Business Strategies of Small and Medium Sized Contractors in Malaysia

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Abstract
Vibrant growth of the construction industry has offered many business opportunities to the small, medium and large sized firms and companies. One of the important components in the construction industry is the contractor firms. It is mandatory for all construction companies to register with the Construction Industry Development Board (CIDB) before they undertake any projects. They are classified into different categories based on paid-up capital and tendering capacity. Despite the declining number of the projects awarded to the small and medium contractors every year, there is a positive incline in the active small and medium contractors. Therefore, these contractors need to have a series of business strategies in order to sustain themselves in such competitive environment. A detailed literature review was conducted for identifying the different dimensions of the business strategies. Structured interview sessions with open-ended questions are then carried out based on the strategies discussed in the literature review to collect the primary data. Ten interviews were conducted with small and medium size contractors. The sample is selected by deploying the simple random method with reference to the CIDB list of active small and medium contractors situated in the Klang Valley area. This study concluded that supply chain management, quality management and knowledge management to be the most widely adopted strategies.

Key Words: Business strategies, Contractors, Small and Medium Enterprise.

Introduction
The Malaysian construction industry is divided into two main categories. The first category where the main constructing activities consisting of construction residential, commercial, infrastructure civil engineering works and specialized trade works while the second category comprises of the industry that are directly or indirectly related to the construction industry for example the manufacturing industry, supplier, logistics and many more (Naziole, 2012). Due to this, there are many players are involved in the industry inclusive of contractors, labors, developers, clients (private and public), engineering, architects, surveyors, manufacturers, suppliers and even plant and machineries hirers (Ernawati and Flanagan, 2012). In Malaysia, Construction Industry Development Board (CIDB) handles the task and recognition of the contractors. The contractors are classified into seven grades based on their tendering capacity as well as paid up capital. Mustafa Kamal et al. (2012) has categorized the contractors into small (G1, G2 and G3), medium (G4 and G5) and large companies (G6 and G7). As clearly seen from Table 1, around 90% of the registered contractors are small and medium size contractors with the least paid-up capital and tendering
capacity by end of year 2013. It is suffice to deduce that majority of the contractors in Malaysia are small and medium sized.

Table 1: Contractors’ Classification in Malaysia by CIDB (CIDB, 2014 and Mustafa Kamal et al. 2012)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Tendering Capacity (RM)</th>
<th>Paid-Up Capital (RM)</th>
<th>Size</th>
<th>Number of registered contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1</td>
<td>&lt; 200,000</td>
<td>5,000</td>
<td>Small</td>
<td>34,485</td>
</tr>
<tr>
<td>G2</td>
<td>&lt; 500,000</td>
<td>25,000</td>
<td>Small</td>
<td>9,628</td>
</tr>
<tr>
<td>G3</td>
<td>&lt; 1,000,000</td>
<td>50,000</td>
<td>Small</td>
<td>8,825</td>
</tr>
<tr>
<td>G4</td>
<td>&lt; 3,000,000</td>
<td>150,000</td>
<td>Medium</td>
<td>3,038</td>
</tr>
<tr>
<td>G5</td>
<td>&lt; 5,000,000</td>
<td>250,000</td>
<td>Medium</td>
<td>4,130</td>
</tr>
<tr>
<td>G6</td>
<td>&lt; 10,000,000</td>
<td>500,000</td>
<td>Large</td>
<td>1,694</td>
</tr>
<tr>
<td>G7</td>
<td>&gt; 10,000,000</td>
<td>750,000</td>
<td>Large</td>
<td>5,332</td>
</tr>
</tbody>
</table>

Krishna et al. (2012) claimed that despite continuous contributing significantly to the construction industry and immediate economic growth in Malaysia, the small and medium size contractors still did not manage to gain adequate attention from the Government and the entire status quo in the country is still one sided towards only the large and listed firms in Malaysia. This is inevitably true when the statistic published by CIDB (2013), as shown in Table 2, presented that the number of contractors registered to CIDB is increasing but the total number and values of projects have decreased. These statistics had raised a big concern among the small and medium contractors about their sustainability in such competitive industry.

Table 2: Statistics of small and medium sized contractors (CIDB, 2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total contractors (no)</th>
<th>Projects awarded (no)</th>
<th>Projects value (RM million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>57,165</td>
<td>2,717</td>
<td>6,769.29</td>
</tr>
<tr>
<td>2011</td>
<td>57,699</td>
<td>2,697</td>
<td>6,854.39</td>
</tr>
<tr>
<td>2012</td>
<td>62,654</td>
<td>2,115</td>
<td>5,175.71</td>
</tr>
</tbody>
</table>

Due to the large amount of small and medium contractors available in the construction industry, often the competition in bidding for tenders is very high forcing small and medium contractors to estimate the costs and margin in an overly optimistic term minimizing the overall tendered price. They often gazed at construction project as a nearly ideal condition neglecting many factors and risk that would suggest an anticipated problem. Therefore, such high competition industry often forces small and medium contractors to a point where obtaining works overpowers the foreseen arising issues (Smith and Bohn 1999). The issues above often lead to additional construction problems such as poor quality of the final output, poor productivity due to insufficient labor, materials and even equipment on site. Overly optimistic estimated cost often as well leads to improper means and method of construction leading to delays and additional amendments required (Smith and Bohn 1999).

A number of researchers have studied on the capability and capacity of the small and medium sized contractors. Smith and Bohn (1999) claimed that they are often exposed to several issues faced in a construction projects. Small contractors are generally underfinanced (Benjaoran, 2009). They have limited capital available for investment in technology and innovated way of construction. Besides, Cheng et al (2010) commented that small and medium sized construction companies have less adequate management skills, so they are incapable to secure large-scale projects as these projects involve management of many areas, including resources, finance and safety.

Furthermore, these contractors have limited personnel in terms of both availabilities and abilities (Benjaoran, 2009). They normally employ very limited number of employees due to small amount of projects bid (Thwala and Phaladi, 2009). Because of unaffordability to hire proficient personnel, so their
employees possess limited abilities, particularly sophisticated skills. Poor coordination on site and poor communication system can lead to more problem arising upon undertaking a project. Smith and Bohn (1999) further elaborated that these small and medium contractors acknowledged and realized these risks, but due to these external influence by competitors and internal intention to maintain the backlog of work, most of these small and medium contractors had to prioritize survival issue than risk preference.

As pointed out by Jaafar and Abdul Aziz (2014), the high number of small and medium sized construction enterprises leads to intense competition and a high business failure rate. Therefore, it is crucial that looking at the scale of the small and medium size contractors against the large firms. These firms are required to adopt different business strategies and survival skills in order to remain competitiveness and survive in such industries with tremendous competition.

Thus, this paper discusses the types of business strategies that are commonly adopted by the active small and medium contractors that enable them to sustain and remain competitive in the construction industry despite the declining for projects awarded.

**Business Strategies for Construction Companies**

Business strategy covers a wide range of aspects therefore there is no definition that is internationally accepted or recognized (Mintzberg et al. 1998). Porters (1996) defined business strategy as “the creation of a unique and valuable position, involving a different set of activities.” He further claimed that only decisions that are made are ‘different’ from the competitors giving the company a sustainable advantage could be labelled as strategic (Porter 1996).

A thorough literature review has been carried out to identify the business strategies commonly adopted in the construction industry. Many researchers had discussed about the business strategies for construction companies. These include Lacaria (1994), Ahmed et al (1995), Gomes (1997), Kwok and Hampson (1997), Kanji and Wong (1998), Yeung et al. (2007), Isik et al. (2010), Abu Bakar et al. (2011), Yong and Emma (2012), etc. The common ones are financial management, quality management, knowledge management and development and many more. Via detailed review of literature, a total of eight dimensions with sub-dimensions are developed. They are summarized in Table 3.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Sub-Dimension</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>• Financial Capability</td>
<td>• Lacaria (1994)</td>
</tr>
<tr>
<td></td>
<td>• Financial Position</td>
<td>• Arslan &amp; Kivrak (2009)</td>
</tr>
<tr>
<td></td>
<td>• Cash Liquidity</td>
<td>• Riggs (2009)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Arslan &amp; Kivrak (2009)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Abu Bakar et al. (2011)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Yong &amp; Emma (2012)</td>
</tr>
<tr>
<td>Knowledge Management &amp; Development</td>
<td>• Technical Skills &amp; Knowledge</td>
<td>• Huber (1991)</td>
</tr>
<tr>
<td></td>
<td>• Proper management of intellectual assets and experience</td>
<td>• Garvin (1993)</td>
</tr>
<tr>
<td></td>
<td>• Training and development</td>
<td>• Jaafari (1997)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Robinson (2005)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tupenaite et al. (2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Isik et al. (2010)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Thwala (2012)</td>
</tr>
<tr>
<td>Product Management &amp; Development</td>
<td>• Innovation of technology</td>
<td>• Hales (1993)</td>
</tr>
<tr>
<td></td>
<td>• Product differentiation</td>
<td>• Bartezzaghi (1999)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Koskela (1999)</td>
</tr>
</tbody>
</table>
Abu Hassan et al. (2011) emphasized that in order to be able to sustain in such dynamic and uncertain environment, strategic perception is essential for surviving in the construction industry. Isik et al. (2010) emphasizes on a proper financial management in order to sustain a firm in the construction industry. Lacaria (1994) claimed that having a proper financial managing and a good record of accomplishment of the flow of the liquidity allows more flexibility in terms of allocation and controlling of budgets. Due to the norm of the construction industry where the punctuality of payment will usually be late, it is crucial to maintain a proper relationship with client in order to ensure the due payment will not be too late leading to lesser claim arising from the late payment by the client. This is particularly essential for small and medium contractors due to their capacity and resources that are tightly allocated. However, Ahmad and Kangari (1995) claimed that despite higher awareness on the prominence of cooperation and mutual trust between client and contractors, the relationship between contractors and clients is still found to be fragile. Therefore, having a stable and proper financial management is still crucial.

Isik et al. (2010) accredited supply chain management as a crucial form of product differentiation in the industry. Bartezzaghi and Koskela (1999) claimed that construction supply chain management could be derived from practicing Just-in-Time (JIT) production and logistic with further improvising with additional of Total Quality Management (TQM) and Concurrent Engineering (CE). The main aim of these practices is to reduce waste production during construction, reducing lead-time from procurement of material until transportation, thus reducing the overall cost and accelerate productivity.

Jaafari (1997) stated that in order for construction firm to survive and increase their competitive level, constant improvement in technical skills and knowledge is crucial following the dynamic evolving of the

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| Organizational Management | • Organizational structure  
  • Human resource  
  • Dynamic management skills | • Ulrich & Eppinger (2000)  
  • Isik et al. (2010)  
  • Delaney & Huslid (1996)  
  • Maloney (1997)  
  • King et al. (2004)  
  • Tonnquist (2006)  
  • Abu Bakar et al. (2011)  
  • Yllen (2012)  

| Quality Management | • Quality Assurance  
  • Productivity  
  • Customer satisfaction  
  • Customer loyalty | • Agha (n.d.)  
  • Davis et al. (1989)  
  • Kanji & Wong (1998)  
  • Azhar et al. (2008)  
  • Hoonakker et al. (2010)  
  • Isik et al. (2010)  

| Project Alliance | • Contractor-supplier  
  • Contractor-subcontractor  
  • Strategic alliance | • Kwo & Hampson (1997)  
  • Beach, Webster & Campbell (2005)  
  • Yeung et al. (2007)  
  • Mistry (2009)  

| Relationship between Client and Contractors | • Punctuality of payment  
  • Reduce claims | • Ahmed et al. (1995)  
  • Gomes (1997)  
  • Isik et al. (2010)  

| Supply Chain Management | • Raw Materials  
  • Knowledge  
  • Information  
  • Just in Time (JIT) | • Vrijhoef & Koskela (1999)  
  • Wedawatta et al. (2010)  
  • Isik et al. (2010)
construction industry. Firms that are not willing or resist in improving technical knowledge will eventually be eliminated by the nature of the industry itself. This is largely due to the fear towards involving into new environment causing the small and medium contractors to leave their comfort zone therefore remaining introvert.

Barney (1991) focused more towards a more systematic organizational management revolving around decision making pertaining to company reporting structure, controlling and coordination system. Delaney and Huselidd (1996) responded positively to Barney (1991) as they realized there is a positive direct relationship between human resource management and company performance. However, Maloney (1997) commented that proper organizational and human resource management received the least focus for majority of the construction firm including the small and medium contractors.

Differing from the issues discussed above, Kwok and Hampson (1997) focused more towards relationship between key players in the industry. They further elaborated that alliances between key players is essential in evaluating the criterion upon selection of tenders and thus encouraging a close liaison between construction team members. However, Beach et al. (2005) disagreed with the Kwok and Hampson (1997). They argued that referring to the nature of construction industry that is a one-off contract and short project duration, it is very difficult to build a mutual trust and collaboration among contractors or clients.

Quality management is also important in determining a success of a construction project and is considered as the main factor in fulfilling client’s satisfaction (Azhar et al., 2008). Agha (n.d.) proposed that in order to remain competitive in the current market, it is crucial to provide quality and value to the client constantly. However, Hoonakker et al. (2010) claimed that for the past decade, construction industry has been criticized for the poor quality assurance and low productivity as compared to other industry.

The level of customer’s satisfaction will determine the customers’ loyalty thus leading to a long-term relationship in different projects (Jones and Sasser, 1995). Barret (2000), Maloney (2002) and Yasamis et al. (2002) accredited customer’s satisfaction as a crucial factor in leading the construction company towards differentiating themselves from rival competitors consequently creating sustainable advantage. Anderson et al. (1994) proposed that firms that ensure maximum customer’s satisfaction enjoy more impressive regarding the return of economic as well.

These strategies serve as the framework of the study and the framework is then used to formulate the interview questions for the purpose of data collection.

**Methodology**

This paper serves as an exploratory study by exploring the types of business strategies for the construction companies. Exploratory study is conducted in order to provide a better understanding of a situation and usually involves only a small group of respondents (Monroe College, 2011). Qualitative approach is deployed in this study to appreciate the differing of business strategies that are commonly adopted by the small and medium contractors. As defined by Bradley et al. (2006), qualitative approach is a process to understand the phenomena within the discussed context, thus uncovering links among the concepts and behaviors, generating and refining theory.

A detailed literature review was conducted for identifying the different dimensions of the business strategies. Structured interview sessions with open-ended questions are then carried out based on the strategies discussed in the literature review to collect the primary data. Ten interviews were conducted with small and medium size contractors. The sample is selected by deploying the simple random method with reference to the CIDB list of active small and medium contractors situated in the Klang Valley area. The interview questions are comprised of two sections where the first section covers the respondent’s background, the firm’s background and the firm’s performance. The second section of the interview
questions focuses on the strategies that had been discussed in the literature review. The feedbacks from the respondents are sorted out and rated.

Findings

The following findings are discussed based on the interview sessions that have been carried out with the ten respondents based on the strategies discussed in the literature review. The study indicates that all SMEs agreed that supply chain management and quality management play utmost important roles in their daily business operations. Some of the small and medium sized contractors adopt organizational management and knowledge management as their business strategies. Nevertheless, these contractors observe relationship with the clients as the least significant strategy.

Supply Chain Management

Majority of the respondents emphasize most on supply chain management. According to the interviews held, most of the small and medium contractors have no binding contracts with the suppliers or manufacturers. However, they have very close relationship with suppliers and material procuring can be done via only phone calls. Such strategy allows the small and medium contractors to be able to practice just in time inventory system (JIT). The findings also shown that the respondents do not keep floor stocks unless for those stocks that are considered as ‘fast stocks’. The respondents defined ‘fast stock’ as the stocks that are being transacted in a daily or weekly basis. Supply chain is a crucial issue for these small and medium contractors to decrease the lead-time in transportation and material procurement, reduce wastage on site, reduce the risk of holding too many floor stocks thus decreasing liquidity and as a result improving the overall productivity. According to one of the medium firm contractor, besides having close connection with the suppliers and manufacturers, they do have an informal connection with plant and machineries distributors as well as contract labors as well. Having such supply chain indeed does improve the small and medium contractors’ liquidity and overall productivity resulting in surviving in the competitive construction industry. A supply chain between the industry players is mapped as shown in Figure 1 based on the findings.

![Figure 1: Simplified View of the Supply Chain Relationship](image-url)
Quality Management

Quality management seems to be one of the most significant considerations among small and medium contractors as well. However, the approaches appeared to be differing from the small and medium firms. Most of the directors from small contractor firms will manage the quality control by themselves where they will constantly evaluate the quality as well as the work on site. This is to ensure no compromising of quality are done throughout the process as according to the feedback given, the amendment done after the work will cost more if the quality is compromised during the setting out process. As for the medium firms, quality management are usually done in the companies where quality check is done at every stage from designing to fabricating. Besides that, having trustworthy labor is also found to be crucial in order to maintain the quality of the final product.

Knowledge Management

Knowledge development is another strategy that is found to be one of the mostly adopted strategies. The small size contractors are actively involved in seminars, trainings, conferences and workshops organized by CIDB annually. Whereas medium size contractors are more focused towards specific product development or conference that are closely related to the area that they ventured in. For instance the contractors that are specialized in water reticulation and sewerage piping are fond towards conference hold by National Water Service Commission (SPAN) and conversely civil and infrastructure contractors are actively involved in product development and the technology that are closely link to their field.

Organizational Management

Regardless of small or medium contractors, most of the contractors’ firm do practice a top down structure where the ultimate decision lies in the hand of the director. In other words, only the director of each firms can make the final decision essentially assessment involving monetary term. According to the respondents, this is to ensure that the directors are aware of the feasibility of the proposed projects as well as the transaction of cash flow involved for the ongoing projects. Figure 2 and 3 depicts the organizational chart for small and medium contractors respectively.

It is shown clearly that the numbers of engaged employees by the medium sized contractors is more than small sized contractors. This is largely due to the higher values of projects undertaken by medium sized contractors as compared to small sized contractors. Therefore, more personnel are required to ensure the proper workflow of the entire working process as well as the internal management system.
Financial Management

Unexpectedly, compared to the above strategies, the study found that financial management are less adopted and results were the same for small and medium size contractors. The small size contractors that responded positively to this strategy claimed that in order to remain competitive in the industry, proper financial management has to be carried out in order to systematically manage the cash flow and allow a descent amount of liquidity in any cases of emergencies. They further stated that as their financial background are not as stable as the higher-grade contractors are, a stable and systematic financial management will definitely ease them in undertaking projects that are within their budget as well as to sustain themselves in any cases of late payments.

As for medium sized contractors, the contractors that inherited such system are companies that are having more than ten employees with more than fifty projects annually. Research also shown that the reason financial management is not adopted is that the numbers of projects undertaken annually is less than ten and the directors can easily monitor the transaction of cash as well as financial status. Besides, these contractors are having a very strong financial background as well due to their experience and period involving in the construction industry. The result further showed that the only financial related matter they are actively involved in is the transaction and claims done and those are usually being carried out in a quarterly basis or at the end of every project undertaken.

Project Liaison

Similar situation was found for the project liaison dimension. Most of the contractors involved in project liaising because of the amount of tendered projects as well as to leverage the knowledge or skills available.
in their partners. The reason this strategy is unfavorable is due to the norm in the construction industry that majority of the projects are still adopting the competitive tendering basis and projects are awarded phase by phase. Therefore, this basis does not encourage the contractors to have a project liaising with other contractors and the respondents also claimed that they do not have close relationship with large size contractors as they do not undertake mega projects. According to the interviews done, all the respondents have not had any joint venturing done. Only a number of the respondents have the plan in venturing into joint venture in the future.

Client’s Satisfaction

Looking at the evaluation of client satisfaction, compared to medium size contractors, the ratio of small size contractors adopting this strategy is higher. This is because they claimed that due to the insufficient work force, it is essential for them to evaluate client’s satisfactory level from time to time to ensure the quality is not compromised and to ensure that all feedback by clients are received and digested. However, as for the medium size contractors, majority of them claimed that they have very strict in quality checking and the ratio of repetitive clients is sufficient to prove the satisfactory level of the client.

Relationship between Client and Contractors

The least favorable and least adopted strategies by the small and medium contractors is to maintain a healthy relationship with the paymasters. Findings indicated that this scenario is significant among the small contractors that undertake public projects. They claimed that as far as they are concern there are no approaches that can be taken to enhance the relationship with the public department. Furthermore, it is a norm in the local construction industry where the public project client has the tendency to drag the payment due to the structure of releasing the money. However, the positive side of procuring public projects is that the payment will still be released eventually despite the delay.

As for the medium contractors, majority of them are established companies with a strong financial background that allow them to obtain the bargaining power. Therefore, the contractors are able to filter clients with a background check prior to undertaking projects allowing them to eliminate bad paymasters. As a result, minimal effort is needed to ensure punctuality of payment, notwithstanding unforeseen circumstances faces by the clients.

Others

According to the respondents, due to the nature of the highly competitive industry, the respondents essentially the medium size contractors are having plans to diversify the services provided. This is because having product diversification implemented, more projects that can be undertaken thus increasing the overall profit. They further added that solely concentrating in one particular field would result in high risk due to the increment of the competitors and the overall decreasing of profit margin.

Besides that, there are medium size contractors that are planning to venture into oversea market where they realized there is a feasible route oversea. Internationalization of the company is still at the preliminary stage. Researches are constantly ongoing to evaluate the feasibility and the risk that are possible to be faced. It is realized that by venturing into internationalization, the market can be widen up thus increasing the overall profitability giving the firms more competitive advantage compared to those who prefer to stay local.

Conclusion and Recommendation

This paper is part of a research project that focuses on the business strategies of the Malaysian construction companies. To conclude, the study realized that in order to be able to sustain in this highly competitive
industry, the small and medium contractors have to sort out the strategies that assist them in the future. The results show that supply chain management is the most favorable strategy where the small and medium contractors sustain themselves through a simple supply chain between the suppliers, manufacturers as well as plant and machineries hirer. Besides supply chain management, the quality management and knowledge development have been concluded to be the areas where the respondents emphasize on. Conversely, the least adopted strategies among small and medium contractors are the relationship and client satisfaction. It is recommended that further studies can be done to explore the adopted strategies in a more detailed manner on how each strategy is improved.

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