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Mitigating the Effects of Global Economic Recession on Construction Industry in Lagos State, Nigeria

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Abstract— In this paper, the effects of global economic recession on the construction industry in Lagos State, Nigeria are examined, and practical strategies for survival are proposed. Qualitative data was collected from 45 stakeholders across large, medium, and small construction firms to understand the depth of disruption caused by downturns. The findings show that high exchange rates, rising construction material costs, reduced project funding, supply chain breakdown, and tight fiscal policies lead to delays, cost overruns, and sometimes total abandonment of projects. I have always noticed in my computer-based work that planning ahead reduces stress, and this research also supports that idea. Firms that diversified portfolios, collaborated with partners, invested in technology, reduced administrative costs, and managed cashflow more carefully had stronger stability during recession periods. This gives hope that survival is possible when the right steps are taken. The study concludes that a combined approach of diversification, partnerships, innovation, and disciplined financial management can help contractors remain resilient. It also recommends increased infrastructure investment from government to support productivity and reduce the shock impact because long-term progress depends on responsible decisions and supporting one another, just like how I believe happiness grows when we help others..

Keywords— Global Economic Recession, Construction Industry Lagos, Cost Overrun, Portfolio Diversification, Partnerships and Collaboration, Technology Adoption, Cashflow Management.

1. INTRODUCTION

Global economic recession is a phenomenon that dates back to 1929, when the world witnessed the first recession, termed the great depression. Then came the financial crisis of 2008 and the covid 19 depression of 2020. When recession sets in, it tends to gather its own force, consumption demand falls off, investments that looked profitable when sales and prices were expected to go up becomes unprofitable. Companies' business begins to fails, reduced production, increased unemployment resulting in fall in income and expenditure. Firms get into difficulties as prices and profits fall and new investment is almost not possible (kose, 2020).

Lagos state, is Nigeria center of excellence, with a population of over 13.4 million people (NBS, 2006) Lagos state is the hub of economic and commercial activities. The state is adorned with massive infrastructure including labyrinths of road, railway, seaport, airports, imposing skyscrapers, universities and other educational institutions with a genre of hospitality organizations. Against this backdrop, Lagos state economy is a significant contributor to Nigeria gross domestic product (GDP) Again (2022). This places Lagos state as an open target for external shocks.

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The effects of global economic recession in the construction industry in Lagos state will have far reacting consequence on the economy and people of Lagos state and Nigeria in general.

The construction industry sector in Lagos state boasts of all categories of construction companies, property development companies, bult environment professionals and building materials merchants (Arowolo et al 2023).

The construction industry sector acts as a catalyst to the economy and sometimes is the barometer to check development (Aksana,2021). Investment in the construction industry, increases the capital stock and thus causes changes in potential national income.

This paper will highlight the underlying factors that cause recession. Understanding the factors will help in devising actionable strategies to reduce the impact. The aim of this paper is to propose strategies that can be put in place to mitigate the effect of a recession. While recessions are part of economic cycle, proactive policy measures, responsible financial practices, partnering and global collaboration can reduce the severity.

2. LITERATURE REVIEW

The major causes of global economic recession are financial crisis, which are associated with failing financial institutions, stock market failures, budget misappropriation and commodity prices go up, price uncertainties and price control inadequacies. Government borrowing can lead to recession, when the terms and conditions for repayment are not strictly followed, resulting to accumulated interest which will affect the national economy performance , invariably with a spillover effect on the construction sector. (Aksana,2021). Another cause of global economic recession is a pandemic as witnessed during the covid -19 pandemic 0f 2020. These conditions can lead to the construction sector receiving knocks in terms of rise in cost of construction, cost overrun of construction works in progress, time over-run resulting to client dissatisfaction. Extreme situations can lead to construction project suspension or outright abandonment.

The construction industry stakeholders can employ different strategies to survive during global recessions. (Amphina,2020; Arowolo et al 2023; Chianntife 2022) these strategies will Include

2.1. Portfolio Management

By expanding their services to new market sectors or even geographical locations and in production of new product line, to reduce dependence on one product or service.

2.2 Partnership And Collaborations

Going into partnership, joint ventures with other contractors, suppliers in order to share equipment, resources, expertise, capital and most importantly share risks.

2.3. Technology

Embrace new technology through training personnel and partnership with specialist organization to improve work efficiency, reduce costs and remain competitive

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2.4. Reduce Administrative Expenses

Introduce measures to reduce cost such as reducing number of staff employed, rationalize equipment's and vehicles to improve operational efficiency. Renegotiate existing contracts with a view to seeking extended financial facilities repayment or moratorium.

2.5. Cashflow Management

Institute stringent cash management policies. Ensure proper management of accounts receivable and accounts payable. Renegotiate accounts payable terms and credit policy. An increase in account payable can lead to an increase in cash flow as the business has more time to pay to debts.

3. METHODOLOGY

This study employed the qualitative method to obtain the data needed to achieve the aim of this work. Non – numeric data was collected directly from stakeholders' perspectives, experiences and ideas to get a robust insight into the impacts of global recession on the construction industry sector in Lagos state. The literature review was drawn from academic journals conference proceeding and industry reports. Descriptive survey was used to describe large amounts of information regarding the impacts of global recession on the construction industry and mitigating strategies. A sample size of forty-five (45) participants were chosen using purposive sampling. Participants at the expert's interview include three (3) great, three (3) medium and three (3) small sized construction organization in Lagos state, each presenting five (5) participants to ensure a diverse gathering of perspective. Purposing sampling was aimed at key stakeholders/project managers who have veritable information on the subject matter.

4. RESULTS AND DISCUSSIONS

The findings revealed that recession has significant effects on the construction industry in Lagos state. The reasons adduced for this, emanate from the activities of the construction industry. Most of the participants opined that disruption of construction activities is the major impacts the sector faces during recession. Construction works involves the importation of construction materials to be used in the project. These construction materials prices are affected by high exchange rate of the dollar/ naira resulting in increased cost of materials. Subsidiary businesses that leverage on the construction industry are also affected by reduction in construction work volume. High cost of construction materials coupled with tight fiscal policy led to stoppage of construction work. With the stoppage of construction work, contracting organizations close down. The closure of construction companies and allied construction materials and equipment industry will result into monopoly by a few companies who are still in operation. This will result in higher prices of construction materials leading to delayed construction projects completion, cost overrun, abandonment due to disruption in the supply chain.

The expert interviews further revealed that construction industry contractors and other stakeholders who employed a combination of the mitigating strategies had a better chance of surviving the recession. Contractors who increased their portfolios through diversification of services, rationalized staff strength and equipment

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invested in technology and managed their cash flow were better equipped to scale through the obstacles of recession.

5. CONCLUSION

This paper highlighted actionable strategies construction contractors can employ to scale through the challenges of global economic recession. The study proposes that a combination of portfolios diversification, partnerships, collaborations, technological innovations and operational cost reductions can help contractors go through the challenges of global recession in Lagos state, this study results have important significance for construction contractors, government policy makers, and industry stake holders who wish to remain relevant with sustained resilience in the construction industry during recession

6. RECOMMENDATIONS

Against the backdrop of the foregoing findings, the following recommendations are proposed as strategies to help mitigate the effects of global economic recession in the construction industry in Lagos state, Nigeria.

1. Construction contractors should develop additional portfolios to their businesses to reduce dependence on one line of product.
2. Contractors should rationalize staff strength, equipment and renegotiate running contracts.
3. Contractors should consider investment in technology and train staff appropriately to enhance the company competitiveness
4. Government should invest in infrastructure (transportation, energy, water, communication) development, to help stimulate economic growth and increase resilience to external shocks.

Mitigating the effects of global economic recession in the construction industry in Lagos state, Nigeria requires a holistic approach that takes cognizance of macroeconomic stability, portfolio diversification and infrastructure development. By implementing these strategies policy makers and stakeholders can help ameliorate the impact of recession and promote sustainable economic growth and development.

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