

Organic Growth of Small and Medium-Sized firms: Perspective of Ghanaian Construction industry

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Abstract

Growth of firms have widely been acknowledged in literature due to its significance as one of the key indicators of expansion of a firms in terms of market stock, increased in turnover, increased in employment, increased in acquisition of plant and equipment amongst others. Growth is however classified as organic or inorganic. Inorganic growth of firms is the expansion of a firm by integration or merging with another firm to achieve synergy while organic growth ensues when a firm expands as a result of its own internal activities from within. This study explores into organic growth and further highlights on the necessary drivers that will enhance organic growth among Small and Medium-sized Construction firms (SMEs) in Ghana. In order to achieve this purpose, the study adopted the use of extensive literature review supported by electronic questionnaire survey which focused on the owners of the SMEs as well as professionals engaged by the SME's. In all, the study had responds rate of 80 percent which revealed that construction SME's attained organic growth when there is proper management structure in place that ensures that all aspect of the corporate goals is accomplished. Further organic growth of SMEs happens when all internal rifts such as communication barriers, bad human relations, dearth motivation issues, remuneration issues, peril-conducive working environment within the firm are resolved to enable employees to work towards growth. The study recommends that owners of small and medium-sized construction firms must endeavour to recruit professionals who will ensure best management practice to encourage organic growth.

Keywords: construction, growth, small and medium-size, Organic, perspective,

1 Introduction

Growth of firms globally including that of small and medium-sized construction firms (SMEs) have been characterised in literature as key indicators of expansion of firms including market stock, increased in turnover increased in employment and increased in acquisition of plant and equipment. An economy with a high level of growth of its inherent firms will benefit from both the tangible and intangible merits associated with firm's expansion. According to Miriam (2006), Firm's growth is classified as organic or inorganic. Organic growth is the expansion of firm due to its own internal activities including operations that are embarked by the firms in order to achieve growth (Miriam 2006). The SMEs in the Ghanaian Construction industry are the majority of the firms in operation and therefore growth amongst these firm impacts the economy. Further, these SMEs although easily sprang up with improper managerial structures, contribute massively to the socio-economic development of the nation. Further, these SMEs mostly target solely profits of their projects with little attention to how to growth. This maybe as a result of lack of adequate knowledge on dynamics of growth of these firms would be established supported by other related reasons yet to be ascertained via this research. Embarking an

investigation to determine what organic or internal growth of a firm entails and primary determinants that will enable this category of growth to be achieved amongst small and medium-sized construction firms in Ghana. It is against this background that this study explores the organic growth of a firm and the necessary drivers that will enhance organic growth.

2 Literature Review

2.1 Overview of the Ghanaian Construction Industry

The contribution of the construction sector to the economic growth in Ghana cannot be over emphasised (Osei, 2013). This is as a result of the significant role play by construction SMEs in this sector in terms of developmental activities and employment opportunities they offer to the national economy of a country (Osei 2013). These developmental infrastructures include hospital, school, offices, urban, infrastructure including water sewerage road airport among other. The Construction industry in Ghana holds thrust potential for stimulating growth and generating employment. According to Osei (2013), the SME construction firms happen to readily formed by individuals and private institutions. Hillebrandt (1985) argued that construction in any country in a complex sector of the economy which involves a broad range of stakeholders with varying linkages in other areas such as labour, equipment, energy and manufacturing. Field and Ofori (1988) supported that construction makes a contribution to the economic output of a country a country. This implies that the industry generates income via employment for the working class of a nation (Rameezdeen, 2006).The construction sector has also made a significant contribution to both industrial output and overall gross Domestic Product (GDP) in Ghana over the years (Osei, 2013). Similarly, Ofori (2012) informs that construction industry in every country contributes between 5 and 10 percent of working populations. Ofori (2012) further stressed that there have been some ad-hoc schemes to help the construction industry in Ghana to develop.

According to the Government of Ghana (GOG, 2010), the Ministry of Water Resource, Works and Housing (MWRWH) is responsible for formulation of and coordination of policies and programmes for the systematic development of the country's infrastructure. Further, the Ministry has a classification register which aims at the proper grading of Contractors into categories and financial classes (MWRWH, 2004). The register only permits listed Contractors to be eligible to undertake building and civil contracts awarded by the Government. Anvuur, *et al.* (2006) in the established that the Ghanaian Construction industry over the years has developed into two sectors: the formal sector and the informal. The formal sector adopts a variety of procurement systems (Anvuur *et al.*, 2006). The informal sector took an approach similar to the historical approach of master craftsman engaging labor in product delivery Well and Wall, 2003). The MWRWH has a financial classification of the building and civil engineering construction firms operating within the country. Building Construction firms are placed under category D, and class K for civil engineering works with groups G and E for Plumbing and Electrical works respectively (MWRWH, 2004). There are four further sub-categories 1, 2, 3 and 4 based on the financial and equipment holding of the company. In Ghanaian Construction industry, small and medium-sized firm's falls within categories D3 and K3 for building and civil engineering works.

2.2 Growth of Firms

Small and medium-size firms have been characterized in the literature as an engine of growth fulfilling dearth in job creation in most economies around the world. According to Smallbone and Wyer (2000), lots of studies have suggested the vital role SME's play employment and other

socio-economic developments. Baumol (2004) supported that SME's will always be considered essential for the growth of developing economies, hence its critical attention on the entire growth of this sector.

2.3 Definition of Growth

The term 'growth' is used in discourse with two different connotations. It sometimes denotes merely increase in an amount such as sales, outputs, etc. At other times, however, it is used in its primary meaning implying an increase in size or an improvement in quality as a result of a process development, biological processes (Penrose, 1980). According to Kirkwood (2009), firm's growth has long been a focus attention among researchers in entrepreneurship. This is because growth is seen as synonymous with entrepreneurship Sexton (1989) cited in (Kirkwood, 2009). Growth in firms has however been recognized as a complex process through studies (Baum *et al.*, 2001). Massey *et al.* (2006) supported that firm's growth is not homogenous amongst SME's. As a result, the growth trend can change over time. It 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 employees growth over a particular period. Sales volumes of firms that are considered as the standard feature of growth measure also depend on some external factors such as inflation and exchange rates. Growth within firms ensues in order for firms to achieve their objectives including increasing sales, maximising profits or increasing market share. Barringer *et al.* (2005) remarked that regardless of the exact definition of what firms entails, it is often realized that very few firms accomplished it. Barringer *et al.* (2005) further stressed that firm's growth is not an automatic event to happen and as such managers and owners must endeavour to institute schemes and measures that will bring in growth within firms. According to Gopinath (2012), firm's growth is defined as an increased in certain attributes such as sales employment or profit between two points in time and it is an important determinant of firm's performance. It can, therefore, be concluded from this diverging collection of definitions that there is no accepted definition of firm's growth rather, the growth definition is dependent on some determinates from a classification.

2.3.1 Classification of Growth

Firms grow in two ways; by internal expansion (organically) and through integration (inorganic) (Miriam 2006). Growing organically means a firm needs to retain sufficient profits to enable it to purchase new assets, including new technology. Over time, the total value of a firm's assets will rise, which provides collateral to allow the firm to borrow to fund further expansion. Mognetti (2002) as 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 done by a number of methods such as building increased 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 the second route, to achieve growth inorganically a firm needs to integrate with other firms. Firms combine through mergers, where there is a mutual agreement, or through acquisitions, where one firm purchases shares in another firm, with or without agreement.

2.3.2 Determinants of Growth in firms

According to Coad (2009) cited in Gopinath (2012), firm's growth depends on the prevailing macroeconomic conditions affecting the firm and the macroeconomic issues such as its

organizational outcome resulting from the combinations of firm-specific resources and capabilities. Similarly, Zhou and Wit (2009) postulates that determinants of firm's growth are classified into three integrated themes namely: organizational, environmental and individual determinants. Beck *et al.* (2006) stressed that one of the key drivers of sustainable growth in developing countries is firm growth and productivity. As a result, comprehending firm's growth has now become a great concern for researchers and policy makers. Therefore identifying the channel that promotes small and medium-sized firm's growth in will provide the basis to influence policy direction to create the environment and required initiatives to help other informal sectors. Further, this will contribute to building the right platform for SME's firms to grow. Hashi and Kransnigi (2011), on the other hand 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.

2.3.3 *Entrepreneurial features of the firm*

According to Kritikos (2014), Entrepreneurial features do not only impact on the internal growth of a 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.

2.3.4 *Firm's characteristics*

According to Kolvereid and Isaksen (2006) owners and entrepreneurs of SME's desire growth within their firms, however, needed skills are required to accomplish it. Firm's characteristics can include the growth strategies 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. The correlation of age, size and growth is major recognized issues in literature under the Law of proportionate effect also known as the Gibrat's Law, which was formulated by Robert Gibrat in as early as 1931(Kirkwood, 2009). Gibrat's Law affirmed that firm's growth is independent of the size of the (Sutton 1997). The Law further stressed that all firms, whatever their size, are likely to reach a certain growth rate. Some firms grow and survive while others do not grow and end up leaving the market. Dobbs and Hamilton (2006) established 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.

2.3.5 *Growth barriers to small and medium-sized firms*

Louis and Macamo (2011) maintained 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 investments to enhance growth thereby minimizing significant barriers. As a result, there is the need to give attention to the set of the obstacles 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. Literature has

captured barriers to firm growth including financial, social, internal barriers to the firm tax compliance and corruption amongst others.

3 Research Methodology

The construction industry is a multi-cultural environment with a shift, for example the changing path of the way of working on projects by firms Eastman *et al.*, (2011), people and firms in the industry are now in a position to decide how to cope with the latest technology in this changing environment. Such a condition suggests rigorous and in-depth investigation to understand the critical behaviour of firms. The paradigmatic position of this study has been justified accordingly and this study has been carried out using extensive literature review supported by the used of electronic questionnaire survey which focused on the owners of the small and medium-sized construction firms as well as professionals (Architects, quantity surveyors, engineers amongst others as the population for the study. In all, a total of forty (40) construction SMEs were contacted via electronic survey and total of (32) representing a response rate of 80 percent for the study. The entire contacted respondents were retrieved from the database of all registered SMEs with The National Board for Small Scale Industry (NBSSI) in Ghana that operates within the Adentan municipal area a suburb in the Greater Accra region of the country. The study area was selected due to its proximity to the central city area and the geographical location with magnificent office space buildings for firms along the main stretch that serves as the gateway to the eastern region of the nation. The questionnaire survey was a semi- structured in electronic format which gave respondents that opportunity to include their views in the opened-ended sections.

4 Findings and Discussion

Many authors have highlighted factors which hinder collaboration and achievement of organic/ internal growth of firms. The extensive literature states that construction industry of a nation impacts on the socio-economic activities including employment and developmental issues. Respondents remarked that 19 percent ownership of SME firms is for institutions, with individuals having 31 percent while family ownership of small and medium-sized construction firms have 50 percent. This supports that the majority of SMEs are primarily family- owned businesses with the characteristics of having unstructured procedures such as huge reliability of oral communication rather than written documentation (Baumol, 2004). Findings reveal that firm's principal objective is mostly geared towards profit maximisation rather than any other set visions. This was represented by 69 percent from the respondents. 25 percent and 6 percent of the respondents expressed their views that they focus on growth and brand name respectively. It is, therefore, clear that both owners and construction industry professional who were the targeted populations for this study give priority to profit maximisation that any related set goal of the firm as depicted on the table (1). The study further reveals that determinates of firm's growth include the entrepreneurial features of the firm. According to Kritikos (2014), Entrepreneurial features do not only impact on the internal growth of a 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. Respondents indicated 50 percent from the survey. Zhou and Wit (2009) also supported that willingness and ability of owner with the addition of growth motivation play a significant role in entrepreneurial ventures. While respondents indicated that 13 percent and 37 percent

respectively for policies of firm and strategies of management as determinants of growth. Zhou and Wit (2009) pointed that the common barriers encountered by SMEs include institutional barriers, barriers emanating firm's internal operations and financial barriers. 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 SMEs 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 SMEs compared to large organization and consequences for their growth and development. To this, 34 percent of the respondents indicated their major barrier to growth is a financial barrier. Also, 28 percent remarked that stringent tax and labour regulations were their primary impediment to growth. Other respondents also indicated that their key hindrance to growth includes political interference and corruption. This was represented by 22 and 16 percent as shown on table 1.below.

Item	Description	Frequency	Percentage (%)
1	Type of ownership		
	Institution ownership	6	19
	Individual ownership	10	31
	Family ownership	16	50
2	Main objectives of SME firms		
	Profit maximisation	22	69
	Growth	8	25
	Brand name in the sector	2	6
3	Determinants of firm growth		
	Entrepreneurial features of the firm	16	50
	Policies	4	13
	Strategies of management	12	37
4	Growth barriers to SMEs		
	Financial barriers	11	34
	Tax and Labour regulation	9	28
	Political interference	7	22
	Corruption	5	16

Table 1: Depicts the summary of questionnaire administered to the population

5 Conclusions

The aim of this study was to explore and determine what drives the internal growth of construction SMEs in Ghana. Owners and industry professionals were issued with questionnaires survey to fill; this methodical technique was supported by an extensive review of the literature. The study commenced with the significance of firms globally including that of construction SMEs. Further, highlights were made on what an organic/internal constitutes. Review of literature continued with an overview of the Ghanaian construction industry. Classification of the construction sector, as well as the Governmental ministries in charge, was also captured. The study concludes that construction SMEs easily sprang-up having improper managerial structures with profits as their sole target without having any strategy for growth. The study further concludes that enormous number of factors that contribute to the internal or organic growth of a firm. Some of the ascertained factors including Entrepreneurial features of the firm, Policies,

Strategies of management amongst others. More so, conclusion to the study indicates that most firms considered profit maximisation as the core goal of a little attention focusing on other visions such as the firm's growth, establishing a brand name in the sector.

The study wraps up with some growth barriers to SMEs. These include financial restrictions, Tax and Labour regulation, Corruption amongst others. The financial barrier was however observed to be the principal barrier confronting SMEs supported by other related ones. The study was limited to small and medium-sized construction firms and operating within the Adentan municipal area in Ghana as a pilot study since it is an ongoing Ph.D. research with the future aim of developing an integrated growth model for construction SMEs where the entire 10 regions of Ghana would be under considered.

6 Reference

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