

Payment and delay issues | construction industry



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The construction industry plays an important role in any country's development process. The industry establishes buildings and infrastructure works required for social economic development which contribute to the overall economic growth. The success of economic development will further lead to an increase in disposal incomes, generating demand for additional construction activities. Therefore, it is important to make sure the economy growth of construction industry is moving smoothly.

Payment is considered as the lifeblood of the construction industry because constructions often involve very large capital outlay and take a considerable time to complete (Naseem, 2005). In the construction industry, payment is the sum of money paid to contractors, consultants and suppliers after their works, service or materials has been successfully realized or accepted.

Payments are so important to these parties that it is a constant headache for them as problems in construction would always be revolving around the poor payment practices. In cases like this, contractors would be directly affected as they are the one who receive and spend the most amounts of monetary sources in a project done. A regular disbursement of interim payment is a critical point for a contractor to help them survive in the construction field.

Whether it is late payment or not being paid in the amounts certified, it all literally means big problems to the contractors as cash flow will be effected. Some small construction companies such as Class F contractors would even close business due to late payments. Cash flow is critical to the construction industry. Even Lord Denning famously said that cash flow is the life-blood of the construction industry. The ease of cash flow is an essential element in delivering a successful project.

Many actions have been taken by government to curb the payment problems among contractors. Datuk Seri S. Samy Vellu in 2008 for instance has proposed to make direct payments to sub-contractors handling government projects with immediate effect to ensure that they receive the money on time. Government officers that delayed the distribution of payments to contractors will be given surcharge. But that does not stop there. Recently, Datuk Seri Abdullah Ahmad Badawi shows his concerns over complaints from contractors and suppliers about late payments. He had instructed that all payments must be made within three weeks of the date of receipts of the bills.

Government is very particular about this matter because it was giving a negative perception of the current implementation of the 10th Malaysia Plan that is moving at a slow pace. The 10th Malaysia Plan (10MP) that runs from 2011-2015 besides reinforcing the New Economic Model (NEM) also reinforced the theme of “Towards Higher Income” with more measures to transform the nation into a high-income economy.

Nonetheless, there are still cases of delayed payment and non-payment in arbitration if not in the court. Contractors are still facing problems in receiving their payments. Arbitration and judicature process not only consumed much time and money but could kill the business as well. As a contractor, what is the most appropriate action should be taken in securing their payments without effecting their business and cash flow?

Statement of Problem

The construction industry plays a very important role in generating wealth and improving the quality of life of the people through the provision of social and economic infrastructure like infrastructure like schools, hospital, houses, roads, airports, ports etc. It is linked to the whole spectrum of the economy and has a multiplier effect that enables other industries to prosper alongside. Hence, it is vital to ensure that construction projects are effectively and efficiently implemented. Problems of cash flow due to issues on late, under and non-payment can severely affect the implementation of construction projects and thus the provision of the nation's infrastructure and built environment.

In construction, delay could be defined as the time overrun either beyond completion date specified in a contract, or beyond the date that the parties agreed upon for delivery of a project. Delays in payment means there is a delays in progress compared to the baseline schedule. While, problems of delay in payment has continued to worsen in the construction industry (Pitcher, 2010)

According to Davenport 2010, the Constructon Industry Development Board's Construction Industry Indicators (CII) had conducted a survey in Cape Town 2009. The survey indicates that only 42% of contractors were paid on time and 58% of payments to contractor were made 30days or more after invoicing. Payments delays in 2009 show quite a significant deterioration compared with the payment delays in 2007 and 2008. CIDB's CEO, Ronnie Khoza states that the issue of payment delays is a very serious

matter. The delays could be the result of a poor quality of invoices or corruption within government departments.

Contractor Calculator reveals from a latest contractor survey that a whopping 88% of contractors have been receiving their payment late from their agency or client. According to Dave Chaplin, CEO of Contractor Calculator, this is a sad reflection of the times, particularly as 37% of respondents suffering delayed payment have a contract with the public sector.

Construction works involve huge amounts of money and most of the contractors find it very difficult to bear the heavy daily construction expenses when the payments are delayed. Work progress can be delayed due to the late payments from the clients because there is inadequate cash flow to support construction expenses especially for those contractors who are not financially sound. (Murali Sambasivan, 2006)

Purposes of Study

The construction industry which affected by the cash flow of such projects is getting serious year by year. One of factors causing the problem of cash flow is late payment. In response to the predicted possible concern for this problem, this research is conducted to investigate this issue further in both private and public construction project.

Objectives of Study

The objective of the study is to compare the factors that contribute to delay in progress payments for construction projects between the private and public sector.

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Research Questions

Delay in construction interim payment consequently affects the progress of the construction project. Either in private or public construction project, payment is the life blood for a project in order to complete in the certain period. Hence, it is important to solve out this problem. To find the solution, we must know the causes influence the late payment. Therefore, this research will enable us to provide the answers for the following questions:

- What are the factors that contribute to delay in progress payments for construction projects?
- Is it private sector and public sector influence by the same factors?

Significance of Study

This research should increase the awareness of both contractors and employers in relation to the payment issues. The contractors should take attention with late payment issue, because it will bring a big impact to their financial ability. The developers or government should also take attention with this issue in order to minimize the impact to the work in site. By that, making improvement either on their own party or employers is important to solve the problems. Besides that, the research is also expected to grab the attention of the employers or developers in making their payments promptly and timeliness.

This research help to find out the most common reasons cause the delay in progress payment for construction project in private and public sector.

Compare the reason which most frequently happens to see whether these two different fields face the same problems in getting payment. Public

projects usually involve more parties in preparing the payment certificate, while private projects which are normally involved weak financial background's employers. After identify the factors causes delay in these two fields, the next step is to find the solution to solve the problems.

Through the research, the findings may assist the relevant parties such as developers or government and the contractors in addressing problems associated to late payment in an effective and timely manner to create a win-win situation for all parties in the Malaysian construction industry. It is hoped that the relevant parties will adopt and implement the necessary plan of action in order to minimise disputes on payment in any construction project, so as to create a friendly and enjoyable working environment for all parties and to improve the payment flows in the Malaysian construction industry.

Scope of Study

This research will be focusing on late payments in the Malaysia's construction industry in both private and public project in Johor Bahru. This study will focus on the building works in construction projects.

This research will be focusing on the main party in the Malaysia's construction industry, which is a contractor. Contractors, whose are carry out the works on site and receiver of payment to make sure the construction works in the progress. Hence, they are the important party in getting the right information in this research.

Research Methodology

The research for this study was conducted using the following approaches:

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a) Literature Review

This includes the secondary data and information collected from different sources which can be used to conduct the research. The sources include books, journals, magazines, newspaper, dissertations, conference papers, periodicals, information from the internet, etc. These materials were used as background information in order to fully understand the information needed for discussion and analysis in the research. The information can be any issues related to the delay in payment in global construction industries.

b) Questionnaire Survey

The principal method used to collect primary data from contractors was the use of a questionnaire survey. The questionnaire was designated according to the problems in delay of payment in both sectors, private and public in order to achieve the objective of the study. Further details and analysis of the data will be discussed in Chapter 3.

c) Interview

Besides questionnaire survey, interview sessions will be conducted to collect the primary data. In order to get more exact and detail data, experienced contractor will be the target respondents to be interview.

(Placeholder1) (Sub-contractors to be paid directly by Works Ministry)

(n. d.).

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