



## Institutional Element in Malaysia Housing Industry

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### ABSTRACT

Institutional economic theory stresses the influence of human behavior and regulations in economic environment. Human behavior including interaction with other parties or agent, regulation and policy created by government will put the economy in its own situation. Therefore, this theory is able to describe the economic environment in a broader aspect and not only see it as the system that will operate independently base on demand and supply. Institutional theory is commonly applied in land development process but rarely address in housing industry. Therefore, this paper attempted to address housing industry base on institutional theory perspective. Several institutional elements are indicated in Malaysia housing industry base on work by Omar [2001] and the setting of these elements is stress in Malaysia housing industry. There are three elements of institution such as formal and informal rule; technology and interaction between agents in housing industry that influence the behavior of developer in housing industry.

**Keywords:** *Institutionalism, construction industry, housing industry*

### 1. INTRODUCTION

Institutional theory influences the organizations' behaviour and encourages changes in organization in order to survive and gain success [Brignall and Modell, 2000, Modell, 2012]. The theory initially applied by Veblen, (1899) to analyse the economic habit and the importance of technological transformation in production process [Omar, 2001]. The study regarding institutionalism is vastly taken under the land and property development [Omar, 2001, Seabrooke, et al, 2004, Manaf, 2007]. The characteristic of institutionalism that criticise

economy, political and social aspect is appropriate to analyse land development as its process involves numerous aspects of life [Selznick, 1996]. However, the application of this theory is narrow in housing industry, motionless the industry itself related to land development process [Ball, 2006]. Khalid (2010) attempt to apply institutional theory in housing industry had indicated the factors contribute to abandoned housing projects in Malaysia. Since then, this theory is rarely applied in housing industry. Despite the characteristics and relation to land development, housing industry is suited to analyse with institutional theory.

Malaysia housing industry enhances with the urbanisation process due to the increment in housing demand [Kenny, 1999, Bandyopadhyay and Saha, 2011]. Housing demand without housing supply will contribute to other negative effects such as the birth of slum areas [Agus, 2005], increase in criminal activities [Freedman and Owens, 2011] and restrict the future development process [Shlay and Whitman, 2006; Han, 2014]. As respond to this scenario, the government comes with the policy called The National Housing Policy. Under this policy, the housing developer which is the private firms is responsible to deliver the housing in order to fulfil its demand [Buang, 2006, Yusof and Mohd Shafie, 2011]. Under this policy, the government's role is to facilitate the developers in providing conducive environment in housing industry [Kamaruddeen et al., 2011, Abdul-Aziz and Jahn Kassim, 2011]. Therefore, the developer's responsibility is significant to ensuring stability and growth of this industry.

However, there are several problems occur in housing industry due to developers' actions. Problems

such as delays in housing delivery [Odeh and Battaineh, 2002, Ball, Allmendinger, and Hughes, 2009], poor workmanship [Sufian and Sopian, 2003], low quality houses [Chan and Chan, 2004], developer's fraudulent actions [Buang, 2006, Dahlan, 2012] and abandoned housing project [Khalid, 2010] is inevitable in housing industry. The problems affected the economy as the loss of investment and disturb the housing market mechanism [Keenan, et al, 1999]. In case of abandoned housing projects, the house buyers is total victim as they have to pay the bank loan nonetheless they did not obtain the house.

## 2. Housing Industry

Housing industry contribute to human life in a broader perspective including economy, social life and nation development [Ademiluyi and Raji, 2008]. Housing industry contributes to nation's economy by providing business and employment opportunities to skilled and semi skilled labours [Seiders, 2004]. This industry supports 142 related industries [Jarad, et al, 2010] Furthermore, the industry affecting social indirectly as its products shape the life of human [Teasdale, 2010]. Housing is regard as the centre of human development physically and psychologically [Ademiluyi and Raji, 2008]. However, this important industry is closely related to construction industry as the production process depending to construction activities [Shohet et al, 2003]. Therefore, the complexity of this industry is unarguable [Hardie and Newell, 2011]. Housing industry is characterised as a long production time, dealings with complex machineries, involving many parties and actors, requiring multiple resources and the product of this industry is unique [Hildebrandt, 2000].

Housing delivery system depend on developer to built, sale and fulfil all regulation set by the government [Khalid, 2010, Yusof and Mohd Shafiei, 2011]. Housing developer will engage with other parties and professionals in housing delivery [Tomlinson, 2011]. Parties such as contractors or builders, architect, engineers and surveyors will cooperate with developer to realise the housing project. Moreover, the developers also required to understand the housing demand to ensure the selling ability of housing units [Hui, 2011]. The Sale than Built (STB) system is the common delivery method Malaysia. Under this method, the houses are built after the transaction of purchase is done. The developer and house buyer will enter sales and purchase agreement where the developer will deliver

the complete houses within the agreed period and the house buyers will start pay the house before the completion time [Buang, 2006]. Usually the house buyers will obtain loan from banks and financial institution in order to pay for the high housing price. However, other method also applied in housing delivery called Built than Sale (BTS) which opposite the STB implementation. In this method, the house is completed before it sell to public [N. A. Yusof, et al, 2010]. Recently, government encouraging BTS method and believe this could prevent abandoned housing problems [Fauzi, at el, 2012].

Moreover, the government's roles is to create policy, regulations and ensuring the housing demand to be fulfil [Sengupta, 2006 and Ibem, 2010]. The Ministry Of Housing and Local Development (MHLG) and National Housing Department (NHD) is responsible in housing industry activities including the registration of the housing developers, enforcement of housing law which is Housing Developer Act (Control and Licensing) 1966, and to ensure the successful of housing project [Buang, 2006]. Besides federal government, the state government and the local government also involve in housing process on part of land regulation [Khalid, 2010]. The state government intervention is in land planning and land zoning [Dahlan, 2012; Siciliano, 2012] which providing the suitable site for housing development [Dahlan, 2012]. Therefore, the implementation of institutional theory in organisation is relevant as this theory address the role of the government as formal institution, behaviour and decision made by agent in order to adapt to social change and organisation change [Zhang and Rasiah, 2014].

## 3. Institutional Concept

According to North (1990) the term institution is refer to set of rules. However other school of thought also address institution as social process in economic environment [Abdul-Rahman, at el, 2014] and how an organisation achieve legitimacy in its environment. Institution also accept as the rules that dictating action and behaviour of actors in a system [Scott, 2008]. The rules are distinctive by formal and informal rule [Owens, at el, 2013]. According to Khalid (2010) institution function as organisation to facilitate developer in order to smooth the production process. Omar (2001) stress that institutionalism fractured by several element:

### 3.1 The theory of economic role of the government by the influence of formal and informal rules

Government is the main factor that drives the institution and encourages changes in social environment. The role of the government in creating rules and policies affect human and organisation actions. According to Smith and Mangematin (2013) actors or human behaviour is shape by the rules within them including formal and informal rules. Any action from the government regarding introducing new policy or new approach in realising an objective will change human action [Abdullah and Razak, 2011, Modell, 2012].

### 3.2 The theory of technology that usually use to minimise transaction cost

An organisation, especially an enterprise base organisation will consider any transaction cost occurs in the organisation before making any decision or action that eventually will affect the organisation [Musole, 2009, Piasecki and Wolnicki, 2011]. Transaction cost considers two important elements which is technology and resources. Usually, technology is manipulated to minimise the use of resources and cost occurs in production process [North, 1996].

### 3.3 The theory of business enterprise including the interaction of actors or agents in their relation

Agent in institution is interacting and depending on each other to attain their goals in economics. The interaction is regarded as important that could affect the economic situation [Owens et al., 2013, Smith and Mangematin, 2013].

## 4. Institutional Framework of Developer's Behaviour toward Institutional Factors

There are many regulation control developers behaviour in industry [Jaafar, et al, 2010]. However, the main regulation is Housing Developers Act (Control and Licensing). The aim of this act is to control developers practice in selling and built housing [Buang, 2006]. Under this regulation the developers are required to register for a license in order to sell houses. A sum of RM 250, 000.00 is required as registration fee to ensure the developers assiduousness in completing the housing projects [Khalid, 2010]. At the same time, this regulation protecting house buyers from many fraudulent actions by developers such as running away from completing

the project after gain money from the house buyers or loan from financial institutions, abandoned housing project and collecting money from the house buyer before the sign of sales and purchase agreements [Dahlan,2012]. At the same time, developers also need to aware of other regulation exercise by state government and local authorities.

The state government control the law on land and also creating a particular policy for land and housing development [Mohd and Ahmad, 2009]. Some of the housing is reserve for particular group in society. For example, under the housing development, the developer necessitates to prepare 30% of low cost housing in every housing development project [N. A. Yusof, et al, 2010, Khalid, 2010]. However, this policy is disturbing the housing supply as most of the private developer focus on delivering medium and high cost housing [Yusof and Mohd Shafiei, 2011]. Neglecting this policy will contribute to unapproved development proposal. Besides that, developer required to comply with other regulations set by local authorities. Local authorities is authorise on the land aspect as well as giving approval on housing plans and designs, drainage, electrical and fire regulations [Buang, 2006]. Neglecting these regulations will affect the approval of house certification such as certificate of fitness (COF) [Tomlinson, 2011]. Without COF the house is not approve for occupation and creating problems between developers and house buyers. All these regulation will shape the developers behaviour and action in housing industry [Zhang, 2006]. However, these are only formal rule in the institution environment. The developer also affect by informal rule exist in economic and social environment.

Informal rule is referring to unwritten rule, including the attitude and behaviour of agent in institution [Manaf, 2007]. As a private company, the developers will always prior profitability in their action [A.-R. Abdul- Aziz and Ali, 2004]. Therefore, housing supply also contribute by how much profit could be generate from a housing project. This attitude and behaviour will impact the housing industry. There is also negative behaviour or fraudulent action by developer in housing industry [Dahlan, 2012]. Several cases indicate that housing developers collecting money as advance payment before the sign of sale and purchase agreement between developer and house buyers. This action not only against the Housing Developers Act (Control and Licensing) and also risk the house buyer when the project is not deliver as the

developer run away with the advance payment [Buang, 2006]. Other than informal rule, technology also address as one of the element that give impact on institution.

The influence of technology will minimise the cost of resources in a production activity. Thus, transaction cost will also reduce [Musole, 2009]. Generally, a company will gain more profit when it able to reduce the production cost and maintain the company survivability in a long term. Therefore, the influence of technology plays an important role in construction and housing industry. The implementation of Industrialise Building System (IBS) is part of technology influence in housing industry where it could minimise the production cost in the long term and able to boost the quantity of output in a shorter period [Ismail, et al, 2012; Kamaruddin, et al, 2013]. Besides that, the implementation of Business Licensing Electronic Support System (BLESS) by government agencies is also part of technology influence that could smooth the approval process, hence preventing delay in land approval [Khalid, 2010]. The interference by the government shows that housing industry is depending on several parties and agents.

The housing developer as the main player in the industry is depend in several agents such as builders, architect, surveyors, engineers, financial institutions, government agencies and other consultants [Toor and Ogunlana, 2009]. Developers should acquire management skill in order to integrate all agents to achieve success in their business.

## 5. Conclusion

Institution plays an important role in social and economic environment as the element of institution such as formal or informal rules; technology influence and interaction between agents manipulate the action and behaviour of human and organisation. In housing industry, the housing developers play the main role in housing delivery and interact with various institutional elements in their economic actions. All those elements influence the decision and action taken by the developer in industry including entering the housing market or not delivery any housing development.

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## 7. References

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