

# Local labour in the construction industry



## Chapter 1

### 1. 0 Introduction

Malaysia is now experiencing a new era of prosperity. The government invented and implemented a series of five year development plans and laid the foundation for the development in the country. Since the 60s, Malaysia's economy grew rapidly and many jobs were created in the construction industry. In the early of 90s, Malaysia is facing lack of labour and there was a shortage of labour in the manufacturing industries. The labour shortage then expanded to the construction industry.

The economic growth in the past two decade has led to a higher standard of living which also contributed to the locals objection to the 3D (dirty, demeaning and dangerous) sectors, which were eventually filled up by unskilled foreign workers. Malaysia is too depend on foreign workers, especially in our services industry or 3D industry.

This doesn't contribute much to our economy as most of the income received by these workers are channelled back to their home countries but not use in Malaysia. This also mean there are high cash outflow.

The government consider foreign workers as a cheap source of labour that could enhance the country's export competitiveness had been encouraging the deployment of foreign labour in the 1990s.

Prof Datuk Dr Mohamed Ariff of the Malaysian Institute of Economic Research believes that if Malaysia had not allowed the massive influx of foreign workers, local manufacturers would have been forced to innovate and

automate to boost productivity to maintain their competitiveness. (Kok, 2011)

The government's effort in reducing the country's dependence on low-skilled foreign workers has been ongoing, as evidenced in the gradual reduction in the number of registered foreign workers over the last two years. The target is to reduce the number of foreign workers to 1.5 million by 2015.

Many economists feel that what Malaysia needs is skilled or highly skilled workers, not cheap, unskilled foreign workers. (Alan Ting, 2008)

## **1.1 Problem Statement**

Many foreign workers site nowadays getting more and more, as they have a big group, they starting to cause a lot of problem, especially social and security problems. Recently from The Star News (20th June 2007), happened that a group of foreigner involved in fights, widespread break-ins and drug pushing have become a common sight at Klang.

According to Ahmad, 1996. To avoid these problem happened, Contractor should hire local workers, but local workers are not interested to undertake the construction works. Contractors argue that they no longer could find local workers willing to work in construction industry because the salaries are low. Besides, construction industry is viewed by local as 3D's job which mean Dirty, Dangerous and Difficult job.

Local youth nowadays has less interest to work in the construction industry. This can affect the speed of development in construction industry. The reason that local workforce is not interested on this sector is they think that

the job is dirty, dangerous and difficult to face. Therefore it results the industry are forced to hire foreign workers to keep the industry develop. (Shiadri Binti Saleh, 2008)

Secondly, the group of foreign workers hired by the industry basically unskilled, so contractor or his assistant need to teach and advice the foreign workers while constructing building.(P. Larcher, 2001)

Besides, the unskilled and problematic workers will not only cause delay in project completion but also cause poor quality of works which is not meeting the industry's skill standard. (Bachan Singh, 2011)

Nowadays, construction companies are learning to pay low wages often results in poor workmanship, which effects both the quality of the products being produced, as well as the company's overall reputation. Low-cost labour can translate into unskilled labour, and in order to remain competitive in today's global market, companies must keep pace with the continuous advances in technology. (Amber Keefer, 2012)

Poor workmanship of foreign labour can cause defects. According to Kurt Arnold, defects are from poor workmanship devalue property and can lead to additional damage to structures and materials. Poor workmanship is frequently the root cause of construction defects. Even quality building products, if installed or used incorrectly, it may fail to effectively serve their intended purposes or last as long as they are designed to last.

Due to Local young have less interest on construction industry, CIDB is working hard to attract more local skilled workers. The implementation of

accredit skilled workers system was to maintain a high standard workforce. These workers will get higher salaries than normal labourers.

### **1.3 Aim**

To study the factor that led to the poor participation of local labour in the construction industry.

### **1.4 Objectives**

To identify the advantage and disadvantage of poor participation of local labour in the construction industry.

To determine the factors that led to the poor participation of local labour in the construction industry.

To find out the strategies to improve the participation of local labour in the construction industry.

### **1.5 Scope of Study**

Firstly, the questionnaire will be set out with about 30 questions and target to send out 100 sets.

Then, the respondents that I am aiming is Contractor of Malaysia. To get a contractor which is easier to consult and can give more information, it would be Class A contractors . Class A contractors are chosen because the job scope of them are very wide (such as mostly on infrastructure) and the worker or labour require by them are a lot. So we can get information about what kind of labour he is using( local or foreign) and the reason they choose the type of workers.

I will find contractor class A at KL area, because mostly the infrastructure project will be having there. Such as MRT project. Kuala Lumpur is a high developing area. So, there are much more infrastructure need to be completed by contractor class A.

After collecting the data, then data will be analyzed by using statistical method to ease us compare and conclude the result. Finally, conclusion and recommendation can be make from the overall data collected and questionnaire.

## **1. 6 The methodology flow chart**

Selected Topic of Study

Statement of Problems

Determine the Critical Factors

Determine the Advantage and Disadvantage of Local Labour

Conclusion & Recommendation / suggestion

Data Analysis

Questionnaire

Determine the strategy of Improvement

Data Collection

Literature Review

Define Objectives

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## **1. 7 Significant of Study**

The study of the topic is mainly to identify the factor that lead to poor participation of local worker in construction industry, follow by the causes and the solution to attract more local people to the construction industry.

This is important because factor can tell us that the problem and why the young today are not interested on construction industry. Next, we can know causes of the lack of participation of local people in construction industry. Such as, it can cause the industry over depending on foreign worker. Thus over hire foreign worker can cause a lot of thing to happen, such as, cultural pollution, social problem and even outflow of Malaysia's money. After all of these are identified, then we can find some solutions to prevent or reduce happening of these.

Besides, from this study, it enable me to learn more about Construction industry of Malaysia and the important of the support from local workforce.

## **CHAPTER 2**

### **2. 1 Introduction**

In this chapter, we are discussing factors of influence the local labour less interested to work in construction industry. The thing to be discuss is related to image of a person, economy of country , outsourcing of labour through sub-contractor system, lack of training and skill formation, large number of foreign workers, poor site accommodations and services and change in education.

### **2. 1. 1 Skilled Labour**

According to Investopedia, skilled labour is defined as a segment of the workforce with a high skill level that creates significant economic value through the work performed (human capital). Skilled labour is generally characterised by high education or expertise levels and high wages. Skilled labour involves complicated tasks that require specific skill sets, education, training and experience, and may involve abstract thinking.

### **2. 1. 2 Semi-Skilled Labour**

Based on the explanation from World English Dictionary, it says that semi-skilled labour is partly skilled or trained but not sufficiently to perform specialized work. Semi-skilled worker need some skills to do work but does not require doing the complex work.

### **2. 1. 3 Unskilled Labour**

Investopedia explained that a segment of the work force associated with a low skill level or a limited economic value for the work performed (human capital). Unskilled labour is generally characterised by low education levels and low wages. Work that requires no specific education or experience is often available to workers who fall into the unskilled labour.

## **2. 2 Construction in the Eyes of Local Workforce.**

Evidence from different place of the world indicate that construction workers do not view thier employment in a very favorable light. Construction is viewed by almost everywhere as a low status job. In many other countries, either rich or poor, people work in construction out of necessity and not out



of choice. Almost universally they wish for better things for their next generation. (ILO, 2001)

In construction industry, a lot of workers with different level such as skilled labour, semi-skilled and unskilled labour. But most of the people view construction industry as dirty job as well as dangerous jobs. Some even said the construction industry is unattractive job. (Nazib Faizal, 2012)

In Malaysia, young workforce would rather unemployed than work in the construction industry. Official estimates put foreign labours at 80% of the entire construction workforce in 1992 (Abdul Aziz, 2001)

## **2. 3 The Factors of Local Workforce Less Interested in Construction**

### **2. 3. 1 Poor Image in the Eyes of Workforce**

Local young generation workforce has a poor view to construction industry. They just thought that the nature of work of construction is dirty, difficult and dangerous. But the real reason why construction work is so poorly regarded has much more to do with the term on which labour is recruited than the nature itself. For many construction workers around the world the term of employment have always been poor (ILO, 2001)

In Malaysia, accidents on construction sites always happened. Such as, sometimes we can hear or saw the news about site accident due to nature disaster(soil erosion) that caused workers seriously injured or even dead.

Accidents on Construction sites are too common that everyone has come to accept them as an unavoidable characteristic of the industry. This situation

is attribute to the casual terms of employment, the commitment of illegal foreign workers and the non-coverage of workers under nation insurance scheme (Abdul Aziz, 1995)

Next, reason of Malaysian are not willing to take up this job because it is danger to personal safety by construction work. Statistics from the social Security Organisation (SOCSO) showed that on the average, 5, 000 accidents occurred in construction sites annually between 2000 and 2004. This figure stands about 5% to 6. 5% of the total number of accident reported over the period. An average of 80 workers was killed in such accidents (Fong Chan Onn, 2006)

Based on the inspection which conducted by Department of Safety and Health (DOSH), they found out that the major factor of accidents happened at site is contributed by lack of awareness on safety and health. They rate the safety and health of the construction site is not fulfill the satisfaction. Besides, often, workers are not comply with the rules and regulations of safety and health at the sites. This can cause much more serious injury or even death happen.

During accidents happen at the construction site, the workers are not only the one who injured, but also may cause injured or death to the public. So, all of these accidents had spoiled the image of construction industry.

### **2. 3. 2 Lack of Training and Skill Formation**

In construction industry, young, educated and experience workers are hard to find. This is because nowadays, young workforce has less experience and low skill. This is contributed by when they are in college or university, school

provide less practical to them instead of theory. Even though students are provide to industrial training, but they cannot learn so much due to few reasons. Firstly, industrial training period is too short which they cannot manage to learn everything. Secondly is, the senior are unable to thrust trainee's work as they are inexperience. Seniors worry that trainee's work, so they do not dare to give heavy duty to trainee. Thirdly, Senior workers are too busy with their work which caused they have no time to teach the trainee. All of these are contribute to poor skill of young generation.

In Malaysia, the problem that often sighted is the passing of skills through informal apprenticeship is often kept within family, clan or tribe and when circumstances dictate that skills should be transferred to outsiders they may be some dilution, with not all skilled passed on (Abdul Aziz, 2001)

For Malaysian, they always change company when they are offered with higher salary. So, the company has to hire new workers and re-train them. Training workers are very costly and time consuming. So when contractor is bidding for a project, he might raise the price of their bids which could make the contractor unable to compete with others.

### **2. 3. 3 Unattractive Jobs**

The other reason of local young workforces are not attracted by this job is because there are already a lot of foreign workers doing this job. The image of this job is already spoiled by the foreign because foreigners are normally with low skills and poor educational background. So, local young workforce might think that they were hired as unskilled and low education, therefore, they do not want to be look down by other friends and parents. This caused

the local refused to join construction industry. As the result, construction industry need to hire more foreign workers to keep moving forward.

In Malaysia, official estimates put foreign labours at 80% of entire construction workforce in 1992 (Abdul Aziz, 2001)

This situation again will cause the entire construction industry lack of local workers.

### **2. 3. 4 Poor Site Accommodations and Services**

In Malaysia's construction industry, contractor has a common practice which is providing temporary accommodation on the site for workers to stay. The temporary accommodation is usually made up from timber and zinc. This type of accommodation was less conducive to most of the Malaysian Workers. This is also one of the reason why Malaysian workers are shying away from the construction sector and consider employment in the construction sector as not dignified enough (CIDB News, 2009)

Besides, the services and facilities at sites provided by some contractors are not good enough.

### **2. 3. 5 Low Salary**

In Malaysia, the salary for site labour are consider low. Because in construction industry, they hired too many foreign workers which is pay in very low rate. But Local workforce are requesting higher salary. In this case, contractor would rather hire foreign workers as they accept low salary.

As for the demand in high salary, local workers were lured overseas country such as Singapore, Taiwan and Japan. There is where they were paid a much

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more higher salary based on their skills. This is the reason of our construction industry relied on foreign work force.

## **2. 3. 5. 1 Factors Influenced The Labour Salary**

### **(1) Location**

Location can influence the salary of labour. For the place such as city area that has more projects especially infrastructure project, the need of labour are higher compared to rural area which have less project. Since the city area has higher living standard, the amount of money used per day also high. So for the city labour, local workforce cannot accept such low salary offered in construction industry in city area. Unlike, rural area labour can accept low salary, because their living standard are lower which do not need high salary.

### **(2) Competition among the contractors**

Contractors receive a project by tendering, to win a tender, their tender pricing must more reasonable low. Normally, Client would like to have a lower cost project. So, for the contractor to able to compete with others, they will firstly lower their construction cost by reducing labours salary.

### **(3) Risky Project**

For every project, there is risk in between. For larger project or higher building, the risk will be higher since it face to more technical machinery and higher floor level when workers are doing their work. Such as higher building need higher scaffolding, therefore it is more dangerous when it goes higher. So to prevent contractor from losing more money from accident, contractor therefore buy insurance to cover the workers.

Beside, contractor need high skilled workers to handle a much more dangerous situation. High skilled workers are much more expensive compared to unskilled or semi skilled workers. All of these are affecting the cost of labour and cost of construction.

#### **(4) Labours Market**

For most of the local labour cannot fulfill domestic demands such as the working duration, not durable under sunlight, and stamina is not that good. Thus government allow foreign labour to be imported to fulfill the demand of construction industry. This is because foreign labour such as Indonesian, they are more durable under the sun and have good stamina and importantly they can accept low wages. In this situation, foreign labour wage is much lower than the local labours, thus many contractor take foreign worker to reduce their wages expenses.

## **2. 4 Advantages and Disadvantages of Poor Participation of Local Labour**

### **2. 4. 1 Advantages of Poor Participation of Local Labour**

In recent years, there has been a big problem that the foreign workers have caused economic problems in Malaysia. However, it is not to reject the positive impacts of foreign labour on economic issues. Assuming that there are many problems the evidences, (Chan & Moha, 1998) indicated that there are also direct and positive impacts of the foreign workers.

The foreign workers have benefited in the income development. Foreign workers were immensely beneficial to the economy. This shows the positive quantitative contribution of foreign workers to Malaysian's economic growth.

The implications of foreign workers on the Malaysian economy have been immense especially since the late 1980's (Zehadul et al, 1999)

Wage structure is one of the significant role in maintaining lower wage levels. This also indicated Sidney (1996), foreign labour offer an endless stream of cheap labour that can keep wages low and growth high.

Generally speaking, foreign workers contribute to the economy by supplying a cheaper labour force. As a matter of fact, foreign workers usually receive a lower salary than local workers and the difference can help to maintain the decrease in production cost.

As stated by Oleg (2002) that the attracting cheap workforce means cutting production costs, hence the production cost for construction development is kept low which is an advantage in the foreign workers.

Malaysia, which have seriously shortages of workforce in construction industry, by importation of foreign workers could minimize the workforce shortage problem. The supply of this additional labour force fulfilled the urgent demand for labour which could not be met so quickly and at a “cheaper rate”

Here, importantly the foreign workers accepted those jobs which are rejected by the local workers especially the construction jobs that known as 3D's job. Moreover, if we assume that the foreign workers are equally productive as the local workers, one can safely say that foreign workers make net positive contributions.

It has already been brought to our notice that the value added of dollar spent on labour in Malaysia is around 5 times in the manufacturing sector (Ghosh, 1998). If this is true, then there are sufficient positive value-added effects of foreign workers in the Malaysia economy.

## **2. 4. 2 Disadvantages of Poor Participation of Local Labour**

### **2. 4. 2. 1 Hiring Foreign Labour in Construction Industry and The Impacts**

Poor participation of local labour can caused the contractor is being forced to hire foreign labour. Generally, local people tend to feel that foreign workers are contributing problems in the country and economy.

Malaysia Construction industry firms were experiencing various problems due to foreign labour. Recently, the problem of foreign labour in construction industry is as follow:

#### **a) Cultural Pollution**

Most foreign workers are peaceful. They want to earn money to send homeland for their family. In most cases, concern over foreign labour is linked to anxieties over what some have characterised as cultural pollution and over foreignisation (Weiner, 1990).

They may change the cultural and social orders of the normal practice of the locals in construction industry.

#### **b) Social Problem**

Legal and illegal foreign labour also contribute to many social problems and make the impacts on the locals. They create many social problems like



spread of diseases, theft, robbery, cheating, killings, illegal settlement and so on. They form syndicates. If there are no syndicates, legal and illegal immigrants cannot arrive in Malaysia.

According to Tey (1997), as shown by unpublished police records at the police headquarters in Bukit Aman, between 1985 and 1991, foreign labour accounted for between 14.7% and 18.2% of all murders committed in the country. The figure for gang robbery was between 32.7% to 48.2%.

### **c) Economic Issues**

The foreign workers have an impact on the wage structure, labour market, competition with locals. Another perceived bad impact is the high remittances sent out by foreign workers to their home countries.

Foreign workers also thought to be responsible for the higher rate of inflation because of their increased demand. They enjoy public goods without paying taxes and user fees. As such they become free-riders in the Malaysia economy. They are ensured health and other facilities with free.

However it cannot be rejected that the use of temporary foreign labour enables the rapidly growing economics and societies to fulfill manpower needs in dead-end, low status, low wage sectors of the economy such as construction sectors (Zehadulet al, 1999).

### **d) Low Wages for Local Workers and Taking jobs away from Locals**

Women's Workers Association President Silam Hassan (2004) Claimed the problem of foreign workers stemmed from the Government's "open policy"

which drew large numbers of outsiders to the extent that local workers had to compete with them for jobs. As a result of the inflow of foreign workers in the construction industry, the wage rate for local workers has gone down simultaneously.

Because of poor participation of local workers, the foreign workers are slowly taking over the work from locals. In construction industry, the foreign worker is going into sub-contracting work, where there is a lot of money to be made. Besides, the presence of illegals creates problems also since illegals are not limited by rules and regulations and are free to infiltrate into any jobs so long as the employers are willing to accept them.

### **e) Foreign Labour Caused Works Delay**

Construction industry is labour intensive industry, but due to poor participation of local labours, construction industry is depending on large number of foreign labour. According to Economic Report 2003/2004, The new Immigration Act 1995/63 (Amendment 2002), which came into effect on 1st August 2002, about 318, 300 illegal immigrants were deported in 2002. This has caused construction activities in all stages to slow down. Consequently, there was a labour crunch that caused costly work delays.

In a move intended to reduce dependence on foreign labour and increase employment opportunities for locals, the government has shortened the validity period of work permits to 3 years. The policy change will seriously affect human resource planning in construction industry and caused delay of works.

### **f) Low Productivity and quality due time consuming to train new workers**

In the reduction of the duration of work permits for foreign workers from 6 or 7 years to only 3 years had caused deterioration in the poor quality of workmanship and low productivity. This is because foreign labours that had 3 years experience may be replaced by those do have prior construction experience, thus resulting in low productivity and poor quality of work and time consuming on teaching the inexperience labours. Some of them were not able to cope with new experience of working on large-scale projects. Abdul Rahim (2009) also mentioned that the lack of quality foreign labour that have been hired is one of the main problems in construction industry.

The companies that lose workers will need to hire new ones, who are likely to be unskilled and inexperienced. That means the employers have to spend time and resources to train these new workers. As indicated in Master Builder (Abdul Rahim, 2009), upon commencement, the foreign labour would require another 2. to 3 months to go through an orientation or learning curve period before they become productive.

Furthermore, on-the-job training will take around seven to eight months then only the foreign workers will begin to contribute to company. To some extent, the training was difficult, as most foreign labour were paid daily wages and were reluctant to undergo training due to loss pay.

### **g) Heavy Expenses in the Recruitment Process and Long Permit Processing Times**

Malaysia introduced harsh new immigration laws, thus the construction industry is suffering from an acute shortage of foreign workers throughout

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the nation. As a result, this has caused construction industry activities to be delayed albeit contractors trying to best of their endeavours to recruit new workforce. The central problem now appears to be the long processing time taken by the authorities to grant the foreign work permit (Abdul Rahim, 2009) Contractors securing new jobs have problems mobilizing new workers on time, due to this long work permit or recruitment process.

Based on Abdul Rahman, (2009) he also mentioned that base on current experience, it takes about 2-3 months on a best case scenario to go through the entire administrative process, commencing from obtaining a work permit from the ministry of Home Affairs to the foreign workers gaining physical entry into Malaysia to work.

Thus, it is not cost effective to send foreign workers home after the permit period (3 years) because of heavy expenses in the recruitment process. Meanwhile, the process to bring in foreign workers is tedious and time consuming. Besides, a lot of cost is involved in medical examinations, transportation and levies. Therefore, there is pressure in the system for employers to employ illegal foreign labour and to dodge the levies and charges which are incurred on the employment of legal foreign labour.

## **2. 5 Strategies to improve the participation of local labour in the construction industry.**

### **2. 5. 1 Cut Foreign Labour via Minimum Wage System**

Recently, there was no national minimum wage law applicable to the Malaysia in construction industry. Basic wage rates vary according to location and vary from company to company (MIDA, 2009). The government

should implement the minimum wage scheme in all job sectors to reduce the intake foreign workers and so that it can attract local labour with the standard wages.

The scheme has to be enforced as the increasing the number of foreign workers in the country was only benefiting the employers and agencies that brought the workers in. The employers who took the workers in. The employers who took the workers in were only interested in cheap labour. This phenomenon was expected since the employers were more inclined to hire foreign workers who were prepared to accept low wages. But with the implement of the minimum wage scheme, contractors might have no choice but to employ local labour. Besides, with the wage control system, the local labour will accpet the wage rate. Furthermore, the quality of work will improve since local labour were mostly graduate with at least diploma level.

## **2. 5. 2 Industrialised Building Systems (IBS)**

The government encouragement to all employers to mechanise and move into less labour intensive process has not achieved the desired result. On the contrary, the demand for the foreign labour is increasing by the day.

(Rydgren, 2004)

The majority of foreign labour brought into the construction industry were wet trade labour involved in concrete, brick, and wood works. To reduce construction industry dependence on such foreign labour, we must change the way we work by reducing wet trade in the construction process. This could be achieved through implementation of the Industrialised Building Systems (IBS) Roadmap 2003-2010.

By combining IBS with modern management technologies, the local skilled workers would fill the vacancies. They should adapt high technology to lessen the dependence on foreign manpower. CIDB would give free training to locals so that they can replace the foreign manpower and help the construction sector move towards using new technologies. The IBS Roadmap promises to reduce the number of workers at construction sites, usage of material and wastage.

Conventional technology that is being used needs a lot of manpower, causing us to be dependent on foreign workers who are mostly unskilled. As a result, not only is the quality of workmanship being compromised but we also lose out in terms of money flowing out the country. With the IBS, wet trade workers can be reduced and construction world is now beginning to recognise the reduced and construction works focused on the use of the mechanisation and prefabrication.

Besides, the construction world is now beginning to recognise the advantages to be gained by integrating fabricated steel and precast concrete with site cast concrete, much less labour is required on building sites. This result in the hidden cost of moving labour around tall or large buildings being lower (Peter, 2004).

The Government even stopped offering incentives to labour-intensive firms, tuning its attention instead to developing of strategic high technology industries (Rajah, 2001)

## **2. 6 Summary**

### **2. 1. 1 Skilled Labour**

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High skill level , high performance, high education, expertise, experienced and high wages

## 2. 1. 2 Semi-skilled labour

Partly skilled or trained, not sufficient to perform specialised work.

Do not in