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Improving the Profitability of Construction Contracting Firms in Nigeria through Strategic Alliancing Initiatives

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--***ABSTRACT***--
This study assessed the impact of strategic alliancing initiatives on the profitability of construction firms with the objectives to identify the needs of strategic alliancing in project delivery, to identify the problems affecting implementation on strategic alliancing on the construction contracts and to suggest solutions to some of the identified problems affecting strategic alliancing initiatives. The research was conducted among indigenous construction professionals in private firms and government parastatals in Ekiti state. Fifty (50) questionnaires were distributed while thirty six (36) were retrieved. The retrieved were analysed using SPSS. The results obtained revealed that the enjoyment of competitive advantages and increased profitability and risks as a result of the Contract of partnership were the most important needs for the implementation of strategic alliance. The operations of strategic alliancing was often faced with challenges and to mitigate these, it was recommended that the partners should devote valuable time to plan thoroughly the modalities for operating the alliance before contracting the alliance for successful implementation and achievement of an appropriate profit or profitability for survivals and growth of the construction firms involved.
KEYWORDS: *Alliancing**,** Construction Contracting**,** Indigenous Construction**,** Profitability Strategic**.***

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I. INTRODUCTION

The ultimate objective of any firm is the maximization of its profit, and a firm that must maximize its profits must strike a balance between its current assets and liabilities and hence keep ahead of the liquidity and profitability trade off (Wanguu & Kipkirui, 2015).

Profitability reflects the final outcome of business operations thus a well designed and implemented strategic alliance template is expected to contribute immensely to the creation or expansion of a Construction firm's profitability profile.

In the business cycle, the achievement of an appropriate profit level or profitability is very important for the survival and growth of the firm. Wright (1970) as cited by Akintoye & Skitmore (1990) explained profitability as a function of three factors; viz:-

(i) Sales volume (work done) (No of Projects handled)
(ii) The necessary capital investment to support (1) above and
(iii) The Margin of profit earned from these endeavours.

Profitability is often expressed as a profit percentage of work done or turnover (POT) or Return on investment (ROI).

Construction firms in Nigeria

Most Firms in the Nigerian construction industry have been grouped such that Small and Medium Firms (SMFs) were found to be the majority due to the fact that they have a turnover of less than USD 1M annually and employ less than one hundred permanent staff. (Ofori, 2009; Abdullah et al., 2012; Thwala et al., 2012). Some of these construction firms were reported to exhibit low commitment to production resulting from their poor performance in both physical and service delivery output. However, majority have the potential of developing into a technically better business, since they have dedicated leadership with great commitment towards better service delivery of product and services, as they have concern for continuous performance improvement in order for them to gain competitive advantage (Bilau, 2011; Ofori, 2009; Ajagbe & Ismail, 2014). As a basis for competitive advantage, small and medium construction firms (SMCFs) require to successfully create a process to drive the development of a continuous flow of innovation through Strategic Alliancing (S A), a means to innovation which is an essential factor for a firm's development. However, the concept of Strategic Alliancing is the ability to be able to form a Win –Win situation between two or more firms to produce better service delivery for the client. Bigger Construction Firms engage in information, acquisition and translation to the smaller environmentally or logistic advantaged firms to be able to gain competitive advantage. Ofori (2009) went further and argued that SMCFs play a vital role in the industry accounting for about 80% of the total number of construction firms. It has a high percentage of employment production and it is a major beneficiary of government contracts in the industry.

Strategic Alliancing is a collaboration between two or more organizations to achieve mutual objectives by maximizing the efficiency of each participant's resources. A strategic alliance is a partnership of two or more firms to achieve significant objectives that are mutually beneficial (Isaac, 2013).

In the Nigerian construction industry, there is no restriction to market entry and the qualifications required for registration with the Corporate Affairs Commission as a contractor do not preclude non-professionals in the industry from handling construction projects. The consequence is that the industry becomes an all-comer industry and therefore resulted to vices including lack of trust, abandonment of projects, bankruptcy etc.

Partnering is a management approach used by two or more organizations to achieve specific business objectives by maximizing the effectiveness of each participant's resources. It requires that the parties work together in an open and trusting relationship based on mutual objectives, an agreed method of problem resolution and an active search for continuous measurable improvements (Constructing Excellence, 2004). Although a strategic alliance may be plagued by the lack of trust and performance from any of the parties, the process of formation and the working relationship expected among the contractors is expected to be a motivator to all parties.

Ekiti, a state in western Nigeria, is in a period of infrastructure growth having been declared a state less than thirty years ago. Construction projects are numerously ongoing in the state by the three tiers of Government and also donor agencies and of course private investors and clients; it is thus expected to be a hub of construction activities. Another advantage is that it is almost equidistant from the two Capitals of the Country (Former and Present) where a greater percentage of the Big construction firms are situated. This underscores the significance of this research at this time in the state to take advantage of the plethora of construction activities by contracting firms forming alliances for healthy competition with the multi-national construction companies in bidding for projects.

II. REVIEW OF RELEVANT LITERATURE

2.1 Definition of Strategic Alliancing

A strategic alliance is a partnership of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. A strategic alliance is a cooperative arrangement between two or more organizations that form part of their overall strategies, and contributes to achieving their major goals and objectives. Strategic alliance is an effective ways to diffuse new technologies rapidly, to enter a new market, to bypass governmental restrictions expeditiously, and to learn quickly from the leading firms in a given field. However, strategic alliances are not simple or easy to create, develop, and support. Strategic alliances projects often fail because of maneuver errors made by management.

Strategic alliances are agreements between companies that remain independent and are often in competition. In practice, they would be all relationships between companies, with the exception of transactions (acquisitions, sales, loans) based on short-term contracts. A transaction from a multi-year agreement between a supplier and a buyer could be an alliance (Pellicelli, 2003).

2.2 MEANING AND CONCEPT OF PROFITABILITY

The word profitability is composed of two words, namely, profit and ability. The term profit has been explained above and the term ability indicates the power of a business entity to earn profits. The ability of a concern also denotes its earning power or operating performance. The profitability may be defined as the ability of a given investment to earn a return from its use.

Profitability is a relative concept whereas profit is an absolute connotation. Despite being closely related to and mutually interdependent, profit and profitability are two different concepts. In other words, in spite of their generic nature, each one of them has a distinct role in business. As an absolute term, profit has no relevance to compare the efficiency of a business organization (Tulsian, 2014).

2.2.1 ANALYSIS OF PROFITABILITY:

Profitability of the companies can be analyzed by calculating the following ratios:

2.2.2 Gross Profit Ratio:

The gross profit ratio is also known as gross profit margin and this ratio expresses the relationship of gross profit to net sales (cash and credit) in terms of percentage. This ratio is calculated to find the profitability of business. A high gross profit ratio is a symbol of good management. The main objective of computing this ratio is to determine the efficiency with which production and/or purchase operations and selling operations are carried on.

2.2.3 Operating profit ratio:

This ratio establishes the relation between operating profit and net sales. The main objective of computing this ratio is to determine the operational efficiency of the management. This ratio is also called operating profit margin. Operating profit means the net profit arising from the normal operations and activities of the business without taking into account extraneous transactions and expenses of purely financial nature. The higher the operating ratio, the better would be the operational efficiency of the business. A higher operating profit ratio means that the business has been able not only to increase its sales but also been able to cut down its operating expenses.

2.2.4 Return on capital employed ratio:

This ratio establishes the relationship between profit and capital employed and is calculated in percentage by dividing the net profit by capital employed. It is also a measure of earning power of the net assets of the business.

A very high profit does not always indicate sound organizational efficiency and low profitability is not always a sign of organizational sickness. Therefore, it can be said that profit is not the prime variable on the basis of which the operational efficiency and financial efficiency of an organization can be compared. To measure the productivity of capital employed and to measure operational efficiency, profitability analysis is considered as one of the best techniques (Tulsian, 2014).

2.2.5 PROFIT AND PROFITABILITY

Sometimes, the terms ‘Profit’ and ‘Profitability’ are used interchangeably. But in real sense, there is a difference between the two. Profit is an absolute term, whereas, the profitability is a relative concept. However, they are closely related and mutually interdependent, having distinct roles in business. Profit refers to the total income earned by the enterprise during the specified period of time, while profitability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales. It is the ability of enterprise to get sufficient return on the capital and employees used in the business operation. As Weston and Brigham (2010) rightly noted, “to the financial management, profit is the test of efficiency and a measure of control, to the owners a measure of the worth of their investment; to the creditors, the margin of safety; to the government, a measure of taxable capacity and a basis for legislative action and to the country, profit is an index of economic progress, national income generated and the rise in the standard of living”; while profitability is an outcome of profit. In other words, no profit drives towards profitability. Firms having same amount of profit may vary in terms of profitability.

2.3 CHARACTERISTICS OF STRATEGIC ALLIANCES.

- Two or more organizations (business units or companies) make an agreement to achieve objectives of a common interest considered important, while remaining independent with respect to the alliance.
- The partners share both the advantages and control of the management of the alliance for its entire duration.
- The partners contribute, using their own resources and capabilities, to the development of one or more areas of the alliance (important for them). This could be technology, marketing, production or other areas.

2.4 NEEDS FOR STRATEGIC ALLIANCING.

As a result of implementing such strategies, organizations can transform their old and outdated work practices into the new and active ones, which can be used to improve an organization’s competitive advantage. While the change process that many organizations espouse seems to provide additional benefit, employees may be reluctant to embrace the new work practices that they are confronted with. In fact, employee resistance has been widely recognized as one of the most common reactions to change.

2.4.1 MOTIVE TO ENTER A STRATEGIC ALLIANCE

- Market seeking.
- Acquiring means of distribution.
- Gaining access to new technology, and converging technology.
- Learning & internalization of tacit, collective and embedded skills.
- Obtaining economies of scale.
- Achieving vertical integration, recreating and extending supply links in order to adjust to
- Environmental changes.
- Diversifying into new businesses.
- Restructuring, improving performance.
- Cost sharing, pooling of resources.
- Developing products, technologies, resources.
- Risk reduction & risk diversification.
- Developing technical standards.

2.5 THE IMPLEMENTATION OF STRATEGIC ALLIANCES

Alliance implementation issues include the choice of governance mechanisms, enhancing trust and reciprocity between partners, managing the integration of project staff from different organizational cultures, and resolving conflicts that arise among partners with divergent expectations about and contributions to their collaboration.

2.6 SOLUTIONS TO SOME OF THE IDENTIFIED PROBLEMS.

Effective and strong management team

I do not believe that (alliances) fail in the planning stage. They fail in implementation that is the grave yard of corporate America (Ernst and Stern, 1996). Furthermore, in their article: ``Managing alliance skills for the modern era", the authors opined that as alliance complexity rises and experienced human resources pulled ever-thinner, the challenges become more acute. Therefore, the best strategy to grow via alliances may be to move slowly, and start with simple alliances and then, move towards more complex ones as alliance experience and talent are acquired.

III. RESEARCH METHODOLOGY ADOPTED

Descriptive statistics are used to describe and summarise the basic features of the data in this study, and are used to provide quantitative description in a manageable and intelligible form. It was used to measure the percentage, frequency table, means scores and ranking of some factors.

3.1PROCEDURE FOR DATA COLLECTION

Primary data were adopted as the basic method of data collection using well designed questionnaire and distributed to professionals in the construction firms, ministry of works through architect, Quantity Surveyor, Builders, Structural Engineer etc.

3.1.1 TARGETED POPULATION

The targeted population for the study included the construction firms' participants e.g. Quantity Surveyor, Architect, Builder, Planners, structural engineers etc.In carrying out this study, information was gotten from contracting firms in Ekiti metropolis.

3.1.2 SAMPLE FRAME

The sample frame for the study included the professionals involved in construction projects such as Architects, Engineers, Quantity surveyors, Project managers and builders, consultant and client firms providing Architectural and structural designs, mechanical and electrical service cost estimating and supervisors and management of the projects.

3.1.3 SAMPLE SIZE

A total number of fifty (50) questionnaires were distributed for this study out of which thirty-six (36) were retrieved. The respondents include Quantity Surveyors, Engineers, Builders, Architects.

3.1.4 SAMPLING TECHNIQUES

A purposive sampling technique was used in administration of the questionnaire as the firm was sampled based on their registration and reputation in the construction industry.

3.2 DATA COLLECTION INSTRUMENT

The research instrument used for this study was questionnaire administration. The data was collected from primary source. The structuring of the questionnaire was dependent on the objectives of the study. The questionnaire was divided into two sections. Section A dealt with the demographics of the respondents in terms of their qualifications, both educational and professional, the organization type, the years of experience of the respondents, number of years the firm has been in existence, type of project undertaken by the firm. Section B dealt with the objectives of the study; the needs for strategic alliancing, factors affecting the strategic alliance implementation and solution to the problems.

IV. DATA ANALYSIS AND PRESENTATION

4.1 Population distribution of questionnaire and responses.

The total number of questionnaire administered were 50 (fifty) from indigenous construction industry and ministry of works, 36 (thirty-six) were retrieved and 14 (fourteen) were not returned.

4.2 Demographic information

The information and statistics of respondents are presented in the Table 4.1 below.

Table 4.1: Demographic Information

		Freq	Percentage (%)	Cummulative Percentage (%)
1.	Gender			
	Male	29	80.60	80.60
	Female	7	19.40	100.00
2.	Qualification of Respondent			
	HND	13	36.10	36.10
	PGD	11	30.60	66.70
	Bsc. /B. Tech	12	33.30	100.00
3.	Working Experience of the Respondent			
	1-5 years	9	25.00	25.00
	6-10 years	20	55.60	80.60
	11-15 ears	7	19.40	100.00
4.	Nature of Respondent's working place			
	Private Contracting	1	2.80	2.80
	Public Contracting	3	8.30	11.10
	Public Consulting	32	88.90	100.00
5.	Profession of the Respondent			
	Architecture	3	8.30	8.30
	Quantity Surveying	12	33.30	41.60
	Building	19	52.80	94.40
	Civil Engineering	2	5.60	100.00
6.	Professional Qualification of Respondent			
	NIA	18	50.00	50.00
	NIOB	7	19.40	69.40
	NIQS	10	27.80	97.20
	NSE	1	2.80	100.00

The table above showed that male took the higher percentage (80.60) while female took 19.40 percentage of the respondents. The academic qualification of respondents revealed, HND (36.1%), PGD (30.6%) and B.SC/B.TECH (33.3%). The table also shows the working experience of respondents, 55.60% of who had worked for between 6 – 10 years; 88.90% were in Private Consulting Firms; a total of 86.10% were practitioners in the Building and Quantity Surveying professions.

4.3 Needs for Strategic Alliancing

Table 4.2 below identified the needs for strategic alliancing by the Small and Medium Scale Construction firms in the country.

Table 4.2 : Needs for strategic alliancing.

Needs for strategic alliancing.	**Mean**	**Rank**
Strategic alliances are a coming together of people/place/technology etc. to enjoy competitive advantages and increased profitability and risks.	4.69	1
The achievement of an appropriate profit level, or profitability, is very important for a firm's survival and growth.	4.53	2
Gaining access to new technology and converging technology is one of the factors that necessitate alliances.	4.44	3
Strategic alliances are initiated to share risk.	4.33	4
Restructuring and improving performance is one of the needs for strategic alliancing.	4.33	4
Achieving competitive advantages is one of the crucial reasons to enter into strategic alliances.	4.22	5
Ease of market entry has been made easier through strategic alliances.	4.11	6
Cost sharing, pooling of resources is one of reasons to enter into strategic alliances	4.11	6
Construction firm can overcome /regulatory barriers through strategic alliances.	4.08	7
Environmental changes is one the motive to enter into a strategic alliance.	4.08	7

The need to enjoy competitive advantages and increased profitability and sharing together of risks by the alliancing firms was rated to be of highest significance by the respondents as driving the needs for forming the strategic alliancing. Though the other factors were not much of less importance, environmental changes and opportunity to overcome regulatory barriers were least rated.

4.4: Suggested Solutions to the Problems

Table 4.3 presented the suggested solutions to the identified problems in the literature as well as the analysed responses by the respondents.

Table 4.3: Suggested solutions to the problems

Suggested solutions to the problems.	**Mean**	**Rank**
It is extremely important to plan thoroughly.	4.92	1
Good communication between partners helps to dissolves mistrust and doubt.	4.83	2
The overall strategy for the alliance must be clearly defined, shared goals and objectives.	4.67	3
To measure the productivity of capital employed and to measure operational efficiency, profitability analysis is considered as one of the best techniques.	4.67	3
In forming strategic alliances partner must clearly understand roles.	4.19	4
Frequent performance feedback provides parties in strategic alliance success.	4.14	5
Partner selection is most perhaps the most important step in creating alliance.	4.06	6
Effective and strong management team is one of the best strategy grow alliances.	4.00	7
International vision i.e. management must incorporate a global strategic vision.	3.58	8
Similarities of management philosophies ensure chance of success in strategic alliances.	3.07	9

From Table 4.3 above, "It is extremely important to plan thoroughly" has first rank on the table with the mean score of 4.92, good communication between partners has the second with the mean score of 4.83, the overall strategy for the alliance must be clearly defined, shared goals and objectives and measure the productivity of capital employed and measure operational efficiency, profitability analysis has the third rank with the mean score of 4.67.

V. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study has been able to ascertain the needs for the implementation of strategic alliancing; the most important need being the enjoyment of competitive advantages and increased profitability and risks as a result of the contract of partnership. Though individual firms might face regulatory barriers which the alliance could help to surmount, this was least considered a driving motive for need to go into alliance. The operation of strategic alliancing was often faced with challenges. To overcome these challenges, the suggestion to plan thoroughly by the concerned partners before embarking on the alliance was considered to be the most important factor for the success of the alliance.

5.2 Recommendations

Following the above conclusion, the following recommendations are made:

- The partners should devote considerable time to plan thoroughly to achieve successful strategic alliance.
- Good communication between partners will help to dissolve mistrust and doubt.
- The overall strategy for the alliance must be clearly defined.
- Measurement of the productivity of capital employed and operational efficiencyand profitability analysis should be considered as the best techniques.

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BABALOLA Anthony. A." Improving the Profitability of Construction Contracting Firms in Nigeria through Strategic Alliancing Initiatives " The International Journal of Engineering and Science (IJES) 7.2 (2018): 61-67