

# FACTORS INHIBITING THE GROWTH OF LOCAL CONSTRUCTION FIRMS IN NIGERIA

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Studies in the past have shown that construction firms in developing countries faces a lot of challenges and difficulties which tend to limit their contracting capabilities. This study sought to identify the difficulties and challenges that are unique to the local construction firms in Nigeria and the measures that will be required to overcome them. The methodology employed is descriptive field survey where questionnaires were physically administered to local construction firms. The list of the firms covered was drawn using systematic sampling. The study identified the significant problems facing the local construction firms and classified these problems into two major categories: government-related problems and firm-related problems. These problems include; unfavourable business environment, weak economy, lack of enabling policies, corruption, and poor government patronage. The study also identified two categories of measures that can be adopted to improve the contracting capacity of the local firms. These are government-related external measures and firm-related internal measures. But the firms' roles in their corporate development are also important. Hence a combination of government intervention, industry intervention and firm intervention are required to improve on the contracting capacity of the local construction firms.

Keywords: capabilities, developing countries, competitive advantage, government.

## INTRODUCTION

The construction industries in developing countries face a lot of challenges that inhibit performance of their local construction firms and force them to play second fiddle to foreign construction firms. The situation is not different in Nigeria. The construction environment is characterised by the dominance of indigenised foreign firms.

According to Adams (1996) the indigenised foreign firms are former foreign firms that now have between 40% and 60% Nigerian equity ownership as a result of government indigenisation policies. The Nigerian indigenous contractors have seen little improvement since the 1970s as noted by Adams (1998). They are mainly small and medium sized firms, considerably marginalised in major construction works. The indigenised foreign-firms dominate the industry, undertaking about 85% of total construction works. Deficiencies in indigenous construction capacity in Nigeria have resulted in an unwholesome dependence on imported inputs such as construction materials, machinery, and the skilled manpower required to implement much-needed infrastructure for economic growth and to improve the living conditions (Adams, 1996). The focus of this research is to identify the most significant problems that inhibit the growth of the local construction firms and the measures required thereon to

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improve on their performance with the aim of making them as competitive as the foreign multinational firms.

### **Problems facing local construction firms in developing countries**

According to Segokgo *et al.* (2000) indigenous contractors in developing countries face a lot of problems and challenges. Among the many challenges facing the indigenous contractors are lack of financial resources, lack of access to market and lack of plant and equipment. Fadhil and Tan (2001) observed that areas where significant competitive advantage can be gained to become world class, like R and D, technical expertise and financial resources, are all found lacking in local construction firms.

Datta (2000) identified key areas requiring modernisation in the construction industry of developing countries. These areas are: profitability, research and development, training, price and cost, dissatisfaction of clients, and fragmentation of the industry. In a study of problems facing local contractors the Contractors Registration Board (CRB) of Tanzania identified the most significant problems and their attributes facing local contractors. The problems include work opportunity problems and unfair competition, finance problems, delayed payments, lack of working capital and high taxes, equipment problems, construction material problems, management problems.

Lack of exposure, erosion of capital and eventual loss of confidence has stifled the growth of the domestic contractors (Materu, 2000). He noted that most local contractors lack exposure to modern construction management techniques, and experience and confidence in the management of medium-sized to large projects, particularly those involving international contracts.

### **Problems facing local construction firms in Nigeria**

In Nigeria some of the problems facing the local construction companies have been identified and categorised into three groups by Adams (1995). These three major categories are difficulties presented by the particular market and business environment in which the contractor operate; difficulties derived from client and client representatives; and difficulties derived from personal inadequacies of the contractors.

Wells (1998) noted that in Nigeria the major problems singled out to be the cause of inadequate construction capacity include: the low levels of training in the construction industry; poor organisation of the construction industry, with a large number of very small and inefficient firms; lack of planning at all levels of the construction process; inadequate capacity and inefficiency in the building materials industries; lack of national construction firms offering bids for civil engineering projects; and lack of capacity and 'economic rationality' in design, construction and the production of building materials.

### **Contractor development measures in developing countries**

The developing countries have been trying to improve the performance of their contractors by implementing various kinds of measures. Ofori (2001) pointed out that the United Nations Centre for Human Settlement (UNCHS, 1996) discusses contractor development programmes which have been implemented in various countries. These include indirect approaches where contractors are encouraged to adopt appropriate practices and procedures (Ofori, 1991), through the use of state-owned organisations (Andrews, 1997), to schemes offering a range of support measures such as work

opportunities, training, finance and managerial and advisory services (ILO, 1979, 1987).

Many of the proposals by writers for developing construction firms are addressed to governments. However other organisations can play an effective role. These include contractors, other construction practitioners, professional and trade organisations, and international agencies (Ofori, 2001). Ofori (2000) noted that the need to effect, and hasten the leapfrogging exercises suggested by Raftery *et al.* (1998) has led many developing countries to institute measures including: mandatory joint ventures, mandatory subcontracting, specified training of local personnel, imposition of floor limits on project for which foreign firms can tender, differential taxation of foreign and local firms and offering tendering preferences to local firms (UNCTC, 1989; Ofori, 1996). In fact, measures to assist local enterprises to compete with their foreign counterparts enjoy wider support. For example, the World Bank (1995) offers indigenous firms a 7.5% tendering preference as cited in Ofori (2000).

In a study by Paul *et al.* (1995), it was found that government's role is the most important influence upon construction industry development. The decision by government to influence the construction industry through its environment rests upon its policy towards intervention. At this macro level, the role of government in creating suitable conditions for industry to thrive is characterised by two approaches. One is to centrally plan economic activity and intervene quite strongly. The other is to allow market forces to develop capacity organically. Even in the so-called free market approaches adopted by developed nations, government plays a powerful role.

According to Paul *et al.* (1995) the involvement of government appears to be a major factor in the way and the speed with which industry can move forward in both developed and developing nation. Paul *et al.* (1995) also look at the role government can play as a client. The importance of clients in the external environment, as reported by Wells (1996), is that in all countries improvements in the performance of the construction industry have invariably been brought about by client influence. Wells (1996) observed that it is as a client that the government can exert the greatest influence upon the industry and emphasises this point by citing the success of government intervention in Singapore.

### **Contractor development measures in Nigeria**

A number of measures have been formulated and implemented by successive Nigerian governments to improve the performance of indigenous contractors. But as noted by Adams (1995) these measures have achieved little success in helping the indigenous contractors to develop as indigenous foreign firms still dominate the industry. Adams (1995) identified the following measures among those implemented by successive Nigerian governments to improve the participation and performance of indigenous contractors: increase indigenous contractors participation through open and liberalised contractor registration in the 1950s; contract splitting (splicing and packaging of larger jobs into a number of smaller jobs within the capacity of indigenous contractors) around the 1960s; informal, unsystemised preference given to indigenous contractors in the 1970s to increase the participation of indigenous contractors' participation in public projects; the federal government's 2.5% price preference for Nigerian owned firms; some contracts reservation for indigenous contractors; 10% government mobilisation allowance on government contracts to minimise the perennial problem of under-capitalisation; production of building materials by government bulk purchase units and government owned firms; special management

training for contractors between 1978-80 by Centre for Management Development jointly sponsored by International Labour Organisation (ILO) and United Nation Development Programme (UNDP).

### **Research objectives**

The objectives of the study were to:

11. Identify and rank the significant problems affecting the growth of the local construction firms.
12. Identify and rank the important measures required to solve the identified problems and thus accelerate the growth of local construction firms.

### **RESEARCH METHOD**

Descriptive field survey approach was adopted for the data collection. Questionnaires were physically administered to the respondents, using a list of local construction firms based in Enugu, Enugu State, Nigeria. Even though the construction firms are based in Enugu they however operate throughout the country and share similar experiences with construction firms in other part of the country and the findings can thus be generalised. The list of all registered construction companies operating in Nigeria was obtained from Corporate Affairs Commission (CAC). The list of construction firms based in Enugu was extracted and systematic sampling was used to select the sample population by choosing every fifth firm from the list. A total of 150 samples were obtained out of which 30 were completed and returned by the construction firms. Where a firm was not located another one was obtained from the population list to replace it. The questionnaires were filled by high ranking officers within the Organisations. These included the managing directors, project managers, accountants and engineers.

The questionnaires consisted of two questions. The first question sought to determine the problems inhibiting the growth of the local firms. A total of 17 problems facing indigenous firms in developing countries were identified from literature. The respondents were asked to rank these problems on a scale of 1 to 10, with '1' corresponding to least significant and '10' corresponding to very significant. The reason for asking this question in this format was to help identify the most significant problems among the 17 likely problems. The second question sought to identify the most important measures required to accelerate the growth of local construction firms. Twenty seven measures were identified from the literature and the respondents were asked to rank the measures on a scale of 1 to 10, with '1' corresponding to least important and '10' corresponding to very important.

### **PRESENTATION AND ANALYSIS OF RESULT**

The analysis of the data generated was done using the SPSS package. The ranking method using arithmetic means and factor analysis were employed. These are briefly discussed below.

**Ranking Method:** The variables for each of the data sets were coded for easier input into the SPSS package. The rank of each variable was determined by calculating the arithmetic mean of each variable and then arranging the entire variables in an ascending order.

**Factor Analysis:** The factor analysis technique was used to determine the number of factors shared in common by variables in the study. These common factors which account for the correlation among the variables were extracted. This resulted in a

reduction of a large body of variables. The reduced variables were named 'components' in this study. The grouping of variables is based on their factor loadings. A factor loading indicates the degree of association of a variable with the component and the percentage variance of the component that is explained by the variable. A variable which appears to have the highest loading in one component belongs to that component.

### Problems affecting the growth of local construction firms

Table 1 shows the ranking of problems affecting the growth of local construction firms. The top six factors are related to government in one way or the other and could be classified as problems created either directly or indirectly by government. This agrees with Paul *et al.* (1995) and Wells (1996) finding that government's role is the most important influence upon construction industry development. Hence, it will be expected that the major problems inhibiting the growth of the local firms will also be as a result of factors relating to government policies. These are problems that could be said to be external to the firms i.e. outside their control.

*Table 1: Ranks of Problems Affecting the Growth of Local firms*

	N	Sum	Mean	Rank
Unfavourable business environment	30	197.00	6.5667	1
Weak economy	30	193.00	6.4333	2
Lack of enabling government policies	30	181.00	6.0333	3
Corruption	30	173.00	5.7667	4
Lack of government patronage	30	165.00	5.5000	5
Patronage of foreign firms	30	150.00	5.0000	6
Lack of vision	30	132.00	4.4000	7
Lack of entrepreneurial skills	30	129.00	4.3000	8
Limited technical expertise	30	125.00	4.1667	9
Limited plant and equipment	30	125.00	4.1667	10
Limited managerial expertise	30	118.00	3.9333	11
Limited finance	30	115.00	3.8333	12
Limited trained manpower	30	105.00	3.5000	13
Inadequacy of local material	30	89.00	2.9667	14
Over dependence on imports	30	88.00	2.9333	15
Fluctuating work load	30	86.00	2.8667	16
Lack of track records	30	81.00	2.7000	17
Valid N (list wise)	30			

The next 6 most important problems can be classified as problems internal to the firm i.e. problems directly within the firms control and as such could be solved by firms given the right set of conditions. These problems can inhibit the firms from building core-capabilities and firm-specific resources. It can also be argued that these problems might have arisen because of the existence of the other external problems. What this means is that there exist a link between government policies, external problems of firms and internal problems of the firms.

Table 2 show the results of factor analysis. Five components emerged from the analysis on the basis of the Eigen-values greater-than one rule. 'Component 1' and 'component 3' are a mix of problems that are related to both firms and governments, hence could be put together. 'Component 2' may be referred to as "internal firms' problems". 'Component 4' may be referred to as 'economy related problems'. Lack of

enabling government policies is a unique variable that appears under ‘component 5’ and can be referred to as ‘government created problems on the task environment’. ‘Component 4’ is directly related to government and hence can be combined with ‘component 5’.

*Table 2 – Factor Loading of Problems Affecting the Growth of Local Construction Firms*

	Components				
	1	2	3	4	5
Limited finance			.744		
Limited managerial expertise		.663			
Limited technical expertise		.624			
Limited plant and equipment		.756			
Lack of vision		.602		.084	
Unfavourable business environment					
Lack of government patronage			.753		
Corruption		.745			
Fluctuating in work load	.562				
Patronage of foreign firms	.176				
Over dependence on import	.758				
Inadequacy of local material	.848				
Lack of entrepreneurial skills	.557				
Lack of track records	.756				
Lack of enabling government policies					.587
Weak economy				.798	
Limited trained manpower		.635			

Therefore two broad categories problems can be identified here. The first is largely related to government and can be referred to as external problems. The second is related to the firms and can be referred to as internal problems. As in earlier analyses the government related problems appear to be the most dominant. These are followed by the ‘firms’ related problems. Next in the hierarchy are a combination of problems that are both firms and government related.

### **Measures required to accelerate the growth of local firms**

From Table 3 it can be seen that of the top fifteen measures required to accelerate the growth of the local firms nine of them can be said to be directly or indirectly related to government i.e. measures outside the control of the firms. This shows the importance attached to government role in the development of local firms. This fully supports the findings in previous studies by Ofori (2001). The remaining six measures among the top fifteen measures can be classified as internal measures because they are within the control of the local firms given the right set of conditions.

The fact that these internal measures are mostly ranked below the external measures is because of the importance of the external measures relative to the internal measures towards the achievement of competitive advantage. The success of the internal measures will largely depend on the success of the external measures. That is the development of firm core-capabilities to achieve superior product quality, increased production capabilities etc. depends largely on the ability of the government to create an external competitive environment that will foster the growth of the local firms.

Table 4 show the results of factor analysis of the second question. Eight components emerged from the analysis on the basis of the Eigen-values greater-than one rule. Six

variables come under 'Component 1' appears to be 'measures related to both firms and governments'. Component 3' and 'component 4' may be referred to as 'internal firms' measures'. 'Components 2, 5, 6, 7 and 8' can be referred to as 'government related measures'.

*Table 3: Ranks of measures required to accelerate the growth of local firms*

	N	Sum	Mean	Rank
Creating favourable business environment	30	228.00	7.6000	1
Increased government patronage	30	225.00	7.5000	2
Government policies and support	30	224.00	7.4667	3
Improving access to plant and equipment	30	209.00	6.9667	4
Enhancing product quality	30	199.00	6.6333	5
Contractor performance monitoring	30	191.00	6.3667	6
Strategic planning	30	189.00	6.3000	7
Increasing production capabilities	30	188.00	6.2667	8
Upgrading technical expertise	30	187.00	6.2333	9
Research and development	30	182.00	6.0667	10
Continuous workflow	30	172.00	5.7333	11
Upgrading the managerial expertise	30	171.00	5.7000	12
Provision of long term loans	30	161.00	5.3667	13
Creating marketing strategies	30	161.00	5.3667	14
Hiring and training of top professional	30	155.00	5.1667	15
Employing more professional	30	152.00	5.0667	16
Technology, acquisition and transfers	30	146.00	4.8667	17
Improving access to loans	30	142.00	4.7333	18
Tender preference to local firms	30	129.00	4.3000	19
Reservation of contracts	30	121.00	4.0333	20
Reduction of taxes by government	30	118.00	3.9333	21
Achieving ISO 9000/14000	30	113.00	3.7667	22

As in the previous analyses, two broad categories of measures can be identified here. The first are largely related to government and could be referred to as external measures. The second are related to the firms and can be referred to as internal measures. The government related measures appear to be the most significant measures and largely fall under 'component 2', while the internal firm measures largely falls under 'component 1' and 'component 2'.

## CONCLUSIONS

This research identified the most significant problems inhibiting the growth of the local construction firms and the measures required to mitigate those problems. Two major categories of problems that face the local firms and affect their ability to acquire resources and capabilities were identified. The first category was termed government-related problems. Problems in this category ranked highest and include unfavourable business environment, weak economy, lack of enabling government policies, corruption and lack of government patronage. The second category was termed firm-related problems and is mostly ranked next to the government-related problems. These include lack of vision, lack of entrepreneurial skills, limited technical expertise, limited plant and equipment, and limited managerial expertise. The government-related problems appear to be the most significant problems, and their relationship to

the firm-related problems can best be described as that of a parent-child relationship i.e. the government-related problems created the firm-related problems.

*Table 4 – Factor Loadings of Measures Required to Accelerate the Growth of Local Firms Resources and Capabilities*

	Components							
	1	2	3	4	5	6	7	8
Government policies and support		.671						
Mandatory joint ventures								.790
Merger and acquisition				.829				
Formation of strategic alliance						.751		
Creating favourable business environment		.453						
Upgrading technical expertise		.845						
Upgrading managerial expertise			.564					
Achieving ISO 9000/14000				.523				
Research and development			.654					
Hiring and training of top professional	.662							
Creating marketing strategies	.574							
Increasing production capabilities	.621							
Tender preference to local firms					.783			
Reduction of taxes by government							.772	
Interest free loans							.858	
Strategic planning			.781					
Continuous workflow	.663							
Technology acquisition and transfers				.386				
Mandatory subcontracting						.858		
Enhancing product quality		.655						
Employing more professional		.419						
Provision of long term loans	.825							
Reservation of contracts	.721							
Increased government patronage		.904						
Contractor performance monitoring					.500			
Improving access to loans					.647			
Improving access to plant and equipment		.707						
Providing incentives for merger and acquisition				.831				

Further more, the study identified the most significant measures required to accelerate the growth of local firms’ resources and capabilities. Two major categories of measures were also identified. The first category is termed government intervention measures. These include creating favourable environment, government policies and support, improving access to plant and equipment, increased government patronage and continuous workflow. The second category can be termed firm-intervention measures. These include enhancing product quality, increased production capabilities, upgrading managerial expertise, research and development and creating marketing strategies.

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