



PERSATUAN JURUTERA PERUNDING MALAYSIA

THE ASSOCIATION OF CONSULTING ENGINEERS MALAYSIA

ACEM SURVEY II IMPACT OF COVID-19 ON ENGINEERING CONSULTANCY PRACTICE (ECP)



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By:

**Ir. Sharifah Azlina Raja Kamal Pasmah
Anand Sharvanandan**

**Corporate Communication & Internationalization
Committee 2020 -2021**

ACEM SURVEY II

TITLE: IMPACT OF COVID-19 ON ENGINEERING CONSULTANCY PRACTICE (ECP)

A. Introduction

ACEM has to-date conducted two (2) online surveys, the first, on 24th April 2020 and the subsequent, on 16th February 2021. The objectives of both the surveys are **to study the impacts of the Movement Control Order (MCO)** on the professional Engineering Services in Malaysia. The survey has assisted to understand the financial impacts of the pandemic on business and employees.

The first survey was conducted one month following the implementation of MCO in March 2020; whilst the second, 11 months after. The results of both survey have assisted and will be used continuously to facilitate ACEM to look into impending issues and potential government’s intervention.

This report presents the findings of the latest survey conducted in February 2021 for duration one week

B. Survey Findings

About the Respondents

There were 57 respondents for the survey which constitutes of more than 70% Private Limited Companies (Sdn Bhd)

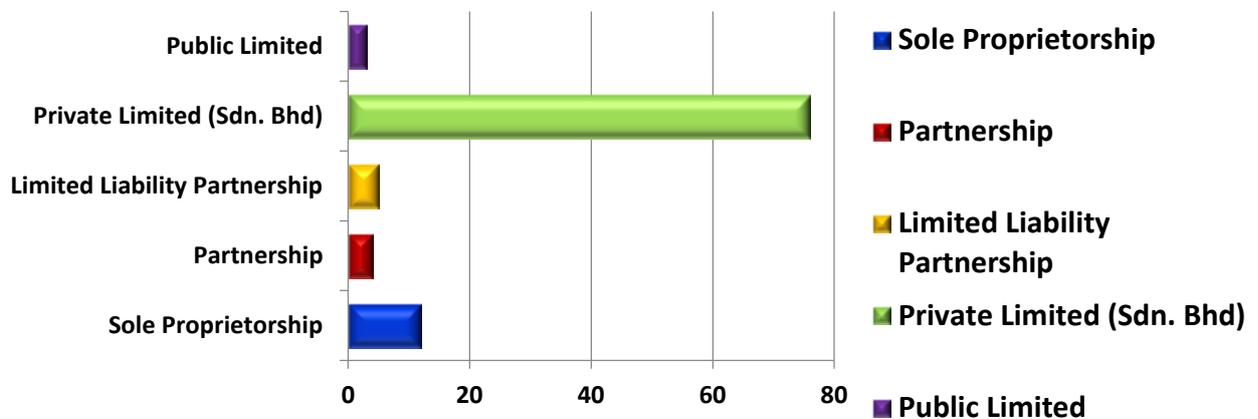
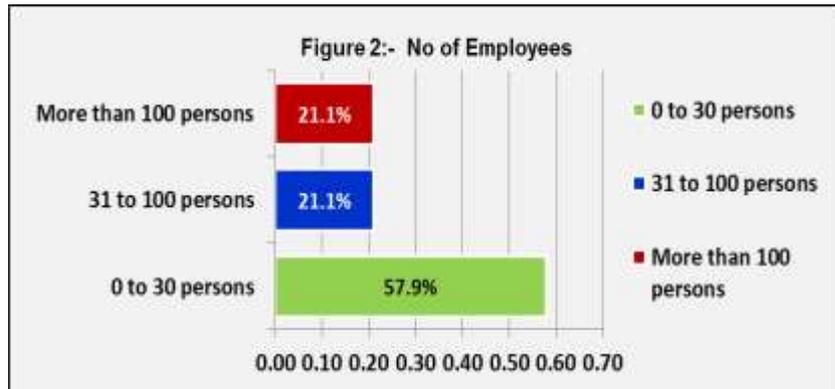
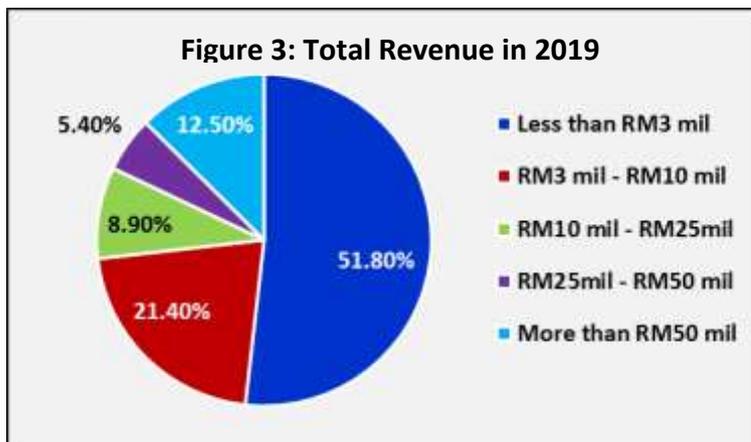


Figure 1: Type of Company/Business

82.5% of the above companies are small and medium enterprise (SME), 15.8% are large enterprise and the remaining 1.7% are multinational company (MNC). The numbers of



employees of the respondents are presented in Figure 2. 21.10% of the respondent are having between 31-100 employees, whilst 21.10% has more than 100 resources. 58% of the respondents have less than 30 employees.



The total revenue for financial year 2019 of the respondents are depicted in Figure 3 with close to 52% earning less than RM3 million; and 21.4% between RM3 to RM10 million. 12.5% has revenue in excess of RM50 million. The classification of SME for the services sector is

firms with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75 persons (www.smecorp.gov.my accessed on 3rd April 2021: SME Definitions). Majority of the respondents fall within the classification of SME's.

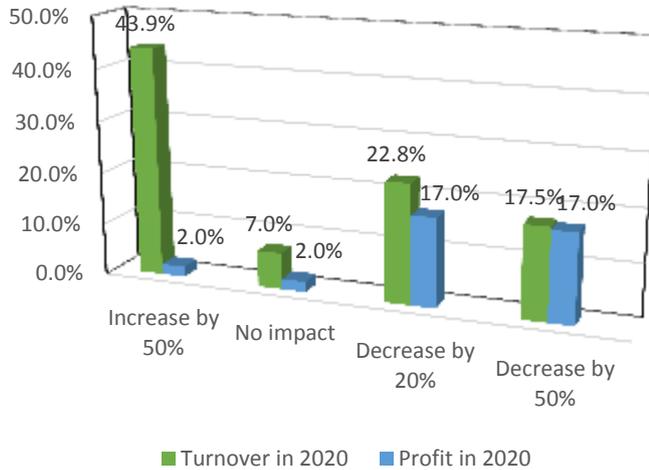
Understanding the Financial Impacts of the Pandemic

One year on, the COVID19 pandemic has certainly tested the normal course of business across all industries. Many concur that the business model is 'forever changed' by the multitude disruptions that have taken place. The various types of disruptions to the engineering consultancy business includes:

- ❖ Delay in billings due to slow progress of works
- ❖ Delay in trade receivables
- ❖ Delay in payments to vendors
- ❖ Gross decline in projected revenue
- ❖ Loss of income due to cancelled orders
- ❖ Shortfall in liquidity

Close to 46% respondents encountered a decline in their projected revenue; with 32% having delays in billing due to not achieving or delay in achieving scheduled progress hence

Figure 4: Impacts on Turnover & Profit



affecting the billing milestone. Interestingly, 43.9% of the respondents have an **increase of more than 50%** turnover in 2020 as compared to the same financial period in 2019. However, when translated to 'profit', more than 80% suffered a decrease in profits with

30% having a decline between 20-50%. Figure 4 provides the breakdown of the impacts of the pandemic to the 2020 turnover and profit.

The increase of operating cost is attributed to amongst others, the implementation of the necessary COVID19-related standard operating procedures (SOP), such as PPE/Sanitisation, thermal detection & monitoring, MySejahtera scanner and COVID19 tests which are required for business continuity. Other increase in the operating cost are significantly contributed by the provision and/or upgrading of digital technology and its infrastructure to support 'Work from Home' (WFH) as reflected in Figure 5.

Figure 5: Impact of Digital Initiative on Operating Cost

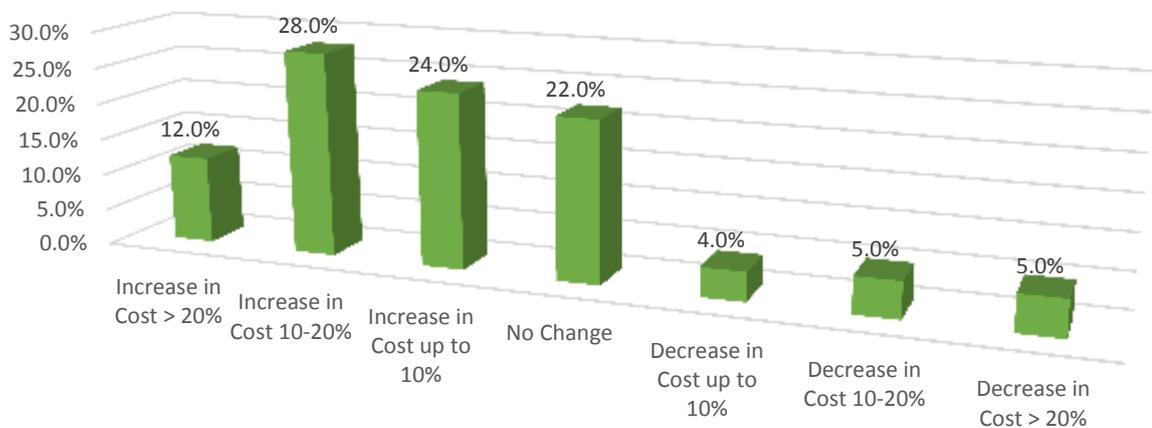
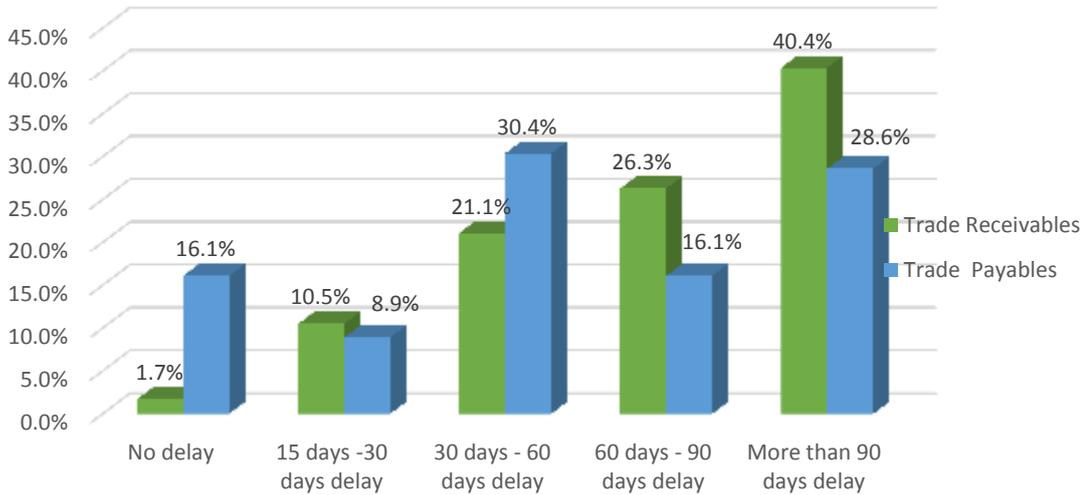


Figure 6 depicts the number of days delay in both trade receivables and payables. 40% of respondents experience delay in excess of 90 days in trade receivables, affecting operating cash flow.

Figure 6: Trade Receivable & Payables



2021 Financial Projection & Its Impacts

Moving forward into 2021, 52.6% of respondents anticipate a decrease in the turnover with 17.6% optimistic in expecting an increase in revenue (see Figure 7). The survey also gauged the impact of the pandemic in terms of projects delay/cancellation (Figure 8) which will subsequently affect their revenue.

Figure 7: 2021 Turnover Projection

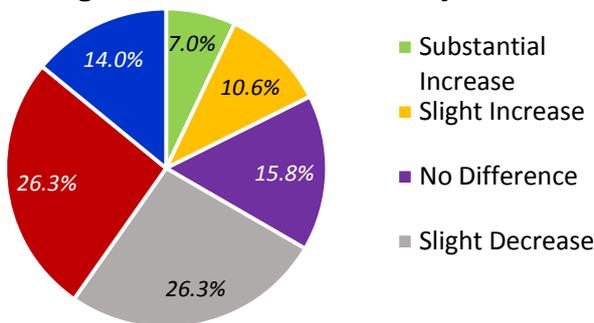
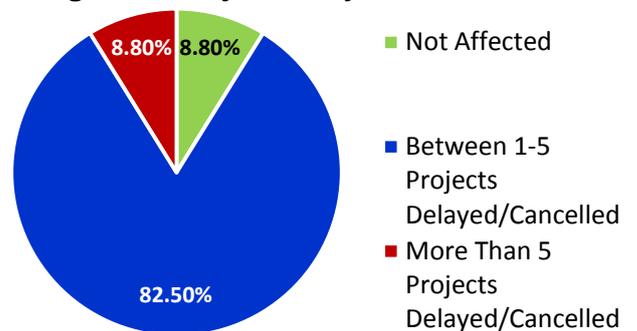


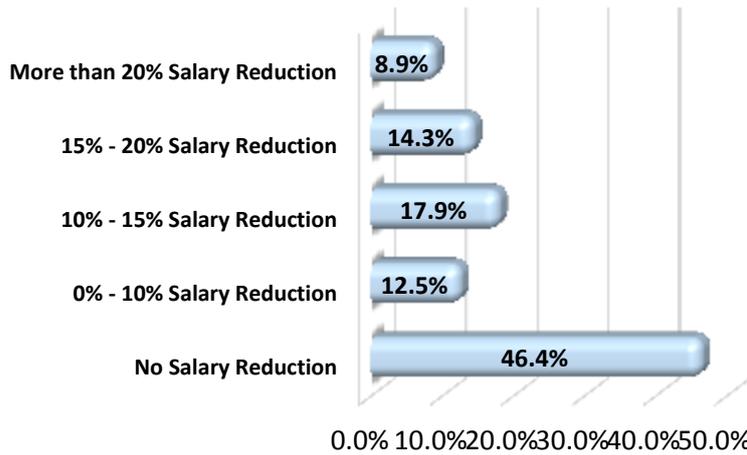
Figure 8: Project Delay/Cancellation



Steps taken In Mitigating Impacts

Given the the industry’s outlook, many companies have embarked on several cost-cutting measures such as employees’ salary reduction exercise. The salary reduction ranges as indicated in Figure 9 and in 8.9% of the respondents salaries reduction even exceed 20%.

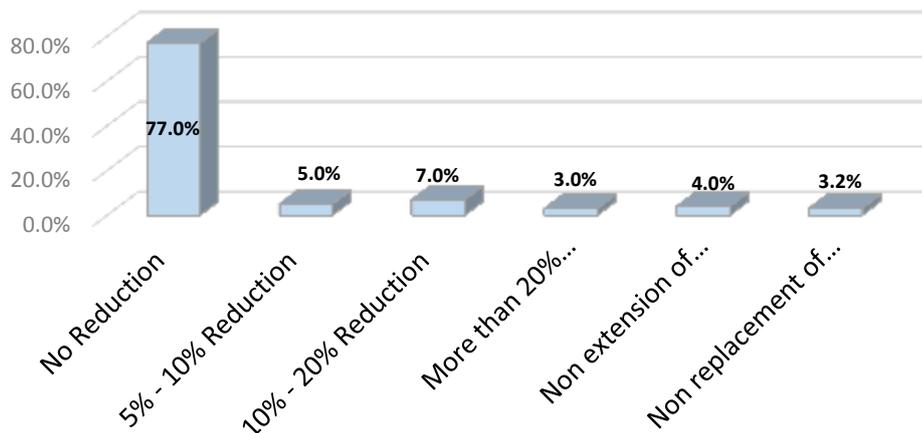
Figure 9: Range of Salary Reductions



Whilst 77% respondents have retained their employees, 9% have had staff reduction by 5 to 20% and 6% by 20% reduction. Only 4% of respondents ceased all new recruitment whilst 4% had opted not to extend staff with contract expiry. Figure 10 has the statistics pertaining to employees’ reduction.

Among the reasons provided for the employees’ reduction are (i) tight cash flow position, (ii) decline in number of projects, (iii) delayed/cancelled projects, (iv) effort in financial conservation.

Figure 10: Reduction in No of Employees



Status of Fees Collection.

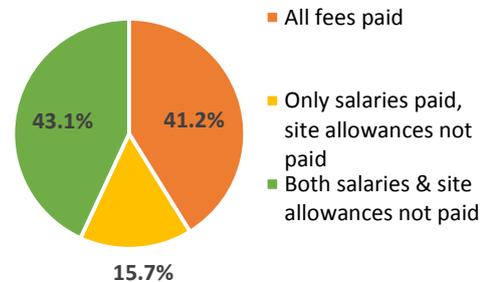
27% of respondents have outstanding payment from clients in excess of RM1 mil. The reasons given for the non-payment include:

- i. Slow processing of claims by the clients due to adherence to strict SOP and /or WFH.
- ii. delay in the progress of the project at construction stage affecting supervision fees.
- iii. delay in executing consultancy agreement
- iv. client’s tight cash flow position
- v. delay in achieving project milestone
- vi. project prolongation

With respect to supervision fee, 41.2% of respondents indicated that all supervision fees claims are being honoured, whilst the remaining are either paid only salaries or that both salaries and site allowances are not paid, see Figure 11. Reasons provided for non-payment includes:-

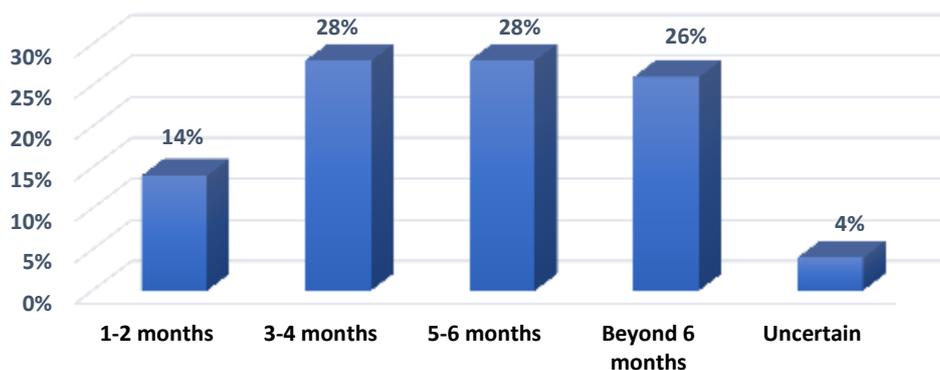
- i. client’s policy
- ii. no site supervision or presence during the MCO
- iii. construction progress has slowed down.

Figure 11: Status of Supervision Fees



In terms of contractual disputes encountered by the respondents, 49% are dispute that arises from Extension of Time (EOT) and 11% is attributed to LAD. Given the situation of delay in accounts receivables and non-payment of claims, the respondents were gauged on how long their organization can sustain its operation particularly in continuing topay employee’s salary, Refer to Figure 12.

Figure 12: Ability to Continue Paying Salary

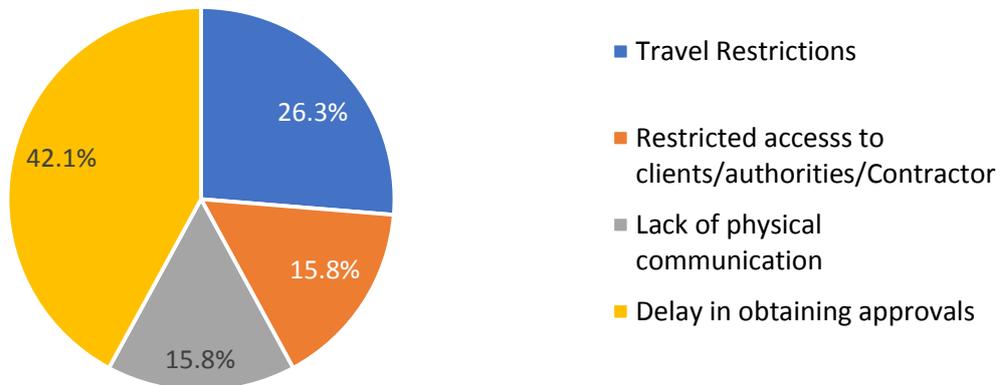


Part B: Business Impacts (Customer & Operational Performance) Due to COVID19 Pandemic

The Challenges

The key challenges encountered by the respondents in terms of operational efficiency are projects' deliverables includes:

Figure 13: Key Challenges

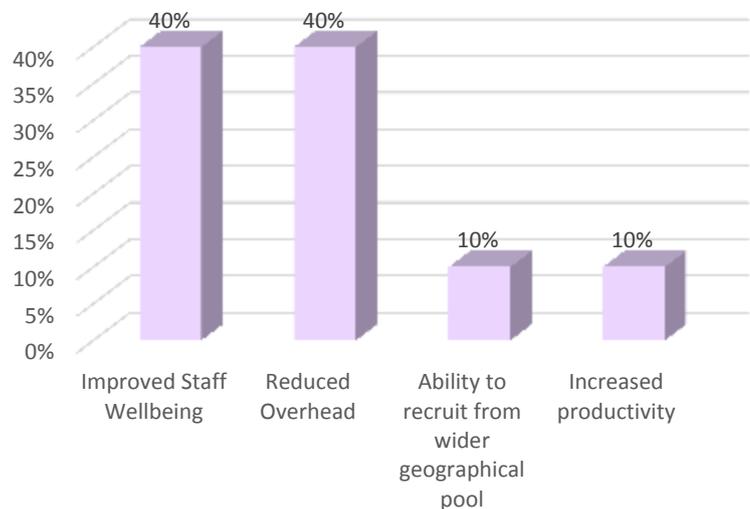


- i. Delays in liaison with authorities in obtaining approvals (42.1%)
- ii. Travel restrictions (26.3 %)
- iii. Inability or inadequate physical interaction/communication with clients/authorities/ constructions due to the curfews (15.8%)

Working From Home (WFH)

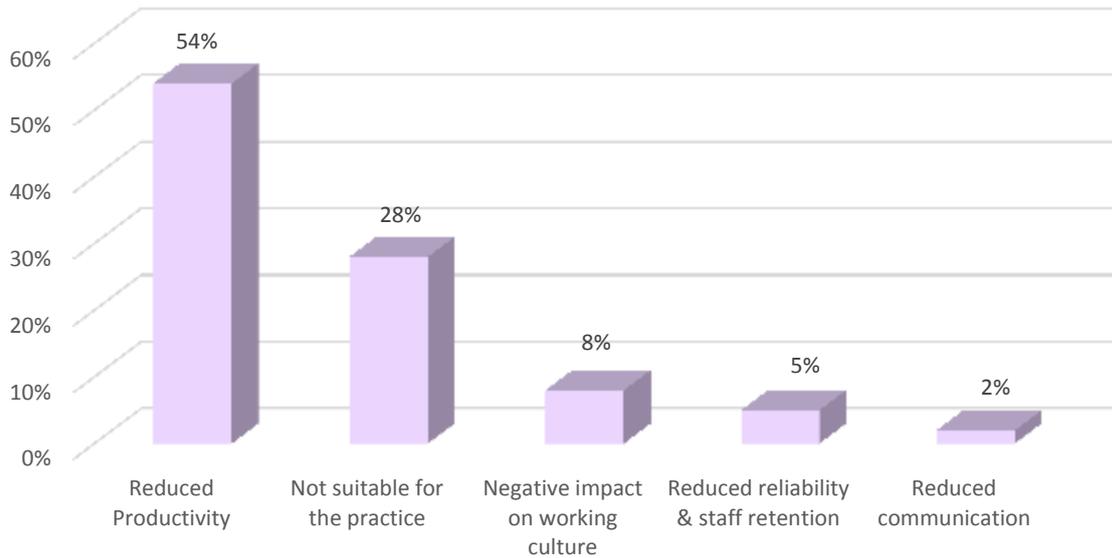
54.5% workforce were working from home (WFH) in the last 6 months as opposed to 29% at their normal workplace (office/site). The increase in WFH has resulted in an overall decline in productivity amongst 80% of the respondents. Consequently, only 16% intends to use the WFH approach as their permanent business model.

Figure 14: Reasons for WFH



The reasons behind the willingness of those who would continue working from home are provided in Figure 14, whilst the reluctance amongst 54.4% to continue with WFH is in Figure 15.

Figure 15: Reasons for Not continuing WFH



What’s happening at the construction sites?

The number of construction sites under the respondents’ supervision afflicted with the COVID 19 cluster is given in Figure 16 only 25% of the respondent are construction site that are not afflicted by the COVID 19. whilst Figure 17 depicts the number of sites which adapted additional SOP at their own initiative other than those imposed by the Government.

Figure 16: Construction Sites affected by COVID19 Cluster

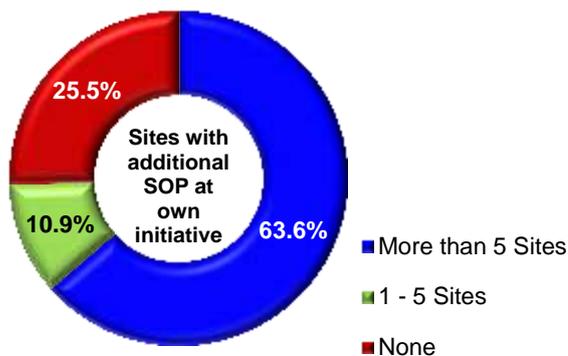


Figure 17: Construction Sites Implement Additional SOP at Own Initiative



The survey has also gauged the readiness of clients to include COVID 19 SOP compliance as part of the Condition of Contract (CoC) and a payable item under the item

“Preliminaries” however 64% respondents have indicated 0 – 25% readiness among the clients with 7% of clients not willing to consider at all.

Other concerns related to COVID19 that are to be addressed are:

- i. Travel restrictions & increased travel cost;
- ii. Mandatory face to face meeting imposed by some clients and the risks it carries;
- iii. Several inconsistency in government’s directives;
- iv. Testing for COVID19 too costly yet inevitable for business continuity;
- v. Seamless collaboration is challenging due to WFH and different adaptation to digitalization initiatives. Communication barrier has heightened among industry players;
- vi. Accelerated technology requires high investments;
- vii. Delay in approval & work related with authority.
- viii. Reduction in number of projects led to intense bidding and hence a lower professional fees to remain competitive.

Part C: Government’s Intervention

Business Sustainability

51.9 % of respondents is able to sustain its business between 3-6 months post the pandemic, whilst 31.5%; more than 6 month. 16.7% could sustain between 1-2 months. On the sustainability of business cash reserves, only 11% are confident that their business will survive the next 6 months to 1 year (Figure 19). 25% of the respondents have low confidence that their business will survive the next 6 months.

Figure 18: Business Sustainability

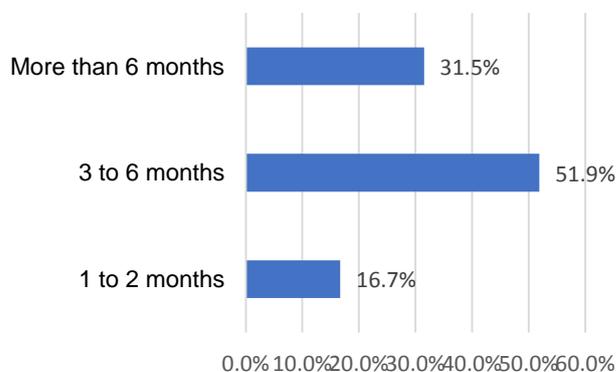
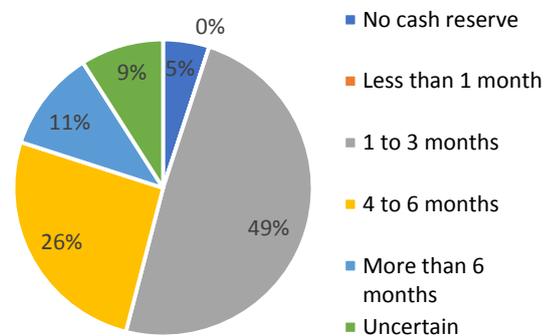


Figure 19: Cash Reserve



Financial & Other Support

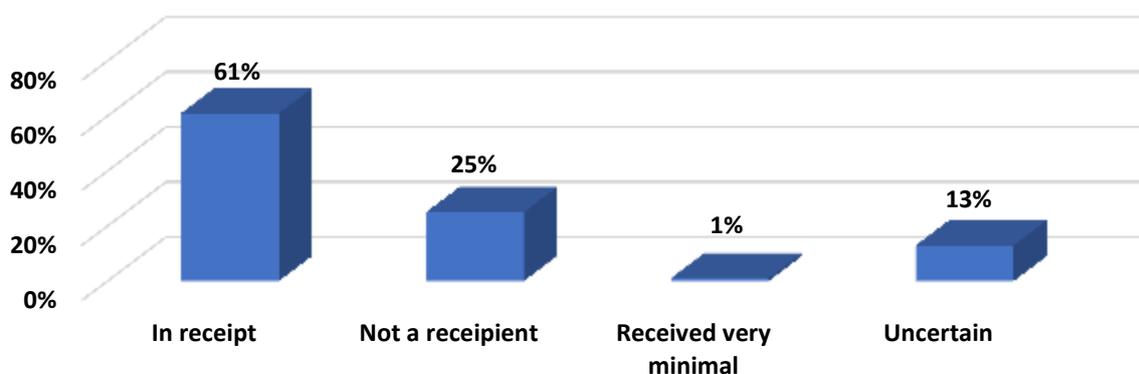
Various incentives and stimulus packages been launched by the Government since the onset of the MCO. Bantuan Prihatin 1.0 involving wage subsidy, electricity discounts by TNB and moratoriums, Penjana which provides various financing, micro-financing, tax relief for COVID19 related expenses and financial support, KITA Prihatin with wage subsidy, other employment benefits and grants for SME's and the latest 6th package unveiled in March 2021, Pemerkasa are among stimulus packages being introduced to-date.

42% respondents have benefited from the Government's support since the start of the MCO, while 49% have not received any forms of support from the Government. Moving forward, 91% of the respondents will require financial support or subsidy to sustain business post COVID19 pandemic.

The financial supports sought are:

- i. Reduced tax and SST exemption
- ii. Extended loan repayment moratorium
- iii. Access to lower rate financing
- iv. Waiver or discount to rental of business premises
- v. Immediate refund of excess tax
- vi. Cash subsidy
- vii. Grant or subsidy for digitalisation initiatives including to non-SME
- viii. Improve internet accessibility throughout the nation
- ix. Subsidy for employees' upskilling trainings
- x. More infrastructure projects to be rolled out.

Figure 20: Beneficiary of wage subsidy & other assistance





C. Conclusion

The survey has provided good statistics on the business impacts from both the financial and customer/operational aspects of professional engineering practices. The types of disruptions have been identified and their impacts on turnover, profit, trade receivables and payables, followed by possible cause and mitigation of the effects. Findings on initiatives taken to maintain business sustainability has also been presented, such as pay cut and resources optimization exercise. The status of the company's financial health is also explored as well as its potential business continuity. Various stimulus packages introduced by the Government and their benefits to the recipients was also surveyed. As the concluding section, the respondents wish-list on Government's intervention is listed for further consideration.