

**A STUDY ON PROBLEMS OF BUMIPUTERA CONTRACTOR IN  
CONSTRUCTION INDUSTRY**

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## ABSTRACT

Nowadays, the number of Bumiputera contractors in construction industry Malaysia is increasingly. Based on the data obtained from Pusat Khidmat Kontraktor, the number of Bumiputera contractors exists was more than thirty nine thousand due to the many factors. Hence, this study is addressing the issue. The objectives of this study are to identify the economic growth of construction industry and the factors leading to the increasing number of Bumiputera contractors and also the problems that they encountered in this industry. Apart from literature review on the issues, several questionnaires have been sent out to the Pahang based on Bumiputera contractors of Class A-C. The analysis shows that the increasing numbers of Bumiputera contractor is closely link to the development of the construction industry. The New Economy Policy has also increased the Bumiputera participation in the contracting field. The study shows that the main problems faced by Bumiputera contractors are finance, material, employee and also plants and machineries. Nevertheless, all the problem stated are still under control.

## ABSTRAK

Peningkatan kontraktor Bumiputera di dalam industri binaan di Malaysia pada masa kini semakin ketara. Mengikut perangkaan yang dikeluarkan oleh Pusat Khidmat Kontraktor, bilangan kontraktor Bumiputera telah mencecah sehingga 39 ribu orang. Peningkatan ini didorong oleh beberapa faktor tertentu yang dilaksanakan oleh kerajaan terutamanya untuk kaum Bumiputera. Kajian ini dijalankan untuk mengkaji perkembangan ekonomi di dalam industri binaan dan faktor-faktor yang mendorong kepada peningkatan bilangan kontraktor Bumiputera serta masalah-masalah yang sering dihadapi. Kajian literatur mengenai kontraktor Bumiputera serta situasi industri pembinaan pada masa kini dijalankan serta borang soal selidik juga telah diedarkan kepada syarikat kontraktor Bumiputera. Responden terdiri daripada kontraktor Bumiputera Kelas A, B dan C di sekitar negeri Pahang. Berdasarkan analisis, peningkatan bilangan kontraktor Bumiputera berkait rapat dengan perkembangan ekonomi negara di dalam industri binaan. Selain itu, didapati masalah kewangan, bahan binaan, buruh dan jentera adalah masalah utama bagi kontraktor Bumiputera yang mempengaruhi perniagaan mereka. Namun begitu, kajian mendapati masalah-masalah ini masih dapat dikawal.

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background**

Residential sector, industrial, commercial and services are among the construction activities listed as a major contributor to the development of the economy growth. Construction industry is not only focusing to the construction phase but also to the pre construction phase and post after construction.

There are several parties who are directly involved in the construction industry, such as client, consultant, contractor, supplier and local authorities. Most of the construction project greatly dependent with the contractor's involvement. Since the contractor is the most important party in construction project, they can cause a problem to the construction project itself. The successful of the construction project is mostly depends on the ability and efficiency of the contractor in managing the construction work on site. This is because, the weaknesses of the management will cause problems to the contractor. Success of a construction project depends on the contractor's efficiency to manage all the aspect of construction works. The weak project management can cause a problem to contractor. Aspect of management is like source of material management, cost, labour, time and machinery. (*Rafsyamir, 2004*).

There are various types of efforts that have been carried out to increase the quality of the construction project management so that project delivery system can be increased. For example, government had set up one special agency to monitor and coordinate construction activity namely Construction Industry Board Development Malaysia (CIBD). Contractor which carried out the construction jobs need to register with CIBD Malaysia under one of the categories namely building work, engineering work and mechanical work and electrical.

Apart from that, Pusat Perkhidmatan Kontraktor (PKK) is the first government agency which started mandated to carry out service in contractor affairs. There are three (3) stages of contractor's registration under PKK which are categories capacity tendered seven head portion and various sub head. With this registration system, registered contractor can be ensured from time to time and apart from that, PKK also implement the policy improve the service strategies so that local building entrepreneur can be more viable.

Besides managing the contractor registration affairs, effort to stabilize image of construction industry also have been practiced. To boost country's construction industry to be more dynamic and can compete in global market, a strategic plan proposed by CIDB was approved. The proposal is about to plan the strategic ways to develop the construction industry by healthier, and effectively competing. Under that plan, this construction industry can use state-of-the-art technology and the latest method. Apart from that, government have established various committees in order to make sure the project implemented under Rancangan Malaysia Kesembilan(RMK-9) can be run smoothly and successfully (Utusan Malaysia, 2007).

This committee which comprises of Ministry of PWD, entrepreneurial development and cooperative and Ministry of Finance will monitor the implementation of the largest project which involves the public interest and if any problems occur, this cabinet committee will solve the problem together (Bernama, 2007). Due to this, the implementation of many big projects under Rancangan Malaysia Kesembilan(RMK-9) will provide the opportunity to the bumiputera contractors to seek work and ensure growth of the country's economy in the future.

## **1.2 Problem Statement**

Within 50 years, our country is successfully proud in achieving the economic growth with Keluaran Dalam Negara Kasar (KDNK) record increase of 6.3 percent per year (Budget Year 2008, 2008). However, the native is still behind in all economic fields. Economic sectors whether heavy industry or light industry almost fully controlled by race and other construction sector also no exempted. Realizing this problem, government have implemented a New Economic Policy where all the Bumiputera companies will have advantages to get the government tenders.

From the early observation, it is found that the registered Bumiputra contractor in Malaysia is increasingly grew by 39, 238 people in year 2006. The increasing had give unpleasant effect especially when our country is in economic crisis. Surely it is quite difficult for the Bumiputra contractor to compete directly with others to get the project. The competing had cause the Bumiputera contractor is difficult to get the project since the number of the project is not to many.

### **1.3 Objective of Study**

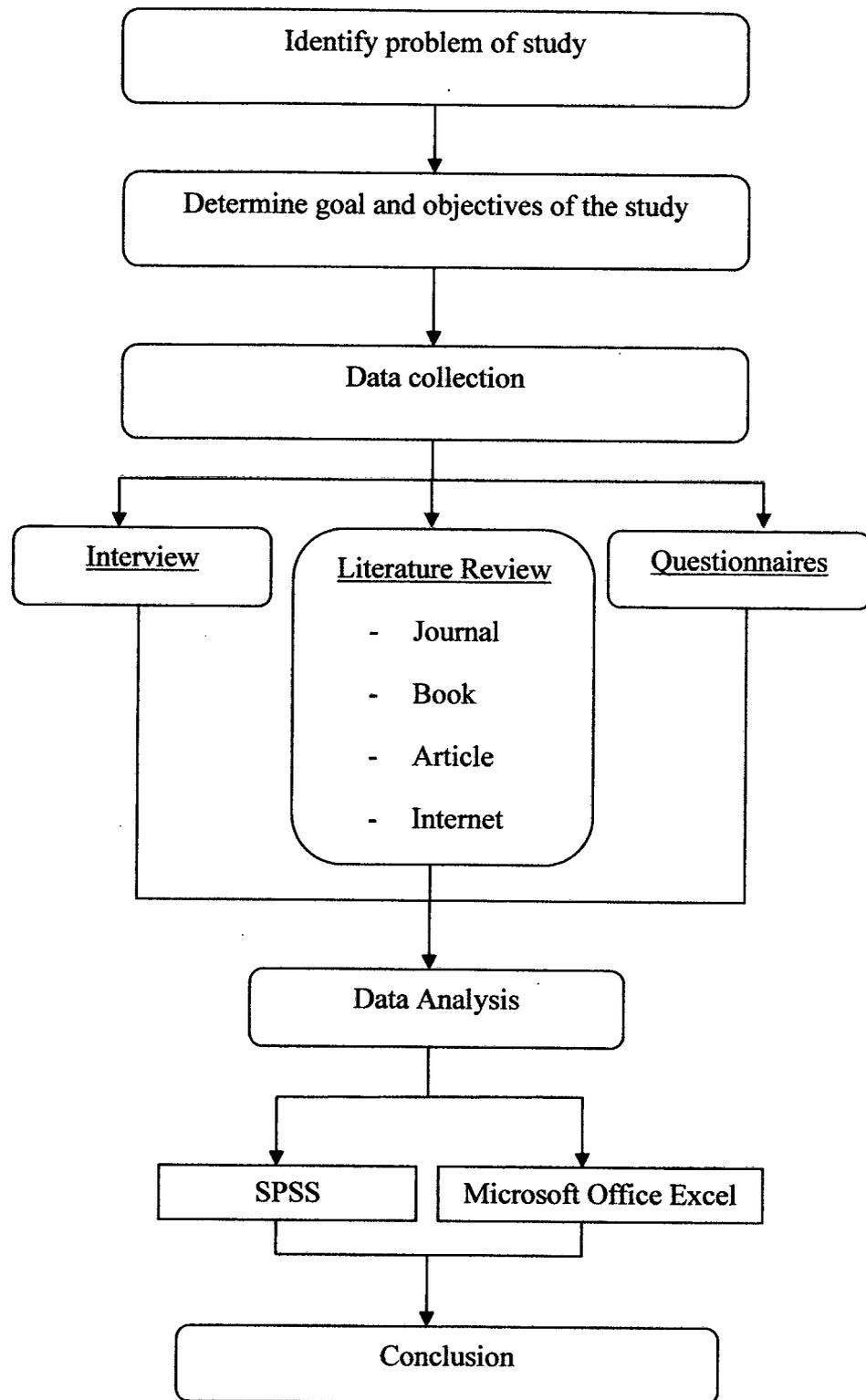
The goal of this study to be conducted is to analyze the problems of Bumiputra contractor in Malaysian construction industry. To achieve the goal, few objectives have been set up which are:

- i. To identify the types of problem faced by contractor in managing construction project.
- ii. To identify factors of problem faced by the contractor in managing constructions project.

### **1.4 Scope of Study**

This study is focussing to the problems faced by the Bumiputra contractor registered the Construction Industry Board Development Malaysia (CIDB) and Pusat Khidmat Kontraktor (PKK) around Pahang state. All respondents are from the bumiputera contractor from class A to F (CIDB registered) and Class 1 to 7 (PKK registered).

## 1.5 Methodology



**Figure 1.0: Flowchart of Methodology**

## **1.6 Significance of Study**

This study has been conducted in order to identify factors which propelled Bumiputra contractor involvement and Bumiputra contractor achievement in construction industry. Throughout this study, various information on Bumiputra contractor had been found and obtained based on the feedback from the questionnaire form.

Besides that, from this study, all the factors affects to the problems of the contractors can be identified so that the situation can be found in order to solve the problems.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will discuss the definition of the construction industry, the main components in construction industry, the factors that growth the development of the construction industry, the role of the construction industry to our economy and the development of the construction industry in Malaysia.

The contribution of the construction industry in the development of the economy is very large, such as residential areas, the skyscrapers buildings, the highways and others. With the great and amazing of the building construction, this will open the eyes of the world to recognize our country. For example: PETRONAS Twin Towers (KLCC) Kuala Lumpur to all worlds.

For the countries which are in developing process, the development of the construction industry is an important issue. The construction industry has an important role in generating the development of the country. The successful development of the countries will increase the demand for the construction activities.

## 2.2 Definition of Construction Industry

The construction industry is one of the industries that contributes to the development of the economic growth. This is an important role in all major industrial sectors in the preparation of the fixed capital, the services, the residential and others (*Abu Hassan, 1988*).

The construction industry covers work on new or existing commercial building, industrial or domestic buildings or structures. In this scheme, construction industry means the construction or erection of a building or structure that is or is to be fixed, to the ground and wholly or partially fabricated on-site. Any preliminary site preparation work (including pile driving) for the construction or erection of any such building or structure, the alteration, maintenance, repair or demolition of any building or structure, excluding electrical or metal trades maintenance or repair work. The laying of pipes and other prefabricated materials in the ground, and any associated excavation work. The construction, erection, installation, extension, alteration or dismantling of a transmission or distribution line, or plant, plant facility or equipment used in connection with the supply of electricity; or an air-conditioning, ventilation or refrigeration system. The construction, erection, installation, extension, alteration, service, repair, replacement of parts or dismantlement of a lift or escalator, electrical or metal work associated with other engineering projects.

A further general definition state that the construction industry as the economic sector which is the planning, design, the construction, modification, maintenance, repair or demolition of all types of building, civil engineering, mechanical and electrical structures and other works (*Aminah, 2007*).

### **2.3 Factors of Making Industry Development Construction**

The quality of life of today, has much improved compared to the twenty five years ago (25). In 1998, the country had bad experienced of economic recession which was negatively growth. This negative phenomenon caused many large projects such as highway disrupted East West, Sarawak Bakun Dam and others. However in 2004, the economics of Malaysia recorded the highest growth. The position of the economy strong environment has changed. Malaysia managed to achieve remarkable economic growth in Gross Domestic; Gross Domestic Product (GDP) registered an increase of 6.3 per cent per annum. This increasing was achieved in a low inflation environment and the full employment (*Budget Year 2008, 2007*).

Furthermore, the direct foreign investment inflow is continuously sustainable. The countries have built a world-class infrastructure that can accommodate industrial development. In the construction industry, demand for construction distinctive features of the rate of growth in the construction requirements complex, which is grew faster than the rate of increase in ability to meet the demand. There are many factors that influence the course of the performance of the construction industry in a country (*Aminah, 2007*).

### **2.3.1 Economic Performance**

The economic performance in 2003 is more sustained strongly support the request contributed to the increase in domestic national income and living standards among the people of this country (*Economic Report, 2004*). The economic position was improved by including more foreign investment and the RM40 billion. The Active capital market with high prentice, the high turnover and a high index (*Bernamea, 2007*). At the time the economy grew stronger, the demand for fixed capital formation the new increase. The Quality of living also improved the lead of industry in manufacturing extended rapidly due to high power expenditure (*Kamarul, 2000*). Thus, productivity will increase, while the business- entrepreneurs will need more business. The Demand in purchase residence also raised on expectations of improved earnings prospects.

### **2.3.2 Loan Facility**

The institution of financial is the main fund contributor to the enterprise in a country. Generally, the process of the loan application consists of three (3) stages which are making the preparation of business plan, the submission of loan applications and the evaluation of loan applications. For every stage it will be evaluated by allowed that qualifications (*Bank Negara Malaysia, Budget 2003*). The aspects of financial in the industry building is not as much of important, especially in developing countries due to the limited financial facilities and tough earn (*Abu Hasan, 1988*).

The financial transactions involving credit and loans for the developers who need a loan to pay the contractor and the contractor will be the debts of construction materials and workers salary (*Aminah, 2007*). Within refusal directly, this will encourage the increasing of the construction industry in our country. In the additionally, funding provided by financial institutions make the business more quickly and effectively building.

### **2.3.3 Demographic Growth**

The domestic demand will be determined by private consumption as the increased income and the demographic factors. Demographic factors confirm using a high tendency in Malaysia that has relatively many youthful people are working. At the same time, the liquidity environment more than sufficient, credit conditions will remain supportive of growth. The one of the main reasons that influences the development factors which is the dynamic growth in experience community for every year. The improvement in construction industry is causing by rapidly market for labor in construction. Thus, the population density has contributed to energy in the construction industry. In addition, new residents also bring spending in the economy and housing needs (*Aminah, 2007*). This is capable of aid the growth of the economy in universal and the construction industry exacting.

### 2.3.4 Inflation Rate

Inflation rate shows the level of price changes and the currency stability money. High inflation rate will increase the cost of living, and this will reduce their standard of living. For individuals, inflation will reduce their actual income. Reduction of real income will occur with significantly to the workers a fixed income. The situation was serious the rate of increase in prices or inflation rates much higher. As a result, users had to with the bulk of their income to buy daily necessities essential (*Aminah, 2007*). The government is aware that inflation may cause adverse effects to the economic growth, cost of living and living standards of low-income people. Reducing the rate of inflation is due to a better supply, competition, regulatory and cost-effective strengthening of the ringgit. Despite the low overall inflation rate, the government continued to work through a variety of strategies to minimize the impact of prices to help low-income groups by ensuring that the supply sufficient goods and services from the increase in money income individuals concerned (*The Economic Report, Budget 2008*). As a measure to control the rate of inflation, the Government must continue to control the deficit and the rate of physical seeks to balance the financial international competitiveness, as well as reduce inflationary pressures and to ensure that wages increase in line with increase productivity. With this, the domestic price level of not more than appropriate level (*Aminah, 2007*).

Overall, the rates of development are varying from year to year. Too economic are growth rapid will strain the capacity of the economy resulting in higher prices and reduced efficiency. While the development economic are slower will result in decreased may affect the income and production capacity cannot be fully use (*Aminah, 2007*).

## **2.4 Bumiputera Contractor**

A professional contractor should also have an understanding of his or her limitations. The client works with an architect and financial long before the first shovel of dirt is removed by a contractor. During the bidding process, a contractor may have to work with the building's architect to discuss potential problems with a design element. If the complexities of the building's design or the potential cost overruns threaten to overwhelm a contractor's skills, he or she needs to step back and allow other contractors to win the bid. A good contractor understands that the success of the project depends on his or her ability to hire the right independent subcontractors and follow the wishes of the client (*Michael Pollick, 2006*).

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. In the building trades, a contractor is one who is engaged in the construction or building related services for a client. The construction site is overseen by a "Prime", General, or Specialty contractor, who may perform the work with employees, subcontractors or any combination thereof.

Until December 2004, the total registration of Civil Works Contractor and the Electrical Works Contractor with PKK is 48,765. Out of that number, 46,409 of Civil Work Contractors are with bumiputera status. A total number of 34,900 Bumiputera contractors were registered as F class contractors. The number of contractors in Civil Work that registered with PKK under different classes between the year 2000 until 2004 is shown in Table 2.1.

Table 2.1: The numbers of registered Contractor in Civil Work between the year 2000 until 2004(Source:Pusat Khidmat Kontraktor Malaysia)

CLASS	STATUS	2000	2001	2002	2003	2004
A	Bumiputera	488	734	959	1,041	1,056
	Non - Bumiputera	522	507	568	591	607
B	Bumiputera	327	471	651	1,225	1,122
	Non - Bumiputera	328	353	411	670	770
BX	Bumiputera	557	754	883	27	-
	Non - Bumiputera	447	443	503	283	-
C	Bumiputera	317	392	464	1,063	1,021
	Non - Bumiputera	284	265	281	438	620
D	Bumiputera	2,160	2,588	3,071	3,250	3,277
	Non - Bumiputera	1,363	1,429	1,504	1,571	1,715
E	Bumiputera	246	285	307	526	633
	Non - Bumiputera	337	339	344	519	672
EX	Bumiputera	87	84	97	20	1
	Non - Bumiputera	374	371	395	192	12
F	Bumiputera	16,394	18,394	25,137	31,314	34,900
	Non - Bumiputera	-	-	-	-	-
Total	Bumiputera	20,576	24,242	31,569	38,466	42,012
	Non - Bumiputera	3,655	37,078	4,006	4,264	4,396

Some common types of problem faced by bumiputera contractors in Malaysia construction industry are shown as follows:

- i. Lack of expertise and experiences
- ii. Over-optimistic estimation in tender bids
- iv. Material price escalation
- v. Financial Problems
- vi. Materials supply networking
- vii. Lack of skilled workers
- viii. Lack of construction materials and machineries
- ix. Inefficient and ineffective planning and management
- x. Communication problems

## 2.5 Classification of Contractors

There are two (2) approaches to classify the contractor in order to facilitate contractor to offer a job that having the good criteria. The approach is determined by the Construction Industry Development Board or *Construction Industry Development Board Malaysia* (CIDB) and *Pusat Khidmat Contractor* (PKK).

There are seven (7) classes for Building, Civil, Electrical and Mechanical contractors. For the specialist contractors, there are only three (3) classes. Foreign contractors are restricted to class one and two in the former types and to one, two and three in the latter type.

Table 2.2: Classes for Building, Civil, Electrical and Mechanical contractors  
(Source:Pusat Khidmat Kontraktor Malaysia)

	<b>CLASS LIMIT FOR ANY SINGLE CONTRACT (In Million)</b>				
<b>CLASS</b>	<b>CIVIL</b>	<b>BUILDING</b>	<b>MECHANICAL</b>	<b>ELECTRICAL</b>	<b>SPECIALIST</b>
<b>ONE</b>	UNLIMITED	UNLIMITED	UNLIMITED	UNLIMITED	UNLIMITED
<b>TWO</b>	5000	3000	2000	2000	400
<b>THREE</b>	3000	2200	1200	1200	150
<b>FOUR</b>	1500	1200	600	600	-
<b>FIVE</b>	750	600	300	300	-
<b>SIX</b>	300	200	150	150	-
<b>SEVEN</b>	150	120*	75	75	-

\* Class Seven not allowed to build storey building