CAUSES OF FAILURE OF SMALL CONTRACTORS IN SAUDI ARABIA

Sadi ASSAF¹, Omar SROUR² and Mohammad A. HASSANAIN³

¹Construction Engineering and Management Department, King Fahd University of Petroleum and Minerals, Dhahran, Saudi Arabia. Email: assaf@kfupm.edu.sa
²Construction Engineering and Management Department, King Fahd University of Petroleum and Minerals, Dhahran, Saudi Arabia. Email: g200704190@kfupm.edu.sa
³Architectural Engineering Department, King Fahd University of Petroleum and Minerals, Dhahran, Saudi Arabia. Email: mohhas@kfupm.edu.sa

Abstract
The construction industry in Saudi Arabia is currently flourishing due to increased earned revenues from the oil industry. Small contractors are finding more opportunities for business. The objective of this paper is to understand the reasons behind failure of small contractors and identify the most important factors contributing to their failure. A questionnaire survey was developed and distributed among 43 small contractors for obtaining their feedback and to assess the most critical reasons behind failure of small contractors in the Saudi market. The research concluded that the most crucial causes of small contractors’ failure are management incompetence, poor accounting systems and records, difficulties in attracting good personnel, dependency on a very limited customer base and lack of effective business plans. Based on the results of the study and the severity of the causes of failure, a series of recommendations were developed that could lessen the failure of small contractors.

Keywords
Contractor’s failures, causes of failure, small contractors, small businesses, Saudi Arabia.

INTRODUCTION

Small businesses are considered to be one of the most important ingredients of a successful free enterprise economy. Being one major type of small businesses, small contractors can perform projects of different scale that are located in different and remote locations. These are considered uneconomical business opportunities to medium or large contractors. The low indirect costs and profit margin for small contractors enable them to work at more competitive prices for small projects (Thawala and Mvubu, 2008). The starting of a small contractor business is relatively simple due to the modest managerial and technical skills required to initiate such a business. Nevertheless, all construction contractors face three types of risk. These are the economic-based risk, industry-based risk and firm-based risk (Everett and Watson, 1998).