Financial Issues and Impacts on Construction Industry in Kedah and Perlis

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ABSTRACT
Every stage of a construction project has a time and cost aspect. Project delays are normal and frequently happen in the construction industry. Delays have a massive impact on completing deadlines for projects, managing cash flow, and maintaining the appropriate level of quality. This paper aims to identify the financial problems facing by the contractor of construction sector and their effects on the projects in Kedah and Perlis. The goal of the study was to identify the options and tactical approaches that may be used to address these financial issues, as well as to analyse the causes, consequences, and repercussions of these issue. The hermeneutic phenomenology method is chosen for this study and six respondents who were chosen based on their expertise and skill in managing building projects in rural areas with more than 10 years of experience participated in structured interview sessions utilising standard semi-structured questions. The paper reveals that the critical financial issues in Kedah and Perlis of the construction industry are the withholding of payment by the approval parties, lack of cash flow management, past due payment received from the client, difficulties in obtaining funds from financial institutions, and inflation. The recommendations made to enhance and resolve the financial issues encountered, meaning that all these things had to take place earlier stage in the construction process.

KEYWORDS: Financial issues; Impacts; Project delays; Contractors; Rural areas; Construction industry

1. INTRODUCTION
The building sector is one of the critical sectors in every nation. Malaysia specifically has moves towards becoming a developed and high-income country, which impact the construction industry to translate these aspirations and requirement into reality (Weng Seng et al., 2020). Therefore, there is an immediate necessity for the construction sector to actively find productive ways to enhance its performance (Weng Seng et al., 2020). However, construction projects are by their very nature time and expense constrained; if delays occur, projects will not be completed on schedule.

Department of Statistics Malaysia (2019) stated that the value of construction works in 1st quarter 2017 had increase of 8.1% compared to the 4th quarter of 2015 in which major type of the activity are civil engineering works following with non-residential building, residential buildings, and lastly special trade activities. This problem usually has serious consequences such as financial difficulties, slow growth in the construction industry, legal issues, disagreements, and conflicts. This unfavorable scenario is global and unique in the long run. Delays, a global issue, are the biggest challenge that contractors and building projects face in completing construction work reported by (Shahsavand, 2018). The delay will have various negative consequences, including project cancellations, financial losses, tarnished reputations, and legal challenges.

Various activities make up the construction project. CIDB (2020) has been revealed that 79.5 percent and 66.7 percent of the public and private projects were not completed within the time specified in the contracts out of 359 projects in 1Malaysia (sick project). In Malaysia construction industry, there are 17.3% of construction projects contributing to poor project delivery which faced more than three months’ delay, and some of them were even abandoned due to project’ failure (Bernama, 2019). Financial problem is one of the main causes of delays involve ineffective financial management and insufficient capital as crucial factors of construction failure.

2. LITERATURE REVIEW
A delay is one of the persistent problems in the building sector. A delay is an occurrence that extends the time needed to finish all or a portion of a project (Othuman Mydin, 2014). A delay frequently occurs in the building business on a global scale. A delay is the amount of time
that passes after the completion date specified in the contract (Shahsavand, 2018). Two (2) main categories of internal and external factors might cause construction project delays. Contractual parties address internal factors, including contractors, clients, and consultants. Events that are beyond our control are caused by external sources (Hisham, 2007).

The most crucial element that slows construction projects is one that has to do with money. The client’s financial issues, such as money problems, payment delays, and economic issues, are a potential source of delays in Malaysian construction projects (Abdul-Rahman et al., 2009). External factors include the contractor’s cash flow, financial issues, and poor economic conditions like inflation and the exchange rate (Ahmed, 2003). The issue of late payments plagued the building industry constantly. A contractor’s cash flow will suffer due to late payments; as a result, the contractor inability or failure to afford for labor costs or building supplies, which results in delays. As citing the root causes of late payment, clients’ poor business and financial management, payment withheld by the client, invalid contractor claims, a delay in valuing and certifying the consultant’s interim payment, inaccurate work valuation, a lack of information and documentation for valuation, too many parties involved in the certificate granting process, the contractor’s heavy workload to conduct the review of the work completed, and mismanagement are all mentioned.

One of the significant issues that could cause construction project delays was a lack of financial resources due to poor cash flow management (Kaming, 1997). An effective cash flow management strategy was crucial to completing the project on time and within budget (Muller, 2013). Table 1 shows the categories in cause of construction project delays cause by financial resources.

3. METHODOLOGY

This method is semi-structured because this approach reinforces a investigates of the reasons for the financial issues related to the projects, the implications of the financial issues and their consequences on the projects, and the options available and strategic strategies to improve the financial issues faced. The hermeneutic phenomenology method is most effective when the study is examined in more depth and detail. The study’s title refers to the financial problems that contributed to delays in the construction sector and call for further investigation because they are connected to an organization’s unique character. In this study, six (G7) contractors were selected with high levels of senior management for the sample data, and Kedah and Perlis were chosen as the study location. These projects include road, housing, building, and other construction-related projects.

All target respondents have at least ten (10) years of professional experience as contractors and have previously dealt with project delays. Besides, the participants must have the required qualifications, knowledge, and skills for the profession. Both selection criteria are crucial for ensuring that all respondents are qualified to discuss the topic during the interview, especially regarding work discipline. As part of the screening procedure, the experienced contractors were initially identified through telephone conversation by asking respondents if they had ever experienced project delays. The respondents were interviewed in six respondents and data was collected using interviews. Questionnaires were distributed as a guideline for the respondent to refer to during the interviewing session.

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub-categories</th>
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<tbody>
<tr>
<td>Payment Issues</td>
<td>• Client’s subpar business and financial management</td>
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<td></td>
<td>• Client’s refusal to pay contractor’s bogus claim</td>
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<td></td>
<td>• Delays in evaluation and verification of temporary payments for consultants</td>
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<td></td>
<td>• Delays in confirming and evaluating consultants’ eligibility to pay</td>
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<tr>
<td></td>
<td>• Inadequate supporting evidence and data for valuation</td>
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<td></td>
<td>• Too many parties are involved in the certificate- honoring process.</td>
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<td></td>
<td>• The heavy workload of consultants to evaluate a variation order</td>
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<tr>
<td>Poor Cash Flow</td>
<td>• The contractor manages too many tasks at once</td>
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<td>Management</td>
<td>• The unstable financial history of the contractor</td>
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<td></td>
<td>• Underbidding on the project’s cost by an unqualified contractor</td>
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<td></td>
<td>• Absence of consistent cash flow forecasting</td>
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4. RESULTS AND DISCUSSION

The findings from the study shown that all respondents had facing with project delays about a year and it all about the financial issues that are occurs during implementing the projects. All stage in construction gives an impact to the projects either early stage (planning), middle stage (construction), and last stage (inspection) but the most affected stages is at middle stage. This is so that all of the work in this phase can be divided in accordance with the planning and scheduling that was done in the first step. This issue is the client's responsibility because the contractor completed the task within the allocated budget, which causes a delay in processing the claim, which has an impact on the financial contractor. When contractor have made progress on the construction site, it already includes construction costing, so when the claim comes in late, the work on the construction site is affected because the contractor must pay the cost of machinery, labor, materials, and premises.

The main reasons of the financial problems were the late payment of claims, poor cash flow management, financial limitations, and inflation. Project delays typically result from late payment and affected to the cash flow management. As a result, the work at the construction site moves slowly, contract staffing is slow where they handle the project, subcontractors are unable to complete operations on time, and machinery and operators are all out of commission, all of which slow down the work there. All these works are involved because of an interim claim that started the process. If the situation persists, part of the works may be thrown out because the contractor is unable to pay the additional costs. The high cost of construction materials that were ordered from overseas was the huge factor to contribute to financial problems. As is common knowledge, our current inflation rate influences contractors. The cost of imported materials had an impact on the company's cash flow due to global inflation. The difficulty in securing a bank or creditor loan is the current financial problem. The contractor had to have a strong financial background to get a loan from the bank it gives a hardship to the contractors to deal with creditors (bank). Based on the root causes of financial issues, the result of primary effect is a project delay or an earlier than expected completion date, which will have a negative financial impact on the contractor and result in poor finishing. However, the best preventive strategies to improve the financial issues that impact to the project is the contractor must ensure the tender and budget are on track, and the site staff is skilled about cost control without going over budget, and the contractor must take caution when allocating funds to projects in the future. Besides that, the contractor must get financial resources or start-up capital at the time of contract signing to execute the project. To cover the higher initial cash flow at preliminary work, the contractor should have backup finance in the form of a bank loan or any other credit facilities that are available on the market. Lastly the most important part in project there needed a competent stakeholder to discuss all the progress and problem that are occurred during construction works (early until last stage).

Table 2 shown the summarize of the findings based on the four question that was distributed to the respondents. The purpose of this summary was to make it simpler to locate the key findings of this research which may be discussed in the following phase.

5. CONCLUSION

In conclusion, this study found that the procrastination in the construction plan would undoubtedly result in an additional cost and a higher financial loss, which would affect everything related to the project. Therefore, the contractor pays a high price for their tardiness. By identifying the primary reason for the delay in the field of building, the likelihood of the delay occurring can be decreased. The research findings revealed that insufficient financial resources, unstable financial markets, and weak cash administration flow are the main causes of financial-related postponements. The most significant underlying causes for each of the four primary problems were found to be the broker’s inadequate background, the customer’s weak financial situation in addition to trade administration, difficulties receiving an advance from investors, and rice prices. The building project’s contractor agreed that to mitigate the effects of financial difficulties and delays, clients should assume the greatest responsibility and have the biggest influence. Respondents have suggested several mitigating measures to address the issue, including prompt payment from the client, financial assignment between the client, contractor, and supplier, competent workers to divide the housing development into sections, caution in assessing risk, eligibility in making payment terms, internal cost control, and education on the significance of “cash flow management” and “financial and business management” to resolve the issue. This study demonstrated that there are ongoing financial issues in the building business today. It is vital to update the strategies for minimizing or preventing the problems. Even though each construction project is different and dynamic, financial concerns are thought of as the core component of any project. It must be resolved and investigated. Therefore, it is important to do research in this area, which will hopefully provide direction for those involved in the building sector and other connected stakeholders.
### Table 2: Summary of Research Findings

<table>
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<tr>
<th>Questions</th>
<th>Respondents</th>
<th>Findings</th>
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| At what stage does the financial problem exist that causes a significant impact on delayed project? | C3 & C5     | First Stage  
The cost of construction materials does not reflect the current market, and the job is not separated based on skill level                |
|                                                                           | C1, C4 & C6 | Middle Stage  
In midway stage and prices were running away from planning, the cost of all building supplies skyrocketed (Covid-19)                      |
|                                                                           | C2          | Last Stage  
Due to economic factors like very high inflation, many suppliers now prefer payment in cash (furnishing work)                              |
| What are the root causes of the financial issues relating to delayed project? | C1, C2, C3, C5 & C6 | Late payment received from the client that affect to the cash flow management  
Difficulties in obtaining loans and lousy relationship between creditors and borrowers                                      |
|                                                                           | C2, C4 & C5 | Increasing the interest rate for a loan repayment (bank loan and advanced payment)                                                          |
|                                                                           | C2 & C6     | Inflation drastically in 2020  
(material – steel up to 200%)                                                                                                                |
| What were the consequences of the financial problems that resulted to the delayed projects? | All respondents  
C3, C5 & C6 | Delayed for several years from the expected delivery date to the clients (EOT)                                                             |
|                                                                           | C2 & C4     | Delayed less than one year from the expected delivery date to the clients (other factors)                                                   |
|                                                                           | C2 & C4 & C3 & C4 | Low quality of workmanship increase the cost of the construction project due to the delays that make by the contractor (overrun budget) |
| How may financial problems been resolved by utilizing the foremost preventive measure to lessen the problem encountered? | C1          | At the initial stage of project, each units requires the department (M&E, civil engineering, etc.) to have qualified stakeholders  
At middle stage, the work at the construction site must follow the schedule in the CPM (what work needs to be done, when the work needs to be completed, what is the effect on the project if a task is delayed) |
|                                                                           | C2          | To cover the higher initial cash flow at preliminary work, the contractor should have backup finance in the form of a bank loan or any other credit facilities to reduce the extra cost (outflow) during construction |
|                                                                           | C3          | A private financing joint venture with the private sector or a “Private Cooperation Unit” (UKAS) for Build, Operate, and Transfer (BOT) projects are the methods currently available for government projects to cover the financing problems. |
|                                                                           | C4          | To prevent a cash flow shortage from affecting the project’s completion, the client should pay on schedule for all progress payments |
|                                                                           | C5          | Any monetary problems should be resolved to avoid project delays  
In terms of tender price, the beginning phase is a crucial approach to address financial issues means site team (quantity surveyor) need to do the budgets appropriate for the project that will be executed out site team should control work production within the budget during the construction phase |
|                                                                           | C6          | Financial issues must be traced back to the early planning and scheduling phases of construction |
REFERENCES


