CONCEPTUALIZING GROWTH OF SMALL AND MEDIUM-SIZE CONSTRUCTION FIRMS IN GHANA

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Abstract

The growth of small and medium-sized construction firms (SMEs) undoubtedly remains an important consideration within socio-economic activities in the Ghanaian economy. Literature has established both tangible and intangible benefits that emanate from the activities of construction SMEs within the sector. Further, literature has also not reached consensus on a unified definition of what firm’s growth constitute. Firm’s growth is rather considered from the perspective of both internal and external determinants which makes comprehending growth vague. This study, however, conceptualized the growth of Construction SMEs with details of firm’s growth indicators. In order to establish the aim of the study, semi-structured interviews supplemented by a review of existing literature on firm’s growth was adopted to drive similar and new constructs that have informed this study. The study provides a significant conclusion to the study which includes the main determinates of firm’s growth such as the entrepreneurial feature of the firm characteristics and the business environment of the firm. Also captured in the conclusion are necessary growth barriers that must be controlled if growth within the construction SMEs in Ghana is to be achieved.

**Keywords:** Conceptualize, Construction, Firms, Growth, Small and Medium-Size.

1. Introduction

The construction industry plays a crucial role in the socio-economic development of a nation such as Ghana. The inherent programme and activities the construction sector, therefore, renders have vast benefits. As a result, the growth of small and medium size construction firms which operate within the sector undoubtedly remain an important consideration within the socio-economic activities in Ghanaian economy. The operations of small and medium size construction firms within the economy are widespread across infrastructure projects such as the building of houses hospital, roads water projects among others. The projects embarked by these SMEs, however, contribute immensely to the entire growth of the Ghanaian economy in terms of creation of employment and jobs reduction of poverty among the populace and in addressing the dearth social amenities of the nation. The growth
of among these SMEs is, therefore, essential. Literature has not reached any consensus on a unified definition of what firm growth constitutes. Further firm’s growth is rather considered from the perspective of both internal and external determinants which makes comprehending growth vague. This study seeks therefore to conceptualise growth of construction SMEs with details its underlying constructs and indicators.

2. Purpose of study

The purpose of the study is to conceptualise growth of small and medium size construction firms and explore the related factors that drive firm’s growth.

3. Methodology

To achieve the purpose of the study, the use of qualitative approached particularly with the use of semi-structured interviews was adopted and was supplemented by existing literature on SME growth. The method commenced with the design of a formal invitation letter to participants for the field survey. The targeted population consists of both owners of SMEs construction firms and the professionals employed by the SMEs. A total of ten (10) interviews were held among five firm owners and five construction professionals on a purposive sampling basis. The semi-structure interview questions considered for the process focused solely on firm’s growth and its related factors which influence growth. This was mainly guided by an interview schedule which recorded and was later transcribed. Each interviewee had approximately eight (8) minutes to response to interview questions. The second approached adopted the use of existing literature on firm’s growth. This technique made use of books, current journal and conference publications and the use of other e-resources which was a desk-top study.

4. Review of Literature

The word ‘growth’ used in the context of firms signifies an increase in sales, outputs, size, employment or improvement in quality as a result of the firm’s operation (Arthur-Adioo et al. 2015). Growth can also be measured in the form of qualitative features like market position, quality of the product and goodwill of the customers. In addition, Moreno and Casillas (2007) postulated that the growth of firms vary and may be measured by various levels of sales and employee’s growth over a particular period. Sales volumes of firms that are considered as the standard feature of growth measure also depend on the prevailing external environment factors to the firm such as inflation and exchange rates.

Similarly, Massey et al. (2006) discovered that firm’s growth is not homogenous amongst SME’s, therefore, the growth trend of these firms changes over time. Firm growth emerges in order for firms to achieve their strategic intent including increasing sales, maximizing profits or increasing market share. According to Barringer et al. (2005), despite firms setting measures in order to achieve their strategic goals, it is often realized that very few firms accomplished it. Further, Barringer et al., (2005) stressed that firm’s growth is not an automatic event to happen and as such managers and owners must endeavour to set up schemes and measures that will bring in growth. Literature has also emphasized that there is no acceptable definition of firm’s growth rather the definition depends on its classification determinants.
Classification of Growth

Miriam (2006) informs that firms grow in two ways that are via internal expansion (organically) and through integration (inorganic). Organic growth means a firm need to retain sufficient profits to enable it to purchase new assets, including new technology. Over time, the total value of a firm’s tangible assets will rise which provides collateral for the firm to borrow to fund further expansion. Mognetti (2002) cited in Miriam (2006) affirmed that organic growth is widely referred to as internal procedure where the firm relies primarily on intrinsic skills individuals and the firm itself to grow from within. This is accomplished by several techniques such as increasing customer relationships, delivering more value to the client, creating more demand in the markets among others thereby increasing returns of firms (Miriam, 2006). Whiles with inorganic growth, firms need to amalgamate with other firms. Firms combine via mergers where there is a mutual agreement, or through acquisitions. This, however, occurs where one firm acquires shares in another firm, with or without agreement. The types of integration include vertical and horizontal integration. Vertical integration transpires when firms merge at different stages of production. There are two further types of vertical integration namely backwards and forwards. Horizontal integration, on the other hand, occurs when firms merge at the same stage of production. Horizontal integration is also referred to as lateral integration. Inorganic growth is often seen as a faster way for firms to grow compared with organic growth. In as early as (1982), Nelson & Winter asserted that growth is an organizational outcome resulting from the combination of firm’s resources, capabilities and routines. A firm’s growth opportunities are highly related to its current organizational production activities (Coad, 2009). Firm’s growth is also uncertain: environmental conditions such as competition and market dynamics play their roles.

Determinants of firm’s growth among construction SMEs

The study of Gopinath (2012) emphasised that firm’s growth is the podium on prevailing macro and microeconomic issues such as its organizational outcomes resulting from the combinations of firm-specific resources and capabilities. Zhou and Wit (2009) on the other hand hypothesized that determinants of firm’s growth are classified into three integrated themes namely: organizational, environmental and individual determinants. According to Beck et al. (2006), one of the key drivers of sustainable growth in developing countries are firm growth and productivity. Therefore, policy makers and researchers have a keen interest in firm’s growth. As a result, recognizing the strait that promotes small and medium-sized firm’s growth will provide the basis to influence policy direction thereby creating a conducive business environment to help other informal sectors. Hashi and Kransnigi (2011), similarly established that the determinants of SME’s growth are grouped into three categories including those related to the entrepreneurial features of that firm, secondly, those linked to other characteristics of the firm and lastly those related to the business environment that the firm operates.

Entrepreneurial features of the firm

Kritikos (2014) emphasized that Entrepreneurial features do not only impact on the internal growth of business but the economic growth of a nation. This is because entrepreneurs often create new technologies, develop new products or process innovation, and open new markets that drive growth in their firms and the entire economy. Entrepreneurial features depend on the characteristics of the person or persons that provide the key resources used in establishing the business. They are typically identifiable prior to developing the business and include a range of
personal and behavioral characteristics. Growth and development of SME’s depend entirely on the motivation and ambition of the owner of the firm personality behavior. The personality trait of entrepreneurs is a key factor that affects motivation (Delmar, 1996). Zhou and Wit (2009) supported that willingness and ability of owner with the addition of growth motivation play a significant role in entrepreneurial ventures. Approaches to growth depend on the expected consequences of growth (Wiklund et al., 2003) and what the entrepreneur is comfortable managing (Cliff, 1998).

Firm’s characteristics

According to Kolvereid and Isaksen (2006) owners and entrepreneurs of SME’s desire growth within their firms, however, skills are required in order to accomplish it. Firm’s characteristics include the growth strategies for management personnel and the entire firm Hutchinson et al. (2006). Firm’s characteristics determinants are found to have the greatest influence on firm growth. These strategies regarding the features of the firm such as size, age, human capital and ownership amongst may also affect the growth pattern of the firm. Some firms grow and survive while others do not grow and end up leaving the market. Dobbs and Hamilton (2006) postulated that growth on SMEs could be better understood using stochastic models that emanate from the law of proportionate effect. Gibrat’s Law affirmed that there was no relationship between the size of a firm and its growth.

Business environment of firm

Gopinath (2012) however demonstrated that the environmental determinants namely dynamism, hostility and heterogeneity determine the growth potential of SME’s firms. To some extent, growth is externally determined by the environment in which the firm operates. The external environment of firms is considered as a crucial issue for its growth (Hashi and Kransniqi, 2011). This is because the business climate is, of course, a multi-dimensional environment with prevailing institutional and regulatory framework. According to Stiglitz and Weiss (1981) cited in Serrasqueiro (2010) pointed that if capital markets are perfect, then all firms would have access to alternative sources of finance (internal and external would be considered excellent substitute. Reijonen, et al. (2012) supported that market orientation gives small businesses a potential competitive advantage over their counterparts operating on a large scale. That is because the proximity of SME firms and their customers is usually closer, and this facilitates able quickly and flexibly respond to their needs, experience less organizational bureaucracy and thus can distribute customer information and implement marketing plans quickly. Studies by (Gronroos, 2006; Guðlaugsson and Schalk, 2009) have affirmed that market-oriented firms turn to perform better than firms that are less market-oriented as they focus on adapting their products and services based on the needs and expectations of their customers. Market orientation has been identified as the key to successful business performance and growth (Dauda and Akingbade, 2010; Grönroos, 2006). Similarly, other studies by Pulendran et al., (2003); Matsuno et al., (2002) established that market orientation enhances the market share, profitability, return on investment.

Barriers hindering the growth of SMEs

Louis and Macamo (2011) demonstrated that there are significant barriers to SME’s growth in most market economies except the most flexible and deregulated economies. Small and Medium-sized firms, as captured in literature, is the engine of growth of most economies and are expected to drive these savings to enhance growth
thereby minimizing significant barriers. As a result, there is the need to give attention to the set of the barriers which hinder the growth of potential fast growth firms that have the greatest capacity to provide employment and bring in novelty in technologies. Although, growth to a considerable extent is a matter of willingness and skill, the fundamental facilitators and barriers in the environment cannot be disregarded (Davidsson et al., 2005). Davidsson (1989) cited in Zhou and Wit (2009) affirmed that there are generally some determinates that facilitate firm’s growth as well as other factors too that hinder potential growth, such factors that retard is the growth barriers. These barriers may be classified as either internal or external. According to Amarijit and Nahum (2012), the literature on growth barriers to firm shown that there are different barriers to small business growth in various countries of the world. This may be because of the different economic situations, rules and regulations, political system, market competition, and legal system of different countries.

**Financial Barriers**

Zhou and Wit (2009) argued that common barriers encountered by SME’s include institutional barriers, barriers emanating firm’s internal operations and financial barriers. A study by (Becchetti and Trovato, 2010) established the main obstacle to the growth of SME’s as the financial barriers which include credit constraints, lack of external debt, and equity capital. Evidence shows that banks and other financial institutes are conservative to make loans and credit facility available to SME’s. This is because the majority of these SMEs do not have collateral, and also, they are new entrants in the business with limited capital. Bartlett and Bukvic (2001) stressed that the financial barriers to SME’s growth include high collateral, high bank charges and fees, lack of outside equity and venture capital and the high cost of credit. Levey et al. (1999) cited in Abor and Quartey (2010) supported that there is limited access to financial resources available to SME’s compared to large organization and consequences for their growth and development. Financial assistance is, therefore, paramount for the development of small and medium-size firms (Cook and Nixton 2000). Green et al. (2002), affirms that lack of funds is considered the fundamental reason for the business failing to start or to progress thus finance is a binder that holds together all various aspects involved in the small business start-up and development.

**Institutional Barriers**

This categorized barrier is what the construction SMEs, as well as their counterparts in other sectors, are often faced in terms of their growth is the institutional constraints. According to Bartlett and Bukvic (2001), the institutional framework within which SME’s operate and interact with customers and government can act as a barrier and influence the firm’s economic performance and growth. Complex regulation and laws pose as huge barriers to the growth of SME’s particularly to new entrant’s firms and expansion of existing SME’s. Bartlett and Bukvic (2001) further stressed that institutional constraints may be in terms of the unsuitable tax system, strenuous legal policies and other discriminate rules that grow towards SME’s tends to hinder their growth. Smorffitt (2008) cited in Louis and Macamo (2011) asserted that a weak legislation that does not support the growth and development of SME’s and it may also hinder their growth strategy. Further, the huge start-up cost for firms including licensing and registration requirements may also impose burdens on SME’s (Abor and Quartey 2010). Davidsson & Henreksson (2002) cited in Zhou and Wit (2009) established that consistent results from both empirical and theoretical data show that individual institution internationally discriminates against the growth of SME’s which in turn act as a barrier. Economies of nations where political activities have polarized, SME’s operations tend to affect the growth of its entire industries. For that reason, any political instability will cause
significant constraints having an adverse impact on the productivity of manufacturing sector featuring poor business environment. Gyimah-Brempong (2004), observed that high level of the risk factor is attached to the presence of weak institutions that leads to political instability with a considerable negative impact on overall economic growth thereby providing an additional stronger adverse effect on the performance of individual firms. Institutional barriers for SME firms may also be in the form of stringent procurement laws regarding the award of contracts, the supply of materials and payment issues on works done by firms’ issues.

Social Barriers

Although there is dearth of literature on this category of growth barrier within the firm, however, this social barrier may emanate when SME firms or any of its partners is engaged in social vices such as theft or pilfering of items, corruption drug trafficking will tend to reduce the prestige of the firm thereby affecting its entire growth in the long run. According to Bartlett and Bukvic (2010), economic sociology has stressed how vital the connection between entrepreneurs and social capital, trust and networking, is for facilitating the growth of SME’s sector. This is because without a certain level of trust between businesses partners; there will be the absence of reliance on individuals and at firm levels that may prevent the transaction being carried out. Bartlett and Buckvic (2010) further pointed that without trust among business partners, transaction cost will be exposed and with the possibility of the opportunistic, taking advantage. SME’s may overcome such barriers by having an institutional, regulatory support network service. The ideal services in the form of advice, provision of information and training may aid in controlling such barriers (Bartlett and Bukvic, 2010).

Barriers internal to the firm

Internal barriers that are classified as organizational barriers also hinder SME’s growth. These include lack of required skills and knowledge, managerial capacity, unclear mission statement and vision of firm among others. Further, SME’s owners need to be aware of the business lifecycle and be able to determine the stage their business has gotten to and the need to expand. However, if owners are unable to identify this stage, their business will stagnate without any growth or expansion. The internal barrier may also arise from the entrepreneur’s reluctance to let go of control to the professional manager; Storey (1994) cited in Louis and Macamo (2011). The lack of managerial know-how imposes significant constraints on SME’s development. Further, the dearth of management talent and skills prevalent in most countries has a magnified impact on SME’s (Abor and Quartey 2010). According to Kaynula and Quartey (2000), despite numerous institutions providing training and advisory services, there is still the skills gap in the SME sector as a whole. This is because of the associated massive charges that come with these training services and as such owners of these SME’s do not recognize the need to upgrade the skills of their employees (Abor and Quartey, 2000). Similarly, Aryeetey et al. (1994) emphasised that small and medium size firms challenge in terms of technology in gaining access to appropriate technologies. Capacity limitations of the firm, shortage in resources (human and capital) and its management may constitute barriers internal to the firm (Bartlett and Bukvic, 2001).
5. Findings and discussions

The semi-structured interviews supported by the review of existing literature revealed that firm’s growth is identified in various forms by the construction firms. Most owners interviewed remarked that firm growth is linked with the number of projects that a firm engages itself, the number of employees managed by the firm and the turnover of the firm. Further interviewees, also indicated that the difficulty and the non-universal definition of the term growth make it complex for firms to strategies and initiate that within the activities of a firm. Further, to the findings revealed from the semi-structured interviews include the determinants of firm’s growth and barriers hindering firm’s growth. Interviewees pointed out the core determinants of growth among construction SMEs are the strategy of the firm, the level of influence of firm’s policy and the level motivation of human capital within the firm. Interviewees further reiterated that human capital of a firm is the bedrock of the firm on which all activities revolve. This is because the successes and failure of the firm depend largely on the level of motivation (intrinsic or extrinsic) of human capital. Also, when the firm’s policy is so rigid without any flexibility to accommodate novelty, there will be dearth in growth. Respondents also stressed that firm’s growth is associated with lots of essential benefits to the entire nation, provision of employment and job security, poverty reduction among the populace amongst others. Nevertheless, the growth of firms also has constraints which hinder the growth process to ensue. These constraints are categorized as internal and external. According to the interviewees, growth constraints emanating from an external source includes economic pressures, rivalry completion among similar firms, regent industry policies preventing growth. Also revealed from the study are the internal organizational barriers which posed as a barrier to the growth of a firm. Relevant among them includes the poor managerial structures which constitute poor communication structure. Interviewees further emphasized that communication is the heart of very firm which drives all its operation as a result when the communication lines within a firm are broken down then the operations together with the goals of the firm will be affected. In addition, this will also affect the human relations that will stimulate growth within the firm.

6. Conclusions

In conclusion, this study has explored and conceptualised growth among SME construction firms in Ghana. The study concludes that growth among construction SMEs in Ghana are defined in various perspective including a number of projects s firm is engaged in, the number of employees and the turnover of the firm. Further, growth among these firms is essential due to the vast benefits that are obtained within the Ghanaian economy. Further conclusions from the study stressed that firms grow in two ways namely organic (internally) and by integration with other firms (inorganic). However, the growth within firms is largely determined by entrepreneurial features of the firm. Kritikos (2014) supported that entrepreneurial features do not only impact on the internal growth of a firm but the economic growth of a nation. A firm characteristic is another growth determinant of a firm. This variable highlights on factors such firm size, age, human capital available to the firm and the type of firm ownership. Further, the business environment that the firm operates also affect growth. A study by Gopinath (2012) however demonstrated the environment determinant namely dynamism, hostility and heterogeneity determine the growth potential of SME firms. In addition, the study concludes that the significant barriers that hinder firm growth are categorised into internal and external. The external barriers emanate from industry regulations, taxation, competition, financial accessibility to funds among others whiles the internal barriers to firm’s growth comes from some organizational barriers from the firm.
References


