company: 1. Company registration. In Malaysia, the process of company registration is rather straightforward and simple. Applicants will need to pay certain tax when applying for the construction license according to the grades of CIDB schemes that considers the established capacity (square meters and volume).

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