ABSTRACT

Globalization, which has created a fairly free access for foreign firms to compete locally and low entry barrier in the construction industry have increased the competition in the construction industry in South Africa. The study investigated the relationship between diversification strategies employed by contracting firms and their financial performance and growth.

Level 9 contracting firms on the Construction Industry Development Board (CIDB) database (as at September 2008) were classified into undiversified, moderately diversified and highly diversified firms. Two (2) separate questionnaires were administered to undiversified and diversified firms to solicit information which assisted in the understanding of the strategies of these firms. Financial information was also requested from the firms in order to calculate financial ratios from audited financial statements for five years (2004 – 2008). The result from the study did not establish any particular pattern in terms of performance and growth.

When the performances of the two independent samples of firms (undiversified and diversified) were compared, the outcome of the study reveals that, on the average, undiversified firms perform better than diversified ones on Return on Capital Employed (ROCE), Return on Equity (ROE) and Return on Total Asset (ROTA). Diversified firms however have better performance on Profit Margin (PM). The result of test of hypothesis on ROCE, ROTA and PM supports the null hypothesis that there is no significant difference in the performances and growth of undiversified and diversified firms. However, on the ROE, the null hypothesis is rejected.

When the three independent samples of firms (undiversified, moderately diversified and highly diversified) were compared, the results suggest that undiversified firms had the highest average on ROCE and ROE, followed by moderately diversified and highly diversified firms respectively. On ROTA, moderately diversified firms had the highest average, followed by undiversified and highly diversified firms respectively. Highly diversified firms had the highest average on PM, followed by undiversified firms, which is closely followed by moderately diversified firms. The results of test of hypothesis on ROCE and PM show that the null hypothesis that there is no significant difference in the performance and growth of contracting firms is supported by the data. The null hypothesis is not supported in terms of ROTA and ROE.

It should be noted that the empirical study occurred in 2009 and was submitted for assessment in 2011.