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PAYMENT ISSUES IN MALAYSIAN CONSTRUCTION INDUSTRY

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ABSTRACT

Payment problems have been of great concern for many years in the Malaysian construction industry by many parties. It is common to find that the problems of contractors on the shortcomings of the payment system in the Malaysian construction industry exist. There are many contractors or even sub-contractors who can tolerate all these payment issues. Thus, this research aims to identify the payment issues in the Malaysian construction industry. The objectives of this research are to identify the main factors which contribute to the payment issues faced by contractors, to find out the effects of payment issues to the contractors and to recommend solutions to overcome the payment issues faced by contractors. To achieve these objectives, the research approach chosen for this research was quantitative method, and questionnaires were used as the tool for data collection. This research was carried out through the distribution of questionnaires to 127 respondents of Grade 7 Contractor registered under the Construction Industry Development Board (CIDB). The results show that in terms of the main factors contributed to the payment issue, 'pay when paid' clauses for subcontractors were found to be the dominant factor of payment issues. Meanwhile, 'the payment issue affects the contractor's and subcontractor's cash flow', is the most agreed effect to the contractors. Finally, 'fundamental change in the mindset towards timely payment' was chosen to be the most recommended solutions to overcome payment issues.

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CHAPTER 1

PAYMENT ISSUES IN MALAYSIAN CONSTRUCTION INDUSTRY

1.0 INTRODUCTION

Payment is the exchange of some form of value such as money in an agreed amount between two or more parties. For example, goods or services that one party offers to fulfil the other party's need. As in the construction sector, some goods or services need to be paid based on work done by contractors or their subcontractors. However, it is proven by Danuri *et al.*,(2008) that payment is a problem that happens frequently in this dangerous industry. According to Tran and Carmichael (2012), Construction projects usually involve multiple parties linked contractually which is the project owner, the contractors, subcontractors and suppliers. Hence, it is difficult to arrange the payment since it involves many parties with a large amount of money.

Traditionally, there is a head contract between the owners and the contractors, and subcontracts to suppliers and subcontractors (Tran & Carmichael, 2012). Subcontracting works can give many benefits to the contractors themselves since it can reduce contractors' overheads and able to complete the given work economically. On the other hand, contractors need to handle their cash flow carefully since they are responsible to pay the subcontractors for the work that they have done. (Enshassi, Arain, & Tayeh, 2012; Tran & Carmichael, 2012).