

Growth Constraints of Domestic Construction Firms in Emerging Economies

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Abstract

Domestic construction firms in emerging economies face multiple constraints that hinder their growth. This study aimed to explore the significant constraints that impede the growth of local construction firms working in the prevalent fierce construction market. The theoretical underpinnings of the study were institutional and resource-based view theories. A systematic literature review was the preferred research approach for the study. Out of 435 initially identified documents from Scopus, Web of Science, and ProQuest databases, 18 were selected through a rigorous screening process for in-depth analysis. Using thematic analysis, ATLAS.ti25, five major categories of constraints were explored from the screened publications, including financial, market/competitiveness, workforce and skills, institutional and regulatory, and management and operational. Addressing these constraints through targeted policies and strategic interventions is crucial for enhancing the competitiveness and sustainability of domestic construction firms in emerging economies.

Keywords: Constraints, Construction firms, Emerging Economies, Growth, Systematic literature Review

1. Introduction

The construction industry is a vital component of the global economy, serving as a significant engine for economic growth and recovery. According to Oxford Economics (2021), the construction sector is projected to generate an estimated revenue of \$15 trillion by 2025, up from \$10 trillion, highlighting its critical role in economic development. The industry not only creates jobs—enrolling over 100 million people globally—but also contributes approximately 6% of the global GDP, and this figure is expected to rise to over 8% in developing countries (World Economic Forum, 2016).

The construction industry is crucial in emerging economies as it delivers the essential infrastructure for human well-being and economic growth. However, despite its significant contributions, the construction industry in emerging economies faces numerous challenges (Alinaitwe, 2021). Moreover, globalisation has intensified competition within the construction industry, with domestic firms often struggling to compete against well-established international contractors (Kirchberger, 2020). This competitive landscape necessitates that domestic construction firms enhance their performance standards and organisational capabilities to survive and thrive. The growth of domestic construction firms is not only an important indicator of a thriving economy but also essential for achieving sustainable development goals (Alinaitwe, 2021).

Emerging economies are characterised by rapid urbanisation and increasing demand for infrastructure, which presents opportunities and challenges for domestic construction firms. As cities expand and populations grow, the need for housing, transportation,

and public services becomes more pressing. However, the ability of domestic firms to capitalise on these opportunities is often constrained by different constraints. Addressing these constraints is crucial for enabling domestic firms to compete effectively, innovate, and contribute to the sustainable development of their economies (World Economic Forum, 2016).

The local construction firms of emerging economies are not growing at a pace that could match the prevalent fierce market competition (Tesda et al., 2017). A study by Windapo (2017) in South Africa also indicated that construction firms are not developing and growing sustainably and need sustainable growth strategies. Tesda et al. (2017) also noted a similar condition in Sub-Saharan African countries where local construction firms encounter fierce competition from international contractors. However, there is a knowledge gap in identifying the specific constraints that hinder the growth of local construction firms. This paper aims to explore these growth constraints and propose strategies for enhancing the capacity and competitiveness of local construction firms in emerging economies.

2. Literature Review

The construction industry in emerging economies faces significant growth constraints that hinder the development of domestic construction firms. A study by Somiah et al. (2022) on the Ghanaian construction industry identified four principal components of these constraints: political and economic, capacity, external support, and belief constraints. Political and economic constraints include a lack of political will to develop local content laws, which are essential for promoting indigenous firms. Additionally, the high costs associated with developing local competencies and

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inadequate media debate about local content laws further exacerbate these challenges.

Capacity constraints are particularly detrimental, as they encompass the financial limitations that indigenous firms face in accessing funding for their activities. According to Somiah et al. (2022), the under-capacitated financial market is a leading factor, alongside a limited pool of competent labour and insufficient expertise to design effective local content laws. These constraints prevent domestic firms from competing effectively against foreign counterparts, who often have better access to resources and expertise. The lack of industry pressure groups to advocate for local content laws also contributes to the stagnation of domestic firms in the construction sector (Somiah et al., 2022).

In addition to these findings, corruption (Ofori, 2015), lack of technological advancement (Zhang et al., 2023), and bureaucratic inefficiencies (Ivanov & Aldeen, 2018) are key institutional barriers limiting the growth of construction firms in emerging economies. The study found that delays in permit approvals, inconsistent regulations, and unclear procurement processes create uncertainties that hinder the smooth operation of local firms. Furthermore, weak financial support mechanisms, such as high-interest rates and a lack of collateral, prevent small and medium-sized domestic firms from securing funding for large projects.

Ye & Tekka (2020) emphasised that workforce-related challenges, including a shortage of skilled labour and inadequate training programs, limit the capacity of local firms to execute complex projects. The lack of well-structured vocational training and professional development opportunities leaves domestic construction firms at a disadvantage compared to international competitors. The same study recommended government-led initiatives to improve training programs and increase incentives for knowledge transfer between foreign and domestic firms.

Market and competitiveness constraints are also significant issues. (Ofori, 2015) underscored that foreign construction firms dominate large infrastructure projects due to their financial stability, technological edge, and experience, which leaves domestic firms with limited opportunities to grow. They also noted that domestic firms struggle with branding and strategic partnerships, which affect their ability to win competitive bids. These constraints force many local firms to operate at the subcontracting level rather than leading major projects, thereby limiting their long-term growth prospects.

Moreover, a study by Mousa (2015) pointed out that ineffective management practices and a lack of

innovation in construction processes further contribute to growth challenges. Many local firms fail to adopt modern project management methodologies, digital tools, and sustainable construction practices, which are becoming essential for competitiveness in the global market. The theoretical underpinnings for this study are Institutional Theory and Resource-Based View (RBV). Institutional theory explores how organisations respond to pressures from regulatory, normative, and cognitive (Lammers & Garcia, 2017). The Resource-Based View (RBV) complements this by emphasising the importance of firm-specific resources and capabilities in achieving competitive advantage (Utami & Alamanos, 2022). This study aimed to examine the existing scholarly publications on growth constraints of domestic construction firms.

3. Research Methodology

A systematic literature review (SLR) was employed to examine the existing scholarly publications in the study area (Saunders, Lewis & Thornhill, 2016). In contrast to traditional reviews, SLR employs a scientific, transparent, and replicable procedure that involves a thorough assessment of the literature based on the analysis of previous studies (Mase, 2020). The authors followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 to conduct the SLR (Matthew et al., 2021). The data were acquired from Scopus and Web of Science databases. The query strings used for the search were: ("constraints" or "challenges") and ("local construction firms" or "domestic construction firms"). The authors discarded duplicate articles and articles written in languages other than English. Book chapters and book reviews were also excluded. Studies done in the context of developing countries were included. Studies on social sciences, Engineering, decision sciences, business, management, and accounting were encompassed. Studies conducted from 2006 to 2025 were included. The procedures followed for the article selection are presented in Figure 1.

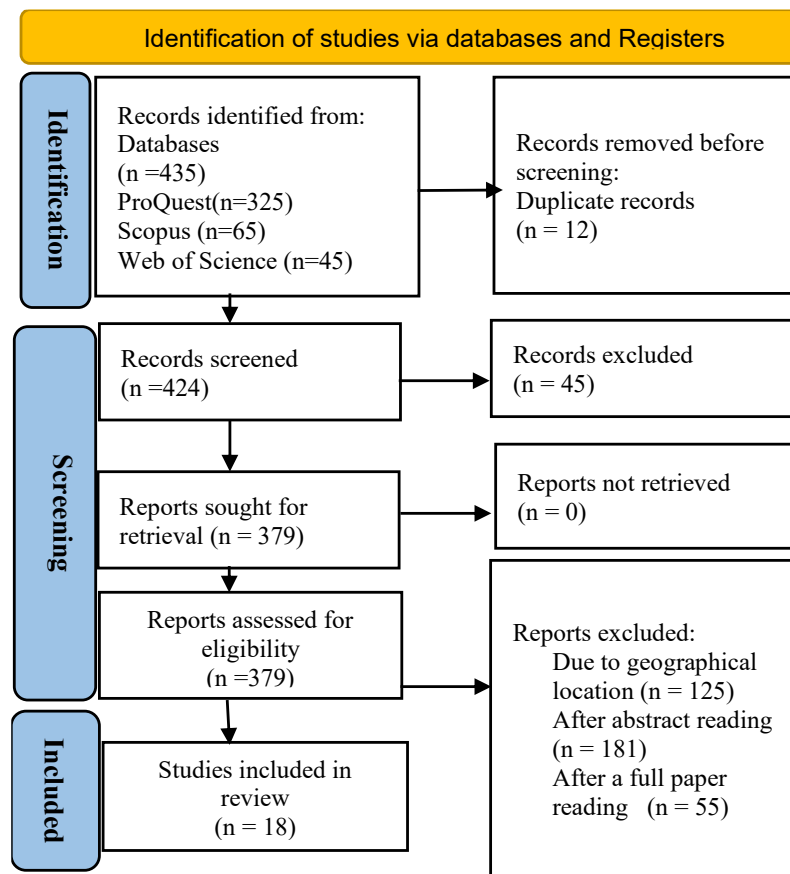


Figure 1: PRISMA 2020 flow diagram for identification of studies for synthesis

Then, the 18 screened publications, illustrated in Figure 1, were examined to identify the existing literature on the different constraints of the growth of local construction firms in emerging economies. A thematic analysis was done on the screened articles using ATLAS—ti25 software.

4. Findings and Discussion

For the analysis using ATLAS.ti25, different codes were initially generated from the quotations extracted from the screened articles. Then, different code groups were created under the theme of constraints of local construction firms. The different constraints to the growth of local construction firms in emerging economies were identified at this stage.

In addition to providing a general understanding of the growth of local firms, the results of the coded data analysis also point to specific constraints. To offer a more profound knowledge, this section explores the significant elements that have been identified as constraints to the growth of local construction firms in the construction industry of emerging economies.

4.1. Growth Constraints of Domestic Construction Firms in Emerging Economies

The constraints identified in the analysis point out various factors hindering construction firms' growth in emerging economies. Table 1 illustrates these drivers with their references. This information was retrieved from the ATLAS—ti25 code document analysis output.

Next, the constraints limiting the growth of domestic construction firms in emerging economies will be discussed. The constraints stem from financial, market, workforce and skills, institutional and regulatory, and management and operational areas.

4.1.1. Financial

Financial constraints significantly hinder the growth potential of domestic construction firms in emerging economies, primarily due to limited access to capital and high borrowing costs. Many of these firms struggle to secure financing from traditional banking institutions, which often view the construction sector as high-risk. This perception leads to stringent lending criteria, including higher collateral requirements and elevated interest rates, making it difficult for smaller firms to obtain the necessary funds for project execution (Oladimeji, 2019). The lack of financial transparency among many domestic firms further

Table 1: Constraints that impede the growth of construction firms in emerging economies

Constraints	References
Financial Constraints	(Offei et al., 2019; Oladimeji, 2019; Somiah et al., 2022; Ye & Tekka, 2020)
Market / Competitiveness	(Belay et al., 2021; Kesto & Tsega, 2022; Somiah et al., 2022)
Workforce and Skills	(Belay et al., 2021; Ofori, 2015; Ye & Tekka, 2020)
Institutional and Regulatory	(Offei et al., 2019; Somiah et al., 2022; Ye & Tekka, 2020)
Management and Operations	(Kesto & Tsega, 2022; Offei et al., 2019; Oladimeji 2019; Somiah et al., 2022; Ye & Tekka, 2020)

(Source: Summarised by the author from ATLAS.ti25 code-document analysis table)

exacerbates this issue, as lenders may be reluctant to extend credit without a clear understanding of the firm's financial health. Consequently, these financial barriers can stifle innovation and limit the ability of construction firms to undertake larger, more lucrative projects, ultimately affecting their competitiveness in the market.

Moreover, the liquidity challenges faced by construction firms compound the effects of financial constraints. The construction industry is characterised by long project timelines and delayed payments from clients, which can create significant cash flow issues. Firms often find themselves in a position where they must maintain higher liquidity levels to manage ongoing projects and meet financial obligations, which can divert resources away from growth initiatives. This reliance on internal funds for future investments can lead to missed opportunities and a reluctance to expand operations. As a result, financial constraints not only limit the immediate operational capabilities of domestic construction firms but also have long-term implications for their growth trajectories and overall sustainability in an increasingly competitive landscape (Belay et al., 2021).

4.1.2. Market/ Competitiveness

The growth of domestic construction firms in emerging economies is significantly hindered by market competitiveness, as local contractors often struggle to compete with well-established foreign firms. These foreign entities typically engage in larger and more complex projects, resulting in a stark contrast in average contract values. Domestic firms, constrained by limited resources and capabilities, frequently deliver projects that do not meet quality expectations, further exacerbating their competitive disadvantage.

The reliance on foreign contractors not only reflects the high demand for infrastructure development but also highlights systemic issues faced by local firms, such as inadequate training and outdated technology (Kesto & Tsega, 2022). To overcome these competitive barriers, domestic construction firms must implement strategic

initiatives aimed at enhancing their operational efficiency and project management skills. Investing in modern technologies and fostering workforce development are critical steps toward improving quality and performance (Somiah et al., 2022). Additionally, cultivating strong relationships with key stakeholders can provide local firms with a competitive edge in securing contracts. By addressing these challenges and leveraging growth opportunities, domestic contractors can better position themselves within the construction industry, ultimately contributing to the economic development of their respective regions.

4.1.3. Workforce and Skills

The growth of construction firms in emerging economies is significantly hindered by the Workforce and Skills constraint, which encompasses a range of challenges related to labour availability and training inadequacies. A critical issue is the persistent shortage of skilled labour, which stems from educational systems that fail to equip graduates with the necessary technical competencies. The demand for a diverse skill set in the construction industry is paramount, yet existing educational frameworks often fall short, leaving firms with a workforce that is ill-prepared for modern challenges (Belay et al., 2021; Ye & Tekka, 2020).

In addition to the shortage of skilled labour, the inadequacy of training programs and insufficient investment in human capital further complicate the landscape for construction firms. The lack of sustainable funding for training initiatives has emerged as a significant barrier to enhancing workforce skills, which are essential for improving the overall performance of the construction sector. Ofori (2015) emphasised that effective leadership and a skilled workforce are critical for the advancement of the construction industry in developing countries. Consequently, addressing the "Workforce and Skills" constraint through targeted investments in education and training is imperative for cultivating a capable

workforce that can propel the growth and sustainability of construction firms in emerging economies.

4.1.4. *Institutional and Regulatory*

Navigating the complex landscape of construction in emerging economies is fraught with challenges, particularly due to Institutional and Regulatory constraints that stifle growth and innovation. These constraints manifest through inadequate legal frameworks, poor regulatory compliance, and insufficient institutional capacity, creating an environment where construction firms struggle to thrive (Somiah et al., 2022; Ye & Tekka, 2020).

A notable issue is the lack of political will to enforce existing laws and regulations, which results in ambiguous guidelines for firms. Poorly designed local policies and regulatory frameworks lead to inefficiencies and reduced competitiveness among indigenous firms. Additionally, the absence of coherent local content laws further complicates matters; without such regulations, local firms find it challenging to secure contracts and enhance their capabilities (Offei et al., 2019; Somiah et al., 2022).

The challenges do not end with poorly designed regulations; the implementation of existing frameworks is often undermined by inadequate institutional capacity, which affects the enforcement of laws and governance within the construction sector. Therefore, addressing these institutional and regulatory constraints through improved governance, capacity building, and the establishment of clear legal frameworks is crucial for enhancing the growth and sustainability of construction firms in emerging economies.

4.1.5. *Management and Operations*

Gaps in organisational, financial, and operational management significantly impact the growth trajectory of construction firms in emerging economies. Effective organisational management is crucial for ensuring that construction firms can adapt to changing market conditions and efficiently allocate resources. However, many domestic construction firms struggle with establishing clear organisational structures and processes, which can lead to confusion and inefficiencies. This lack of clarity often results in poor decision-making and ineffective communication within teams, ultimately hindering project execution and firm performance (Kesto & Tsega, 2022).

Financial management is another critical area where construction firms face substantial challenges. Local construction firms usually encounter financial constraints, including cash flow issues and limited access to credit, which severely impact their ability to fund projects and manage operational costs effectively. Research indicates that these financial difficulties can lead to project delays and cost overruns, further

exacerbating the challenges faced by these firms (Somiah et al., 2022; Ye & Tekka, 2020).

Additionally, operational management is often compromised due to inadequate planning and resource allocation, which can result in inefficiencies and increased project risks. The reliance on unskilled labour, driven by financial limitations, further complicates operational management, as it can lead to subpar quality and performance. Therefore, addressing these constraints through improved organisational structures, robust financial management practices, and effective operational strategies is essential for enhancing the growth and sustainability of construction firms in emerging economies.

5. **Conclusion and Further Research**

The growth of domestic construction firms in emerging economies is constrained by multiple interrelated factors that hinder their competitiveness and sustainability. This study, grounded in Institutional Theory and the Resource-Based View (RBV), systematically identified five major categories of constraints: financial, market/competitiveness, workforce and skills, institutional and regulatory, and management and operational. The findings highlight that limited access to financial resources, intense competition from foreign firms, inadequate workforce training, weak institutional support, and inefficient management practices significantly impede the expansion of local construction firms.

Addressing these challenges requires a multifaceted approach involving policy interventions, industry-wide capacity building, and strategic internal improvements. Governments and regulatory bodies must create an enabling business environment by refining institutional frameworks, ensuring fair competition, and facilitating access to financial resources. Additionally, domestic firms need to enhance their internal capabilities by adopting modern construction technologies, investing in workforce development, and improving financial and operational management practices.

Ultimately, overcoming these constraints is critical for the sustainable growth of domestic construction firms, enabling them to contribute more effectively to infrastructure development, job creation, and economic progress in emerging economies. Future research should explore targeted strategies for mitigating these constraints, as well as the role of digital transformation and emerging construction technologies in enhancing firm competitiveness.

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