



STRATEGIES FOR ENHANCING TIMELY PAYMENT OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN THE CONSTRUCTION INDUSTRY OF ZAMFARA STATE, NIGERIA

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ABSTRACT

Late payment of commercial debt to contractors is significantly being discussed in the construction industry; this is because it has become a serious challenge in both developed and developing countries. Many researches have indicated that delayed or late payment of certified works is a major factor leading to late completion of construction works or even abandonment. This research investigated effective strategies for implementing a proposed frame work in minimising late payment of commercial debt to Small and Medium Enterprises (SMEs) in the construction industry of Zamfara State, Nigeria. The research was carried out through the use of structured quantitative questionnaire survey administered within the stakeholders in the construction industry of the study area. The data obtained was analysed using SPSS software through the frequency, percentage, mean, standard deviation and ranking tools. It was discovered that majority of the contractors doesn't charge interest because they are not aware of any enabling legislation enforcing interest charging mechanism in use in the Nigerian construction industry. The contractors are neither utilizing the provisions of section 37(3) and (4) of the Nigerian procurement act 2007 nor the provisions of most standard forms of contract. Even with the delay in the payment 90.2% of the contractors don't take any legal action against the clients. It was recommended that contractors should resort to charging interest on their unpaid monies. This will make the clients pay progress/interim certificates and retention funds as at when due in accordance with the contract agreement. This will also reduce the need for the contractors to offer unofficial payment and pursuing contract administrators and clients for payments.

KEYWORDS: Commercial Debt, Construction Industry, Implementing Strategies, Late Payment, Small and Medium Enterprises (SMEs).

INTRODUCTION

Recently, researchers have shown an increased interest in the problems of late debt payment and its effects on the stakeholders in the construction industry (Ramachandra and Rotimi, 2011). However, De carvalho (2015) says delay of payment in commercial debt between companies is not a new phenomenon. The effects of such late payment have also been widely acknowledged. For instance Ramachandra and Rotimi, (2011) noted that these problems affect the cash flow of many contractors thereby preventing them from meeting up with their financial obligations. Abdul-rahman *et al.* (2009) are of the opinion that late payment is one of the factors that leads to delay in completing construction projects in Malaysia where the construction industry is one of the important sectors that contributes to the economic growth.

Johnston (1999) observed that the UK Government was particularly concerned about late payment of debt which was

having serious adverse effects on small scale businesses that have direct fundamental role in the UK economy.

Based on these observed effects of late payment of commercial debt in the construction industry worldwide, this research sought to investigate mitigating strategies to these challenges through a proposed frame work given particular attention to small and medium enterprises (SMEs) in Zamfara State, Nigerian.

RESEARCH METHODOLOGY

The major sources of data are the stakeholders in the construction industry, these include the clients/clients' representatives, contractors, subcontractors and consultants. A sample size between 100 and 140 participants was selected using random sampling method, so that every member of the population will have equal opportunity of being selected (Creswell, 2013). This randomly selected sample shall be used to generalise to the population within Zamfara state in Nigeria.

The data was analysed and presented in tabular form using SPSS computer software through descriptive frequency, percentage, mean, standard deviation and ranking tools.

RESULTS AND DISCUSSIONS

A total of 100 structured questionnaires were distributed to the stakeholders including clients/representatives, contractors, consultants and subcontractors within the survey area. However, 82% were returned as valid responses and this is above average signifying a reliable and confident number of samples that can be used to generalise.

Table 1 - Stakeholder's awareness of Legislation enforcing penalties for late payment of commercial debt.

Are you aware of any Legislation enforcing penalties on the clients for late payment of commercial debt in the Nigerian construction industry?	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Yes	15	18.3	18.3	18.3
No	67	81.7	81.7	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)

The result in Table 1 shows that greater frequency (67) 81.7% of the total respondents said they are not aware of any legislation enforcing penalties on the clients for late payment of commercial debt in the Nigerian construction industry. With this result it could be deduced that lack of knowledge of legislation to enforce penalty on clients for late payment of commercial debt may be responsible for substantial number of clients not paying progress/interim certificates in accordance with the contract agreement giving rise to late payment of

commercial debt. This result is also contrary to the assertion of El-adaway *et al.* (2016) that says different countries and continents are taking measures to reduce the effects of late payment in their construction industries. For example, prompt payment legislation is applicable to both private and public construction works in the UK, Australia, New Zealand and Ireland. It is even worst and severe in countries where these legislations and Acts does not exist or not enforced.

Table 2 Suspension of work

Suspension of work	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Always	36	43.9	43.9	43.9
Often	31	37.8	37.8	81.7
Sometimes	13	15.9	15.9	97.6
Rarely	1	1.2	1.2	98.8
Never	1	1.2	1.2	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)

This result in Table 2 is similar to the position of Baird (2013) who observed that businesses across the UK are trying to find a credit management system that can minimize the effects of late payment and bad debt. The result is also similar to the observation of El-adaway *et al.* (2016), that most standard

construction contracts, such as AIA (A201), EJCDC (C700), FIDIC (4TH) and JCT (2011) have provided for contractors to suspend work in the event of delayed payment of commercial debt by the clients.

Table 3 Termination of contract.

Termination of contract	Frequency	Percent	Valid Percent	Cumulative Percent
Always	2	2.4	2.4	2.4
Often	14	17.1	17.1	19.5
Sometimes	51	62.2	62.2	81.7
Rarely	12	14.6	14.6	96.3
Never	3	3.7	3.7	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)

Similarly, Table 3 shows that a smaller percentage (2.4%) of the contractors always terminates their contracts in the event of delayed payment and 17.1% often terminate the contracts. Respondents who states that contractors sometimes terminate contracts in the event of delayed payment have the highest percentage of 62.2% and those who rarely and never terminate contracts have 14.6% and 3.7% respectively. The last three categories of contractors who sometimes, rarely and never

terminate contracts have a cumulative per cent of 80.5% indicating that most contractors are not keen about terminating contracts in the event of late payment of commercial debt by the clients. This could be as a result of most of them opting for suspension of the work as they await payment from the clients.

Table 4 Interest/financial charges.

Interest/financial charges	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Always	1	1.2	1.2	1.2
Often	4	4.9	4.9	6.1
Sometimes	14	17.1	17.1	23.2
Rarely	63	76.8	76.8	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)

Furthermore, Table 4 sought to find out how frequent contractors charge interest on the delayed payment by the clients. It was observed that contractors who rarely charge interest on unpaid money have the highest frequencies of 63 (76.8%). From this result it could be deduced that majority of the contractors doesn't charge interest because they are not aware of any enabling legislation enforcing interest charging

mechanism in use in the Nigerian construction industry as observed above. The contractors are not utilizing the provision of Nigerian procurement act 2007, section 37(3&4). Similarly, the contractors are not utilizing the provisions of most standard forms of contract as asserted by El-adaway *et al.* (2016).

Table 5 unofficial payment or P.R. to fast-track release of payment.

Unofficial payment or P.R. to fast-track release of payment	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Always	5	6.1	6.1	6.1
Often	30	36.6	36.6	42.7
Sometimes	31	37.8	37.8	80.5
Rarely	10	12.2	12.2	92.7
Never	6	7.3	7.3	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)

This section requires the respondents to state how frequent the contractors have to make unofficial payment or P.R. in order to fast-track release of payment from the clients. The cumulative per cent of the respondents that always, often and sometimes have to give unofficial payment to fast-track their

payment is very high (80.5%) as indicated in Table 5. It could therefore be deduced that the contractors in the Nigerian SMEs construction industry opt for offering unofficial payment to fast-track payment due to them.

Table 6 Pursuing legal remedies

Pursuing legal remedies	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Always	1	1.2	1.2	1.2
Often	7	8.5	8.5	9.8
Sometimes	27	32.9	32.9	42.7
Rarely	38	46.3	46.3	89.0
Never	9	11.0	11.0	100.0
Total No. of Respondents	82	100.0	100.0	

Source: Field survey (2018)



This section requires the respondents to state the frequency of contractors opting to pursue legal remedies as an action against delayed payments by the clients. From Table 6, only a frequency of 1 (1.2%) out of 82 total valid response said they always take the option of pursuing legal remedies. The cumulative per cent of contractors who sometimes, rarely and never take legal remedies is high (90.2%), it can therefore be deduced that majority of the contractors in the Nigerian SMEs

construction industry doesn't take legal remedies as an option for late payment of commercial debt against their clients. This result is similar and supported by the position of Hugo (2010) who is of the opinion that recovering commercial debt should not bring tussle between the creditor and the debtor, instead an incentive could be offered to the debtor in form of discount to speed up payment.

Table 8 Remedial measures for minimizing late payment of commercial debt in the Nigerian construction industry.

Remedial measures for minimizing causes and effects of late payment of commercial debt in the Nigerian construction industry.	N	Minimum	Maximum	Mean	Std. Deviation	Ranking
Introduction or enforcement of late payment Acts and regulations.	82	1.00	5.00	4.6341	.71167	1
Agree on modalities of payments and interests at the beginning of the contract.	82	1.00	5.00	4.3293	.94353	2
Pursue invoice payment more promptly.	82	1.00	5.00	4.2073	.85689	3
Ascertain debt management potentials of the client.	82	2.00	5.00	4.0610	.90741	4
Credit insurance.	82	1.00	5.00	3.8659	1.01546	5
Use of standard information management template to promote prompt preparation of valuation and certificates.	82	1.00	5.00	3.8659	1.16282	6
Arbitration	82	1.00	5.00	3.6707	1.31520	7
Offer discount to clients (debtors).	82	1.00	5.00	3.6220	1.01398	8
Suspension of work by the contractor.	82	1.00	5.00	3.4756	1.21945	9
Adjudication	82	1.00	5.00	3.4512	1.23880	10
Suspension of client credit facilities by the contractor.	82	1.00	5.00	3.3293	1.33384	11
Total No. of Respondents	82					

Source: Field survey (2018)

This result in Table 8 indicates that enforcing late payment act and regulations is the most effective remedial measures to minimize late payment of commercial debt in the Nigerian SMEs construction industry. Followed by agreeing on modalities of payments at the beginning of the contract that has a mean score of 4.33 and raked 2. This result is similar and supported by the positions of Taylor (2014), Northern Echo (2012), Hugo (2010), Modiri (2011), Baird (2013) being the remedial measures for minimizing the causes and effects of late payment of commercial debt in the UK construction industry.

CONCLUSION

Even with the delay in the payment of certified works, contractors don't take any legal action against the clients. Majority of the Contractors in the Nigerian SMEs construction industry doesn't charge interest on the unpaid monies because they are not aware of any enabling legislation enforcing interest charging mechanism in use in the Nigerian construction industry. It was found that different remedial measures could be used to mitigate the causes and effects of late payment in Nigeria SMEs construction industry.

A framework was developed and strategies for implementation of the framework was outlined in the three areas of the framework; statutory legislation, acts, regulations and standard forms, adjudication and legal proceedings of improving SMEs trade credit management strategies. If these strategies are followed the causes and effects of late payment of commercial debt in the SMEs in Nigerian construction industry will be minimized.

RECOMMENDATIONS

- 1.0** All the stakeholders in the Nigerian construction industry should acquaint themselves with the provisions of the standard form of contract in use and the Nigeria procurement act, 2007 to enable them understand and utilize the provisions therein for improved relationship and development of the industry.
- 2.0** Contractors should resort to charging interest on their unpaid monies. This will make the clients pay progress/interim certificates and retention funds as at when due in accordance with the contract agreement.
- 3.0** The federal government of Nigeria should enforce the provisions of the Nigeria procurement act, 2007,



particularly section 37 (3&4) that deals with payment of interest on unpaid monies.

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