

Causes of Contractors' Failure: Contractors' View

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Abstract. The main objective of this paper is to identify the factors that have the potential to cause contractor's business failure in the West Bank in Palestine and to determine their impact level from contractor's viewpoint. A questionnaire survey of 84 contractors was performed. 44 factors were identified through literature review and were listed under the following three groups: financial, managerial, and external. The identified factors are ranked according to their importance as assessed by the respondents. The findings reveal that the top five affecting factors are: fluctuation in construction material cost, delay in collecting dibs from clients, lack of experience in contracts, low margin of profit due to competition, and closure and limitation of movement between West Bank areas.

Key words: construction management, contracting failure, contractors.

1. Introduction

The construction business is large in size and significant in the role it plays in the economy but throughout recent years it has witnessed an increasing number of construction financial failures (Clough, 1981). A number of studies have been conducted to address and control the industry's problems in the developing countries. However, lack of progress was noted in solving such problems due to many reasons. These reasons as outlined by Ofori (1994) include: in-appropriateness of some of the recommendations and the initiatives adopted poor executive capacity of the implementing agencies, lack of resources for implementation and initiatives, neglect of the construction industry by governments and their lack of commitment to solve its problems, and absence of measurable targets in programmes for improving the industry's overall performance.

The Palestinian construction industry has been a vital contributor to the Palestinian economy. It represented 26% of the gross domestic production (GDP) in 2000 (MAP, 2002). It plays an important role in building up the Palestinian national economy in terms of absorption high number of labors and affecting various economic, social, educational, and vocational sectors. Since then, this sector has been subjected to many challenges which have decreased its role in improving the Palestinian economy in contrast with its counterparts in many developing and neighboring countries (Enshassi, 2006). The aim of this paper is to explore the causes of contractor's business failure and to investigate the impact level of these causes from the contractors' viewpoint.

2. Background

2.1. Failure definition

There are many definitions of failure mentioned in literatures. According to Dun and Bradstreet Corporation(1986), a business failure is defined as a business that:

1. "Ceases operation followings assignment or bankruptcy.

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2. Ceases operation with losses to creditors after such actions as foreclosure or attachment.
3. Voluntarily withdraws, leaving unpaid debts; and,
4. Are involved in court actions such as receivership, reorganization of arrangement or voluntarily comprising with creditors.
5. Voluntarily compromised creditors’.

Storey (1994) defined business failure as the business that never have been started in the first place, or that the person was not competent to do so, or that the business left behind significant unpaid debt.

Watson & Everett (1993) attributed business failure to four different situations: discontinuance for any reason; ceasing to trade and creditor loss; sale to prevent further losses; and failure to make a go of it.

2.2. Failure causes

A number of researchers had studied the causes of contracting business failure. Osama (1997) presented a study of the factors that contribute to the failure of construction contractors in Saudi Arabia and found that the most important factors are: difficulty in acquiring work, bad judgment, lack of experience in the firm’s line of work, difficulty with cash flow, lack of managerial experience, and low profit margins.

Arditi et al. (2000) found budgetary and macroeconomic issues as the main reasons for construction company failure in the US. Over 80% of the failures were caused by five factors, namely insufficient profits (27%), industry weakness (23%), heavy operating expenses (18%), insufficient capital (8%) and burdensome institutional debt (6%).

Enshassi et al. (2006) concluded that the main causes of contractors failure are: delay in collecting dibs from clients (donors), closure, depending on banks and paying high profits, lack of capital, cash flow management, lack of experience in the line of work, absence of construction regulations, low margins of profit due to competition, award contract to lowest price, and lack of experience in contracts.

Kivrak and Arslan (2008) examined the critical factors causing the failure of construction companies through a survey conducted among 40 small to medium-sized Turkish construction companies. A lack of business experience and country’s economic conditions were found to be the most influential factors to company failure.

3. Research Methodology

44 factors that might affect contractors’ business failure were defined through a detailed literature review. The factors were tabulated in a questionnaire form. The similar factors were grouped under one main group; the factors were divided into 3 groups: managerial, financial, and external.

The target population in this study is construction contractors who hold valid registration from the contractors union in within the West Bank. The questionnaire was sent out to a total of 120 contractors asking their contribution in ranking the identified 48 factors in terms of severity using an ordinal scale. The ordinal scale that was used are 1 = very low influence, 2 = low influence, 3 = moderate influence, 4 = high influence, and 5 = very high influence. Only a total of 84 completed questionnaires were returned representing a good response rate of 70%.

For analyzing data by ordinal scale, a severity index was used. This index was computed by the following equation:

$$Importance\ Index\ (\%) = \sum a (n/N) * 100/5 \quad (1)$$

Where; a is the constant expressing weighting given to each response (ranges from 1 for very low up to 5 for very high), n is the frequency of the responses, and N is total number of responses.

The importance index for all factors was calculated. The group index was calculated by taking the average of factors under each group.

4. Results and Discussion

The factors under each group are ranked by the measurement of importance index according to equation (1).

4.1. Managerial group

Table 1 shows the importance index and ranking of each factor under managerial group from contractors' view. The Table shows that delay in collecting dibs from clients is the top factor with very high impact level on contractor's business failure, followed by Lack of experience in contracts and lack of experience in the line of work.

Table 1: Ranking of factors under managerial group

Factors	Importance index (%)	Rank
Delay in collecting dibs from clients	83,57	1
Lack of experience in contracts	83,33	2
Lack of experience in the line of work	78,10	3
Use of project management techniques	74,80	4
Replace key personnel	74,52	5
Labor productivity and improvement	74,05	6
Using of documentation system	67,38	7
Frauds	65,71	8
Competent consultation	65,24	9
Procurement practices	65,00	10
Lack of managerial development as the company grow	64,29	11
One man rule	62,62	12
Owner involvement in construction phase	62,38	13
Increase size of projects	61,90	14
Internal company problems	61,19	15
Company organization	60,95	16
Commitment	60,95	17
Control system	59,76	18
Change in the type of work	59,05	19
Assigning project leader in the site	58,57	20
React to change	55,00	21
Increase number of projects	52,62	22
Claims	50,00	23
Change work from public to private and vice versa	44,52	24

4.2. Financial factors group

Table 2 illustrates the importance index and ranking of each factor under financial group. The Table shows that fluctuation in construction material cost, low margin of profit due to competition, depending on banks and paying high interests, award contracts to the lowest price, and national slump in economy are the top ranked five factors under this group.

Table 2: Ranking of factors under financial group

Factors	Importance index (%)	Rank
Fluctuation in construction material cost	85,24	1
Low margin of profit due to competition	83,10	2
Depending on banks and paying high interests	82,86	3
Award contracts to the lowest price	82,62	4
National slump in economy	82,14	5
Estimating practices	75,48	6
Fluctuation in money exchange rate	75,00	7
Cash flow management	73,10	8
Lack of capital	66,43	9

Controlling equipment cost and usage	65,00	10
Evaluation of profit yearly	60,95	11
Dealing with variation orders	60,71	12
Monopoly	59,00	13
Insufficient award of contracts	57,14	14
Material wastages	55,24	15

4.3. External factors group

Table 3 illustrates the importance index and ranking of each factor under external group. The results indicate that closure and limitation of movement between areas is the top factor, followed by banks policy and limitation on importing.

Table 3: Ranking of factors under external group

Factors	Importance index (%)	Rank
Closure and limitation of movement between West Bank areas	83,10	1
Banks policy	68,33	2
Limitation on importing	66,19	3
Bad weather	44,52	4
Natural disaster	28,00	5

4.4. Top five factors

Table 4 illustrates the ranking of the top five factors affecting contractor's business failure in the West Bank and their related groups from the contractors' view.

Table 4: Top five factors and their related groups

Factors	Related group	Importance Index (%)	Rank
Fluctuation in construction material cost	Financial	85,24	1
Delay in collecting dibs from clients	Managerial	83,57	2
Lack of experience in contracts	Managerial	83,33	3
Low margin of profit due to competition	Financial	83,10	4
Closure and limitation of movement between the West Bank areas	External	83,10	5

4.5. Main groups ranking

Table 5 shows the ranking of the main groups that affect business failure from the contractors' view. It can be seen that the financial factors group is the most critical with importance index of 71%, followed by managerial group with importance index of 64.4% and external group with importance index of 58.03%.

Table 5: Main groups ranking

Main group	Importance index (%)	Rank
Financial	71,00	1
Managerial	64,40	2
External	58,03	3

5. Conclusion

The main objective of this paper is to identify the factors that have the potential to cause contractor's business failure in the West Bank in Palestine and to determine their impact level from contractor's viewpoint. 44 factors were considered in this study and were listed under three groups: financial, managerial, and external.

The Contractors have ranked the following factors as highly influential with high potential to cause contractor's business failure: fluctuation in construction material cost; delay in collecting dibs from clients; lack of experience in contracts; low margin of profit due to competition; and closure and limitation of movement between the West Bank areas. They also specify the financial factors as the top ranked group that affecting business failure, followed by managerial factors and external factors.

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