Business Structure of Indigenous Firms in the Nigerian Construction Industry

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Abstract

The roles of contracting firms in construction industry cannot be overemphasized and their structure is a function of performance and output in the industry. Sets of questionnaire were administered on construction professionals working within the contracting firms. Data obtained was analysed using both descriptive and inferential statistics. The study found out that the firms were medium-size firms, engaged in building construction and cannot finance projects independently prior to client financial contribution (mobilization fee). Their activities were limited to their locality and rarely get bank loans. They do not have share capital and therefore could not fund project from company capital base.

Keywords: Indigenous Contractor, Construction Industry, Business Structure, Construction Clients, Firm Size and Construction Project Funding

1. INTRODUCTION

The Construction Industry, which is vital to growth and development, is one of the oldest in the world, indeed as old as civilization itself. Construction activity forecasts the general direction of an economy and for this reason; the industry is often described as a leading economic sector. This indicates the significance of construction industry across generations and developmental stages. Nigeria's construction sector accounts for 1.4% of its GDP. Despite the fact that growth has been observed in the construction sector output, its contribution to total GDP has remained at abysmally low levels (1). In 1981, the construction sector accounted for 5.8% of Nigeria's GDP and in the last three decades, Nigeria's total GDP has raised to approximately 495 times its size. On the contrary, construction sector GDP has only grown to 125 times its size in 1981. It is quite evident that Nigeria is away below realising its potentials in construction industry despite huge deficit in infrastructure due to the inability of the government to train the indigenous firms (1). It is the responsibility of every nation to nurture, develop and equip her contractors with the available projects so as to have the required experience with which to execute all complexities of national construction challenges. But instead of this, government has developed foreign companies neglecting their own contractors starved of work (2). This has made foreign contractors to gain better expertise while the Nigerian contractors remain inexperienced and therefore unable to compete with their foreign counterparts. The domineering attitude of these foreign companies has not given the indigenous construction companies the opportunity of solely executing major engineering projects (3).

The Nigerian construction market is among the largest construction markets in Africa, which has recorded impressive growth over the years. Though, government spending was a major contributor to the industry, especially the infrastructure sub-segment, other factors also contributed positively on the industry's growth. Despite the strategic role of the industry in a growing economy like Nigeria, its

contribution to the Nation's GDP of less than 2% is quite negligible when compared with some African countries as established by (1).

Inconsistent project management practices influence company's competitive position in the market place (4). Project management in some developed countries cannot be compared with Nigerian system, firms or organisations that delay in adopting formalized practices definitely suffers specific consequences which include failure to learn from shared experiences, late and over budgeting projects, and low labour productivity (5). Therefore, construction projects become more complex, complicated and fragmented which necessitated specialist contractors in which most of them are expatriates contractors and this has gradually faced out the indigenous contractors that are fully owned by Nigerians as identified by (6).

Nigerian construction industry is dominated by foreign companies in which most of the construction works are been undertaken by expatriates, (7).This is due to the deficiencies and incapability of the indigenous firms in areas of financial effectiveness, innovations, dynamism among others (8). A large proportion of these major constructing firms in Nigeria are subsidiaries/affiliates of European, North American and Asian construction firms. However, private clients especially individuals award building contracts to local construction companies. The choice and preference for engaging foreign contractors as compared with other indigenous firms is majorly on lack of technical competence, deficiency in managerial skills and planning. Others include poor financial management, adaptations to modern innovations among others as established by (9) and (6).

Based on the above, competition increased over the years, as new companies, both foreign and local companies emerged in Nigerian construction market, only few indigenous constructing firms have enlarged their capacities to serve both the private and public sectors. Based on the past researches, some of the Nigerian indigenous contractors are incompetent and inexperienced as established by (10) and (11) and this has made the industry unable to develop and compete with the level of other developing nations particularly those in Asia, for example, Malaysia is 15 years ahead of Nigeria, in terms of physical infrastructure development as affirmed by (12). Nevertheless Julius Berger Nigeria Plc remains the leader in the Nigerian construction market in terms of activities (infrastructure sub-sector), assets and revenue. However, the industry's growth continues to be hampered by the harsh business environment, which remains a major challenge for all industries in Nigeria.

Hence, this paper examines the structure of the indigenous contracting firms in Nigeria with Osun state as the study area. The scope of this paper covers firm size in terms of their annual turnover, staff strength and equipment capacity; area of specialization including building, building/civil engineering, industrial/heavy engineering; business types including build only, design & build, design, build & finance and design, build & operate. Types of clients often work for comprising public (federal, state & local governments) and private (individuals, institutions, international agencies & Non-Governmental Organization-NGO). Project funding arrangement covers bank loan, retained earnings, share capital and mobilization fees and year of existence/operation of the firm. These form the basis of questions contained in questionnaire administered on the respondents (construction professionals) who are in charge of the construction sites in the study area.

2. MAJOR CONTRACTING FIRMS IN THE NIGERIAN CONSTRUCTION INDUSTRY

Nigerian construction industry is dominated by international construction firms, though a number of smaller local companies are emerging presently (1). Julius Berger Nigeria Plc remains the market leader, as it controls a large chunk of public sector construction. With the entrant of Chinese Construction giants however, the dominance of Julius Berger faces significant threat in the long term. For example, China Civil Engineering Construction Company was appointed by the Lagos State Government as the contractor for the Lagos Light Rail Project. The firm was also awarded the rehabilitation of Lagos-Jebba rail track by the federal government. The growing popularity of Public Private Partnership (PPPs) also means more international construction firms are likely to come into the Nigerian market.

Other medium-size (based on scale of operation) constructions firms in Nigeria are as follows Costain W.A Plc, PW Nigeria, Cappa & D"Alberto, Stabilini Visinoni, Bi-Courtney Limited, Lekki Concession Company, Reynolds Construction Company Ltd and Setraco Nigeria Limited, Gerrawa Global Engineering Limited, Piccolo-Brunelli Eng. Ltd, Philco Nigeria Ltd, Kopek Construction, Niger

Construction Ltd, , Enerco Limited, Borini Prono and Company Limited, Arab Contractors Limited, Triacta Limited, CGC Nigeria Limited, Standard Construction Limited, Dantata and Sawoe Construction Company Nig, Ltd, and Mother Cat Limited. There are many low-size construction firms whose profile could not be unveiled though execute large proportion of construction activities in Nigeria. These among others are those examined by this paper because of their contribution and level of involvement in large volume of construction activities across the country.

3. PREVIOUS STUDIES ON CONSTRUCTION COMPANIES

Nigeria as a nation is still at the infancy stage of infrastructural development where lots of construction activities are being carried out across the nation by the federal, state and local governments as the major clients of construction activities in Nigeria. The main purpose of this developmental plan is to provide shelter, basic amenities and services such as road, water, electricity et al. as essential needs of man to Nigeria populace. All these construction activities are carried out by contracting firms either local or international whose structure atimes affect the level of construction output. But, the execution of most of these construction works are being carried out by the foreign construction firms but changes in government, transformation agenda and local content policy in infrastructural sector has created rooms for Nigerian indigenous contracting firms to grow and participate in the developmental processes. Basically industries could be classified on the scope of operation, ownership and management control (13). Like other nations of the world, construction firms could be classified as small, medium and large in Nigeria, large firms are majorly dominated by the expatriates with very few indigenous that could be categorized as medium while most are categorized as small size firms. Against this background, there is a need to examine the structure of contracting firms in Nigeria who are dominated by small scale operation but execute large volume of construction activities.

According to (14), their study examined problems facing small contractors in South Africa and found out that poor record keeping, lack of effective management, and lack of entrepreneurial skills are major cause of business failures for small contractors. Also, (15) examined the factors affecting the performance of small indigenous contractors in Papua New Guinea; level of cash flow, financial skills, poor communication between the contractors and the clients' site representative are the major factors affecting the performance of indigenous contractors. Hence, (16) conducted a study on measuring the competitiveness of UK construction industry and provided information on the structure of construction firms in Britain, Germany, French and United States. According to (17) which x-trayed and evaluated the structure of construction industry provided information on the activities and type of clients in the industry. In Nigeria, (18) examined the application of strategic management among construction firms and the study was conducted among the small, medium and large construction firms in Lagos Nigeria. The study found out that small and medium size firms are mostly conversant with this management strategic. Also, (19) appraised the causes of collapse of some construction firms in Nigeria. The study was conducted on medium to large size construction firms and found that the competence of management has the most significant influence on the continual survival of construction firms in Lagos state.

The research conducted on the assets structure of medium-sized building construction contracting firms in Nigeria and its implications on their operation (20) found out that the assets structure of these firms comprise of fixed assets being less than half of the total assets, this means that a greater portion of the total assets is current assets (held mainly as account receivables that sometimes may not be available within one year). There is generally a low investment in fixed assets from earnings over the years. The assets structure of these firms could impact on their ability to compete successfully on some project types especially where hiring options for plant and equipment are unavailable. Review of literature on construction firms shows a paucity of researches on business structure of construction firms in Nigeria. But among the few studies found, there was limited number that examined the business structure of indigenous construction firms in terms of their size; area of specialization; business types; types of clients, project funding arrangement and year of existence/operation. The paper examined the business structure of indigenous firms in the Nigerian construction industry with a view to examining the size, area of specialization, nature of business, types of client and project funding arrangement of indigenous contracting firms in Nigeria.

4. METHODOLOGY

The study appraised the business structure of indigenous contracting firms in Nigeria. The scope of this study was limited to contractors on construction sites within Osun state. The respondents include

architects, engineers, builders; quantity surveyors and others related professionals working within the firms. Their lists were obtained from the directories of their professional bodies (Nigerian Institute of Architect, Nigerian Institute of Building, Nigerian Institute of Quantity Surveyors and Nigerian Society of Engineers). The primary data were collected through the administration of a well structured questionnaire which was divided into two sections. Section A comprised the demographical characteristics of the respondents. Section B contained the specific questions addressing the focus of this study including firm size, area of specialization, business type, type of client, project funding arrangement and years of work experiences. Questionnaire were administered on professionals in twenty (20) contracting firms through random sampling techniques, fourteen (14) copies were retrieved back and used for the analysis which represented a response rate of 70%. Data collected was analysed using percentages to describe the demographical characteristics of the respondents. Mean Item Score (MIS) and Relative Significance Index (RSI) were used to show the mean scores of the professionals' responses to the questions raised by the study, while Chi-Square Test was used to determine the level of significance of the variables identified by this study. This method of analysis has been employed by other construction management studies (21, 22 and 23).

5. RESEARCH HYPOTHESIS

Hypothesis 1

H_0 = There is no statistical significant impact of firms' size on business structure
H_1 = There is a statistical significant impact of firms' size on business structure

Hypothesis 2

H_0 = There is no statistical significant impact of firms' area of specialization on business structure
H_2 = There is a statistical significant impact of firms' area of specialization on business structure

Hypothesis 3

H_0 = There is no statistical significant impact of firms' business type on business structure
H_3 = There is a statistical significant impact of firms' business type on business structure

Hypothesis 4

H_0 = There is no statistical significant impact of firms' types of client on business structure
H_4 = There is a statistical significant impact of firms' types of client on business structure

Hypothesis 5

H_0 = There is no statistical significant impact of firms' funding arrangement on business structure
H_5 = There is a statistical significant impact of firms' funding arrangement on business structure

6. RESULTS AND FINDINGS

Table 4.1 illustrates the demographic information about the professionals' in-charge of the construction sites. The results obtained shows that 64.3% of the respondents are holders of Bachelor of Science, 35.7% are holders of Higher National Diploma while none of them hold Master of Science or Technology and National Diploma. For their years of work experience, the mean was estimated at 7 years, which represents the working experience of about 79% of the respondents. Hence, with this average working experience, respondents are deemed experienced enough to supply reliable data for this study. Table 4.1 further indicates the designation and professional qualification of the respondents, result obtained shows that 50.0% were engineers, 28.6% were builders and 21.4% were architects while none was quantity surveyors. Their professional qualifications were 35.7% MNSE, 14.3% MNIOB and 7.1% MNIA while others indicated that they earned other professional qualifications not listed. This indicates that the professionals possess adequate academic and professional qualification and training to supply reliable data for this study.

Variable Name	Variable Value	Frequencies	Percentage
Highest Academic Qualification	M.Sc.	0.0	0.0
	B.Sc.	9	64.3
	HND	5	35.7
	OND	0.0	0.0
	O'Level	0.0	0.0
Years of Work Experience	0-5	9	64.3
	6-10	2	14.4
	11-15	1	7.1
	16-20	1	7.1
	20-25	1	7.1
	Mean = 7 years		
Professional Designation	Engineers	7	50.0
	Builders	4	28.6
	Architects	3	21.4
	Quantity Surveyors	0.0	0.0
Professional Qualification	MNSE	5	35.7
	MNIOB	2	14.3
	MNIA	1	7.1
	MNIQS	0.0	0.0
	Others	6	42.9

TABLE 1: Demographic Information of the Professionals/Respondents

Table 2 describes the size of contracting firms in the study area. In term of annual turnover, staff strength and equipment capacity, the result obtained shows that out of 14 respondents, 11, 11 and 10 firms are of medium size respectively. This implies that the majority of the firms surveyed are medium size contracting firms in terms of their annual turnover, staff strength and equipment capacity. It could be inferred that the firms surveyed are capable and should be able to offer construction services to a satisfactory level of the required specification. Assessment of the level of significance of firms' size shows that the annual turnover, staff strength and equipment capacity are significant to the business structure of the indigenous firms. This indicates that indigenous firms should improve on their annual turnover for them to compete with expatriates who have dominated the construction markets in Nigeria. Indigenous firms' capacity in term of size and capacity of their employees should be improved on for them to meet job requirements and demands. The firms' equipment capacity must also be improved on because the construction activities are becoming complicated, complex and advanced due to new innovations and technology. Therefore, H_1 was accepted because there was a significant impact of firms' size on business structure.

Size of Firms in Terms	Large	Medium	Small	X^2	Sig	Remark
Annual Turnover	2	11	1	4.571	.033	S
Staff Strength	1	11	2	13.000	.002	S
Equipment Capacity	3	10	1	13.000	.002	S

TABLE 2: Firm Size

*** Significance @ 5% i.e. p<0.05, S = Significant, NS = Not Significant**

Table 3 illustrates the area of specialization of the firms surveyed. The highest ranked was building construction with RSI=1.00. Others include civil engineering works (RSI=0.977) and industrial/heavy (RSI=0.643) which was ranked low. The results obtained from the respondents show that all the contracting firms surveyed were engaging mostly in building construction more than civil works, industrial and heavy engineering, though they were equally ranked high. The assessment of the level of significance shows that building construction and industrial/heavy works were significant while civil engineering works were insignificant to indigenous firms in the industry. This implies that indigenous firms could develop their business horizon in the area of building construction because of opportunities of accessibility to workloads; scope and capacity of equipment requires in executing the

building works. Industrial/heavy engineering activities also comprises of building works and indigenous firms should employ strategies to access works in that sector. Therefore, H_2 was accepted because there was a considerable significant impact of firms' area of specialization on business structure.

Specialization	Mean	RSI	Rank	X^2	Sig	Remark
Building construction	3.00	1.000	1	10.286	.001	S
Civil Engineering Works	2.93	0.977	2	3.456	.346	NS
Industrial/Heavy	1.93	0.643	3	9.286	.010	S

TABLE 3: Area of Specialization
*** Significance @ 5% i.e. p<0.05, S = Significant, NS = Not Significant**

Table 4 describes the kind of business activities and contract arrangement often engage with employers by most of the contracting firms surveyed in the study area. The professionals' in-charge of the firms ranked build only with RSI 1.000 as the business type/contract arrangement often entered with the construction clients. Others include design & build (package deal) (RSI = 0.787) and design, build & operate (0.620). The least ranked was design, build & finance (turnkey) with RSI 0.570. This implies that most of these firms do not have the capacity to produce independent designs for a project, finance projects prior to client financial contribution (mostly rely on mobilization fee from the client) and have no capacity to go into long-term financing and partnership. Evaluation of significance of business types of indigenous firms shows that build only and design build and operate were significant. Build only procurement system was significant because not all clients have regular cash flow for project execution and indigenous contractors could be better placed in assisting such clients to meet their need of personal shelter which encompass the principle of "pay and work". Design, build and operate was also significant because there were users who might not be able to build houses of their own and need shelter. Hence, H_3 was accepted because there was a significant impact of firms' business type on business structure.

Business Type	Mean	RSI	Rank	X^2	Sig	Remark
Build Only	3.00	1.000	1	7.332	.032	S
Design & Build (Package Deal)	2.36	0.787	2	4.429	.109	NS
Design, Build & Finance	1.71	0.570	4	2.286	.319	NS
Design, Build & Operate	1.86	0.620	3	7.143	.008	S

TABLE 4: Business Type/Contract Arrangement
*** Significance @ 5% i.e. p<0.05, S = Significant, NS = Not Significant**

Table 5 describes the type of clients often work for by most of those firms. The clients' types were categorized into public and private. The result obtained shows that for public client, the highest ranked was state ministries and parastatals with RSI 0.953 followed by local governments (RSI = 0.833) while the least ranked was federal ministries and parastatals (RSI = 0.810). This result shows that most of the firms surveyed work closely with the state government than federal and local governments. This could help them to build their capacity in terms of complexity of construction activities, staff strength and strong financial base or viability. For private clients, firms surveyed ranked individual (RSI = 0.930) and NGO (RSI = 0.930) high as the private clients they often work for. The least ranked was institutions (RSI = 0.620) followed by international agencies (RSI = 0.737). This shows that the clients of the firms surveyed were limited to their locality. This could be true because it will take time to build trust and confidence in any growing up firms most especially when money is involved. The significance of type of clients often worked for by indigenous firms' surveyed shows that state ministries/parastatals was significant for public clients. But for private clients, the significant were individuals and institutions. The state ministries and parastatals were significant to the structure of indigenous firms because this level of government is close to the grassroots politics in a political nation like Nigeria and where local government power is at the control of the state government. Presently, in the study area most of the capital projects across the state are under the control of the state which is the central government in Nigeria. In the case of private clients, individuals could be close associates who know indigenous contractors as friends, business associates, and political affiliate's e.t.c. while institutions also have self power to give jobs to whosever seems competent and with less bureaucracy. Non-governmental institutions were insignificant because some of them have

national and international affiliations whose requirements might seem challenging to indigenous contractors.

Table 6 illustrates the project funding arrangement for the projects carried out by the firms surveyed. The result obtained ranked mobilization fees high with RSI 0.930 as project funding arrangement between the clients and the firms surveyed. Others include bank loans (RSI=0.903) and retained earnings (RSI=0.787). The least ranked was share capital (RSI=0.620). It could therefore be inferred that most of the projects handled by the firms were funded by the clients' personal funds (mobilization fees), they rarely get bank loans to fund the projects and there was low level of savings among the firms from the previous projects to fund new projects.

Types of Clients	Mean	RSI	Rank	X^2	Sig	Remark
Public						
Federal Min. /Parastatals	2.43	0.810	3	.009	1.000	NS
State Min. /Parastatals	2.86	0.953	1	7.143	.008	S
Local Governments	2.50	0.833	2	4.429	.109	NS
Private						
Individual	2.79	0.930	1	17.286	.000	S
Institutions	1.86	0.620	4	4.571	.033	S
International Agencies	2.21	0.737	3	1.000	.607	NS
Non-Govt. Org. (NGO)	2.79	0.930	1	1.000	.607	NS

TABLE 5: Types of Clients

* Significance @ 5% i.e. p<0.05, S = Significant, NS = Not Significant

As the least ranked arrangement, most of the firms were not quoted on the Nigerian Stock Exchange hence, they do not have share capital and therefore could not fund project from company's' capital base. The assessment of the level of significance of project funding arrangement to business structure of indigenous firms shows that bank loan; share capital and mobilization fees were significant. This shows that accessibility to loan facilities is a key factor for enhancing the structure of indigenous firms in other to compete successfully with the expatriates who have taken over most of the business markets in Nigeria. It is therefore imperative to create an enabling environment and framework for SMEs, such as indigenous contractors' accessibility to funds in Nigeria financial system. In additiion, payment of mobilization fee to indigenous contractors is also essential as monetary security which shows that client has made a reasonable commitment towards his dream.

Funding Arrangement	Mean	RSI	Rank	X^2	Sig	Remark
Bank Loan	2.71	0.903	2	13.000	.002	S
Retained Earnings	2.36	0.787	3	1.1439	.285	NS
Share Capitals	1.86	0.620	4	9.571	.008	S
Mobilization Fees	2.79	0.930	1	4.571	.033	S

TABLE 6: Project Funding Arrangement

*** Significance @ 5% i.e. p<0.05, S = Significant, NS = Not Significant**

Table 7 explains the year of existence of the firms surveyed. The average years of operation of the firms was calculated at 10 years. Most of the firms have been working for a decade which shows that they have satisfactory experience in the industry.

Year	Frequency	X	FX
0-5	1	2.5	2.5
6-10		8	72
11-15	2	13	26
16-20	1	18	18
21-25	1	23	23

Table 7: Years of Existence/Operation of Firms

Estimated Mean = *10 years*

7. DISCUSSION OF FINDINGS

The paper evaluated the structure of indigenous firms in the Nigerian construction industry. The study shows that these firms were medium size in terms of annual turnover, staff strength and equipment. This result agreed with the works of (18) who classified contracting firms in Nigeria into small, medium and large. The study of (19) on causes of collapses of construction firms was also carried out on medium to large scale firms. In Nigeria, (20) also studied asset structure of medium size construction firms in Nigeria. All these studies equally agreed with the conclusion of the study that most indigenous contracting firms are medium-sized. The study also established that most of these firms specialized in building works and this support the work of (3) who stated that the reason for this is because government who is the major client of the industry has continued to give foreign contractors power to execute major engineering projects while neglecting her own indigenous contractors. Assessment of business type or contract arrangement showed that most of these firms often involved in build only or design and build contract arrangement methods. This was supported by (4) who opined that inconsistent project management practices influence firms' chances in the market place. It was also established by (5) that consequences of failure to learn from shared advantages or experiences of procurement systems from developed nations could result into late and over-budgeting projects and low labour productivity. It also submitted that construction projects are becoming more complex, complicated and fragmented which necessitated specialist contractors and (6) also affirmed that adoption of traditional procurement systems has gradually faced out the indigenous contractors that are fully owned by Nigerians. The choice of these procurement systems could have impact on productivity because in most developed countries procurement system has gone beyond traditional system of design and build. The study also established that indigenous firms often work for state government, individuals and non-governmental organizations which were supported by (2) assertion that Nigerian government has developed foreign companies neglecting their own contractors starved of work. This means that Nigeria government has continued to award contracts to foreign firms rather than developing their own indigenous firms. However, most of the firms surveyed financed projects through mobilization fees paid by the client and rarely get bank loan. This shows that they do not have access to credits or loans facilities i.e. there were no structures to develop the financial capacity of the SMEs/indigenous firms. This was supported by (8) who compliment (7) assertion that Nigerian construction industry is dominated by foreign companies and this is due to the deficiencies and incapacity of the indigenous firms in the areas of financial effectiveness. The study of (9) and (6) also affirmed that the choice and preference for engaging foreign contractors as compared with other indigenous firms among others was poor financial management. This was established by the study of (15) in Paupa New Guinea that examined factors affecting the performance of small indigenous contractors. The study concluded that level of cash flow and financial management of the firms was part of the key factors affecting indigenous contractors.

8. CONCLUSION

This paper had examined the structure of indigenous contracting firms in Nigeria. Among issues raised were their size in terms of annual turnover, staff strength and equipment; area of specialization, business type/contract arrangement, type of clients, project funding arrangement and years of operation. This paper therefore concluded that:

i. Majority of the firms surveyed are medium size contracting firms in terms of their annual turnover, staff strength and equipment capacity. They have been in operation for more than a decade.
ii. Most of the contracting firms surveyed are frequently engaging in building construction more than other areas of construction such as civil works, industrial and heavy engineering.
iii. Majority of the firms do not have the capacity to produce independent designs for a project, finance projects prior to client financial contribution (mobilization fee) and do not have capacity to go into long-term financing and partnership.
iv. Also most of the firms surveyed are limited to their locality as their areas of operation. This could be true because it is usually longer for clients to build trust and confidence in any growing up firms.
v. Most of the projects handled by the firms are funded by the clients' personal funds, they rarely get bank loans to finance the projects, and there is poor savings culture among the firms. Finally, they do not have share capital which means they are not quoted on the Nigerian Stock Exchange and therefore could not fund project from company capital base.

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