

Late Payment Issues Due to Covid-19 Pandemic in Malaysia Construction Industry

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ABSTRACT

Delay or late payment in construction project is a common phenomenon and has become a habit in the construction industry. However, in the year of 2020, the pandemic of Coronavirus (COVID-19) has dramatically spread over the world and the issue of late payment becomes worse and critical. Many parties involved in the project affected especially the contractor. In line with the issue, the aim of this research is to identify the strategies to overcome the late payment issues due to the pandemic COVID-19 in the construction industry. The objectives of this research are to identify the factor that can lead to the late payment during the pandemic COVID-19, to determine the implication of late payment to the contractor due to COVID-19 pandemic and to suggest the potential strategies to overcome the late payment issue due to COVID-19 pandemic. Questionnaires were used to collect the data and was distributed via google form and door to door visit which focus on G6 Contractor in Petaling district. A total of 127 questionnaires were returned. The data obtained was analysed by using Statistical Package for Social Science (SPSS) software. The result shows that the suspension of work during Movement Control Order (MCO) is the factor influence late payment during pandemic, delay in project completion is the major implication of late payment due to pandemic and the proper planning and budgeting of project by client is the most recommended strategy to overcome late payment due to COVID-19 pandemic. Therefore, the finding of this research hope to help provide insight to contractor regarding the factor influencing late payment, implication of late payment during pandemic COVID-19 and at the same time to overcome the late payment issue due to COVID-19 pandemic.

Keywords: Late payment, Malaysia Construction Industry, COVID-19 Pandemic

INTRODUCTION

The construction industry plays a vital role in the contributing to the development of Malaysia's economy. However, during the year of 2020, the pandemic of Coronavirus (COVID-19) has dramatically spread over the world. A total of 200 nations have been reported cases of COVID-19 (WHO, 2020). Due to the number of cases increased, the government of Malaysia announced a Movement Control Order (MCO) in the intermediate of March 2020. This affects all the construction activities since they have stopped immediately.

During the pandemic COVID-19, there are many issues of financial especially late payment has occurred in the construction industry (Zamani et al., 2021). According to Haron & Arazmi, (2020) delay payment can cause disputes between the parties, may result in the project delay and the extreme case it may lead to bankruptcy. In addition, COVID-19 has leads this issue becomes more critical. It is because the market

uncertainty, cost overruns and cash flow challenges become a factor to the client, contractor and also subcontractor experienced the financial hardships (Alsharaf et al., 2021).

Therefore, this research aim to identify the strategies to overcome the late payment issues due to the pandemic COVID-19 in the construction industry.

LITERATURE REVIEW

Overview of the Payment Pattern in Malaysian Construction

Payment can be defined as a sum of money that needs to be pay by one party which is the client to another party consist of the main contractor. The pattern of payment in construction can determine either the project can be successful or not. Normally, the payment needs to be pay by the client after the contractor has complete the work. Besides, the construction process is usually complicated and fragmented. The study by Kenyatta et al., (2015) has illustrated the hierarchical structure of the construction pyramid in construction projects as shown in Figure 1. Therefore, the late payment may affect the structure of the construction pyramid on a construction project (Falamarzi & Suliman, 2018).

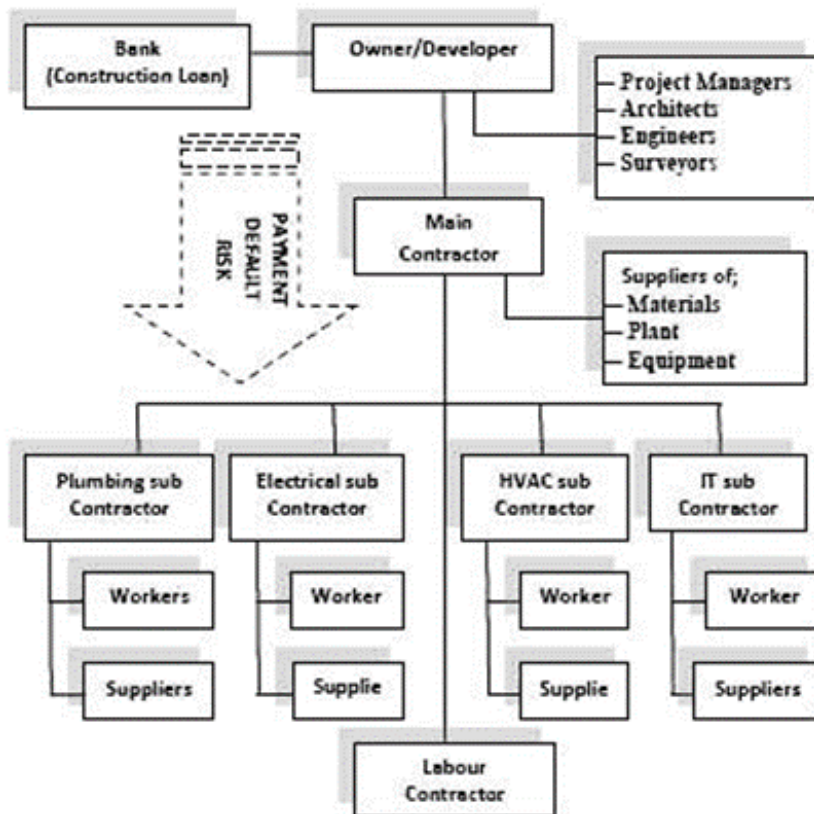


Figure 1: The Construction Pyramid in construction Project Source: (Kenyatta et al., 2015).

The Late Payment Due To COVID-19 Pandemic

There will never be risk free in the construction project. The survey conducted by Alenezi T.A.N., (2020) revealed that 60% of the contractor has experienced the late payment due to pandemic COVID-19. This situation occurs because no construction activity is allowed during MCO. Therefore, King et al., (2021) have mentioned that the contractor suffered a loss of income due to the non-payment from the client during MCO. Yet, Zamani et al., (2021) research showed that the contractors' who were involved in government projects also faced late payment problems where they need to wait for 1 to 2 months for their payment.

However, Amoah et al., (2021) has explained that this situation might be happening because the funds of the project may have been diverted to COVID-19 related expenses.

The Factor That Influences to Late Payment During Covid-19 Pandemic

Suspension of work during MCO

Zamani et al., (2021) pointed out that the suspension of work during MCO has caused late payment. This is because all the site work had to be stopped immediately to prevent the spread of the virus COVID-19. As a result of these circumstances, the contractor is unable to complete the work as per schedule. Therefore, no payment can be made to the contractor since no work progress has been completed.

Delay in submitting the claim due to the MCO

Kenyatta et al., (2015) has mentioned that the delay or refusal by contractor to submit the claim will caused client's failure to make timely progress payments. Other than that, Haron & Arazmi, (2020) also stated that the late or error in submitting a claim by contractors will affect the process of payment approval and caused late payment.

Delay in site valuation process due to the MCO

According to Perera & Dewagoda, (2020) delays in the issuance payment certificate process are one of the late payment factors. This may be because the consultant faces challenges to make a valuation work on site due to the MCO. In fact, due to the prohibition of mass gatherings, the QS is not allowed to visit the project site for a site valuation and is unable to participate in meetings and discussions as previously (Baharin, 2020).

Delay in approval of variation order (V.O) during MCO

Due to the MCO, the daily working period has been shorten (Zamani et al., 2021). This would result to the delay in approval of variation order. The survey conducted by Falamarzi & Suliman, (2018) shows that the slow processing of variation order by consultant was ranked as top five of causing late payment.

Delay in issuance interim payment certificate process during MCO

As previous study by Perera & Dewagoda, (2020) the valuation work on site has delay since no construction work are allowed to be operate. Thus, it results to the late payment due to the delay in issuance the interim payment certificate.

Implication Of Late Payment During Pandemic COVID-19

Problem with cash flow

A failure of getting payment regularly could lead to a negative impact on project construction. The survey conducted by Sabri & Isa, (2020), found that the cash flow was place at the second top ranking for the impact of late payment. Cakmak, (2021), stated the contractor's cash flow is primarily dependent on the client's progress payments, which must be made on schedule and complete. Therefore, when the construction project faces the delay payment, the contractor will directly be affected.

Insufficient funds to pay employees

The contractor is unable to pay the employee wages on time due to a lack of capital (Zamani et al., 2021).

The majority of small businesses in the construction sector especially the contractor is unable to pay wages (Gamil & Alhagar, 2020). This situation can directly reduce the productivity and efficiency of labour to complete the work. As result, the number of unemployment will increase.

Delay in project completion

Alenezi, (2020) argued that late payment has become the top cause of delay on a construction project during COVID-19. Due to the standard operation procedures (SOP) that need to comply in construction sites, it caused slow in progress work (Zamani et al., 2021). This statement can be supported by King et al., (2021) that stated the shortened of daily working period and limited number of workers allowed at one time on site to stop the spread of the virus among construction workers has caused a delay to project work

Difficulties in procuring materials and equipment

Peters et al., (2019) reported that the contractor faces difficulties in procuring material and equipment due to financial difficulties. Due to the bad payment practice, it has caused the contractor insufficient money to generate and roll their money before getting the payment from the client.

Negative relationship between parties

Perera & Dewagoda, (2020) also identified that disputes are one of the consequences of delayed payments in the construction project. According to Kenyatta et al., (2015) a dispute is when a claim made by one party is rejected or not acknowledged by the other. The disagreement may cause a delay in project progress, cost overruns and can even result in an abandoned project (Cakmak, 2021).

The Strategy to Overcome Late Payment

Do the daily progressive report

Based on research by Shaikh et al., (2020), it has mention that make a daily progressive report can be one of the strategies. As know, nowadays it has variety types of software that come out and completed with these features. By doing this, contractor can easier to keep track of payment status during the Covid-19 Pandemic.

Cash flow and financial management training

The surveys conducted by Peters et al., (2019) and Abdul-Rahman et al., (2011) reveal that this strategy is the most prefer to reduce late payment. By joining the training, the industry player especially the contractor and client will enhance their knowledge and skills to manage the finances.

Apply charges to overdue payment

Peters et al., (2019) suggested applying charges to overdue payments. The amount charged can be determined based on the amount owed and the period of the debt has been unpaid. The survey that has been conducted by Perera & Dewagoda, (2020) shows that this strategy was ranked as the second place.

Improve and ease the process of payments valuation and certification

Falamarzi & Suliman, (2018) has stated that the improvement and ease the process of payments valuation and certification can help in decreasing the late payment issue. This can be supported by Zakaria & Singh, (2021) that mention the technology like drones can be more convenient and safer working environment to monitoring and surveying the site during this COVID-19 pandemic.

Proper planning and budgeting of project

Proper planning and budgeting of the projects by the client is one of the strategy to overcome late payment (Falamarzi & Suliman, 2018). All the factors need to be considered during the design stage due to avoid the mistake of estimating the project.

GAPS AND OBJECTIVES

In the year 2020 there have been delays in payments between client and contractor due to pandemic COVID-19. The delay sometimes exceeds the period specified in the contract. The late payment will be a financial burden to the contractor who may not have a large capital. This is because the contractor needs to cover payment delays with their own finances in order to complete the project.

The objectives of this research are:

1. To identify the factor that can lead to the late payment during the pandemic COVID-19.
2. To determine the implication of late payment to the contractor due to pandemic COVID-19.
3. To suggest the potential strategies to overcome the late payment issue due to pandemic COVID-19.

METHODOLOGY

A quantitative method is used in this research. This method suitable for this research in order to obtain the accurate result. The questionnaire survey is the method used to collect the significant data. The questionnaire is developed based on previous studies and literature reviews. The questionnaire survey has been distributed to the Grade 6 Contractor (G6) that focus in Petaling district, Selangor which consists of Petaling Jaya, Damansara, Shah Alam, Sungai Buloh, Puchong, and Subang Jaya. The questionnaire has been send through Google form link to WhatsApp and instant messenger app, e-mail as well as visit door-to-door company. The total number of populations G6 Contractor in Petaling district is 199 companies. By using the Krejcie and Morgan (1970) table, the sample size required for this research is 127 number. Regarding the data analysis for this research, the descriptive statistic method was used to describe the primary data obtained. All the data obtained from questionnaire has been analysed by using Statistical Package for Social Science (SPSS) software.

ANALYSIS, RESULTS AND DISCUSSION

Mean Analysis for Factors Influencing Late Payment During Covid-19 Pandemic

Based on the Table 1, the highest score is the suspension of work during Movement Control Order (MCO) with 4.41 mean score. According to Zamani et al., (2021), this situation happen because of all the site work had to be stop immediately to break the chain of virus and avoid the spread of the virus COVID-19. As a result, the contractor is unable to complete the work as per schedule as well as caused late payment.

Table 1: Ranking of Factors Influencing Late Payment During Covid-19 Pandemic

Factors	Mean	Category	Rank
The suspension of work during Movement Control Order (MCO)	4.41	Agree	1
Delay in approval of variation order (V.O) during MCO	4.28	Agree	2
Delay in issuance interim payment certificate process during MCO	4.17	Agree	3
Delay in site valuation process due to the MCO	4.09	Agree	4
Delay in submitting the claim due to the MCO	4.03	Agree	5

Mean Analysis for The Implication of Late Payment During Covid-19 Pandemic

Based on Table 2, the result showed that delay in project completion ranked at first with 4.32 mean. Majority of respondents agree that late payment will influence the significant impact on completion project. This is because the overall progress of works has been affected due to the insufficient financial. In addition, Esa et al., (2020) revealed that during the COVID-19 only 10% to 30% productivity of workers are able to complete the work in one area a day which only involved a few workers compared before pandemic 30% to 50% work can be done. This clearly shows that the slow progress of work will influence to the late payment issue and result in the delay in project completion.

Table 2: Ranking of the Implication of Late Payment to Contractor Due COVID-19 pandemic

Implications	Mean	Category	Rank
Delay in project completion	4.32	Agree	1
Problems with project money / cash flow	4.12	Agree	2
Difficulties in procuring materials and equipment	4.10	Agree	3
Insufficient funds to pay employees	4.08	Agree	4
Negative relationship between parties	3.81	Agree	5

Mean Analysis for The Strategies to Overcome Late Payment Issue Due To COVID-19 Pandemic

The result obtained from the table 3 shows that proper planning and budgeting of project is the most recommended effective strategy to overcome late payment. This is important to identify first the budget that needs to be allocated for project in order to make sure that project can run smoothly. Therefore, it can prevent from the insufficient financial during project. Meanwhile, apply charges to overdue payment was rate as the least.

Table 3: Ranking of The Strategies to Overcome Late Payment Issue Due To COVID-19 Pandemic

Strategies	Mean	Category	Rank
Proper planning and budgeting of project	4.32	Agree	1
Cash flow and financial management training	4.12	Agree	2
The daily progressive report	4.10	Agree	3
Improve and ease the process of payments valuation and certification	4.08	Agree	4
Apply charges to overdue payment	3.81	Agree	5

IMPLICATION

The implication of research for a contractor can be significant and multifaceted. The research findings might impact a contractor in a cost management and can lead to more accurate project budgeting and financial planning when late payment is happened.

All the strategies also were agreed by the respondents. This clearly shows that all these strategies can give positive impacts to overcome the late payment issues in construction industry.

Therefore, it is hoped that it may benefit to contractor regarding the late payment issue.

CONCLUSION

As a result, the scenario of late payment in the Malaysian construction industry especially during the pandemic COVID-19 become a serious issue. The findings of this research showed the main factor that contribute to the late payment issues during the COVID-19 pandemic is the suspension of work during Movement Control Order (MCO). According to Zamani et al., (2021), this situation happens because of all the site work had to be stop immediately to break the chain and to avoid spread of the virus COVID-19.

Besides that, the implications of late payment to contractor is delay in project completion. Majority of respondents agree that late payment will influence the significant impact on completion project. This can be supported by Amoah et al., (2021) which has stated that the payment delay caused the work to be not completed on time.

Last but not least, there are many potential strategies that can be adopted to overcome the late payment issue. But, the proper planning and budgeting or cashflow of project is the most accepted strategies by contractor. This is supported by Peters et al., (2019) stated this strategy is the most preferred strategy to be used to reduce late payment issue. This is important to identify the budget that needs to be allocated for project in order to make sure that project can run smoothly.

LIMITATION AND FUTURE SCOPE

For this research, it mainly focuses on to the big scale contractor such as Grade 6 regarding the issue of the late payment. For future research, it is advisable to expand the target scope of the research. For example, make research that has been focused on the small contractor that usually has been participate as the subcontractor in a project. The future research can recognize the different factors and implications of late payment during the COVID-19 pandemic on subcontractor's perspective.

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