

## THE IMPACT OF WRONG SELECTION OF CONTRACTORS ON PERFORMANCE OF CONSTRUCTION INDUSTRY IN NIGERIA

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### ABSTRACT

*The construction industry occupies a focal position in the economy of any nation, hence its contribution to the development process cannot be over emphasised. Construction work quality is quite often compromised, due to the use of sentiment either religious tribal, political, political interest, etc in awarding contract. The aim of the study is to evaluate the impact contractor selection process on the performance of Nigerian construction industry with the objectives of examining how well the roles of consultants are effectively played in the selection process and also to establish whether the contractor selected for the award is always the competent contractor. A total of fifty (50) questionnaires were distributed among various categories of construction personnel. The data collected were analyzed with the use of Statistical Packages for Social Science (SPSS), inferential statistics were performed on the data collected from the project. The analysis revealed that wrong selection of contractor for a contract will lead to increased number of claims, abandonment, low productivity poor quality of work, delay, cost and time over-run as well as it contract dispute was further revealed that other initial criteria were being ignored during the selection process such as tender price, contractor's relevant experience, workmanship standard, contractors past performance, safety requirement, contractor's organization, contractor's financial strength and construction period. The study concluded that the selection process produces a competent and reliable contractor, the contractor positive impacts on construction delivery project, contractor's claim performance should be investigated, competition between contractors to enhance good selection of contractors The study recommended among other things that the construction industry should promote tendering transparency and accountability in project procurement.*

**KEYWORDS:** Contractor, Construction, Industry and Selection

### 1.0 INTRODUCTION

According to Eddie, Cheng and Heng, (2004). Contractor selection is one of the main decisions made by the clients. In order to ensure that the project can be completed successfully, the client must select the most appropriate contractor. This

involve a procurement system that comprises five common process element, such as project packaging, invitation of contractor, prequalification, short listing and bid evaluation (Hatush, 1996; Hatush and skitmore 1997). The failure and success of any project is influenced by numerous decisions made by or on behalf of the client. These decisions are taken

at different stages of project development, from feasibility studies, planning, design, contractor selection and risk assessment to proper supervision and maintenance. One such decision concerns the prequalification of contractors and the evaluation of bids submitted by prequalified contractors. This is normally carried out by the client's representative and eventually leads to the selection of a contractor to construct the project. (Hatush and skitmore 1997). Xiaohong, (2011), mention that selection of construction contractors is most often conducted during tendering. Procurement Act (2007), states that selection depends on the stipulated criteria and weighting, upon which an entity or contract administrations in the various public procurement offices seeks to give consideration. In this era of globalization and increasing competitive environment, the need for evaluating contractor performance becomes more critical. This is because the technological complexity of construction projects generates enormous risk and selecting of capable contractor is one of the most important tasks faced by a construction client or his representative who wishes to achieve successful project outcome (Fong and Choi, 2000). The following are the objectives of the study, examining how well the role of consultants are effectively played in the selection process, to establish whether the contractor selected for the ward is always the competent contractor.

## 2.0 LITERATURE REVIEW

The construction industry is a collection of loosely integrated sub-sectors that collectively construct alter and repair a number of building and civil engineering works. The uniqueness of the industry is derived from types of physical products, demand pattern novelty and varying site conditions (Andawei 2001). Construction industry is relatively easier than

entering the manufacturing industry as illustrated by the number of construction companies being dominated by small and medium sized companies. Thus, to protect public client interests and reduce barrier of entry, particularly in public construction projects, regulations and pre-qualification in the construction have become more complex source. The complex mechanism is continuously being developed to avoid market failures or an individual contractor's failure to meet its contractual obligations (Mangitung 2005). Pre-qualification is commonly accepted as a process of contractor selection at the early stage of a construction procurement system within a project life cycle in the construction industry (Mangitung 2005). Contractor pre qualification is common in the literature as a single definition, a process of assessing contractor's competence required by the regulations or by clients before a bidding stage using a set of main criteria in order to find responsible and eligible contractors that can perform the construction work completely and satisfactorily if the awarded the construction contracts. Many researchers have defined prequalification of contractor in various ways which are states. Mangitung (2005) ascertained that contrast in the construction practice, the standardization and universalization of a prequalification system is not easily applied, since there are differences in client, project and prequalification objectives as well as construction regulations in sectors and segments.

### 2.1 Contractor Selection Criteria

Difference countries use different procedures to evaluate the suitable contractors. Even within the same country, there is no uniformity in selection

procedures between the public and private sector. They may also differ according to the type of project in some country, public sector clients normally selected contractors through open tendering. They advertise their proposed projects in daily newspaper (tender invitation) and then short – listing potential contractors after bid. Bid evaluation refers to the strategic assessment of tender bids submitted by pre-qualified contractors (Hatush and Skitmore 1997).

### **2.1.1 Bid Evaluation**

This has enhanced the use of several bid evaluation strategies to help client (public and private) in evaluating contractor's bids and select the most appropriate one, in order to improve effectiveness and efficiency of bid evaluation within the Nigerian construction industry, it is critical to enhance the management of invitation and submission of bids as well as the bid evaluation strategies issue because of its paramount role in the project success. All tendering procedures and bid evaluation strategy are normally aimed at selecting the most suitable contractor for the project and securing from him a suitable offer and using this as a basis for an agreement for execution of the project (Aniekwu and Okpala, 1987).

## **2.2 Criteria for Contractors Pre-qualification in the Construction Industries.**

The main criteria and sub-criteria for contractor's pre-qualification and bid evaluations were established on the bases of literature among (Hutush and Skitmore,1997a) and Russell and Skiebniewaski, 1990).

### **2.2.1 Financial Soundness**

Financial soundness or financial standing of a contractor deals with financial issue, ensuring that resources are available to meet the demands, performance standards and cost that it is a statement of the contractor's financial condition and resources, including the current assets and liabilities and a third-party's verification of any unsecured lines of credit extended to the contractor by banks or other financial institutions. This could be a certified audited financial statement by a certified public accountants review of the financial public accountant's review of the financial statements. Financial capacity determines whether the contractor will stand or fail in the process of pre-qualification. However, the evaluation of financial soundness shows the financial status of the contractor (Mangitung and Emsley, 2002b). According to Hutush and Skitmore (1997a) the financial status of a contractor can be accessed through the balance sheet which shows the financial position of the firm and income statement, which measures the net result of firms, operations over a specified interval such as annually. The sub-criteria of financial capability include financial stability, credit rating, banking arrangement and banking and financial status.

### **2.2.2 Technical Capability**

Technical issues, reviews organizational structure, discipline / trade skills ability and experience in similar projects. Technical capability is broadly defined as having recent previous experience and demonstrated capability having recent previous experience and demonstrated capability relevant to a monetary threshold in one or more of the prescribed

field of work types. To meet the requirements of this criterion the contractor must provide information on areas of work that include past experience, expertise of specialization, staffing level, plant and equipment.

### **2.2.3 Ability of Contractor**

The ability to seamlessly interact with accounting, simplicity for variations, sub-contract and purchase order complete document tracking including submittals, transmittals, daily diary and project meeting.

### **2.2.4 Past Performance and Quality**

Another way is to ask the contractor to list the type of major projects experiences, it allows the contractor to elaborate on the key success they had in the past or simply list the number of year. Past illegal behaviour determines whether a contractor is involved in issues such as fraudulent claims. Procurement solution (2009) commented that contractor past performance involves listing of five projects (Maximum that are significant and relevant to his current pre-qualification statues which have been completed in the past 12 months).

### **2.2.5 Project (Business) Management Organization**

This is a mandatory requirement for pre-qualification, that all contractors must have business management system in place. Evidence that the system has been certified by a second/third party

approved auditor is required. The prequalification registrar will notify separately when renewal certification is required. If any renewals coincide with this renewal application, then that certification must be included. (Procurement solution 2009).

## **3.0 METHODOLOGY**

### **3.1 Sampling Techniques**

Due to the nature of the data collected from the population questionnaire were administered on those sampled respondents to obtain data relevant to the study in south western Nigeria, where the majority of the clients, consultants and contractors are based.

However, these were achieved using a random sampling method. Two types of analysis were used in the analysis of data obtained for this research is descriptive and inferential statistics. The descriptive statistics were performed on question (field survey responses) using Microsoft and excel software, while the inferential statistics were performed on data collected from project files using statistical packages for social science (SPSS). Frequently counts, the mean item score for each criterion for each group of criteria and overall weighted average were computed, the means items score for all the criteria were ranked for each organisations and all of them grouped together. Responses were presented in tables, means, percentages and charts. Multiple bar charts were used in order to compare the responses of the significance of the criteria used in the organisation.

## 4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION

### 4.1 Data Presentation and Analysis

**Table 1: Criteria used in the Selection of Contractor’s Prequalification in Construction Industry**

<b>Criteria</b>	<b>Mean</b>	<b>Rank</b>
Financial soundness	3.95	1
Technical Capacity	3.73	2
Ability of contractor	3.54	3
Past performance and quality	3.54	4
Management organisation	3.46	5
Plant and equipment	3.41	6
Quality of personnel	3.00	7
Health and Safety	2.93	8
Management safety and accountability	2.71	9
Organisation reputation	2.46	10
<b>Total</b>	<b>41</b>	<b>100</b>

**Source:** Field Survey, 2020.

Table 1 above reveals the criteria to be considered in the selection of competent contractors. It reveals that the financial soundness is ranked highest with mean score of 3.95 followed by past performance and quality with mean score of 3.73, followed by plant and equipment and management safety and accountability with the mean score of 3.54. Then organization reputation with the mean score of 3.46

followed by health and safety with the mean score of 3.41 followed by ability of contractor with the mean score of 3.00 followed by technical capability with the mean score of 2.93 and the least is management organization with the mean score of 2.46. The result shows that financial soundness, past performance and quality were the major criteria for selection of competent contractor.

**Table 2: Criteria to be considered in the Selection of Competent Contractors**

<b>Criteria</b>	<b>Mean</b>	<b>Rank</b>
Acceptance quality of a project	3.95	1
Tender price	3.95	1
Ability of the contractor selected to maintain good		
Relationship with clients/ consultants	3.73	2
Contractor’s Financial Strength	3.73	2
Efficient method of working	3.54	3
Workmanship Standard	3.54	3

Contractor’s Past Performance	3.54	4
Liquidated damages	3.54	4
Construction Method	3.46	5
High Yield of Productivity	3.41	6
Contractor’s Relevant Experience	3.41	6
Ability to Complete Work at Contract Duration	3.00	7
Statutory Restriction	3.00	7
Ability to Complete Project Work at the Stated Cost	2.93	8
Construction Period	2.93	8
Good workmanship	2.71	9
Safety Requirement	2.71	9
Contractor’s Organization	2.46	10

**Source:** Field Survey, 2020

The table 2 above shows the mean scores of the criteria to be considered in selection of a competent contractor, acceptance quality has the highest mean with 3.95%, followed by Tender price with the same mean followed by ability of the contract or selected to maintain good relationship with client / consultant with the mean of 3.73, followed by efficient method

of working with the mean of 3.54 and the least among all is contractors organization with mean score of 2.46 the result shows that acceptance quality of a project and tender price and contractors financial strength are the major criteria for selection of a competent contractors.

**Table 3: The Contractor Prequalification to be Considered in Contractor Selection Frequency Table**

<b>Prequalification</b>	<b>Mean</b>	<b>Rank</b>
Financial Stability	3.78	1
Certification of Incorporation with (CAC)	3.66	2
Capability Stability	3.56	3
Financial Statement and Annual Report	3.54	4
Past Project	3.51	5
Ongoing Project and Project Completion	3.29	6
Company Profile	3.07	7
Management Structure	3.02	8
Strength of Staff	2.98	9
Equipment	2.90	10
Registration Strength	2.78	11
List of Senior Executive	2.76	12

**Source:** Field Survey, 2020

The table 3 above shows the mostly recommended of all the major prequalification is financial stability with 3.78% followed by certificate of incorporation (CAC) with 3.66% followed by capability statement with 3.56% followed by financial statement and annual report with 3.54% and the least is list of senior executives with 2.76%. others as mention above mean criteria used by these organizations which include past project, registration strength, management structure, strength of staff, equipment, ongoing project, project completion, and company profile shows the evidence of tax clearance certificate for 5-7 years, presentation and contractors efficiency of commitment to local content and community social responsibility etc.

## **4.2 Discussion of Findings**

The survey shows that the respondents are civil engineering with Bachelor's degree and their firms situated in Lagos. Their jobs are mostly building works and civil engineering works from government with an open tendering system while few projects are procured through Negotiated tendering system. The effect of wrong selection of contractor on project mostly leads to low productivity and standard, abandonment and disputes. In conclusion I was revealed that to select a competent contractor, some of the criteria to be considered are Tender price, contractors past performance, construction method and construction period among others.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

Contractor selection should be seen as a subject that can be embraced by all professionals in the construction industry as it will be benefit to the

client or its representative for a project to be successful. This study the negotiated tendering is often used in selection of contractor. It also received that wrong selection of contractor leads to abandonment, the low production among others and concluded that some of the criteria to be considered by a client in selecting a contractor are; tender price, contractor's financial strength, contractor organization, workmanship standard among others. The study has examined the contractor selection processes in Nigeria construction industry. The construction industry in Nigeria employs over 350 people either directly as operatives on construction sites or in an administrative, professional, technical or electrical capacity within construction. Over some years back, a lot of setback has been facing the selection of contractors in Nigeria only those have a good reputation were being awarded a contract giving no room for competition among the contractors. Most client embark on Negotiated contract rather than open or selective. The findings therefore revealed that the use of open tendering should be encouraged.

### **5.2 Recommendation**

The findings have shown that:

1. Open tendering method should be encouraged in selection of contract.
2. Competitive tendering system operated by well motivated and remunerated professionals of proven integrity under a regime of honesty, dedicated and accountable political and management leadership is most suitable for Nigeria Society.
3. The Consultant Builder should be given free hand by the client in selecting the right contractor for the project.

4. The contractor should be prequalified before submission tenders. The client / representative should be transparent and unbiased selection process.

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