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SURVIVAL STRATEGY OF CONSTRUCTION FIRM IN NIGERIA DURING RECESSION PERIOD: A CASE STUDY OF BUILDING CONSTRUCTION FIRM IN NASARAWA STATE

By

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ABSTRACT

This study assessed the survival strategy adopted by construction firm in Nasarawa state, Nigeria during recession period. Structured questionnaire was distributed to Managing Directors, Chief Executive officers and Senior Managers of small scale industries within Nasarawa State, Nigeria. The questionnaire was drawn on a 5-point Likert scale on survival strategies variable. The result obtained indicated that developing stable and new relationship with client, implementing strict financial management, undertaking small contract, quality improvement, and layoff of some construction employee were ranked 1st, 2nd, 3rd , 4th and 5th respectively. It is recommended that the small scale construction firm surveyed in Nasarawa state should form a corporation or join venture, this may help in pulling their resources together during recession period.

Keywords: Survival Strategy, Recession, Construction Firm, Building industry, Virile Economy, Economy Recession

1.0 Introduction

The construction industry plays an important role as a key indicator and determinant of domestic performance in the Nigeria economy. The industry has undergone significant shifts in relation to the economy. According to the construction company Raynod and Ganesan (1997), a change in an economy's output can be reflected in a proportional change in demand. Due to the significant impact that changes in the economic situation have on the construction industry, numerous studies on economic downturns focus on the construction industry. The effects of the recession on the company as a whole, on the individual businesses, and on indicators of the company like employment are all subjects of research in this field.

This study examines the contractors' survival strategies and the impact of the recession on the construction industry. The research begins with information on recession and their effect on the firm as a whole. The reason for the company's failure within the company and the preventative measures the construction company took during the recession are then the focus.

2.0. Review of Relevant Literature

A recession is defined as "a significant decline in activity spread across the economy, lasting more than a few months," according to the National Bureau of Economic Research (NBER), which is the organization that officially declares a recession in the United States and is typically reflected in production, employment, real income, and other indicators (Iqbal & Vitner, 2011, p. 22).
Worldwide economic recessions have plagued history. According to Adams (2010) since 1857, there have been 33 recessions in the United States, according to the NBER early 1990s, following the 1987 crash of the share market. Between the years 1990 and 1991, there was a global recession. The global economic slowdown, financial stress, and high oil prices were some of the contributing factors to the economic slowdown (Ranchhod, 2010). The

spike in oil prices during this time period is reflected in the high prices of oil.

A number of things happened in the early 2000s and early 2001 that led to a global recession. Between the years 2007 and 2009, there was a major recession in the global economy. The economic downturn has been referred to as "The Global Financial Crisis."

The impact of recession in Nigeria is enormous increase of unemployment as it was observed in other countries such as Japan, Asian countries and Europe where many factories and companies are folding up. In 2008, Dunlop Nigeria PLC laid off hundreds of it workers, in the textile sector, about 5,000 workers were forced out of Job, Peugeot Automobile Nigeria (PAN), sacked 565 workers. Next is the effect of high indebtedness to internal contractor (Fapohunda, M.T, 2012).

2.1 The Impact of a Recession on the Construction Firm

A lot of research has been done to find out how a global or economy-wide recession affects the construction firm as a whole and the businesses that are part of it.

i. Output:

According to Hillebrant, Cannon, and Lansley (1995), the construction company's output significantly declines during times of recession.

According to the findings of a study done in 1997 by Raynod and Ganesan on construction flows, GDP, which is one of the most important indicators of a recession, is strongly linked to construction output. This is because construction output is included in the economic GDP measure.

ii. Employment

The most recent UK recession has had a significant impact on construction firm employment, with 250,000 fewer people working there in the middle of 2009 than in the middle of 2007 (Chan et al., 2010). Between 1989 and 1993, construction firm employment in the UK also decreased, with up to 30% fewer managers working for construction firms during recessions (Hillebrant et al., 1995).

iii. Profitability

According to research conducted in 2003 by Tulacz et al., the shifts in market conditions in 2001 had a significant impact on the profitability of the top subcontractors in the United States. During the same time period, profits in the UK decreased similarly. Profitability ratios (profits/turnover) for major contractors whose results were listed on the stock exchange were calculated by Ball, Farshchi, and Grilli (1999).

In 1991, the profitability ratio was clearly lower, reaching a low in 1992 before beginning to recover in 1993 and 1994.Ball, and others. In addition, they discovered that firms' operating environment had a greater impact on profitability ratios than any attempt to improve their business through internal controls. There is no evidence that superior management or strategies make some businesses consistently perform better than others (Ball et al.;P. 743).

The margin that is added to the price of contracts during the bidding stage is the contractors' primary source of profit. These bidding margins are referred to as "prior estimates of profitability" in the research conducted in 1991 by Akintola and Skitmore.

According to Oo, Drew, and Lo (2007), the number of bidders, market conditions, project types, and size all have a direct impact on a contractor's bid margins. According to the findings of this study, contractors in Hong Kong and Singapore adjust their mark-up in accordance with the conditions of the market. During times of recession, it was discovered that contractors were "marking down" their bids to "buy work." According to Oo et al. (2007), these bids would be significantly lower than cost, resulting in a negative profit margin.

2.2. Reasons for Company Failure in the Past

Failure can be defined in a number of different ways. According to Arditi, Koksal, and Kale (2000), it occurs when a company is unable to pay its creditors, when the rate of return on an investment in the company is no longer worthwhile, or when there is insufficient revenue to cover costs.

According to Chan et al. (2010), the UK construction and real estate industries were responsible for nearly one in five corporate insolvencies in the first quarter of 2010. According to Mutti and Hughs (2002), the firm's overall level of insolvency is significantly higher than that of other economic sectors.

According to Arditi, Koksal, and Kale (2000), the number of construction companies that fail as a result of the economic conditions rises dramatically during times of economic weakness.

Arditi, and others, 2000) state that "budgetary issues and can therefore be handled by companies that are cognizant of the effects of these factors on their survivability" are the primary causes of construction company insolvency Arditi and others, 2000, p. 130). After poor management, one of the primary causes of economic failure is a lack of financial control or accounting data. 2002, Mutti and Hughs, p. 25).

The impact of the recession on the construction industry has many serious consequences. Adapting strategies to the economic environment is critical for the survival of companies in this sector. The survival of small businesses like subcontractors in a downturn depends on implementing the right strategies. To survival these times, these companies can employ a variety of strategies that affect different areas of their business. There are many different strategies involved in running a contracting business, all of which must be considered when trying to navigate a recession.

3. Research Methodology

The study makes use of extensive research of relevant literatures related to the study such as journals, textbooks and internet. Data were collected through structured questionnaire and was analyzed using percentile and Relative Important Index (RII). The study was conducted within Nasarawa State and a visit was made to some of the local government area where the small and medium scale construction firms were situated.

3.1 Data Collection Techniques

Five–point Likert-type scale was use for the questionnaire to measure a range of views from respondents on the survival strategies used by their construction firm at the time of recession in Nasarawa State. The survival variables highlighted were categorized in tabular format for good understanding by the respondents. Relative Important Index (RII) method was used in analyzing the opinion of the respondents within Nasarawa State. The Mathematical formula for RII is as follow:

$$RII = \frac{\Sigma.\mathbf{W}}{A \times N.}$$

Where w is the weighting given to each factor by the respondents and a numerical scale of 5 for highest and 1 for lowest, where 1 = Never, 2 = Less Often, 3 = Fairly Often, 4 = Quite Often 5 = Very Often and N = total number of respondents (51).

3.2 Sample Size

The sample size that represents the targeted unknown population was computed from the equation below.

$$n = \frac{\mathbf{N}}{1 + Ne^2} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where n is the sample size or number of samples, N is the Total population target and
e is the acceptable sampling error or error tolerance
For this research, the 95% degree confidence level corresponds to e =0.05. The population target was chosen to be (N) 160 samples. Therefore, the sample size can be calculated as follow;

$$n = \frac{\mathbf{110}}{1+(110*0.05^2)} = 86.28$$

The sample size is calculated to be 86.28 but the number would be rounded up to 86 because you can't sample a fraction of a person or thing. This means that the sample required is 86 from the population to reach 95% confidence level. In order to allow for non-response and invalid responses the sample size will be maintain as 86.

3.3 Techniques for Data Analysis

The data gotten were analyzed using the description method of analysis and was used to compute the relative ranking of these survival strategies. The results were transformed to relative importance indices based on the Likert Scale, to determine the relative ranking of the factors.

$$RII = \sum \frac{5n5 + 4n4 + 3n3 + 2n2 + 1n1}{5[n5 + n4 + n3 + n2 + n1]}$$

Where Nx = the number of respondent agreeing with the x choice. Thus;
N1 = no. of respondents for "Never", N2 = no. of respondents for "Less Often"
N3 = no. of respondents for "Fairly Often", N4 = no. of respondents for "Quite Often"
N5 = number of respondents for "Very Often".

4.0 Analysis and Discussion of Results

A total of 86 questionnaires were distributed to the respondents out of which 51 were properly filled and returned, and 35 were not returned. So the total of 51 questionnaires was used for the analysis.

Section A

Table 1: Categories of Construction Company

S/NO	Company	FREQUENCY	PERCENTAGE (%)
1	Indigenous base	48	94.11
2	Foreign base	3	5.89
	TOTAL	51	100

Source: Field survey, 2021

From table 1 above, 94.11% of the respondents are indigenous base construction company while 5.89% are foreign base both involve in this research.

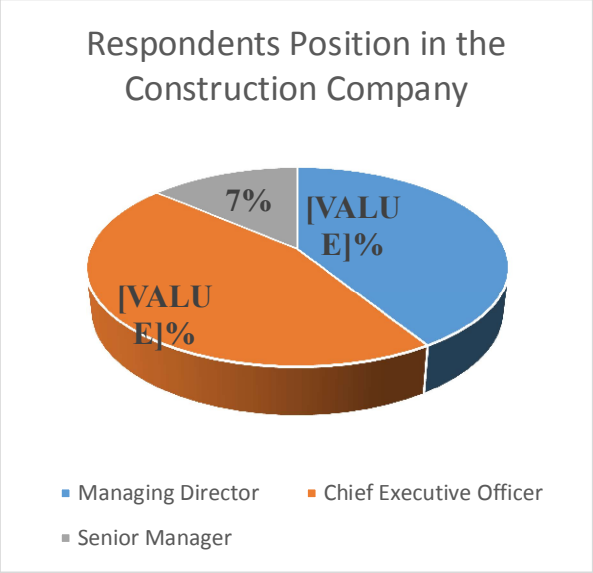
Table 2: Size of Construction Company

S/NO	Size	FREQUENCY	PERCENTAGE (%)
1	Small scale	51	100
2	Medium scale	0	0
3	Large scale	0	0
	TOTAL	51	100

Source: Field survey, 2021

From table 2 above, 100% of the respondents are operating a small scale construction company.

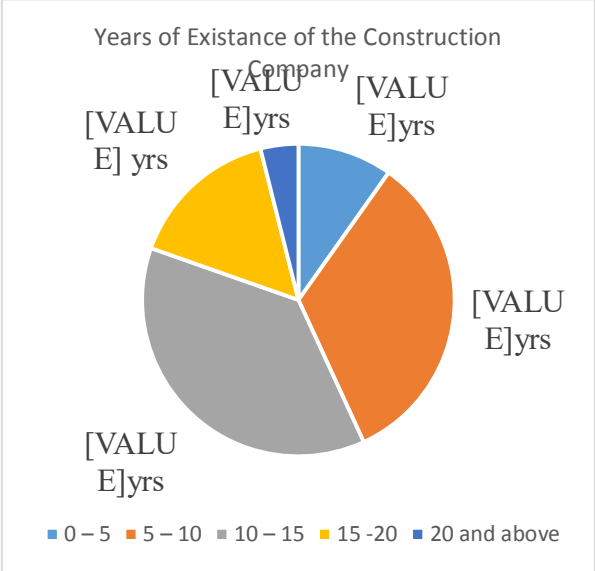
Table 3: Respondents Position in the Construction Company



Source: Field survey, 2021

From table 3 above, it indicates that 41.18% of the respondent is Managing directors, 45.10% are Chief executive officer and 13.73% are Senior manager. This shows that the respondent in the survey are the right people for the source of information required for this research.

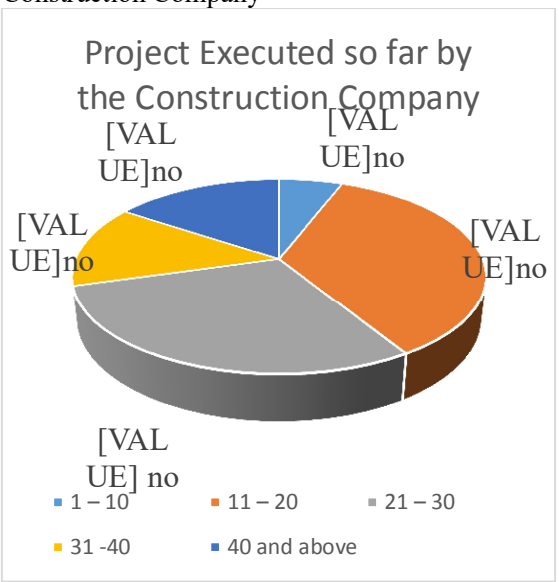
Table 4: Years of Existence of the Construction Company



Source: Field survey, 2021

From table 4 above, it shows that 9.80% have been in existence between 0-5 years, 33.33% existing between 5-10years, 37.26% existing between 10-15years, 15.69% existing between 15-20years and 3.92% existing from 20years and above. This indicates that the construction companies visited are suitable for this research study.

Table 5: Projects Executed so far by the Construction Company



Source: Field survey, 2021

From table 5 above, it shows that 5.88% have executed about 1-10 number of construction

projects, 35.29% executed 11-20 number of projects, 29.41% executed 21-30 number of projects, 13.73% executed about 31-40 number of projects, and 15.69% had executed from 40 and above number of projects.

Section B

Table 6: Survival Strategies Variables by Construction Company visited

S/N.	Survival Strategies	No. of Respondent in ordinance Scale					TOTAL	RII	RANK
		5	4	3	2	1			
1	Cutting Bonuses and overtime	12	21	13	3	2	51	0.75	7
2	Developing good/stable and new relationship with clients	33	9	7	1	1	51	0.88	1
3	Explaining current difficulties to staff	13	20	10	6	2	51	0.74	8
4	Focusing on competitive bidding for contract work	16	17	8	5	5	51	0.73	9
5	Freezing or reducing salaries and bonuses	17	12	16	6	0	51	0.76	6
6	Implementing stricter financial management	30	7	11	3	0	51	0.85	2
7	Improving safety records	10	15	20	5	1	51	0.71	11
8	Joint venturing	11	10	15	9	6	51	0.64	14
9	Minimizing staff redundancy	3	8	16	23	1	51	0.56	18
10	Diversifying into new market areas.	20	3	5	4	19	51	0.60	16
11	Placing greater emphasis on marketing	15	14	11	9	2	51	0.72	10
12	Provision of better contracting services	2	8	22	10	9	51	0.54	19
13	Submitting lower tender prices to secure projects	8	12	5	20	6	51	0.58	17
14	Key into new method and technologies for improved productivity	12	18	9	7	5	51	0.70	12
15	Undertaking smaller contracts	25	19	2	1	4	51	0.84	3
16	Quality improvement	18	25	4	2	2	51	0.82	4
17	Innovation	16	9	13	6	7	51	0.68	13

18	Increasing marketing efforts to find the right projects, and enough of them	9	8	13	20	1	51	0.62	15
19	Layoff of some construction employee	14	26	4	5	2	51	0.78	5

The Table 6 above show the survival strategies variable and, it was observed from the analysis that developing good/stable and new relationship with clients with overall RII score of 0.88 ranked 1 is considered to be the major survival strategies variable used by construction company according to the respondent view. It follows by implementing stricter financial management, undertaking smaller contracts, quality improvement and layoff of some construction employee with RII score of 0.85, 0.84, 0.82, & 0.78 (rank 2, 3, 4 & 5) respectively. The respondent considered the other strategies all below 0.78 like freezing or reducing salaries and bonuses, cutting bonuses and overtime, explaining present challenges to staff, focusing on competitive bidding for contract work, placing greater emphasis on marketing and improving safety records etc with RII score of 0.76, 0.75, 0.74, 0.73, 0.72 & 0.71 (ranked 6, 7, 8, 9, 10 & 11) respectively which indicate low frequency as less important when it comes to issue of survival strategies variable adopted by construction company.

5.0 Conclusion and Recommendation

5.1 Conclusion

The literature deals with history and effects of recession as it affects some countries in the world and a wide range of different strategies involved in running Construction Company. In a volatile environment, sound strategic planning should help construction companies survive and sustain growth. The findings of this study aim to provide lessons and guidance for construction companies in Nigeria to navigate future recessions. Impact of recession in some countries and especially Nigeria was emphasized. Questionnaires on survival strategies by Nigerian construction firm during recession were developed mostly based on information obtain from the research work by Lim, Oo and Ling (2010).

The key survival strategic variables in Nigerian construction industries are: good / stable and new relationship with client, stricter financial management, undertaking smaller contracts, quality improvement, and layoff of some construction employees. Recent research shows that the most important factor in determining an organization's competitiveness and profitability is the extent to which it adopts its strategy and skills to the environment in which it operates. One of the limitations of this study is that it was conducted within Nasarawa state and the results may not be applicable to other parts of the country or even other parts of the world. In addition to this, survival strategy variables should be cultivated by developing other critical resources and competencies that are still limited in this study.

Finally, companies operating in different environments need different types of strategies prescriptions to succeed.

5.2 Recommendation

The following recommendations were made as follow;

- **i.** Further research on the impact of survival strategies on the company's performance should be carried out in future.
- **ii.** Since the research proved that unemployment level increases, research on the effect that the recession actually had on employment in the construction firm in Nigeria should be carried out.
- **iii.** Further research study could be explored on how these strategies were implemented.
- **iv.** Joint venturing is lacking within the small scale construction industries surveyed in Nasarawa, Nigeria. There is the need for the construction industries to come together forming a corporation (franchise). This may help in pulling their resources together during recession period.

Contribution to existing knowledge

i. The research will enrich construction literature.

The research helped to identify key strategies which can serve as a guide to construction firm survival in Nigeria during recession period

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