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Business Failure and Organizational Capacity of Contractors in Ethiopia

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Abstract: Business failure is a risk across all industries, but construction firms face heightened vulnerability due to industry fragmentation, intense competition, and high-risk exposure. Even well-established companies struggle with survival, particularly in developing countries. Since organizational capacity directly influences business performance, often reflected in project outcomes, many construction projects in these regions suffer from delays, cost overruns, and quality issues. This study aimed to assess the business failure trend and organizational capacity of contractors in developing countries, focusing on the case of Ethiopia. Business performance trend of contractors with an age of over twelve years were studied. One hundred forty-two questionnaire responses were collected from professionals working in construction companies. Interviews with key professionals of selected contractors were conducted. In addition, document analysis on trends of registration, procurement practice, and involvement in sectoral associations was conducted. The findings indicated that there is a significant rate of' business failure. The trend of companies' establishment shows a domination of non-visionary startups that make insignificant progress in the business. Most contractors cease to exist in a period of five to ten years after startup. A maximum of one-third of registered contractors are able to renew their trade license every year and sustain their business in the past ten years. The industry is dominated by young firms of small capital whose fate is likely failure because of their inadequate organizational capacity. Developing countries' construction industry shares common characteristics, hence, findings of this study would be applicable to related situations.

Keywords: Business Failure, Contractors, Construction industry, Organizational capacity.

1. Introduction

Construction industry is among the major contributors of national economic development. Enhancing construction industry development needs improving its different dimensions. Capacity of the stakeholders in the industry is one of the dimensions of construction industry development (Mengistu, 2019). Different previous studies showed the components of construction firms' capacity and the challenges (David et al., 2014; Neyestani, 2014; Shehzad et al., 2021). However, there is a gap in indicating the association between business failure and organizational capacity. Understanding the trend

of business failure and organizational capacity in detail would help to devise effective strategies to improve the business performance. Business failure occurs when a firm becomes insolvent—unable to pay creditors, shareholders, or suppliers, or meets legal bankruptcy criteria (Dimitras et al., 1996). The construction sector faces heightened vulnerability due to low entry barriers, market fragmentation, and economic sensitivity, making bankruptcies more prevalent than in other industries. Ethiopian contractors, reflecting their developing economy context, face these challenges acutely, often with greater severity.

Ethiopia's construction industry faces significant management challenges and high business failure rates, hindering sectoral development. While many growth constraints for contractors are perceived as external or beyond their control, key performance barriers often stem from internal factors. These controllable issues arise from inefficient resource and process management. Even well-designed strategies across functional areas can inadvertently create conflicts, stifling growth and leading to premature stagnation or even failure in an otherwise promising market. Levy (2007) emphasized that contractor defaults are the causes behind many contractor failures. The factors contributing to contractor failure includes change in the scope of work, inexperience with new type of work, character or change of management personnel and financial management problems (SIO, 2014). Industry observations suggest that many new entrants in Ethiopia's construction sector fail during their early years. While some firms experience initial growth, they often stagnate without meaningful organizational progress. Only a handful demonstrate sustained, long-term development. However, there is no empirical evidence that indicate business failure trend and the association with organizational capacity. Hence, this study focuses on addressing these research constructs; business failure and organizational capacity of contractors.

The first construct, trend of business failure was assessed by looking at length of stay in the business through investigating the registration and renewal practice, growth in capital and organizational structure, and procurement practice and engagement in sectoral association which reflects the business status of the contractors. On the other hand, a construction firms' development is a result of competitive advantage which is manifested by superior performance. Lynch (2015) defined competitive advantage as the significant advantage an organization has over its competitors, which allows it to add better value to its products and services than do its rivals in the same niche. Organizational capacity affects an organization's ability to grow and improve (Bradfield et al., 2005); ensuring competitiveness is the reflection of strong organizational capacity.

Previous studies have looked at how competitive advantage is linked to strategy, business environment, organizational characteristics, resources and capabilities (Oyewobi, 2014). Ofori-Kuragu et al. (2016) explored the critical success factors for the construction industry and those related to the companies as: employment enhancement, technical application, feedback, organizational structure and

process benchmarking. Lo et al. (2016) identified eight success dimensions for construction companies: strategic management, market development, procurement, human resources, project execution, financial capacity, technical expertise, and social influence. These show that different previous studies adopted different dimension(s) to measure organizational capacity depending on their specific objective(s). Similarly, considering focus of this study, i.e., major constraints of business performance are internal to the firm, which is considered as organizational capacity of contractors in this specific study and it is the second research construct for which eight measurement dimensions were adopted: organizational mission/ vision, risk management, technology and innovation, organizational culture, project management maturity, financial management, human resource development, and company owners trust on the construction business.

2. Literature Review

Construction firms operate in an increasingly complex business environment, marked by technological uncertainties, budget volatility, and unpredictable development processes. These challenges make securing competitive advantage and organizational success harder to achieve (Acur et al., 2010). It is highly vulnerable to bankruptcy due to the fierce competition, fragmented nature of the industry, high uncertainty and risk involved, relatively low entry barrier and the fluctuations in construction volume (Arditi et al., 2000; Yagmuroglu, 2009). Contractor failures impose significant costs on the construction industry beyond just firm closures, including reduced productivity, higher project expenses, and widespread schedule delays. Awareness of critical failure factors, critical success factors and parameters of organizational capacity measurements is unarguably important for the companies to sustain their existence in the industry. While economic conditions, competition, market size, and technology are frequently cited for business struggles, the primary growth barriers often originate within the firm itself (Abraham, 2003), these are the main focuses of this study. In relation to business failure trend of contractors, organizational capacity and organizational development indicators such business status, trends of registration, procurement practice, capital development and involvement of sectoral associations are addressed in this study.

2.1. Critical factors for business failure of contractors

Wong & Ng (2010) grouped the critical failure factors of contracting firms' business in five: budgetary issues, macroeconomic issues, adaptation to market conditions, human/organizational capital issues and others (lack of early warning measures, low employee retention rate and poor financial accounting practice). According to Surety Information Office report (SIO, 2014), the top factors contributing to contractor failure are four. The first one being unrealistic growth or change in the scope of business. The

second failure factor is performance issues as a result of inexperience with new type of work, insufficient number of personnel and personnel not having adequate training or experience. The third failure factor is related to character, management and personal issues happening when contractor retires, i.e., the company is sold and/or leadership changes. Absence of management transition plan or ownership existing to ensure continuity of operations in the event of a principal's death or disability or key staff leaves the company, staff inadequately trained on company policy and operations. The fourth factor is accounting issues/ financial management problems caused as a result of inadequate cost and project management systems, procurement problems, lack of adequate insurance and improper accounting practices.

2.2. Critical factors for business success of contractors

Critical success factors (CSFs) are pivotal elements that determine a construction company's performance when properly addressed (CMI, 2022). Research highlights various CSFs: Tsiga et al. (2016) emphasize project organization, managerial competence, risk management, team capability, and requirements management. Ofori-Kuragu et al. (2016) categorize CSFs as external/internal, highlighting organizational structure, technical capacity, workforce development, feedback systems, and process benchmarking. Other studies identify financial management and leadership qualities (Kivrak & Arslan, 2008) or competitive capabilities in project execution, strategy, and technology (El-sokhn & Othman, 2014) as crucial determinants of success.

2.3. Organizational capacity

Organizational capacity refers to an organization's ability to perform work or the enabling factors that allow an organization to perform its functions and achieve its goals (Schreyögg & Kliesch-Eberl, 2007). It is the ability to marshal, direct and control its financial, develop, human, physical and information resources (Ingraham, 2005). Measuring organizational capacity is complex. Previous studies adopted different dimension(s) depending on their specific objective(s). Similarly, considering focus of this study, i.e., major constraints of business performance are internal to the firm, eight dimensions were adopted to measure organizational capacity: (i) organizational mission and vision, (ii) financial management, (iii) human resource management, (iv) risk management, (v) technology usage and innovation, (vi) project management maturity, (vii) organizational culture, and (viii) owner's confidence on the business. The subsequent paragraphs cover the explanation of the dimensions.

Organizational capacity is measured across the above eight dimensions, starting with mission/vision—a foundational statement defining a company's purpose, values, and strategic direction (David et al., 2014), which fosters alignment and motivation by connecting individual roles to broader goals (Kelly, 2000). Financial management addresses construction-specific challenges, including cash flow volatility

influenced by decision-making processes (Zavadskas et al., 2010), client payment delays, inflation, subcontractor defaults (Serpella et al., 2014), and unique industry risks (Peterson, 2009). Human resource development strengthens organizational capacity through training, career advancement, performance evaluation, mentoring, and succession planning (Neyestani, 2014), ensuring workforce adaptability. These dimensions collectively mitigate sector-specific vulnerabilities: mission/vision guides strategic resilience, financial management safeguards liquidity, and HR development enhances operational agility. The interplay of these factors determines a firm's ability to withstand cyclical downturns, project uncertainties, and competitive pressures—critical for survival in high-risk markets. Empirical studies underscore their interdependence; for example, financial stability enables HR investments, while skilled teams execute vision-driven strategies. In construction, where margins are thin and disruptions frequent, neglecting any dimension exacerbates exposure to business failure.

The success of any organization also depends on its effective risk management (Jorion, 2009). Organizational risk management involves risk identification, risk analysis, risk evaluation, risk treatment, monitoring and review; communication and consulting. Technology is also one of the organizational capacity measurements to organizational success. Adopting appropriate construction technologies can reduce dependence on human labor and enhance the capacity and efficiency of the construction sector (Gambatese & Hallowell, 2011; Shehzad et al., 2021; Mengistu et al., 2023). Companies trying to improve their productivity, safety, and quality have to make a decision and which technology should be adopted (Mengistu et al., 2023). Hence, technology usage and innovation is one of the dimensions to measure organizational capacity.

Organizational project management maturity reflects a firm's capacity for consistent success. This maturity integrates people, knowledge, and processes to reliably execute strategy, enhance performance, and maintain competitive advantage (PMI, 2003). It's measured by an organization's ability to systematically initiate, plan, execute, and control projects. Ethiopian firms particularly struggle in this regard - Hailemarkos (2020) notes significant knowledge gaps, while Sema (2019) found 65.64% lack proper documentation systems across departments. Key improvement areas identified by Mengistu & Mahesh (2020) include project execution, organizational systems, risk/knowledge management, and contract administration.

Organizational culture is another organizational capacity dimension for measuring capability to achieve success. It is the characteristic originated and developed inside every organization (Nusari et al., 2018). It provides employee the sense of belonging that becomes part of their identification (Maamari & Saheb, 2018). Sánchez et al. (2011) put five organizational culture dimensions: (i) goal alignment and reliance, (ii) contractor commitment to quality, schedule and budget, (iii) cooperative orientation, (iv) empowerment orientation which is empowering assignments and encouraging decisions and (v) worker

orientation-training sessions, respect and concern for workers. The eighth organizational capacity dimension adopted in this study is owners' confidence in the business. Business confidence reflects owners' and managers' risk appetite and outlook on current/future conditions (Rooyen, 2011). Higher confidence spurs capital investment and economic growth, while declining confidence signals uncertainty about company performance and market stability (Aylmer & Gill, 2003).

3. Methodology

This study examines business failure trends and organizational capacity among contractors using a mixed-methods approach (McKim, 2017), combining questionnaires, interviews, and document analysis to ensure comprehensive insights and methodological validation (Love et al., 2002). Survey questionnaires—developed via Google Forms and distributed to targeted professionals through Telegram and email—incorporated constructs derived from literature and refined through pilot testing. Six academicians, two professionals and owner of a failed construction company were involved in the pilot survey. A total of 93 enquiry variables regarding business failure and organizational capacity were addressed with the questionnaire survey. For brevity, summary of the results is indicated here. To examine the internal consistency of the scale, the Cronbach's alpha (Cα) test was performed for each research construct. Cronbach's alpha value (α) value of 0.748 to 0.960 was obtained for all the constructs. The alpha values being above 0.7, reliability of the data was observed to be acceptable (Hair et al., 2010). A total of three hundred survey questionnaires were distributed and 142 (47.33%) responses were received. Profile of questionnaire respondents is given in Table 1.

The study employed mixed methods, analyzing both survey data and business failure trends through document review, with triangulation where applicable. Quantitative analysis used descriptive statistics (mean, standard deviation), standard error, and t-tests to assess organizational capacity dimensions. Qualitative data included eight interviews (averaging 40+ minutes) with key stakeholders from seven companies (three active, four failed), selected based on longevity (12+ years), international projects, contractor grade (I-III), and accessibility. Active firms were defined as Grade I-III contractors with overseas projects, while failed firms met legal bankruptcy criteria. Document analysis covered regulatory reports, licenses, capital records, and suspension data from Ethiopian Construction Authority, Public Procurement Authority, Trade Ministry, and Contractors Association. Thematic analysis explored linkages between organizational capacity and business failure trends.

Table 1: Profile of Questionnaire Respondents

Description		Percentage
Role/Position in their firm	Owner/ General Manager	7.75
	Project Manager/Assistant Project Manager	33.10
	Senior Site Engineer/ Office Engineer	45.77
	Others	13.38
Highest qualification	Bachelors' Degree	50.7
	Master's Degree	47.2
	PhD	2.1
Experience of respondents	Less than 3 years	**7.7**
	2 to 5 years	15.5
	5 to 10 years	34.6
	11 to 15 years	24.6
	More than 15 years	17.6
No. of companies the respondents have worked	One	16.9
	Two	19.0
	Three	23.3
	Four or more	40.8

4. Analysis and Discussion

4.1. Trend of Business Failure

Trend of business failure was assessed by looking at length of stay in the business through investigating the registration and renewal practice, growth in capital and organizational structure, and procurement practice and engagement in sectoral association which reflects the business status of the contractors.

4.1.1 Registration and renewal practice

Starting up a construction business firm in Ethiopia starts with requirements of registration for construction license, competency certification, either at construction authority or ministry of water and irrigation followed by trade license at ministry of trade (MUDC, 2021). Document analysis of registration and renewal practice of contractors was undertaken to understand the situation. Ethiopia's contractor startups often suffer from unclear vision and misperceptions among new entrants. By mid-2022, registered contractors totaled 25,452 (General, Building, Road, and Specialty) and 3,584 for Waterworks—yet many remain inactive. Numerous firms abandon licensing mid-process, while others vanish due to owner deaths, re-registrations, or license abandonment. The exact inactive count is undocumented, but Ethiopian Construction Authority renewal data reveals this troubling trend. Three key issues emerge: (1) inflated registration numbers mask operational realities, (2) high attrition during licensing suggests systemic barriers, and (3) unrecorded exits distort sector assessments.

This gap between registration and active participation highlights systemic inefficiencies, with implications for policy and industry support programs. In order to be able to participate in the business, construction competency licenses must be renewed every two years and trade licenses must be renewed every year. Figure 1 shows the number of contractors who renewed their construction license for the past four years in comparison with the total number of contractors in those years. Only around 25% of the companies have renewed their construction competency license in the past four years, while only thirty percent of the companies renewed their trade license in 2022. More than 85% of those who renewed their licenses are registered in the past five years and the other 15% from 2013 to 2017. This indicates many contractors who registered for trade license in the longer past have failed to sustain their business. Figure 2 shows registration years of the contractors that renewed their trade license in 2022.

The above situation of business failure could be associated with different dimensions of organizational capacity; majorly, organizational mission and vision, and owner's confidence in the business. Inability to complete registration and ending the registration progress halfway is an indication of shortsightedness and lack of confidence in the business. This reaffirms previous study by Mengistu (2019); construction companies' poor performance in Ethiopia is associated with shortsightedness of companies' strategies.

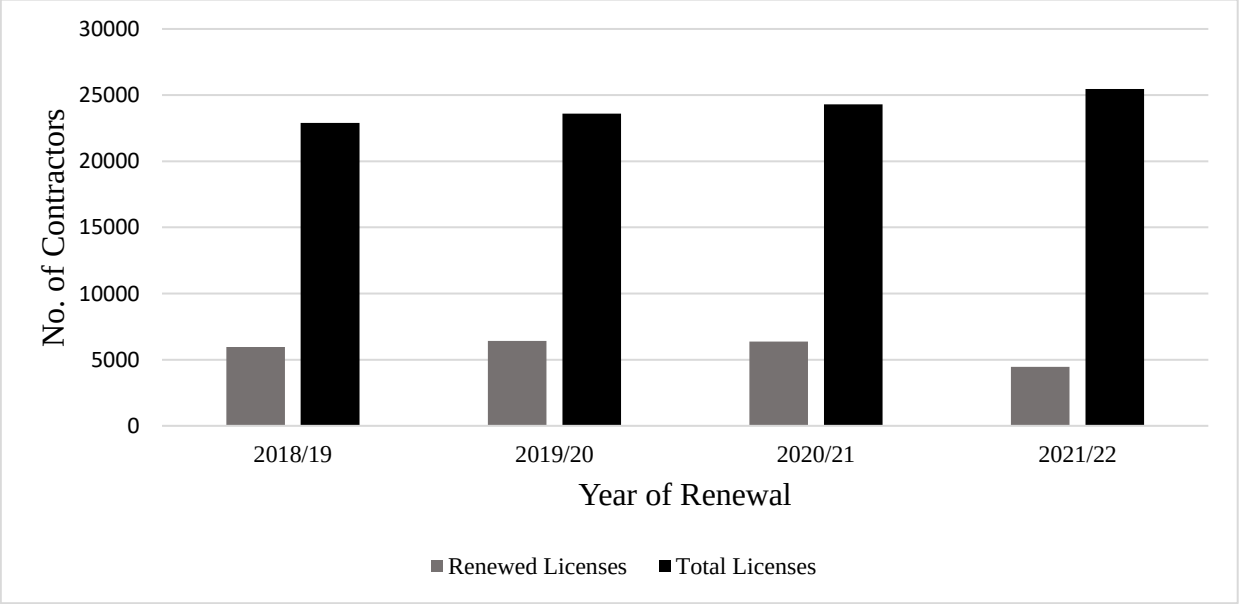

Figure 1: Trend of Construction Competency License Renewal (2019-2022)

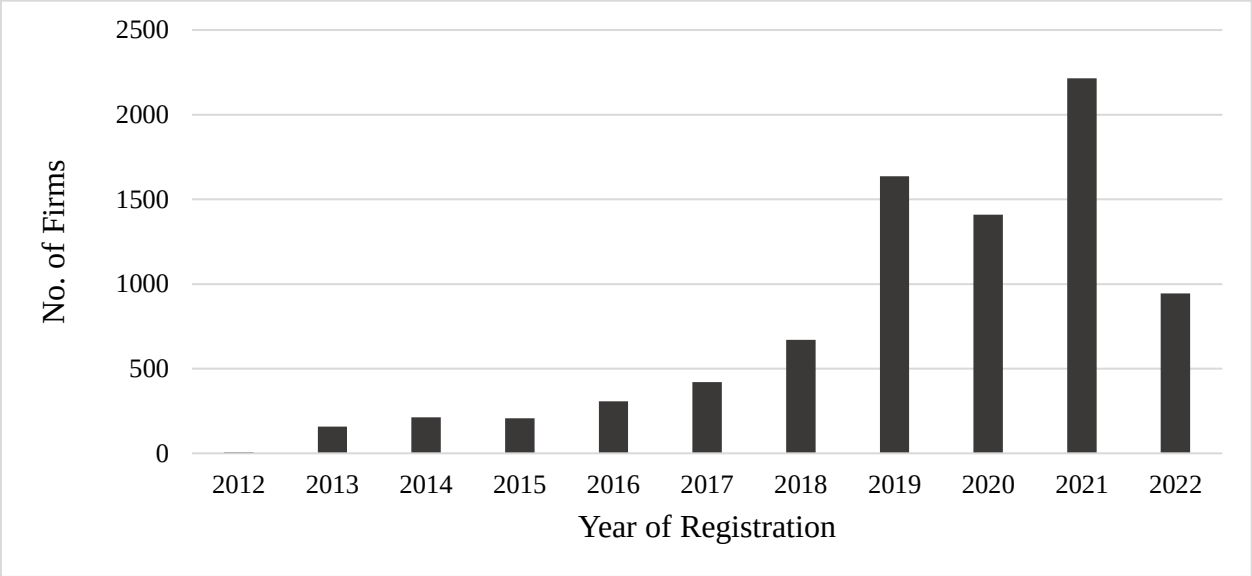

Figure 2: Registration year of the contractors that renewed their trade license in 2022

4.1.2 Growth in capital and organization structure

In terms of capital, 90.48% of those contractors who renewed their trade license in 2022 owned an estimated capital of less than one million Ethiopian currency. Two percent of them owned above five million and only 0.23% of them owned above hundred million. This means most contractors who renew their trade license are beginners with small capital and older companies who are registered earlier are unable to sustain their business and renew their licenses as time goes longer. More than 85% of those renewed their license are registered in the past five years and all of them in the last ten years. Capital amounts were observed to increase for earlier registration years of small number of contractors who sustained their business. Contractors who stayed in the business for more than five years have shown a significant gain in capital. Capitals of contractors who registered for trade license from 2013 to 2017 (before 5 years) increased from seven million to one hundred seventeen million. Table 2 shows renewals of trade license in 2022 against capital amount and Figure 3 shows capital amount against registration year of contractors.

Table 2: Contractors' trade license renewals in 2022 Versus capital amount

Capital (Million Birr)	Percentage (%)	No. of Local Private Companies	No. of Public Enterprises	No. of Foreign Companies
<1	90.48	7411		
1-5	7.40	606		
5-20	1.39	114		
20-100	0.5	35		6

Table 2: Contractors' trade license renewals in 2022 Versus capital amount

Capital (Million Birr)	Percentage (%)	No. of Local Private Companies	No. of Public Enterprises	No. of Foreign Companies
100-500	0.16	10	1	2
>500	0.07	4	2	

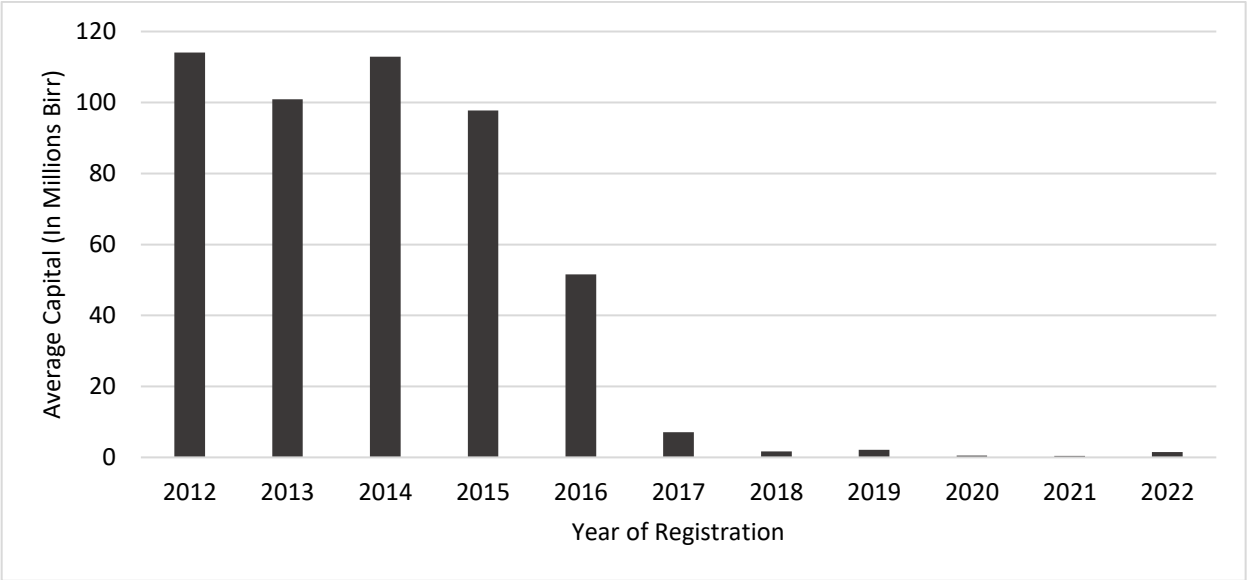

Figure 3: Contractors' registration year versus capital amount

Survey results reveal significant firm-size growth among surviving contractors, with a 250% average labor force increase for firms operational ≥5 years. License upgrades show progression: Grade I contractors increased by 68.6% since establishment (Table 3), reflecting upward mobility from Grades III/II. However, organizational structures remain weak—while 90% of companies formally maintain engineering/construction departments, core functions (HR, procurement, finance) are typically unstructured. These gaps manifest as untrained staff, absent planning/evaluation systems, and ad-hoc operations. The dichotomy between quantitative growth (labor, licenses) and qualitative deficiencies highlights a critical imbalance: contractors scale operations without institutionalizing support systems. This pattern suggests that while regulatory milestones (grade upgrades) are achievable, foundational management practices lag, potentially undermining long-term sustainability. Notably, the engineering department's prevalence confirms technical prioritization, whereas "soft" functions are neglected—a sector-wide trend that may explain high failure rates despite visible growth metrics.

Figure 4 shows the official functional departments available in construction companies. The above poor business performance could be associated with financial management (Ismail, 2014), human resource management, and organizational culture. Establishing the required functional departments and

equipping with the required human resources is important to improve business performance; i.e. rethinking the organization design of construction companies is required in Ethiopia (Hailu, 2023).

Table 3: Contractors' growth in terms of upgrading license

Grades	No. of Firms (%)	
	At startup	Currently
Grade I	67 (47.3%)	113 (79.6%)
Grade II	5 (3.5%)	8 (5.6%)
Grade III	24 (16.9%)	21 (14.8%)
Grade IV	2 (1.4%)	
Grade V	16 (11.3)	
Grade VI	11 (7.7%)	
Grade VII	8 (5.6%)	
Grade VIII	6 (4.2%)	
Grade IX	3 (2.1%)	
Grade X	0	

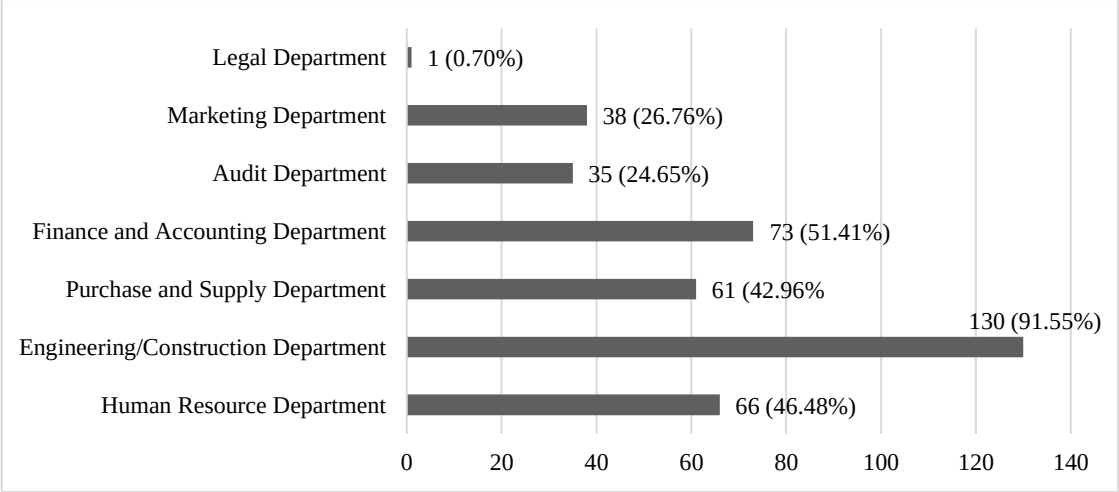

Figure 4: Availability of Departments in Contractor Companies

4.1.3. Procurement practice and engagement in sectorial associations

Procurement practices were examined to assess contractor business trends. In Ethiopia, the Federal Public Procurement Authority regulates public procurement, requiring all contractors to register as suppliers to bid on public projects. Registration in the supplier list is mandatory for participation. Violations by bidders can result in suspension from the list for up to five years, depending on offense severity. This system aims to ensure compliance but also reflects challenges in contractor sustainability,

as exclusion from the list directly impacts business viability. The analysis of procurement patterns provides insights into the operational hurdles and regulatory pressures facing contractors in Ethiopia's construction sector. Document forging, failing to fulfil agreement/breach of contract and not entering into agreement after winning a bid were found to be reasons for barring contractors from bidding. Among which failing to fulfil agreement was found to be the main reason. Unlike the low figures in the registered suppliers list, the percentage of barred contractors is significantly high. As of July 2020, the total number of contractors registered by the procurement authority covers 4.6% from the total suppliers.

The contractors are four times more likely to be barred from public bids than other service suppliers according to reports on barred suppliers by federal public procurement authority. The percentage from among barred suppliers ranges from the lowest record of 15.25% in February 2021 to the highest record of 21.31% on the report issued by the agency in December 2020. Figure 5 shows data collected from nine reports issued by the federal public procurement authority from January 2020 to March 2021. These reflects the malpractices in the industry revealed by the previous studies (Plummer, 2012).

Active participation in sectoral associations is also an indication of the contractors' business development trend. The Construction Contractors Association of Ethiopia (CCAE) has served as the sector's representative body for three decades. Its mandate includes industry advocacy, organizing construction exhibitions, and influencing construction-related regulations. Financially dependent on membership fees and event revenues, the association currently lists 2,100 registered members - though only about 500 actively participate. Membership remains voluntary, and this figure represents just 20% of contractors who renewed licenses in 2022, indicating a significant gap between registered and operational firms in Ethiopia's construction sector. Even the registered members of the association are not contributing to existence and strengthening the association (Mengistu, 2019).

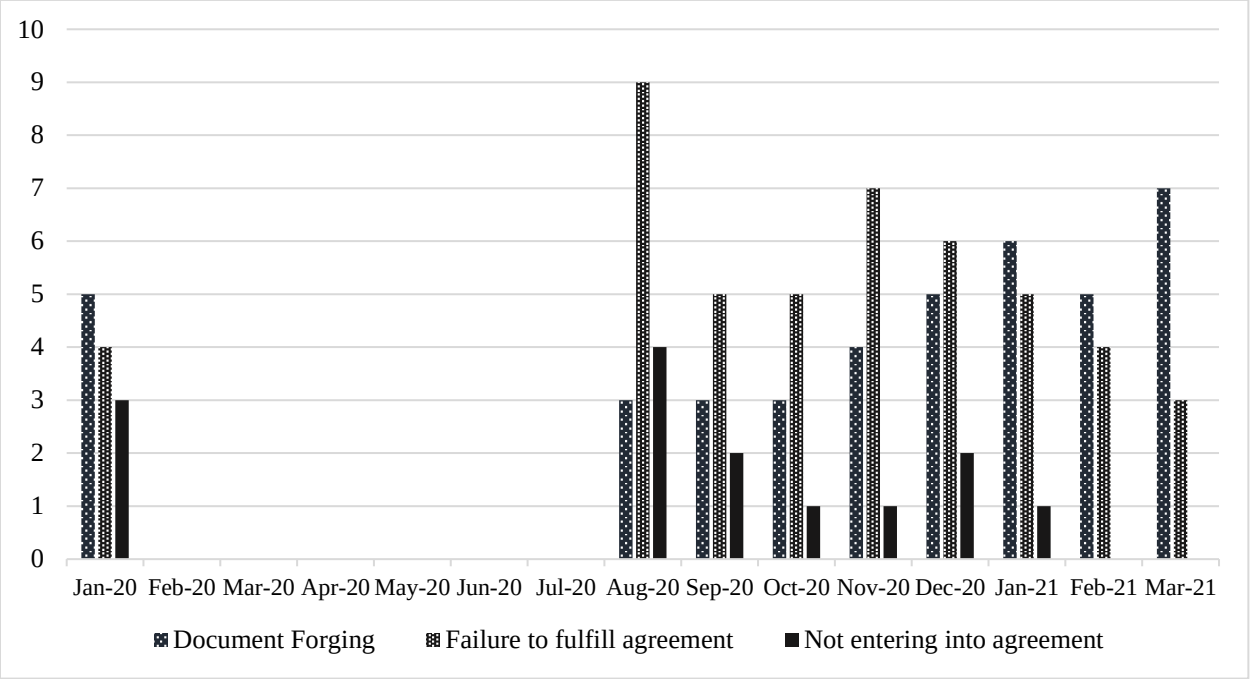

Figure 5: Reasons for barring Contractors from Bidding

4.2. Organizational Capacity of Contractors

Organizational capacity of contractors in terms of the eight capacity dimensions was evaluated by the survey based on 5-point Likert scale. A scale value of 1 represented very low organizational capacity and 5 represented a very high organizational capacity. Each capacity dimension was evaluated based on relevant component variables from literature review. Mean values were calculated to evaluate the capacity level. A standard deviation values of 0.76 – 0.96 were found which implies consistency of the survey responses. Standard errors of the mean indicated that values of the sample mean were sufficiently close to the population mean with error values of ±.0.06 - ±0.08.

The dimension organizational vision/mission was evaluated in terms of clarity, awareness by the employee and stakeholders, achievability and being in alignment with current capacity. Financial Management capacity was evaluated in terms of financial planning, access to capital, accounting system, capital management and profit handling. Willingness to grant loans and developing confidence in the firms is a common threat from the bank's side. This could be attributed to the nature of cash flow in the sector and a relatively low fixed asset used as a collateral compared to annual revenue. For instance, one of the active contractors interviewed surpassed revenue of one billion Ethiopian currency in the year 2022, but its registered capital in assets is less than 30% of its annual revenue. Low capacity was observed in human resource management in terms of performance appraisal, training, and clear career structure. Budgeting for staff training is not a widely practiced modus operandi among contractors. This is supported by the findings of CMI (2022) where more than half of contractors do not have budget for

training and development. The least organizational capacity dimension was observed in risk management. An indication of this instance is that only 23% of the firms installed a COVID-19 early management plan before March 13, 2020 (the first day COVID-19 case was recorded) though the risk was nearly eminent. This reaffirms the study by Wubet et al. (2023) which indicated that the risk management practice in Ethiopian domestic contractors needs major improvement.

Technology adoption was assessed across identification, testing, implementation, and digital system usage. Most firms lack both financial resources to acquire advanced tools and technical expertise to utilize available technologies effectively (CMI, 2022). Nationally, training gaps persist - for instance, BIM training remains limited to a single institute (CMI) with inadequate capacity. Organizational culture challenges include profit-centric practices, resistance to change, and poor communication. These issues extend to procurement, where construction firms show higher malpractice rates than other sectors (Plummer, 2012). Significant maturity gaps exist in standardizing operations: reporting formats, project processes, claims management, and contract documentation all require improvement - a need consistently highlighted in prior research (Desta, 2015; Mengistu & Mahesh, 2020; Hailu, 2023). Respondents were also asked to evaluate owners' confidence in terms of willingness to invest on high profile employee, on permanent asset, on skill training, whether s/he is concerned about company image more than profit, whether they have alternative source of income and whether s/he has a plan to retire out of the business soon. Private firm sustainability largely hinges on owner confidence, as they control all major decisions. Long-term investments serve as key indicators of this trust, yet findings reveal insufficient commitment to permanent assets and staff training. While business retirement scored lowest among variables, overall owner confidence is further undermined by their reliance on alternative income sources and perceptions of company reputation. Findings from the interview show that the confidence of contracting firm owners to be unsatisfactory. The requirement in the current registration directive which suggests that 20% of the share in the ownership of Grade II and III to be held by practicing professional as a shareholder was raised by the interviewees to be the potential threat in the future to further reduce owners' confidence in the business.

In summary, one sample t-test indicated that organizational capacity of Ethiopian contractors is not adequate in all dimensions ($P<0.000$). The capacity was observed lower in human resource management, risk management and technology usage and innovation dimensions. Table 4 shows summary of mean scores, standard deviation, standard error of the mean and P values for one sample t-test of organizational capacity dimensions. The organizational capacity dimensions were also checked across the three grades of contractors. Grade I contractors show a higher mean score in the area of technology usage and innovation. The average scores for all measurement areas have closer values to

that of the mean score for Grade I contractors. Figure 6 shows mean score of the capacity dimensions across three grades.

Table 4:Summary of Scores for Organizational Capacity Dimensions

Organizational Capacity Dimension	Number of Observations	Mean Score	Significance (one sample t-test, test value=3.00)	Std. Deviation	Std. Error Mean
Organizational Mission and Vision	142	3.47	0.000	.85	.07
Financial Management	142	3.50	0.000	.76	.06
Human Resource Management	142	3.12	0.117	.89	.07
Risk Management	142	2.89	0.085	.77	.06
Technology Usage and Innovation	142	3.15	0.061	.96	.08
Project Management Maturity	142	3.25	0.000	.80	.07
Organizational Culture	142	3.26	0.000	.82	.07
Owner's Confidence on the business	142	3.28	0.000	.76	.06

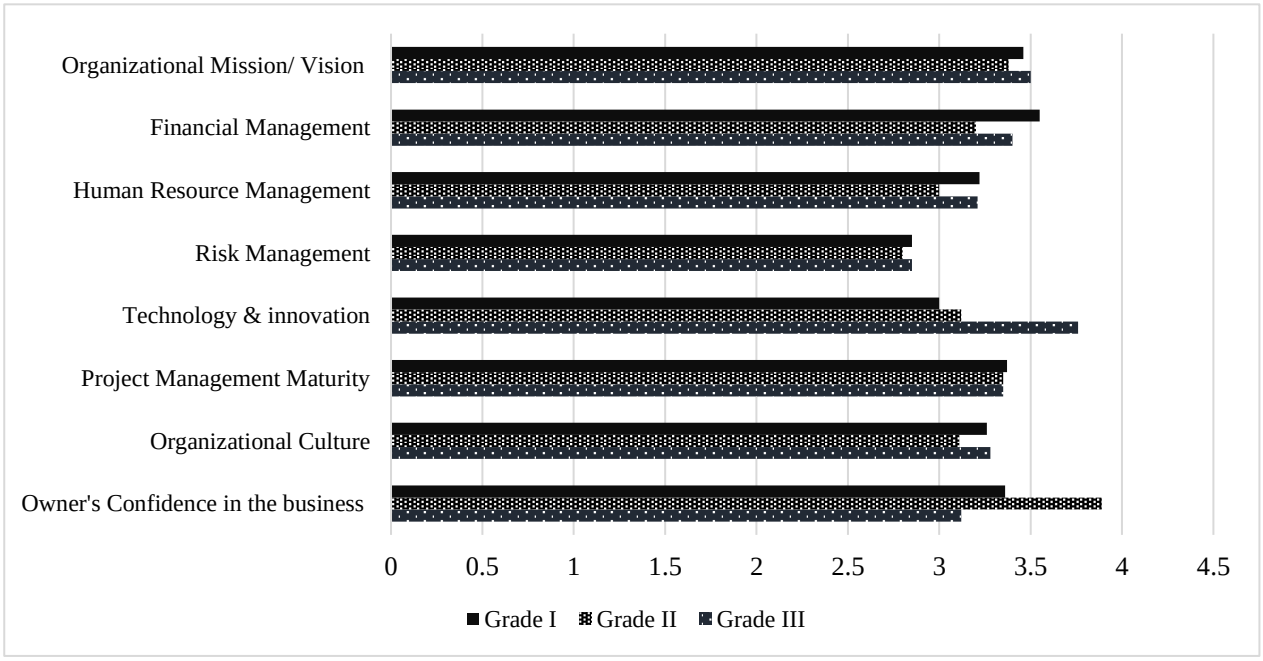

Figure 6: Mean scores of organizational capacity dimensions across firm grades

4.3. Business Failure and Organizational Capacity

The result indicates that most contractors in Ethiopia cease to exist in a period of five to ten years after startup. The trend of firm establishment shows a domination of non-visionary startups. A maximum of one-third of registered contractors are able to renew their trade license and sustain their business in the

past ten years. Renewing a trade license is an indication that the firm has been paying all taxes levied on it by the government and survived in those years. Many contractors who registered for trade license in the longer past have failed to sustain their business. The study also revealed that the major reason to be barred from the business is low performance that led to unfulfilled agreements. While most young, undercapitalized firms face high failure rates due to weak organizational capacity, the minority surviving beyond ten years demonstrate notable capital and workforce growth. Critical deficiencies persist in human resources, risk management, and technology adoption. Structural weaknesses are evident—over 90% of companies formally maintain only engineering/construction departments, lacking established HR, procurement, or finance units. This institutional gap between technical and managerial functions creates systemic vulnerabilities, explaining why resource-constrained startups dominate the sector yet rarely progress. The pattern suggests survival demands not just technical competence but holistic organizational development, which most entrants neglect during fragile early stages. It is also confirmed that low capacities in financial management, risk management and human resource managements contributed to the major failures.

5. Conclusion

Sustaining in a business and being competitive in the industry is the target of any visionary construction company. The organizational capacity dimensions indicated in this study affect and/or are affected by the way that an organization manages its resources and processes. Hence, understanding the trend of business failure and organizational capacity in detail would help to devise effective strategies to improve the business performance. Hence, this study benefits contactors in indicating the association between business performance and organizational capacity, and the measure they should take in ensuring their business success. In addition, the findings indicate the concerned regulatory bodies about the potential intervention area to improve contractors' capacity. In this study, the associations between the business failure and organizational capacity are assessed qualitatively. Hence, assessing the association quantitively and establishing statistically relationship is suggested as further research area.

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