



An Appraisal Of Bidding Strategies Of Small and Medium Construction Firms in Nigeria.

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Abstract-Small and medium construction firms need to be strengthened to be able to remain in business as a result of unfavourable economy, in that case, there should be a way to give them the opportunity to remain in business. There has been problem of survival by these firms. This research work examines the bidding strategies adopted by these firms to remain in business and challenges facing them. The research is quantitative research which adopts random sampling techniques with a total of sixty questionnaire distributed within Osun and Oyo states. It was found out that lower overhead and fee in estimating, lower negotiation position, reducing the fee and overhead estimate in a bid to be more competitive amongst others are some strategies adopted by these firms to be able to stay alive in business while delay in payment, transportation cost, condition of project are some of the challenges facing these firms. The paper recommends that government should give small and medium construction firms a soft landing to ensure that projects they bid for are given minimal conditions to compete favourably promote policies that will be favourable to these firms.

Keywords: Bidding, Negotiation, Strategies, Small and Medium Construction firms.

1.0 INTRODUCTION

Small and medium construction firms have been a source of economic development for Nigeria through employment and wealth creation and innovation by introducing strategies that will make the firms more profitable (Hallberg, (1999), Floyd & Mcmanus (2005)). In Nigeria, 25% of the turnover of small and medium construction firms is accounted for by the innovation (Ledwith, 2004). The number of competitors in the construction sector is fiercely higher than most economic sector (Enshassi, Al-Hallag and Mohammed, 2006). As a result of this competition, many small and medium scale construction firms became bankrupt within first five years of establishment in most developing countries (Groskopf, 2005). The public procurement act 2007 of the Federal Republic of Nigeria provides that one of the conditions that must be obtained before formalization of procurement is that bids should be by open competitive bidding. The procurement has two major stages, pre-qualification and technical/financial bid. The construction players are faced with dilemma of bidding under competitive environment where the bid must be low enough to attain the expected profit margin (Kims, 2007). There has been observation that small and medium construction firms in Nigeria die within their five years of existence, a smaller percentage goes into extinction between tenth year while only about five to ten percent survive, and thrive to grow to maturity (Agwu and Emeti, 2014). However, there is need for these firms to adopt strategies to be able to win projects and be able to remain in business for its survival. The research objectives are to identify bidding strategies adopted by small and medium firms in Nigeria and examine the major challenges facing small and medium construction firms in Nigeria. The research work is limited to small and medium construction firms within Osun and Oyo states of Nigeria.

2.0 LITERATURE REVIEW

Small and medium construction firms have been generally acknowledged as the bedrock of the industrial development of many nations. Anna(2006) noted that small and medium construction firms are source of economic development through employment and wealth creation. It was noted that industrial development is dependent on the growth of small and medium firms considering its large numbers and structure which under adequate conditions gives them the flexibility and ability to stand adverse economic situations (Aris,2007). However ,it was noted that small and medium construction firms adopt these bidding strategies to remain in business, lower overhead and their fee in estimate, lower their beginning negotiation position, reducing the fee and overhead estimate in a bid to be more competitive if they need the work to cover their overhead ,include the cost of finance, consider the personality of the client, consider the financial status, tighten up on time related unit prices, firms accounts for higher insurance cost in jobs that are more labour intensive and construction firms does not bid against construction firms who shop for the lowest price(Smith,1995,Boughton 1999,&Tavakoli,1987).It was found out that an important feature of small and medium construction firms in Nigeria has to do with organization structure, owing to its ownership status revolving around a family and as a result of which it is either run as sole enterprise or partnership, as a result of this firms organization is pyramidal and as such affects decision making and information dissemination in the firm(Gushibert,2011).In addition , other challenges that are noted facing the small and medium construction firms includes limited access to funds from finance institutions and high interest, poor cooperation and /or linkages between small and medium construction firms. Other challenges facing these small and medium construction firms in Nigeria are delay in payment by the clients, project location, transportation cost, condition of project and contribution to profitability (Ismail,2012). Furthermore, It was noted that the client still consider reputation very important for the small and medium scale contractor to be considered for any project. This reputation ranges from financial reputation to completion reputation (Oyedepo,2016) .It was further noted that Physical resources needed to carry out the project is another factor to be considered in selecting the small and medium scale contractor.

3.0 RESEARCH METHODOLOGY.

The research methodology stipulates the methods adopted in carrying out research; this research work is quantitative research design where data is quantitative in nature. Sample frame consists of professionals in the Construction Industry including Quantity surveyors, civil engineers, builders and Architects. These professionals were considered in Osun and Oyo states. The major statistically method for this study is the mean item score, this method of analysis was employed by the researcher and the formula is stated below.

$$\text{Mean Score} = \frac{5n_5 + 4n_4 + 3n_3 + 2n_2 + 1n_1}{N_1 + n_2 + n_3 + n_4 + n_5}$$

Table.3.1 showing frequency of respondents in sample size

Respondents	Frequency
Quantity surveyors	28
Civil Engineers	14
Builders	7
Architects	5
Others	6
Total	60

Source: Various Professional bodies

This research design adopted for this research work is quantitative and since this is quantitative research, questionnaire was used to acquire the primary data and secondary data was collected through literature review, information from government organization records and data from relevant information sources. The questionnaire designed for this research was a structured type and close ended such that options was provided for each question from which respondents ranked in order of preference and pick as appropriate. The questionnaire contains two sections where section A was basically for general information about the respondents and section B was generally for the research.

4.0 **DATA ANALYSIS, DISCUSSION AND FINDINGS.**

The questionnaire designed was to gather data from respondents’ responses for proper analysis which would help to achieve the aim and objectives of this research work. A total of 60 questionnaire were administered on relevant construction professionals within two states in Nigeria, the states are Osun and Oyo states. However, a total of 55 questionnaires, which represents 91.7% response rate and they were found suitable for the study. Further to this, the respondents qualifications showed that 30.9% are National Diploma Holders, 30.9% are for HND holders, 27.3% are for B.Sc holders, 7.3% are for M.Sc and 3.6% for others. From the analysis, it shows that 65% percent of the respondents have first degree or its equivalent. This shows that the respondents are knowledgeable people in the construction industry. More so, the professions of the respondents and their frequency were determined. Quantity surveyors were 50.8%, Civil Engineers were 25.5%, Builders were 12.7% and Architects were 9.1% while others were 1.8%. The results showed that over 50% were quantity surveyors who have been predominantly involved in the bidding selections of appropriate contractors. In order to justify the objectives of this study, the following table shows the bidding strategies adopted by small and medium construction firms in Nigeria.

Table 4.1 Showing the bidding strategies adopted by small and medium construction firms in Nigeria

S/N	Bidding Strategies	Mean	Ranking
1	Lower overhead and their fee in estimate	4.618	1 st
2	Lower their initial negotiation position	3.854	2 nd
3	Reducing the fee and overhead estimate in a bid to be more competitive if they need the work to cover their overhead	3.818	3 rd
4	Include cost of finance	3.673	4 th
5	Considers the personality of the client	3.546	5 th
6	Consider the client financial status	3.491	6 th
7	Tighten up on time related unit prices	3.436	7 th
8	Firms accounts for higher insurance cost in jobs that are more labour intensive	3.418	8 th
9	Construction firms does not bid against construction firms who shop for the lowest price	3.382	9 th

Source: Field Survey 2017.

From the table above, it showed that the small and medium construction firms always adopt the strategies to lower their overhead and other fees chargeable in order for them to be to remain in business. This was ranked first by the respondents. Far from this, the medium and small scale construction industry always lower their negotiation point to ensure fair pricing and to is done to make them stay in the business. This confirms the position of Oyedepo(2012)and Arit(2007).More so,The small and medium contractors always consider the personality of the client and try to push risk of labour intensive projects to insurance.(Gulbrish,2011)

Table.4.2 The major challenges facing small and medium construction firms in Nigeria

S/N	Challenges	Mean	Ranking
1	Delay in payment by the client	4.582	1 st
2	Project location	3.891	2 nd
3	Transportation Cost	3.764	3 rd
4	Condition of project	3.600	4 th
5	Contribution to profitability	3.455	5 th

Source: Field Survey(2017).

From the table above, delay in payment was ranked first as the major challenges facing the small and medium construction firms .Next to this was project location. A firm that will grow must receive payment for work done on time. This will help cash flow at the appropriate time for projects to move forward and to be able to meet up payment of overheads attached to any particular project. Project location was next to delay in payment, followed by transportation cost .Project location could serve as a way to boost the project profitability or otherwise. Transportation cost ,condition of project and contribution to profitability all these are important challenges facing the small and medium construction firms in Nigeria .These confirms the position of Smith,(1995),Boughton (1999),&Tavakoli,(1987).

5.0 CONCLUSION AND RECOMMENDATIONS

Small and medium construction firms are at tight edge of surviving,however, they adopt various means of staying in business. These means ranging from lowering the profit and overheads level,considering the personality of the client, considering the client financial status. All these are done by these firms to be able to win project and other challenges facing these firms are delay in payment,project location and transportation cost. The paper recommends that government should give small and medium construction firms a soft landing and fair opportunity to compete favourably with other bigger firms by allowing a proportionate overheads and profit to meet up with their expenses .Government at all levels should promote policies that will encourage small and medium construction firms to remain in business like ease-of-doing business policy being promoted by Federal Government of Nigeria.

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