



CAUSES OF FAILURE AMONG BUMIPUTRA CONTRACTORS

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ABSTRACT

Malaysian government has introduced several policies in helping the indigenous people known as Bumiputra. Amongst the actions is by awarding certain government contracts to bumiputra contractors only. Unfortunately, many of the contractors are not able to survive in this contractual business due to many factors that has commonly been highlighted in local newspaper. Thus, this paper presents a preliminary investigation on bumiputra's contractors failure factors in southern parts of Malaysia peninsular. At the initial stage of this study, an interviewed was carried with the Secretary of Malaysian Malay Contractors Association in Johor on the issues faced by Bumiputra contractors. He pointed 10 issues that usually engulfed Bumiputra contractors during handling the awarded projects. Then, a survey was carried with 15 selected bumiputra contractors who are well experienced in handling construction projects to gauge their views on the relevancy of 19 identified factors which are clustered into 6 groups. The collected data was analyzed by using mean score to rank these factors according its degree of relevancy to bumiputra contractors issues. This study found 5 most relevant factors that are two factors from financial group, two factors from risk group and one factors from other resources. These factors are F2-insufficient cash flow/capital to carry out a construction project, F3-difficulty in securing bank loan due to inability to get guarantor/collateral fixed, R1-unable to anticipate the difficulty of getting material and worker, R3-unable to anticipate risks from material price escalation and OR2-lack of construction skilled workers (foreman, carpenters, bricklayer, etc). These findings are very helpful for the Bumiputra contractors in preparing an effective construction project management strategy for their future project.

Keywords: construction project failure, failure factors, bumiputra contractor.

INTRODUCTION

Construction industry in Malaysia is considered as national economy sector which engaged in preparation of land and construction, alteration, repairs of buildings, structure and other real property. Malaysian construction industry is generally separated into two areas where one of the areas is regarding general construction which comprises of residential construction, non-residential construction and civil engineering construction. While the second area is on special trade works, it comprises activities of metal works, electrical works, plumbing, sewerage and sanitary works, refrigeration and air-conditioning works, painting works, carpentry, tiling and flooring works and glass works (Ibrahim *et al.*, 2010).

Basically, construction project is considered success if it meets 3 element that are within the given time, at a stipulated cost/budget and at the acceptable quality of the construction. To achieve these, the main parties involved who are the client, the consultant and also the contractor should work together to meet the elements. Since the contractors are the party that involved on the physical construction of the project, thus, they are the one who hold the most responsibility in delivering the project (Rahman, 2009). According to Othman, 2010, a contractor is someone who enters into a binding agreement to perform a certain service or provide a certain product in exchange for valuable consideration, monetary, goods, services, even barter arrangements. Where in the building trades, a contractor is one who is engaged in the construction or building related services for a client. For CIDB, in Act 520, Part 1 (1994), the contractors is defined as someone who undertakes to carry out and complete any

construction work. Contractors in Malaysia are required to register to CIDB which acts as a regulator entrusted by the government. In CIDB, contractors are registered according to grades which vary from lower grade of G1 to the highest grade of G7 (CIDB, 2015).

BUMIPUTRA CONTRACTORS

Malaysia has introduced numerous plan, policies and efforts to strengthen the rights of Bumiputra in the country. Such efforts can be seen in the national New Economic Policy (NEP) which was introduced by the late Tun Abdul Razak in 1971. The efforts are continued by his successors including our latest 6th Prime Minister, Datuk Seri Najib Tun Razak (Hanif, 2011). One of the efforts is to strengthen the Bumiputra contractor in participating construction project through the Treasury Circular No. 4(1995). It states that Bumiputra status award to a company that qualifies for the supply and service sectors will be made by the Ministry of Finance after the assessment carried out by Contractors Service Centre known as PKK. According to the treasury circular, to earn a status as a Bumiputra company, one has to meet the following criteria, imposed by the Malaysia Ministry of Finance which are as follows;

- At least there are 51% of company's shares belong to Bumiputra whereby the individual shares are more than non-Bumiputra's individual shares
- At least 51% of Board of Director are owned by Bumiputra
- The CEO, Managing Director or General Manager or any other important roles must be owned by the Bumiputra



- At least 51% of the staffs are Bumiputra
- Financial Manager post are owned by Bumiputra
- The organization chart and its function showed the majority owner by Bumiputra

Unfortunately, after many efforts by the government in helping the Bumiputra contractors, they are still facing a lot of problems in completing construction successfully (Ayub *et al.*, 2006).

Issues faced by bumiputra contractors

Issues faced by Bumiputra contractors are often highlighted in newspaper such as in *Harian Metro* (2011), *Datuk Nur Jazlan*, the Chairman of UDA states that leakages of government's construction projects awarded to Bumiputra contractors are due to three reasons. The first reasons is greediness of Bumiputra in selling the project to the third parties and this causing them losing experience on constructing and managing the awarding project. The other two reasons are leakage during managing government's procurement contracts by civil servants who did not practice moral values in carrying out their assigned duties which affects the Bumiputra company performance and also in supply chain management of material and equipment where Bumiputra are unable to complete with non-Bumiputra contractors. In *Borneo Post* (2011), *Datuk Awang Sham Amit* the chairman of *Sedcovest Holdings Sdn. Bhd* states that the main weakness of Bumiputra contractors is lack of entrepreneurship knowledge. According to him about 91% of Bumiputra contractors failed to complete their projects due to their weakness in management, personal problem, careless and fraud. He also states that about 43% of the contractors failed in preparing their account because of undifferentiated spending of company money.

In *New Straits Times* (2013), *Datuk Mokhtar Samad* the President of Malaysian Malay Contractors Association highlighted issue of Bumiputra contractors in getting building materials at affordable prices. Majority of the Bumiputra contractors are either new or not familiar with supply chain network of material/equipment. Thus, resulting the building material prices they get are higher than usual. According to the Chief Secretary of Human Resource Ministry, *Datuk Seri Zainal Rahim Seman*, that about 10-15% of the projects awarded to Bumiputra contractors were considered failed due to several reasons such as bad weather, unexpected soil structure, improper construction technique applied and changes of specification during construction process (*Berita Harian*, 2013).

In another report in *Berita Harian* (2015), the Managing Director *WZR Property Sdn. Bhd*, *Datuk Ahmad Kamal Kasani* said that failure amongst Bumiputra contractors is due to their inability to fully understand the construction process and requirements for achieving success. This is because majority of the Bumiputra contractors did not undergo apprenticeships in construction and thus, resulting lack of skills on necessary

aspects in ensuring success of projects according to specifications and cost.

As prescribe earlier on issues on Bumiputra contractors that were given a spotlight by local newspapers, seemingly until now that there are no concrete solutions to rectify it. Thus, this study was intended to uncover factors which are relevant in causing construction project failure experienced by Bumiputra contractors

Factors contributes construction project failure

At the initial stage of this study, an interview was carried out with Mr. *Haji Kamsani Bin Johan* who is the Secretary of Malaysian Malay Contractors Association in Johor to identify issues that engulfed Bumiputra contractors. He pointed 10 issues that normally faced by Bumiputra contractors. The issues which are over-optimistic assumptions in tender bidding process causing them not seriously in participating the process, lack of precaution in construction material price escalation, difficulty in adapting variability of construction sites, insufficient to finance the project awarded to them, unable to participate in materials and equipment supply chain, unable to hire skilled work force, highly dependent on government project, involvement of third parties which then encourage the project to be sublet to other parties, lack of knowledge and experience on certain specialized construction project and lack of planning and management skills amongst Bumiputra contractor.

In the mentioned issues, there are a lot of factors in it which initiated the authors to carry out literature work to identify factors that can cause construction project failure related to the issues. The literature found 19 factors in 6 categories which can cause construction project failure amongst Bumiputra contractors as in Table-1.

Table-1. The identified failure factors.

Code	Causes of failure	Reference
T1	Incompetence in an open tender system which based on lowest price	Koon (2005), Ayub <i>et al.</i> (2006), Othman (2010), Adam (2011), Hanif (2011), Koon (2015)
T2	Lack of knowledge on construction open competition business	Koon (2005), Koon (2015)
T3	Lack of experience and provision for pricing the project tender.	Koon (2005), Adam (2011), Koon (2015)
T4	Too dependence on government project	Mohamed (2011)



F1	Lack of managing cash flow (unable to get progress payments on time to pay creditors)	Koon (2005), Rahman (2009), Adam (2011), Hanif (2011), Koon (2015)
F2	Insufficient cash flow/capital to carry out a construction project	Zulkifli (1997), Koon (2005), Ayub et al., (2006), Othman (2010), Adam (2011), Hanif (2011), Koon (2015)
F3	Difficulty in securing bank loan due to inability to get guarantor/collateral fixed.	Zulkifli (1997), Koon (2005), Adam (2011), Hanif (2011), Koon (2015)
R1	Unable to anticipate the difficulty of getting material and worker	Zulkifli (1997), Koon (2005), Ayub et al., (2006), Othman (2010), Adam (2011), Koon (2015)
R2	Unable to anticipate risks due to bad weather on their project	Koon (2005), Koon (2015)
R3	Unable to anticipate risks from material price escalation	Koon (2005), Ayub et al., (2006), Othman (2010), Mohamed (2011), Koon (2015)
R4	Unable to anticipate risks due to construction site condition	Koon (2005), Rahman (2009), Koon (2015)
HR1	Difficulty of keeping experienced workers	Koon (2005), Koon (2015)
HR2	Inexperienced supervisor that creates lot of difficulties for the contractors to complete the project on time	Koon (2005), Koon (2015)
OR1	Difficulty of acquiring material/equipment due to less knowledge/skill on price and supply chain of the related business.	Zulkifli (1997), Koon (2005), Ayub et al., (2006), Othman (2010), Mohamed (2011), Koon (2015)
OR2	Lack of construction skilled workers (foreman, carpenters, bricklayer, etc)	Koon (2005), Ayub et al., (2006), Othman (2010), Koon (2015)
OR3	Lack of apprenticeship to become contractor	Koon (2005), Hanif (2011), Koon (2015)
M1	Unable to control project because the project is sold to third party	Mohamed (2011)
M2	Lack of knowledge and experience on construction project	Ayub et al., (2006), Abdullah et al., (2009), Memon et al., (2010), Othman (2010)
M3	Inefficient and ineffective planning and management	Zulkifli (1997), Ayub et al., (2006), Rahman (2009), Othman (2010)

#note: T-tender, F-financial, R-Risk, HR-human resource, OR-other resource and M-management

These 19 factors as indicates in Table-1 are used to develop a questionnaire for the experts to decide which are the factors are the main contributors to construction project failure that usually experienced by Bumiputra contractors.

COLLECTED DATA

The data was collected through structured interview with well experienced Bumiputra Contractors who are having more than 5 years experienced in handling construction projects. The selected experts were asked to assess each factor based on the provided Likert scale on its contribution toward construction project failure.

Demography of the experts

A total of 15 experts were involved in this interview where most of them are having academic qualification ranging from diploma up to master degree level. In term of working construction experiences as contractors, Figure-1 shows the numbers of years of working experience gained by the experts.

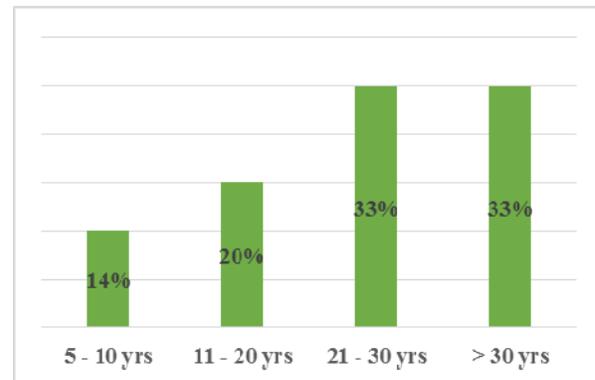


Figure-1. Experts working experience.

Figure-1 shows that all of the experts are have more than 5 years of working experience in handling construction project. Beside the working experiences, it is also important to know the experts working position in their firm. Thus figure-2 indicates the position they are holding in their company.

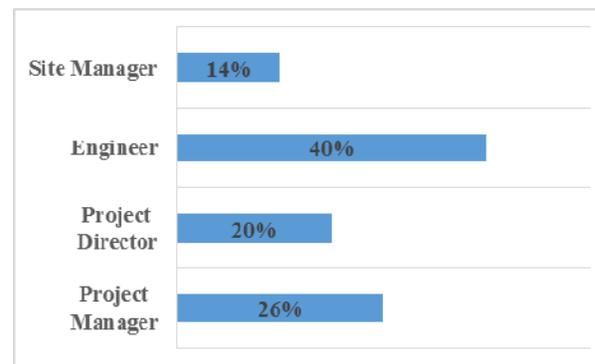


Figure-2. Experts company's position.



Apart from the working academic qualification, working experience and their position, they are also requested to give highest contract amount of the project that they have undertaken. Figure-3 shows amount of contract that the experts have experienced in handling the construction project.



Figure-3. Experts' percentage of contract amount.

Figure-3 shows that 50% of the experts have involved in handling RM 2 - 5 million worth of project, 33% have involved in handling project between RM 5 - 10 million and only 17% of the experts are involved in handling the project more than RM 10 million. Overall, the selected experts had possessed a good knowledge and rich construction experience. As such, their opinions are realistic for this research.

DATA ANALYSIS

The second part of the questionnaire is regarding about the factors that contributing to project failure. Experts' opinions are sorted on the degree of relevance of each factor toward its contribution on the failure of a construction project. The experts were requested to rate using 5-points Likert's scale of each of the factors. The collected data are analysed and presented as in Table-2.

Table-2. Result of the collected data.

Nos	Causes of failure	Mean Score	Rank
T1	Incompetence in an open tender system which based on lowest price	3.50	6
T2	Lack of experience and provision for pricing the project tender	3.50	6
T3	Lack of knowledge on construction open competition business	3.33	14
T4	Too dependence on government project	3.17	16
F1	Lack of managing cash flow (unable to get progress payments on time to pay creditors)	3.50	6
F2	Insufficient cash flow/capital to carry out a construction project	3.67	1
F3	Difficulty in securing bank loan due to inability to get guarantor/collateral fixed.	3.67	1
R1	Unable to anticipate the difficulty of getting material and worker	3.67	1
R2	Unable to anticipate risks due to bad weather on their project	3.17	16

R3	Unable to anticipate risks from material price escalation	3.67	1
R4	Unable to anticipate risks due to construction site condition	3.00	19
HR1	Difficulty of keeping experienced workers	3.50	6
HR2	Inexperienced supervisor that creates lot of difficulties for the contractors to complete the project on time	3.50	6
OR1	Difficulty of acquiring material/equipment due to less knowledge/skill on price and supply chain of the related business.	3.50	6
OR2	Lack of construction skilled workers (foreman, carpenters, bricklayer, etc)	3.67	1
OR3	Lack of apprenticeship to become contractor	3.33	14
M1	Unable to control project because the project is sold to third party	3.17	16
M2	Lack of knowledge and experience on construction project	3.50	6
M3	Inefficient and ineffective planning and management	3.50	6
Average score		3.45	

#note: T-tender, F-financial, R-Risk, HR-human resource, OR-other resource and M-management

Table-2 indicate that in the tender group 2 out 4 factors are relevant, in financial group all factors are relevant, in risk group 2 out of 4 factors are relevant, in human resource group all 2 factors are relevant, in other resource group 2 out of 3 factors are relevant and in management group 2 out of 3 factors are relevant.

CONCLUSIONS

This study managed to identify 10 issues commonly faced by Bumiputra contractors in executing their construction projects. It also able to identify 5 most relevant failure factors encountered by bumiputra contractors. These 5 relevant factors are F2-insufficient cash flow/capital to carry out a construction project, F3-difficulty in securing bank loan due to inability to get guarantor/collateral fixed, R1-unable to anticipate the difficulty of getting material and worker, R3-unable to anticipate risks from material price escalation and OR2-lack of construction skilled workers (foreman, carpenters, bricklayer, etc). The first two relevant factors are regarding on financial issue and these findings similar to the statements made by Datuk Awang Sham Amit the chairman of Sedcovest Holdings Sdn Bhd as in the earlier part in this paper. While the third and fourth relevant factors are regarding about risk which is tighter with supply chain management as being highlighted by Datuk Mokhtar Samad the President of Malaysian Malay Contractors Associations in earlier part of this paper. These findings are very helpful for the Bumiputra Contractors in preparing an effective construction project management strategy for the new construction projects.



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