

Critical Success Factors for the survival of small, medium and micro enterprise construction companies in the South Africa construction industry

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Abstract

The objective of this study is to investigate the critical success factors necessary for the survival of SMME construction firms in the Gauteng Province of South Africa. A literature survey was carried out. The data for this paper was collected from both primary and secondary sources. The primary data was acquired through the administration of structured questionnaires. The questionnaire was distributed to construction SME firms in the Gauteng Province construction industry. The questionnaire was designed based on information emanating from an extant review of literature. Out of the 140 distributed questionnaires, 120 were received back which represented 86% response rate. Findings derived from the study indicated that producing quality work, good cash flow management, good contractual understanding, having a business plan, effective communication channel in the firm, maintaining good relationships with clients, proper record keeping, sensible operating costs, recruiting qualified staff and availability of effective marketing strategies were perceived as the main critical success factors required by SMMEs in the Gauteng Province for their survival in the construction industry. The findings emanating from this paper will form a basis for future research on construction SMMES in South Africa.

Keywords: Construction SMMEs, development of SMMEs, South Africa SMMEs

1. Introduction

Within the developed and developing countries of the world, it is now generally accepted by policy-makers at local, regional and national level, that Small Medium and Micro sized Enterprises (SMMEs) are becoming increasingly important in terms of employment, wealth creation and the development of innovation (Nieman, Hough and Nieuwenhuizen, 2003; Sha, 2006). There is evidence that the contribution made by SMMEs is more pronounced in developing countries like South Africa, than in developed countries (SBP 2013). In such developing countries, SMMEs eradicate poverty in a sense that their contribution is not only of income generation but also to income distribution. Large firms normally tend to produce an elite number of high wage income earners whereas SMEs produce a significantly large number of relatively low-income earners (Temtime and Pansiri, 2004). Furthermore it is frequently emphasized that SMMEs performance, are interrelated with the economic performance of a country. SMMEs especially those that operate in the construction sector are an important contributor to the economy and are considered a driver for reducing unemployment in South Africa as defined by the National Credit regulation Act; given that the

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formal sector continues to shed jobs when business transaction are not favourable (Aigbavboa & Thwala 2014).

Presently as large construction enterprises continue to restructure and downsize due to constant changes in the economic demands in South Africa, Small, Medium and Micro Enterprises (SMMEs) in the construction industry have come to play an increasingly imperative role in both in the industry and South Africa's economy and development. SMMEs in the construction industry as a whole have a significant relationship to the economy, in that a change in economic output of an economy can result in a proportionate change in demand and, as a result, a change in the output of the construction industry (Raymond and Ganesan, 1997; Scott 2011). However there has been great concern regarding the survival of SMMEs in the construction industry, as many of the SMMEs operating in the construction environment barely survive over a five year period. While not all construction SMMEs will thrive and be successful, a few good contractors will emerge to become more sustainable and globally competitive (Rwelamila & Dlungwana 2004). Hence this study sought out to investigate the critical success factors for the survival of construction SMMEs in the Gauteng Province of South Africa. The paper commences with an overview on literature in relation to critical success factors for the survival of SMMEs, followed by explanations of the research methodology adopted for the purpose of this study; presentation of the findings and discussions and lastly conclusions are drawn and recommendations are made.

2. Critical success factors for the survival of construction SMMEs

From a South African perspective, it is difficult to ignore the importance of the construction Small, Medium and Micro Enterprises in the construction industry as well as the overall development of the country considering the immense impact SMMEs have on the economy. Small, Medium & Micro Enterprises play a crucial role in almost all economies but particularly in developing countries with major employment and income distribution challenges, such as South Africa (Cant 2013). SMMEs are known to occupy a significant and strategic role in uplifting the economy. As Aremu & Adeyemi (2011) states, the performance and growth of small and medium enterprises (SMEs) is a major driver and indices for the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry. Bankseta (2013) explains that other researchers have estimated that the total economic output of SMMEs in South Africa to be 50% of GDP and also estimated that they provide employment to about 60% of the labour force. While in USA, one of the world's most economically influential countries, SMEs create 50% of private employment (Davies 2011; Moloji 2013), and in countries like China, Austria, and Canada, SMEs' employment creation is above 50%. In New Zealand, SMEs represent 86 percent of its 259,000 businesses and these firms account for approximately 27 percent of the total employment, in Morocco, 93% of firms are SMEs and account for 38% of production, 33% investment, 30% export and 46% employment, in Bangladesh, enterprises of less than 100 employees account for 99% of all firms and 58% employment and also, in Ecuador, 99% of all private companies have less than 50 employees and account for 55% of employment (Robert and Leo Paul 2003; Ufot, Reuben & Michael 2014). The SMMEs in the construction industry also contribute significantly in terms of scale and share in the development of any country. The construction industry SMMEs also contributes to the national socio-economic development by providing significant employment opportunities at non-skilled and skilled levels beyond that, it provides the infrastructure and services that required for other sectors of the country to grow such as; schools for education and training, factories and shops for commercial etc. (Bondinuba 2012). Governments are thus great benefactors of a strong construction industry, due to the fact that governments provides a bulk of the infrastructure within a country requires the services of the construction industry for it to be implemented. While many construction projects in the industry may come in a bigger scale and awarded to large enterprises; small and medium-sized construction enterprises undertake the large number of projects dispersed throughout a country and they form the bulk, by number, of companies in each industry, and offer operational flexibility to the larger firms in

their role as sub-contractors (Ofori and Toor 2012). However the although in dominance in the construction industry, many of the SMMEs involved in the construction industry struggle to survive for a period of over five years. Mboniyane (2006) found that in South Africa on average 50 % of small businesses that are started eventually fail, and there are those businesses that are not growing beyond the survivalist; this failure rate can be partially attributed to the lack of support for small, medium and micro-enterprises. Additionally Burke (2006) states that the survival phase is a minefield for new ventures, of which many companies do not make it past that phase. In relation to this, a vast amount of literature has been published on what is perceived as critical success factors that SMME contractors need to be aware of in order to see their enterprises survive, prosper and grow into larger enterprises in the industry.

To fulfil their pole position in the economy, SMMEs need to be familiar with critical factors that are the cornerstone of success in business; these are factors that could determine whether a construction SMME develops into greater growth or fails to stay in existence. In looking to the research literature, there is no unanimity between researchers on the factors that contribute to the success of SMMEs. However, some factors are discussed more often in the previous research; Kusar et al (2004) states that SMMEs can successfully enter and remain in the global market if they can fulfil customer needs for features and quality of products. Whilst Wijewardena and Zoysa (2005; al-Mahrouq 2010) identified six main factors that had positive and significant impact on the success of their sample firms, these factors were as follows; customer orientation, product quality, efficient management, supportive environment, capital accessibility and marketing strategy. With Olwale and Garwe (2010) stating that managerial competencies are very important to the survival and growth of new SMEs. Jaafar and Abdul-Aziz (2005, Phaladi and Thwala 2008) surveyed 172 SME's contractors in Malaysia and concluded from what they call Resource-Based-View that contractor success lies in project and financial management capability, marketing and supply chain relationship; moreover, they state that educational background and owner-manager characteristics are not necessarily success factors because competent skill can be employed to run the firm. Bakar, Razak, Yusof, & Karim (2012) found that in Malaysia, the ten most important factors contributing to growth of construction companies are: good company management; good cash flow management; sufficient knowledge and experience; good team members; technical expertise; good site management; commitment to customer satisfaction; availability of capital; availability of skilled workers; and good relations with clients.

3. Research methodology

A quantitative research design was used for the purpose of this study. The preferred research instrument used in this research for collecting data was a questionnaire that was delivered to small, medium and micro sized contracting firms around the Gauteng Province of South Africa targeted participants of this study were construction SMME owner-managers, usually positioned as project managers, construction managers, and quantity surveyors in the construction SMME sector of Gauteng, all registered with the professional associations in South Africa. The main reason being that these professionals are involved in these SMMEs operations on a daily basis and based on their experiences they are in better positions to analyze the factors they see as relevant to succeed and survive in the industry. The number of targeted firms was 120 firms. Out of the 120 questionnaires distributed to construction SMME within the grade 1-5, the researcher retrieved a total of 82 back, which represents a 67% response rate.

3.1 MIS (Mean Item Score)

The questionnaire comprised of questions that had to be ranked from a 5-point Likert scale like that of the critical success factors , which ranged as follows; 1 = strongly disagree, 2 = disagree, 3 = Neither agree or disagree, 4 = Agree, 5= Strongly Agree. The five-point scale was transformed to mean item score (MIS) for each of the critical success factors for survival of SMMEs as assessed by the respondents. The indices were then used to determine the rank

of each item. The ranking made it possible to cross compare the relative importance of the items as perceived by the respondents. This method was used to analyze the data collected from the questionnaires survey. The mean item score (MIS) was calculated for each item as follows;

$$\text{MIS} = \frac{1n_1 + 2n_2 + 3n_3 + 4n_4 + 5n_5}{\sum N} \dots\dots\dots \text{Equation 1.0}$$

Where; n1 = Number of respondents for strongly disagree; n2 = Number of respondents for disagree; n3 = Number of respondents for neutral; n4 = Number of respondents for agree; n5 = Number of respondents for strongly agree; N = Total number of respondents. After mathematical calculations, the criteria are then ranked in descending order of their mean item score. The data collected from the respondents were coded, edited and recorded into the Microsoft Excel software program. It was then imported into Statistical Package for Social Sciences (SPSS) a software program to convert it into a suitable format for analysis. The data was then interpreted in form of tables and graphs.

4. Findings and discussion

The study included 67% male respondents and 33% female respondents, with a majority of the respondents (26.8%) being within the age group of 41 – 50 years old, closely followed by respondents in age groups of 36- 40years and that of over 50 years with 25.6% and 20.7 % respectively. The ethnicity in the study contains a majority of black Africans (54.3%) followed by (23.5%) whites. The majority of respondents' highest educational qualification were baccalaureate degree (39 %) followed by post matric diploma (32.9%), and the minority were (1.2%) doctorates degree. With accordance to the CIDB grading standards, respondents were asked to highlight their grade, 43.9% majority were grade 4 contractors followed by 29.3 % which were grade 3 contractors.

Table 1.0 reveals the respondents' ranking on factors they considered to be relevant in sustaining their construction SMMEs and keeping them in operation.

Based on the ranking (R) using the calculated standard deviation (SD) and mean scores (\bar{x}) for the listed critical success factors for construction SMMEs in the Gauteng province of South Africa, results showed that the most influential factors include the following: Producing quality work (SD=0.37; \bar{x} =4.91; R=1); Good cash flow management(SD=0.44; \bar{x} =4.86; R=2); Good contractual understanding(SD=0.46; \bar{x} =4.80; R=3); Having a business plan (SD=0.60; \bar{x} =4.80; R=3); Effective communication channel in the firm (SD=0.62; \bar{x} =4.66; R=4); Maintaining good relationships with clients (SD=0.66; \bar{x} =4.65; R=5); Proper record keeping (SD=0.58; \bar{x} =4.61; R=6); Sensible operating costs(SD=0.59; \bar{x} =4.60; R=7); Recruiting qualified staff(SD=0.80; \bar{x} =4.53; R=8); Effective marketing strategies (SD=0.79; \bar{x} =4.50; R=9). These findings were in agreement with Donkor (2011) who stated that No matter how small the business is, or how large it has grown, the success will depend a lot of the contractor's skills in bringing the right people on board, and how both relate to each other. Furthermore the findings are also in line with Nieman (2006; Petrus 2009) who pointed out that accurate record keeping is vital as a task under the organizing function and concurrently in this regard Wright (1995; April 2005) shares the notion that when keeping a proper record system is effective, it enables the business managers to keep a diary for business appointments, issue detailed invoices to customers and file copies of such in alphabetical order, in addition he points out that record keeping is not only important for financial, sales or administrative records, but also enables the business managers to assess the progress of the company periodically.

Table 1. Critical success factors

Critical success factors	σX	\bar{x}	R
Producing quality work	0,37	4,91	1
Good cash flow management	0,44	4,86	2
Good contractual understanding	0,46	4,80	3
Having a business plan	0,60	4,80	3
Effective communication channel in the firm	0,62	4,66	4
Maintaining good relationships with clients	0,66	4,65	5
Proper record keeping	0,58	4,61	6
Sensible operating costs	0,59	4,60	7
Recruiting qualified staff	0,80	4,53	8
Effective marketing strategies	0,79	4,50	9
Supportive government policies	0,74	4,44	10
Having effective Human resource management	0,76	4,41	11
Networking	0,71	4,33	12
Having personnel with risk management expertise in firm	0,80	4,30	13
Key clients that respond to services offered	0,92	4,29	14
Adapting to change in technology	0,81	4,00	15
Use of ICT	0,82	3,83	16
Having a niche market	1,31	3,53	17
Using social media as a Marketing Tool	1,09	3,46	18

(σX = Standard deviation; \bar{x} = Mean; R = Rank)

Although not completely similar to these findings, In Malaysia Bakar, Razak, Yusof, & Karim (2012:8762) found that the ten most important factors contributing to growth of construction companies are: good company management; good cash flow management; sufficient knowledge and experience; good team members; technical expertise; good site management; commitment to customer satisfaction; availability of capital; availability of skilled workers; and good relations with clients. However the findings herein are in disagreement with Elfring & Hulsink (2007) who emphasized on the importance of social networks on SMEs, especially on start-ups.

5. Conclusions

The paper set out to explore the critical success factors necessary for the survival of construction SMMEs in the Gauteng province of South Africa. A broad review of international and South African literature was carried out to identify the factors that were recognized as critical to success prior to this study. Literature on the critical success factors necessary for the survival of construction SMMEs revealed the following to be the main factors: efficient management; supportive environment; capital accessibility and marketing strategy; managerial competencies; good record keeping; performance management; customer orientation; the product quality factor; knowledge and experience; market specialization and also diversified expertise. Findings from the questionnaire survey revealed that the perceived critical success factors for the survival of construction SMMEs in the Gauteng Province of South Africa are as follows: producing quality work; good cash flow management; good contractual understanding; having a business plan ; effective communication channel in the firm; maintaining good relationships with clients ; proper record keeping ; sensible operating costs; recruiting qualified staff and availability of effective marketing strategies .Thus it can be recommended that construction SMMEs should adopt this adopt these factors to remain effective within the industry. Producing quality work is considered the most important factor

and closely followed by good cash flow management. Hence it can be concluded that reputation and good financial management is key to the survival of construction SMMEs in the Gauteng Province.

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