

LATE AND NON-PAYMENTS ISSUES IN THE MALAYSIAN CONSTRUCTION INDUSTRY: PERSPECTIVE OF BUILDING MATERIAL SUPPLIERS

Mohd Faisal Ishak¹, Kartina Alauddin², Mohd Shahrol Hafiz Ibrahim³

^{1,2,3} Faculty of Architecture Planning and Surveying, Universiti Teknologi MARA,
Cawangan Perak, Seri Iskandar, 32610, Perak, Malaysia

E-mail: mohdf498@perak.uitm.edu.my

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ABSTRACT

Payment in the Malaysian construction industry has generally been an issue of concern. Late and non-payment problem is endemic in construction and needs to be addressed. The aim of this study is to investigate the issues related to late and non-payment based on the building materials suppliers' perspective. Questionnaires were distributed to suppliers of building materials in the Klang Valley. Findings from the study shows the main cause of late and non-payment is the paymaster's poor financial management while the main effect of late and non-payment is problem with the cash flow. The most recommended possible solution to cope with the issue is for the paymaster to conduct training on financial and cash flow management to the management team in the company.

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INTRODUCTION

The construction industry plays an important role in the development of Malaysia. The industry establishes buildings and infrastructure works required for social economic development which contribute to the overall economic growth (Sin, 2006). According to the statistic of Growth Domestic Product (GDP) by Department of Statistic Malaysia, the construction industry is an important segment to Malaysian economy which has contributed approximately 8% in 2016 and expected to be increased in the coming year (DOSM, 2017). According to Abu Bakar (2015) and Hasmori, Ismail and Said (2012), the industry also provides employment for many individuals ranging from professionals such as engineers and surveyors to main contractors, architects, subcontractors, suppliers and ultimately manual labourers who are hired by these contractors. The construction industry is an important sector propelling the Malaysian economic growth. According to Kho and Abdul Rahman (2010), late and non-payment problem is endemic in construction and needs to be recognized as this problem occurs persistently from one project to another. Payments, which implies as monies, is needed to pay for material, labour, plant, subcontractors' account rendered, preliminaries and general overheads expended during the progress of the work.

When the flow of money into a business is delayed, the net cash flow will become negative (Paul et al. 2012; Ranyard & McHugh 2012). When this happens, usually the party who received late payment would require immediate funding to overcome the cash deficit. Kho and Abdul Rahman (2010) found that late and non-payment affects time, cost and quality as good quality construction requires prompt payment, so that progress would not be affected. Based on Construction Industry Development Board Malaysia (2006) a failure in getting regular and timely payment could result in project delay, reduced profitability and in the extreme case, the company may go into liquidation. It will also have a knocking effect on the whole construction business chain because the contractor for example will not be able to pay his banks, his sub-contractors, suppliers, hirers and workers on time thus causing everyone to suffer. It would also affect the suppliers who is one of the important parties in the construction industry that produce the materials for the construction.

OBJECTIVES

The aim of this study is to identify the issues related to late and non-payment based on the building material suppliers' perspectives.

The objectives of this study are as follows:-

1. To identify the causes of late and non-payment towards building material supplier.
2. To determine the effects of late and non-payment to the suppliers of building materials.
3. To recommend possible solution of the issue of late and non-payment towards building material suppliers.

LITERATURE REVIEW

Payment problems are old age issues that permeate the Malaysian construction industry (Dzulkarnine et al., 2013). Frequently, contractors and parties in the construction industry such as suppliers and sub-contractors have complained either not getting paid or payments have been unduly delayed by the employer. Problems in payment at the higher end of the hierarchy will lead to a serious effect on cash flow problems down the chain of contracts. Although numerous studies have been done, the issue of late and non-payment seems endless.

Azman et al. (2014) also found that the failure of the contractor in getting regular and timely payment could result in project delay, reduced profitability and in the extreme case the company may go into liquidation. It will also have a knock-on effect on the entire construction value chain because when clients do not pay the main contractors on time, the sub-contractors, suppliers, hirers and everyone in the construction value chain will suffer. Therefore, Hasmori, Ismail & Said (2012) highlighted that the late and non-payment will cause severe cash flow problems among the parties involved.

Although previously there were many studies on this issue that has been carried out with the focus on contractor's perspective, studies focussing on the perspective of building material suppliers on the same issue is very

scarce. It seems that the problem still exists until now. Thus, this study will be carried out to identify the late and non-payment issues focussing on the building material supplier's perspective.

METHODOLOGY

This study is a quantitative study, which utilizes both primary data and secondary data. The main method employed in collecting data was questionnaire survey. This survey focused on the respondents' opinion, knowledge and experiences depending on the objectives given out. The questionnaires, which are constructed based on Likert scaling ordinal measure, are categorized into four sections namely respondents' background, identifying the causes of late and non-payment, identifying the effects of late and non-payment, and recommending possible solutions to the issue of late and non-payment. On the other hand, secondary data were obtained from literature review. In this study, content analysis, desk study, Internet search and analysis of theses were conducted. These provided useful information on the causes, effects and possible solutions of late and non-payments towards building material suppliers.

Respondent

Given the limitation of the time and resources, the population for this study is limited to the construction party who are building material suppliers in the Klang Valley, and who are registered with Building Materials Distributors Association Malaysia (BMDAM). The population of supplier companies was obtained through the BMDAM website which is 140. The samples were chosen based on the random sampling method by distributing 100 sets of questionnaires by email, hand and post. Sample selection represents the population of building material suppliers in the study area.

Data Analysis

The data from the questionnaire survey were analysed by using Statistical Package for the Social Sciences (SPSS) version 22.0. Microsoft Excel 2010 was also used to assist in analysing the result of the study. This

study uses descriptive statistics method to analyse the obtained data. Among the techniques used include frequency distribution, percentage analysis, average index, mean and others.

RESULTS AND DISCUSSIONS

Section A: Respondents' Background

Out of 100 sets of questionnaires distributed to the suppliers of building materials in the Klang Valley, only 63 (63%) sets of questionnaire were returned by the respondents. Data indicated that 46% respondents are male whereas 54% are female. The findings also showed that the highest number of respondents fall under the group of age range between 18 – 25 years old (65%). Hence, the highest percentage of the respondents is junior executive (54%), followed by executive (21%), manager (11%), senior manager (8%) and director (6%).

Respondents also have varied education background, with degree holders being the majority (48%). In terms of firms' establishment, it can be deduced that most of the respondents come from the company that has been established for less than 10 years. Furthermore, most of the respondents' companies share almost the same percentage of hiring staff, as well as the number of projects handled. Most importantly, data indicated that 68% of respondents have experienced late and non-payment issues.

Section B: The causes of late and non-payment towards building material suppliers.

The study emphasized eight (8) causes on late and non-payment namely; paymaster's poor financial management, disagreement with the valuation of work done, technical problems such as errors in submitting the claim, delay in certification, conflict among the parties involved due to dissatisfaction with the work of the other party, contractual provision, local culture and lastly paymaster's withholding of payment.

Table 1: Causes of Late and Non-payment towards Building Material Suppliers

Causes	Mean/Average index	Ranking	Level of Agreement
Paymaster's poor financial problem	3.78	1	Agreed
Paymaster's withholding of payment	3.71	2	Agreed
Delay in certification	3.67	3	Agreed
Contractual provision which is inadequate clause or provision related to remedy due to late and non-payment	3.67	3	Agreed
Technical problems such as error in submitting claim	3.65	5	Agreed
Conflict among the parties involved due to dissatisfaction with the work of the other party	3.60	6	Agreed
Local culture or attitude	3.52	7	Agreed
Disagreement on the valuation of work done	3.51	8	Agreed

Note: 1.00 Average Mean < 1.50 = Strongly Disagree, 1.50 ≤ Average Mean < 2.50 = Disagree, 2.50 ≤ Average Mean < 3.50 = Moderately Agree, 3.50 ≤ Average Mean < 4.50 = Agree, 4.50 ≤ Average Mean < 5.00 = Strongly Agree

Table 1 ranked the causes of late and non-payment towards building material suppliers based on the level of agreement. The paymaster’s poor financial problems were identified as the highest mean score (3.78) which contributed to the late and non-payment issues. This factor is ranked first which makes it the most agreed factor voted by the respondents. This is followed by paymaster’s withholding of payment (M=3.71). The shared third rank on the causes of late and non-payment were delayed in certification and contractual provision which is inadequate clause or provision related to remedy due to late and non-payment with both factors sharing the same mean 3.67 respectively.

Ranked fifth with the mean score of 3.65, another common cause of late and non-payment occur in the real industry is technical problems such as error in submitting claims. This is a common occurrence in the industry where there is lack of supervision by the authorized personnel in examining the claim made by his subordinate. As a result, the claim need to be resubmitted and it will take time to process the latest submitted claim. Ranked sixth with the mean of 3.60 is conflict among the parties involved due to dissatisfaction with the work of the other party. As mentioned by Awakul and Ogulanaa (2012), there are two types of conflicts that normally occur inside the large construction projects, which are internal conflicts and interface conflicts. Internal conflicts involved participants inside the project; whereas interface conflicts involved the parties outside the project. Local

culture or attitude also contribute to the cause of late and non-payment and ranked seventh with the mean score of 3.52. Despite using the latest technology in the Malaysian construction industry, certain parties still have a bad attitude in carrying out works such as delay in submitting the invoices or claims, not satisfied with the valuation or careless in doing valuations and others which will create a negative chain effect to other parties (Latham, 1994). Lastly, disagreement with the valuation of work done was ranked last with the mean score of 3.51.

Therefore, from the findings it can be concluded that the most agreeable and highest mean score was the paymaster's poor financial problems. It seems that, financial problem from the paymaster creates the negative impact to the other contracting parties. This finding is supported by Lip (2003) and Davis Langdon and Seah Consultancy (2003). They agreed that a delayed payment by one party may affect the whole supply chain of payment of a construction project. Moreover, all the causes of late and non-payment stated literally means creating huge problems to contracting parties and in this case to the suppliers whereby their cash flow was affected. Thus, all the contracting parties have to take the responsibility to ensure that the works carried out are paid accordingly with the quantity, quality and within the stipulated time.

Kho and Abdul Rahman (2010), in their findings on perspective of contractors towards late and non-payment show that paymaster's poor financial problems was ranked first out of forty variables. Even though the previous research was carried out on contractor's perspectives, the results of this study shows that the same cause of late and non-payments also was ranked as first despite the focus of this study was towards the perspectives of materials suppliers. Obviously it shows that, the issue of late and non-payment due to the paymaster's default is a common occurrence. Therefore, the paymaster need to manage his or her finances wisely in order to cope with the issue of late and non-payment in the construction industry.

Section C: The effects of late and non-payment towards building material suppliers.

This section provides the perception of the respondents about the effects of late and non-payment issues. The study highlighted eight (8) effects of late and non-payment namely; it creates financial hardship, negative chain effect on other parties, cash flow problems, result in delay in completion of projects, lead to bankruptcy or liquidation, lead to abandonment of the projects, result in formal dispute resolution such as litigation and arbitration and create negative social impacts.

Table 2: The Effects of Late and Non-payment towards Building Material Suppliers

Effects	Mean	Ranking	Level of Agreement
Create cash flow problems	3.95	1	Agreed
Create financial hardship	3.89	2	Agreed
Create negative chain effect on other parties	3.86	3	Agreed
Result in delay in completion of projects	3.86	4	Agreed
Result in formal dispute resolution such as litigation or arbitration	3.83	5	Agreed
Lead to abandonment of projects	3.79	6	Agreed
Create negative social impacts	3.60	7	Agreed
Lead to bankruptcy or liquidation	3.59	8	Agreed

Note: 1.00 Average Mean < 1.50 = Strongly Disagree, 1.50 ≤ Average Mean < 2.50= Disagree, 2.50 ≤ Average Mean < 3.50 = Moderately Agree, 3.50 ≤ Average Mean < 4.50 = Agree, 4.50 ≤ Average Mean < 5.00 = Strongly Agree

Table 2 displays the results and findings on the effects of late and non-payment issues towards building material suppliers. Based on Table 2, it shows that the highest mean of the effect of late and non-payment was that it creates cash flow problems with the mean score 3.95 and ranked first. It was also found that most of the respondents agreed that late and non-payment create cash flow problems to the contracting parties with the total overall percentage of agree was 95.2% compared with a mere 4.8% that did not agree with this statement.

Thus, from the findings, it is found that the major effect of late and non-payment towards suppliers is that it creates cash flow problems. This factor was chosen as the most agreeable among the respondents because once they got involve in the situation of late and non-payment, their cash flow is most affected. This is because the monthly expenses such as utilities bills and management fees need to be paid every month within the stipulated time. Thus, if the payment is late or there is non-payment, it would give negative impact in terms of cash flow management to the contracting parties.

Furthermore, the findings also show that the effects of late and non-payment is that it creates financial hardship to the suppliers. This factor is ranked second with the mean score of 3.89. Since there are already a considerable number of researchers who have carried out research on the effect of late or non-payment to the contractors, this study focussed on the effects on materials suppliers. From the research carried out by Mohd Danuri, Che Munaaim and Abdul Rahman (2006), they have ranked this effect third, showing that this effect has contributed to the negative consequence towards contracting parties.

The other effects as shown in Table 2 is that it creates negative chain effect on others parties and it also results in delays in completion of projects. These effects show the same mean score of 3.86 and were both ranked third. There is no doubt that late and non-payment creates negative relationship among the contracting parties. When late and non-payment occurs, as construction projects may involve several parties this would affect the client and the other chain or clientele in those projects. Once the negative chain among the parties was formed, it gives the negative result on the completion of the projects. In other words, these two effects were linked and dependent on each other. Therefore, the relationship among the parties in a project need to be considered to ensure the successful completion of a project.

The least agreeable rate for the effects of late and non-payment shown in Table 2 is that it leads to abandonment of projects with the mean score of 3.79, followed by creating negative social impacts (3.60) and that it leads to bankruptcy or liquidation (3.59). Compared to other effects, these three effects were rated as least agreeable by the respondents. Although they are ranked at the bottom of the list, these effects are crucial and need to be taken into consideration because late and non-payment to the suppliers also may

lead to the abandonment of the project. This is because the suppliers would either suspend or stop the supply of materials to the site. Once the project has been abandoned, it creates negative social impact to the users. For example, in the construction of a bridge, once it is abandoned it will cause problems to end users who are using the bridge. Last but not least, the worst effect of late and non-payment shown in Table 2 is that it leads to bankruptcy or liquidation where this normally happens to small companies as cited in the research by Mohd Danuri, Che Munaaim and Abdul Rahman (2006).

Section D: Possible solutions to the issue of late and non-payment towards building material suppliers.

The study highlighted seven (7) main points of possible solutions on late and non-payment namely; financial management, contractual matters, legislation, new way of payment method, local culture or attitude, technical issues and financial institution.

Table 3: Summary of Possible Solutions for Late and Non-Payment

Possible Solution	Mean	Average Mean	Ranking	Level of Agreement
Financial Management				
1. Conduct training on financial management and cash flow management	4.08	4.04	1	Agreed
Contractual Matters				
1. Being smart in accepting the contract and choose a good paymaster	3.97	3.99	2	Agreed
2. Specific clauses in the contract relating to managing construction failure should be included	4.00			
Legislation				
1. A right to suspend works	3.89	3.92	3	Agreed
2. Applying charges to overdue payment	3.95			
Technical Issue				
1. Avoiding the technical error in submitting the claim	3.88	3.88	4	Agreed
2. Approving party must avoid from giving late approval	3.92			
New Way of Payment Method				
1. Applying the new way of payment method among the paymaster who is withholding the payment	3.83	3.88	5	Agreed
Local Culture or Attitude				
1. Fundamental change in the mind-set towards timely payment	3.79	3.79	6	Agreed
Financial Institutions				

1. Reduce interest rate	3.62	3.73	7	Agreed
2. Slow or delayed start to repayment terms	3.68			
3. Seasonal payment or payment based on money flowing into the business	3.89			

From the findings in Table 3, it shows the possible solutions which can be applied to cope with the issue of late and non-payment towards suppliers. Based on the information in the table, there are seven (7) major potential solutions identified. The three most possible solutions to counteract the payment problems based on the findings in Table 3 are financial management, contractual management and legislation.

The table shows that the most agreeable possible solution nominated by the respondents was financial management. The paymaster need to manage his finances wisely in order to cope with the issue of late and non-payment and indirectly this possible solution was ranked first with the highest average mean of 4.04. To be effective in managing the finances, the company needs to conduct training on financial and cash flow management in order to educate the managerial staff and subordinates as well as managing the finances efficiently.

Furthermore, contractual matters were ranked second with the average mean of 3.99. Contractual matters can be avoided by being smart in accepting the contract and choosing a good paymaster and also making a smart decision before agreeing to any contract offered by examining the background of the paymaster. To be fair to both contracting parties, specific clauses in the contract relating to managing construction failure should be included in the contract. It means that, both parties need to be accountable for any breach of contract on their part that lead to failure to the projects.

Last but not least, the findings also show that legislation is one of the possible solutions that was ranked high by the respondents. With the average mean 3.92, it was ranked third. Legislation seems to play an important role in enforcing the right to suspend work due to late and non-payment. On behalf of suppliers, the suppliers need to give the same advantage as the contractor which is to suspend the delivery of materials to the construction site until the payment has been made. In addition, legislation may also allow the contracting parties who are facing the issue of late and non-payment to apply charges due to overdue payment. This seems fair to the other parties

particularly those that received late payment by the paymasters.

CONCLUSION

It can be concluded that the majority of the suppliers agreed with the causes and effects of late and non-payment that have been proposed and asked in the questionnaire. There are seven main points of the recommended possible solutions towards the issue of late and non-payment. All the recommended solutions were agreed based on the level of agreement after taking into consideration the findings by the respondents.

Recommendation for Future Research

Some recommendations for future studies include a study to identify a method to be used to ensure smooth payment to the suppliers, a study to determine the solutions to be taken by the suppliers upon the paymaster who delays making payment, increase the coverage of research in terms of scope and limitation of the study to obtain more accurate information towards the other factors and effects of late and non-payment that need to be taken into consideration, and a study to identify the awareness of suppliers as a part of contracting parties towards the existence of CIPAA2012.

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