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## PUBLIC CONTRACT EXECUTION: A CRITICAL REVIEW OF PERFORMANCE HINDERING FACTORS AMONG SMALL AND MEDIUM ENTERPRISES (SMES) IN LAGOS STATE, NIGERIA

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### **Abstract**

*Buying from SMEs has been advanced as a positive measure towards ensuring the development and growths of SMEs. However, SMEs face myriads of challenges when it comes to contract performance after award has been made. The present study investigates and ranks factors perceived to have hindered the execution of public contract awarded to small and medium enterprises in Lagos State, Nigeria. Data were collected through structured questionnaire from two hundred and sixty-seven (267) SME suppliers who were randomly selected whilst the data collected was analyzed using ranking method. The findings revealed three most significant performance hindering factors among SMEs in public contract execution as: late and delay payment, short delivery duration and fluctuation in cost of items. The study concluded that SMEs operators could not deliver and perform optimally in public contracts because they are hindered by some factors which sometimes are caused by the clients, contractors or factors beyond the control of parties to the contract. In order to ensure effective and efficient public contract execution among SMEs suppliers the study recommends that: prompt fund mobilization must be ensured, contract duration must be reasonable and adequate, and contract renegotiation must be possible to accommodate unforeseeable circumstances that may prevent performance of a contract.*

**Keywords:** *Contract performance, Execution, Lagos, Suppliers, Public contract, SMEs.*

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### **1. INTRODUCTION**

The Black law dictionary defines performance as the fulfillment or accomplishment of a promise, contract, or other obligation according to its terms. Similarly, Swanson (1995) while explaining the concept of performance, defines it as the valued productive output of a system which can be measured in terms of features of production, quality, quantity, cost and time. In other words, performance is seen as the execution of a specified task measured against predetermined known standards of accuracy, completeness, cost and speed. In business contract, performance of an agreed obligation, releases the performer from all liabilities under the

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contract. Performance of supply contract manifest when the supplier has satisfactorily performed its obligation as stated in the contract agreement or purchase order.

Non- performance of contract occurs when the supplier fail to make delivery or commences delivery but fails to complete delivery. When goods are delivered at the wrong place, time and manner by contractors, such contract could be regarded as non-performance. Indices for measuring contract performance include amongst others: timely delivery, quality outcome and cost implication. This notion was supported by Chan & Kumaraswamy, (1997) when they aver that timely delivery of projects within budget and to the level of quality acceptable to the client are the parameters for measuring success of a contract.

According to Chartered Institute of Purchasing and Supply (CIPS), right quality, right quantity, right place, right time and right price are the general criteria by which procurement performance is measured. Thai (2004) also maintained that successful contract management and completion involves procurement of item of right quality, in the right quantity, for the right price, in the right time, with the right quantity from the right source. In contract management, anything short of this is regarded as underperformance or non-performance which Organization of Economic Cooperation and Development (OECD) claimed to be more rampant among SMEs. Evidently, a desk study of road projects data at Roads Authority as reported by Kulemeka, Kululanga & Morton (2015) revealed that the most common indices of underperformances among small- and medium-scale contractors were poor quality of work, failure to complete projects on time, and poor tender preparation and estimation.

The definition of SMEs varies from country to country. However, In Nigeria, economically independent companies with about 11 to 300 employees and an annual accruable debit turnover of between ₦5 million and ₦500 million are regarded as SMEs according to the Central Bank of Nigeria. These categories of business entities are very essential in national growth and are veritable tool in achieving economic and social objectives such as employment, rural development and poverty reduction.

Poor contract performance often leads to issues such as litigation, dispute, total abandonment, cost-over run and time-over run and reputational damage (Aibinu & Jagboro, 2002; Owolabi, Amusan, Oloke, Olusanya Tunji-Olayeni, Owolabi, Peter & Omuh ,2014). In spite of the fact that studies have been carried out in understanding factors militating against successful execution of public contract, many of these studies focused on large firms especially in the construction industry excluding small and medium enterprises that have been major stakeholders in public contract. This paper therefore fills the gap by providing useful information on how to address SME suppliers' unimpressive public contract execution in Nigeria. The remainder of the paper is structured as follows. Section 2 gives a review of existing related literature on the issue under investigation Section 3 discusses the methodology adopted. Section 4 reports the findings and discussion. The concluding section 5 proffers recommendations.

## 2. LITERATURE REVIEW

Procuring from SMEs has been advanced in literature as a positive measure towards ensuring the development and growths of SMEs even though studies have shown that there are some barriers preventing their active participation in public market (Olusegun & Akinbode, 2016). Benefits resulting from business relationship between government and SME suppliers have also been well documented (Ebig & Ghas, 2016; Olusegun & Akinbode, 2016). For instance, Ebig and Ghas (2016) argued that considering SMEs in public procurement can lead to a number of economic advantages such as higher innovation rate. However, studies have shown that sometimes, governments who are risk averse do not want to procure from SME (Wilkinson, Georghiou & Cave, 2005; Rolfstam, 2013; Normanyo, Ansah & Asante, 2016).

Literature is replete with evidences of long lead times, late deliveries, poor quality of service, and violation of contract terms and agreement among government suppliers, contractors and service providers (Ahimbisibwe, Muhwezi & Nangoli, 2012; Kulemeka, et al., 2015; Ofori-Kuragu, Baiden & Badu, 2016). For instance, Ofori-Kuragu, Balden & Badu, (2016) expressed the widespread perception of poor performance and underperformance among Ghanaian contractors which manifest in terms of delayed, abandoned or discontinued projects. In another related study carried out by Thwala & Phaladi (2009) in the North West province of South Africa, the problems facing small contractors were identified as government not paying on time, lack of capital and difficulty in arranging guarantees, lack of technical skills and lack of business management skills.

The study of Kulemeka et al., (2015) which critically examined factors inhibiting performances of small and medium scale contractors in Malawi identified high tendering interest regimes offered by financial institutions, stringent conditions to access capital, fluctuation of currency, stringent requirements for obtaining bonds and high taxes as the first set of highest ranked inhibiting factors. On the contrary, the study of Wasi, Bridge & Skitmore (2001) identified factors such as cash flow, construction management skills, contract documentation, harmonious relationship, office facilities and equipment, communication, cultural impacts and financial management skill as hindrances to performance of small indigenous contractors in Papua New Guinea. Another related study conducted by Mahamid (2011) on the causes of contractors' failure also revealed five top factors causing failure of contract execution in West Bank in Palestine as fluctuation in construction material cost, delay in collecting dibs from clients, lack of experience in contracts, low margin profit due to competition, and closure and limitation of movement.

In Nigeria, Ibronke, Oladinrin, Adeniyi, & Eboreime (2013) study of non-excusable factors influencing contractors' performance in Lagos identified five most important factors as insufficient amount of equipment, inaccurate time estimates, monthly payment difficulties, change order and inaccurate cost estimate. The study did not classify the nature of these contractors and also did not provide a rank of these factors. In the study of Ogunde, Owolabi, Olusola, Tunji-Olayeni, Amusan, Joshua & Akhigbe, (2016), it was revealed that most prominent factors affecting the competencies and project delay of small - sized indigenous

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construction firms in Lagos, Nigeria were poor managerial skills, lack of project planning and unavailability of funds. However, the study failed to rank the factors in order of effect. Aside this, existing studies were carried out in the construction industry which were mostly large firms (Ogunde et al., 2016; Gambo & Said, 2014). The present study attempts to fill the gaps that exist.

## 2. METHODOLOGY

A survey of SMEs operators and owners was conducted with a view to investigating factors affecting them in the performance of public supply contracts. Three hundred and eighty-six (386) questionnaire were administered on small and medium scale suppliers within Lagos metropolis. The suppliers who were randomly selected are those involved in supply of laboratory equipment, office and classroom furniture, office items such as computers, printers, scanners, consumables, toiletries, and printing papers.

Identified factors influencing contract performance in the views of studies such as Wasi et al., (2001), Ibronke et al., (2013), Kulemeka et al., (2015) served as guide in the selection of SME suppliers. The factors used are: late/delay payment by buyers, lack of contract management experience, short /unrealistic delivery duration, low cash flow, inadequate experience in line of business and fluctuation in cost of items, award criteria that favors lowest bidders. According to Small and Medium Enterprises Development Agency of Nigeria/National Bureau of Statistics (2013) collaborative survey, there were 11,668 registered operators of SMEs in Lagos State. The study adopted slovin's formula ( $n = N/1+Ne^2$  where  $e = 0.05$  for confidence level of 95%),  $n$ =sample size and  $N$  = sample size/population) in determining the appropriate sample size for the study.

$$n = 11,668/1+11,668 \times 0.05^2 = 11,668/1+29.17 = 11,668/30.17 = 386.7 = 387$$

Accordingly, three hundred and eighty-seven (387) copies of questionnaire were distributed. However, two hundred and sixty-seven (267) copies of the distributed questionnaire was fully completed and found useful for the analysis. Copies of the questionnaire used for the analysis represent 69% of the total questionnaire distributed.

In the questionnaire respondents were asked to rank the extent of influence of the factors on their contract performance based on a five point scale where 5 = Very high influence, 4 = High influence, 3= Moderate influence 2= Low influence, 1=Very low influence). To ascertain the reliability and internal consistencies of the statement of factors affecting SMEs supplier's performance of contract, Cronbach's coefficient alpha was calculated. The reliability test of the 7 factors was 0.837 which is above 0.5. The reliability test revealed that there is high acceptable level of internal consistency among the statement of factors affecting SMEs performance of public contract. The study adopted Nunally (1978) interpretation of Reliability which states as follows: Cronbach Alpha ( $C\alpha$ ) > 0.8 considered as 'excellent';  $0.8 > C\alpha > 0.7$  as Good;  $0.7 > C\alpha > 0.5$  as Satisfactory and  $C\alpha < 0.5$  is considered poor. This indicates that the five-point scale adopted was reliable.

Data collected was analyzed with SPSS 17 where the factors were ranked. The ranking was based on arithmetic mean value scores and standard deviation was calculated for each factor.

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To adequately quantify this, the following criteria were used based on the scale rating of 1-5 as expressed below:

1. If the mean score is less than or equal to 1.49, the factor is considered to have “very little influence” on SMEs execution of public contract
2. If the mean score is between 1.50 and 2.49, the factor is considered to have “ little influence” on SMEs execution of public contract
3. If the mean score is between 2.50 and 3.49, the factor is considered to have “ moderate influence” on SMEs execution of public contract
4. If the mean score is between 3.50 and 4.49, the factor is considered to have “ high influence” on SMEs execution of public contract
5. If the mean score is between 4.50 and 5, the factor is considered to have “very high influence” on SMEs execution of public contract.

## **4. FINDINGS AND DISCUSSIONS**

### **4.1 Results**

This section presents the weighted means and ranking of the seven factors investigated in the survey as shown in Table I. The weighted mean of the factors ranged from 1.73 to 4.73 which implied that all the seven factors investigated have influence on SMEs suppliers’ contract execution. Specifically, the study revealed that the highest ranked factor affecting SMEs suppliers’ public contract execution is late/delay payment with a mean score of 4.17.

The table further revealed short/unrealistic delivery duration as the 2<sup>nd</sup> pressing issue with the mean score of 3.75. This is followed by low cash flow with the mean score of 3.39 and ranked 3<sup>rd</sup>. Fluctuation in the cost of items is next with the mean score of 3.00 which is a moderate influence and assumed 4<sup>th</sup> ranked factor while award criteria in favor of lowest bidder with mean score 2.42 is ranked 5<sup>th</sup> hindering factor. Inadequate experience in line of business is with the mean score of 1.87 which assumed 6<sup>th</sup> hindering factor while the least hindering factor is lack of contract management experience with mean score of 1.73 and represent 7<sup>th</sup> ranked factor.

**Table I: Ranking Performance Hindering Factors of SMEs Suppliers' in the Execution of Public Contract**

Factors						Mean Score	S.D	Ranking
	1	2	3	4	5			
Late/delay payment by buyers	0	0	71	80	116	4.17	0.821	1 <sup>st</sup>
Short/unrealistic delivery duration	22	2	51	138	54	3.75	1.052	2 <sup>nd</sup>
Low cash flow	23	2	114	104	24	3.39	0.931	3 <sup>rd</sup>
Fluctuation in cost of items	37	16	148	42	24	3.00	0.816	4 <sup>th</sup>
Award criteria that favors lowest Bidder	2	188	41	36	0	2.16	0.767	5 <sup>th</sup>
Inadequate experience in line of Business	72	81	112	2	0	1.87	0.597	6 <sup>th</sup>
Lack of Contract Management Experience	76	104	63	24	0	1.73	1.06	7 <sup>th</sup>

Source: Computed Data, 2018.

## 4.2 Discussions

This study has identified and ranked contract execution performance hindering factors on the part of SMEs. The first and leading factor 'late and delayed payment' in the opinion of respondents represent a significant contract execution performance hindering factor. According to a significant proportion of the respondents, procuring entities were usually reluctant to give mobilization fee while those who give do not release them on time. Some suppliers also complained of not getting money for the service rendered in some procuring entities as a result of this, fund is tied down with such entities and made them to be short on fund to meet up with their other financial obligations in another procuring entities. This view affirmed the opinion of Kulemeke et al., (2015) which opined that contractors could not fulfill their part of the contract agreement because they do not receive their money on time after they have delivered goods to the suppliers.

The second hindering factor 'short and unrealistic delivery duration' with the mean score of 3.75 is considered as having high influence on public contract performance. Respondents claimed that purchasers do set short duration for delivery of goods not considering the bottlenecks associated with getting goods imported into the country. This contravenes the provision of Public Procurement Act (2007) in Nigeria which mandates public purchasers to do procurement plan early to avoid late rush which put suppliers in tight corner. This finding thus affirmed the position of Wasi et al., (2001) which claimed that short delivery period as one of the major problems facing contractors in contract execution.

Low cash flow with the mean score of 3.39 assumed third contract execution performance hindering factor from the feedback given by respondents. Most often time suppliers commit their funds in supplying items but these funds are not paid as at when due by purchasers

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to probably due to unavailability of funds. However, Section 16 (1) (b) stipulates that no procurement proceedings shall be formalized until the procuring entity has ensured that funds are available to meet the obligations.

The fourth contract execution performance hindering factor is ‘fluctuation in cost of items’ with the mean score of 3.00. Respondents in their opinion admitted that the state of economy and government inconsistent economic policies have been a serious threat to meeting contract bids. Suppliers regretted inflationary trend and economic recession which have made it impossible for them to executive contracts profitably.

The fifth ranked factor affecting contract performance as revealed by the respondents are the award criteria that favor lowest bidder with a mean score of 2.42 which is considered to be of low influence on public contract performance. According to Ibrinke (2008), giving contract based on lowest bid is a major factor affecting performance of contract. The Public Procurement Act (2007) provides that ‘contract shall be awarded to the contractor with the lowest evaluated bid’. Experience have however shown that some desperate bidders do price very low just get a contract awarded to them. This has resulted into contract abandonment in the recent past. Inadequate experience of contractors in line of business with the mean score of 1.87 was rated sixth contract execution hindering factor. This factor is considered to have low influence on SMEs performance of public contract while the least ranked factors affecting SMEs public contract performance is lack of contract management experience with mean score of 1.73 which also do not have much influence on public contract performance as revealed by the respondents.

## 5. CONCLUSION AND RECOMMENDATIONS

This paper has discussed SMEs involvement in public contracts as one of the ways to develop the sector. However, SMEs suppliers in public contract are usually confronted with a number of hindrances which have impeded their tendencies of efficient contract execution. This study identified and ranked seven non-excusable factors that have hampered SMEs public contract performance in Lagos, Nigeria. In order of effect; late/delay payments, setting unrealistic delivery period, low cash flow, fluctuations in the price of items, award criteria that favors lowest bidder, inadequate experience in line of business as well as lack of contract management experience were found to be clog in the wheel of effective participation and delivery of SMEs in public contract. However, the study identified late and delay payment, short delivery duration and fluctuation in cost of items as the three most significant performance hindering factors among SMEs in public contract execution.

Based on the findings, the followings were recommended:

- i. Prompt payment of contract fee: Timely payment of mobilization and full contract fee to SMEs will no doubt reduce incidences of public contract execution poor performance.
- ii. Setting of realistic delivery date: Reasonable duration for contract execution must be agreed on bearing in mind the activities involved, when money is released, procuring

entity involved (small or medium enterprise), and government/regulatory agency prescription.

- iii. Management of cash flow: It is expedient for procuring entities involved in contract executive to effectively run and monitor cash flow in their operations to efficiently deliver.
- iv. Provision for contract cost review: Clause that will give room for contract re-negotiation must always be incorporated into contract agreement to pave way for cost review in the face of economic recession or policy change.
- v. Transparent and efficient supplier's prequalification system: The procuring entity (Purchaser) should put in place a transparent and efficient prequalification system which will bring about selecting the right supplier for the right contract.
- vi. SMEs contract area experience: Procuring entity need to investigate expertise of SMEs in the bidding area before approving contract. Where experience is lacking, such enterprise must be disqualified from the bidding.
- vii. SMEs contract execution and management experience: The quality of entity's management team count in contract execution. Therefore, the caliber of people in the entity must also be investigated if they have the capacity to manage, execute and complete contract.

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