

DII-2016 CONFERENCE

Exploring strengths and weaknesses of growth among small and medium-sized construction firms in Ghana

Bernard Martin, Arthur-Aidoo¹, Clinton, Aigbavboa² and Thwala, Didibhutu³

Abstract

Small and medium size construction firms are recognised as drivers of socio-economic development in most nations. This is because the operations of SMEs impacts on both job creations and also in poverty alleviation programmes of many countries. Although the construction SMEs in Ghana are generally considered to have a low level of managerial structures, their dominance, and activities within the sector enable them to fill gaps and also execute projects in numbers and at locations where large firms will be available and prepare to operate. This attribute makes the growth of these construction SMEs imperative to the Ghanaian economy. The purpose of this study was to establish the strengths and weaknesses in enhancing firm's growth among construction SMEs. The methodology adopted was solely a comprehensive review of the literature on existing models which was done via journals, conferences publications supported by other electronic information. The conclusion of the study stressed that strength of firm's growth refers to the firm's competitive advantage and distinctive competencies this includes strong customer service, positive employees attitudes, excellent stakeholders relations, lower cost in production and high integrity of the staff among others. Further conclusions to the study pointed that weakness of firm's growth, on the other hand, refers to the constraints that impede a firm to grow or what the firm does not do well. The study also concludes that weakness in firm's growth among SMEs include frail organisational structure, inadequate training of staff, lack of clear corporate goals and complex levels of reporting systems of the firm.

Keywords: explore, growth, smes, strength, weakness.

¹ Doctoral student: Construction Management and Quantity Surveying: University of Johannesburg, South Africa: bernardmartins@hotmail.com.

² Associate Professor: Construction Management and Quantity Surveying: University of Johannesburg, South Africa: aigbavboa@uj.ac.za

³ Professor: Construction Management and Quantity Surveying: University of Johannesburg, South Africa: didbhutu@u.ac.za

1 Introduction

Small and medium-sized construction firms do not only create jobs for labour but also provide significant social, economic development which brings about the high level of poverty alleviation. The literature on SMEs has confirmed this category of firms as an engine of growth for lots of developed and developing countries. This implies that the well-being of most economies in terms of socio-economic development both at macro and micro levels are dependent on SMEs. According to Olebogeng (2015), the economic development of a nation can be regarded as a process of growth and change aimed at raising people's living standards. This involves growth in total and per capita income which is accompanied by primary changes in the structure of an economy and mostly impacted by the construction industry. The construction sector is characterised globally to be a labour intensive and particularly in Ghana, the industry is notable for having a low level of barriers to entry. This has brought about the ease of springing-up of SMEs and had resulted in the dominance of small and medium-sized construction firms with a low level of managerial structures. Despite the feature of these SMEs, they are also able to execute the project at locations where large firms are not interested in executing such projects. Further, SMEs are also considered as a catalyst for most nations' development due to their significant impact on job creation, innovation poverty and poverty alleviation amongst others. This implies that exploring the strengths and weaknesses of the construction SMEs within the industry is prudent. This will enable both opportunities of firm's growth as well as their associated threats to be known so that mitigation measures are provided in order to foster growth. This study, therefore, seeks to establish the strength and weakness among Ghanaian construction SMEs that affect their growth.

2 Purpose of the study

The purpose of this study was to explore the strength and weakness in the growth of small and medium-sized construction firms in order to establish ideas that will facilitate growth among these SMEs.

3 Research Methodology

In order to achieve the aim of the study, a comprehensive review of the literature on previous models was used. Further, this technique was found suitable for this study due to the nature of the qualitative information needed which included previous and existing information on SMEs and their growth pattern. Vivid review of literature on the small and medium -sized construction firm was made and from a total of nine existing models of the growth of SMEs, only three were considered applicable for detail analyses on the study. The three existing models considered include Hashi and Kransnigi (2011), Fadhunis (2012) and Gupta *et al.*,(2013). Out of these models, the strength and weaknesses of firm's growth were convalenced and applied to the study. In addition, the adopted qualitative technique of

retrieving existing models on firm's growth was embarked via electronic medium using published internet based resources and supported by other related unpublished materials.

4 Review of Literature

4.1 What are SMEs?

The term small and medium-sized firms (SMEs) cover a broad spectrum of definitions. (Dalberg, 2011). According to Storey (1994) cited in (Eyiah, 2004), the literature on small and medium enterprises have up till now not established any universal definition for SME's. Different countries and organisation set their guide for defining SME's. However, some of the common features used to describe SMEs in Ghana are the number of employees, sales values and size of capital, as well as turnover (Eyiah and Cook 2003). The World Bank considers SME's are those enterprises with a maximum of 300 employees, \$15 million in annual revenue and \$15 million in assets and the Inter-American Development Bank, on the other hand, describes SMEs as having maximum of 100 employees and less than \$ 100 employees and less than \$ 3million in revenue (Dalberg, 2011). Small and medium-sized enterprises are increasingly being recognised as productive drivers of economic growth and development for developing countries. Similarly, a study by Mahemba (2011) emphasised that small and medium-sized firms in most economies have historically played an imperative role in the creating jobs, stimulating innovations and new product and thus contribute growth in the economy. In Ghana, the construction industry is directly linked to the economy because Government is the biggest client that has engaged most of the SMEs with projects (Yirenkyi-Fianko and Chileshe 2012). National Board for Small Scale Industries (NBSSI) (1996) Small and medium Scale Enterprises as those that employ 6-29 persons or have fixed assets (excluding reality) of value \$100,000. The Ghana Statistical Services (GSS) on the other hand considers a firm with up to 9 employees as SMEs (Kayanula and Quartey, 2000). Eyiah and Cook (2003) similarly defined construction SMEs as contractors registered in financial classes 2, 3, and 4.

4.2 Small and medium-sized construction firms

The construction industry is not only a key component of a nation's economy but also a primary feature in the quality of people's lives, and the ability of the government to accomplish many of its policy plan (Bosher *et al.*, 2007). The sector constitutes a cluster of firms that operate under the categories of micro, small, small to medium size and large. The industry sector is dominated by the small and medium-size companies. These SMEs are engaged in construction activities such as altering, erecting, repairing, demolishing, civil engineering works and other similar structure. The work of the SME also embraces assembling and installation on-site prefabricated components, building and engineering services. Dlungwana and Rwelamila, (2004) demonstrated that the construction SMEs undertakes specialist work outsourced by large construction firms through a subcontract arrangement. Definitions of construction SMEs vary from one country to another. Small and medium construction firms do the majority of the actual work in many construction industries

but often receive the least attention. The Bolton committee (Bolton, 1971) categorised construction firms with 25 employees as SMEs. The committee also considered market share, management style and level of autonomy in making decisions as some of the broad qualitative characteristics of these SMEs. Ribeiro and Fernandes (2010) acknowledged that construction industry is organisational complex and highly fragmented with a predominance of small and medium size firms. According to Egan (1998), the issues of organisational complexity and fragmentation of the construction industry are well captured in the Egan (1998), and Latham (1994) reports as the primary attributes of poor performance in the construction sector.

4.3 Small and medium size construction firms in Ghana

In Ghana, construction SMEs as well as their counterparts operating in other sectors of the economy, contributes immensely to employment, poverty reduction and income generation (Kisi *et al.*, 2015). The Government of Ghana through the Senchi report (2014) stressed the need for the country to encourage and promote indigenous entrepreneurship as well as providing further steps to support small and medium scale enterprises. Undoubtedly, these enterprises have been recognised as the engines through which the growth objectives and the core strategic intents of firms are achieved (Abor and Quartey 2010). There is lack of accessible data on SMEs in Ghana, but the working available statistics from the Registrar General's Department (RGD) recommend that 92 percent of companies registered are micro, small and medium enterprises (GOG, 2007)

According to Abor and Quartey (2010) in Ghana, SMEs are now exposed to greater opportunities than ever for expansion and diversification of the sectors. While developed global markets may be shrinking on account of the financial and economic crises prevailing, Ghana's market size is growing, and opportunities within Africa are also beginning to look attractive for SMEs construction contracts in Ghana involve huge sums of financial resources and, as a result, small and medium-sized construction firms must assess credit facility from a financial institution to enable them to execute projects. Abor and Quartey (2010) affirmed that SMEs in Ghana have always not obtained the required support from the concerned Governmental Ministry, Department including the Banks and other financial institutions. This lack of support impedes developing competitiveness among SMEs both locally and globally. According to Tagoe *et al.*, (2005), some researchers, business executives and managers of SMEs have attributed the failure of their firms in Ghana and Africa to owner and manager's inability to access credit. Abor and Quartey (2010) further stressed that SMEs face numerous of problems such as limited capital and knowledge, ineffective marketing strategies, low production capacity, lack of capacity to identify new markets, challenges on modernization and expansion, non-availability of highly skilled labour at affordable cost amongst others.

Kayanula and Quartey (2000) cited in Mofokeng (2012) embarked on a study on policy and environment for promotion SME's in Ghana and Malawi and established that small and medium-sized firms are posed with some barriers to growth that include: Weak institutions capacity, lack of management skills and training, the survival of entrepreneur, oppressive

laws and lack of access to appropriate technology. To mitigate these characterised challenges among SME's in Ghana, successive Governments have initiated changes to address the needs of SME's through donor support funds (Abor and Quartey, 2010). Despite the collaborative support funding systems through non-bank financial institutions and traditional banks, assess and capacity gaps continue to exist among SMEs in Ghana (Abor and Quartey, 2010). In addition, Urinyo *et al.*, (2004) stressed that there are many challenges to construction development and growth. These include policy regulations, inadequate financial infrastructure, firm regulations, trade regulations, tax regulations, changing government policies, tax rates, corruption, labour regulations, the cost of capital, and keen competition for limited opportunities. Similarly, Appiah-Fening *et al.*, (2008), discovered that in Ghana, the SME's contribution has fallen short of its potential due to lack of effective quality management and coordinated effort to support SME operations by the central government to facilitate growth.

The Government of Ghana as part of its promotion and assistance to the SME sector set – up some institutions such as the Ghana Enterprise Development Commission (GEDC). The commission was mandated to strengthen the SME sector both financially and technically (Kayanula and Quartey 2000). In addition, the Economic Recovery Programme established in as early 1983 has broadened the institutional support for SMEs. Furthermore, Kayanula and Quartey (2000) stressed that the National Board for Small Scale industries (NBSSI) was also established within the Ministry of Industry Science and Technology to collaborate and address the needs of small to medium businesses. In order to enhance the full mandate of NBSSI, an entrepreneurial development programme, intended to provide training and assistance to individuals with entrepreneurial abilities to develop their skills was estimated. The Ghanaian economy also witnessed the establishment of the Ghana Appropriate Technology industry service (GRATIS), which was to supervise the operations of (Intermediate Technology Transfer Unit (ITTU) Kayanula and Quartey 2000). The mandated public agencies to implement and enforced these policies seems to be weak and are not adequately resourced (Kayanula and Quartey 2000). According to Kulemaka *et al.*, (2015), most governments have outsourced to the private sector the implementation activities of policies which were previously executed by government departments.

4.4 Definition of Growth

The term growth is used in discourse with two different connotations. It sometimes denotes merely increase in an amount such as sales, outputs, etc. Sometimes, growth is used in its primary meaning implying an increase in size or an improvement in quality as a consequence of a process development, biological processes (Penrose, 1980). According to Kirkwood (2009), firm's growth has long been a focus of attention among researchers in entrepreneurship. This is because growth is seen as synonymous with entrepreneurship Sexton (1989) cited in (Kirkwood, 2009). Growth in firms has however been recognised as a complex process through studies (Baum *et al.*, 2001). Massey *et al.* (2006) supported that firm's growth is not homogenous amongst SME's. As a result, the growth trend can change over time. It can also be measured in the form of qualitative features like market position, quality of the product and goodwill of the customers. In addition, Moreno and Casillas (2007) postulated that the growth of firms vary and may be measured by various levels of sales and employees growth over a particular period. Barringer *et al.*, (2005) further stressed that firm's

growth is not an automatic event to happen and as such managers and owners must endeavour to institute schemes and measures that will bring in growth within companies. Gopinath (2012) augmented that firm's growth is defined as an increased in specified attributes such as sales employment or profit between two points in time, and it is an important determinant of firm's performance. It can, therefore, be concluded from this diverging collection of definitions that there is no accepted definition of firm's growth rather, the growth definition is dependent on some determinates from a classification.

4.5 Classification of firm's growth

According to Miriam (2006), firms grow in two ways; by internal expansion (organically) and through integration (inorganic). Growing organically means a firm needs to retain sufficient profits to enable it to purchase new assets, including new technology. Over time, the total value of a firm's assets will rise, which provides collateral to allow the firm to borrow to fund further expansion. Mognetti (2002) as cited in Miriam (2006) affirmed that organic growth is widely referred to as internal procedure where the firm relies primarily on intrinsic skills of individuals and the firm itself to grow from within. This is done by a number of methods such as building increased customer relationships, delivering more value to the client, creating more demand in the markets among others thereby increasing returns of firms (Miriam, 2006). Whiles with the second route, to achieve growth inorganically a firm needs to integrate with other companies.

4.6 Strength in firm's growth

Bradford *et al.*, (2000) defined strength in the context of firms as its resources and capabilities that can be used as fundamentals for developing a competitive advantage. Construction SMEs as captured in the literature facilitate the socio-economic development of a nation therefore when there are increased in growth, it implies there will be a corresponding grown in the social and economic developments of a country. Growth within firms ensues in order for companies to achieve their objectives including increasing sales, maximising profits or increasing market share. Barringer *et al.*, (2005) remarked that regardless of the exact definition of what firms entails, it is often realised that very few companies accomplished growth. The strength of firm's growth in the context of this study refers to the firm's competitive advantage and distinctive competencies this includes strong customer service, positive employees attitudes, excellent stakeholders relations, lower cost in production and high integrity of the staff. The strength of firm's growth is prudent to be explored in order to aid the firm in matching their competencies in the market of jurisdiction. Abor and Quartey (2010) supported that in Ghana SMEs that are able to identify niche market grows faster and impact their competencies. Similarly, firm's growth strength is as a result of employee's loyalty and maintained culture. Firms growth apart from minimising poverty within an economy, improving job creation, it also brings about incremental sales value turnover of a firm and develops a new channel for a product.

4.7 Weakness in firm's growth

Weakness in relation to a firm is defined by Bradford *et al.*, (2000) as the absence of certain strengths the firm considers as essential. Despite significant impact of SME growth in Ghana, there are still peculiar weaknesses that hinder SME growth (Abor and Quartey 2010). The weakness of firm's growth also refers to the constraints that impede a firm to growth or what the firm does not do well. These weaknesses in growth among SMEs include weak organisational structure, inadequate training of staff, lack of clear corporate goals, complex levels of reporting system of firm among others. More so, SMEs are notable encountering challenges in assessing finance at the bank due severe as their Also SMEs mostly lacked the peculiarly needed skills to execute a unique section of a project and as a result outsources that part to a subcontractor with the specialised skills (Dlungwana *et al.*, 2012). Ribeiro and Fernandes (2010) similarly stressed that construction SMEs compared with large firms are less competitive; for instance, the SME firms may not be able to size business opportunities due to lack of technical skills, shortage of finance and limited administrative capacities. Local SMEs, on the other hand, lacked technology transfer to utilise the acquired expertise subsequently. Kayanula and Quartey (2000) emphasised that lacked entrepreneurial and business management skills as well as managerial know-how, places significant constraints on SMEs development in Ghana. Similarly, Mofokeng (2012) stressed on some related weaknesses and challenges to growth and performance of SMEs in Ghana, which includes deficiencies in technical and managerial expertise, poorly developed infrastructure, poor business environment and lack of access to credit.

5 Implications of the study

The implication of this study to the SME sector in the Ghanaian economy is to establish detailed insight of firm's growth. Enough evidence from the study indicates the significance of SME's growth in the most economies including Ghana as captured in literature. This makes the study prudent to be embarked. The growth of firm has also been recognised to have lots of merits both on the macro and micro-economic levels. Every firm is unique and therefore has its constraints in achieving its goals. Therefore, when the strength and weakness of enhancing the growth of a firm are recognised, it will enable achievable and realistic strategies to be adopted as a guide to increase growth among small and medium-sized construction firms in Ghana.

6 Conclusions

The study explored the strength and weakness of firm's growth among small and medium-sized construction firms. in Ghana, by seeking to establish ideas that will facilitate growth among these SMEs. It is clear from the study that literature on SMEs has confirmed that SMEs are considered as the engine of growth for lots of developed and developing countries. This implies that the well-being of most economies in terms of socio-economic development both at macro and micro levels are dependent on SMEs. It was also apparent from the study that the construction sector is characterised globally to be a labour intensive and particularly in Ghana, the industry is notable for having a low level of barriers to entry. This has brought about the ease of springing-up of SMEs and had resulted in the dominance of small and medium-sized construction firms with a low level of managerial structures. Vivid

review of literature on the small and medium -sized construction firm was made from existing models on the growth of SMEs in order to ascertain clarity in strength and weakness. The study discovered that the term small and medium-sized firms (SMEs) cover a broad spectrum of definitions and that till date literature has not established any universal definition for SME's. According to Eyiah and Cook (2003) however, some of the common features used to describe SMEs in Ghana are the number of employees, values of sales and size of the capital. As a result, different countries set their guide for SME definition. Growth in firms has however been recognised as a complex process through studies (Baum *et al.*, 2001). The study demonstrated that according to Miriam (2006), firms grow in two ways; by internal expansion (organically) and through integration (inorganic). In addition conclusions from the study provided an explanatory view of firm's growth in terms of the strength and weakness of small and medium-sized construction firms in Ghana. The strength of firm's growth in the context of this study refers to the firm's competitive advantage and distinctive competencies this includes strong customer service, positive employees attitudes, excellent stakeholders relations, lower cost in production and high integrity of the staff. Also, strengths of firm's growth are prudent to be explored in order to aid the firm in matching their competencies in the market of jurisdiction. The weakness of firm's growth refers to the constraints that impede a firm to growth or what the firm does not do well. The further conclusion to the study emphasised that in growth among SMEs include: weak organisational structure, inadequate training of staff, lack of clear corporate goals, complex levels of reporting system of firm among others. Kayanula and Quartey (2000) emphasised that lacked entrepreneurial and business management skills as well as managerial know-how, places significant constraints on SMEs development in Ghana. Similarly, Mofokeng (2012) stressed on some related weaknesses and challenges to growth and performance of SMEs in Ghana, which includes deficiencies in technical and managerial expertise, poorly developed infrastructure, poor business environment and lack of access to credit.

References

- Abor, J. and P. Quartey (2010). Issues in SME Development in Ghana and South Africa, International Research Journal of Finance and Economics. Issue 39 available at http://www.eurojournals.com/irjfe_39_15.pdf [Assessed 20th June 2016]
- Appiah-Fening, F., Pesakovic, G. and Amaria, P. (2008), Relationship between quality management practices and the performance of small and medium size enterprises (SMEs) in Ghana, International Journal of Quality & Reliability Management, Vol. 25 Iss 7 pp. 694 – 708
- Barringer, B., Jones, F. and Neubaum, D. (2005), A quantitative content analysis of the characteristics of rapid-growth firms and their founders, Journal of Business Venturing, Vol. 20 No. 5, pp. 663-87.
- Baum, J.R., Locke, E.A. and Smith, K.G. (2001), A multidimensional model of venture growth, Academy of Management Journal, Vol. 44 No. 2, pp. 292-303.
- Bolton, J. E. (1971), Report of the Committee of Inquiry on Small Firms, HMSO, London.

Bosher L.S., Dainty A.R.J., Carrillo P.M., Glass J., and Price A.D.F. (2007), 'Integrating disaster risk management into construction: A UK perspective', *Building Research and Information*, 35 (2):163-177

Dalberg Report on Support to SME's in Developing Countries Through Financial intermediaries. November 2011.

Egan, J. (1998) *Rethinking Construction, A Report on Construction Excellence in the UK.*

Eyiah, A. K. and Cook, P. (2003), Financing small and medium-scale contractors in developing countries: a Ghana case study, *Construction Management and Economics Journal*, 21, 357-367.

Gopinath, R., C. (2012) Understanding the determinants of firm growth in young, Reits, Singapore.

Government of Ghana (GOG). 2007. Budget statement for the year 2008. Ghana Official Portal.

Gupta, P. D., Samapti Guha, S. and Krishnaswami, S. S (2013) Firm growth and its determinants *Journal of Innovation and Entrepreneurship* Vol. 2 – 15.

Hashi, I. and Krasniqi, A. B. (2011) Entrepreneurship and SME growth: evidence from advanced and laggard transition economies, *International Journal of Entrepreneurial Behaviour & Research* Vol. 17 No. 5.

Kayanula, D. and Quartey, P. (2000), "The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi", Finance and Development Research Programme, Working Paper Series, Paper No 15, IDPM, University of Manchester.

Kirkwood, J. (2009), To grow or not? Growing small service firms, *Journal of Small Business and Enterprise Development*, Vol. 16 Iss 3 pp. 485 – 503.

Kusi, A., Opata, C. N. and Narh, J. T-W (2015) Exploring the Factors that Hinder the Growth and Survival of Small Businesses in Ghana (A Case Study of Small Businesses within Kumasi Metropolitan Area). *American Journal of Industrial and Business Management*, 5, 705-723.

Latham, M., (1994) Joint Review of Procurement and Contractual Arrangements in the United Kingdom Construction Industry. Final Report, 1994.

Mahemba E. (2011) Literature Review on small and medium-size enterprise Access to credit and support in South.

Massey, C., Lewis, K., Warriner, V., Harris, C., Tweed, D., Cheyne, J. and Cameron, A. (2006), Exploring firm development in the context of New Zealand SMEs, *Small Enterprise Research*, Vol. 14 No. 1, pp. 1-13.

Miriam J. (2006) organic Vs Inorganic Growth: A case study, Dissertation Presentation for the Degree of MA in Finance and investment.

Mofokeng, T. G. (2012) Assessment of the Causes of failure among small and medium sized construction companies in the Free State Province, Master's Thesis, University of Johannesburg

Mognetti, J.F (2002) Organic Growth: Cost Effective Expansion from Within, John Wiley and Son England.

Moreno, A. and Casillas, J. (2007), "High-growth SMEs versus non-high-growth SMEs: a discriminant analysis", *Entrepreneurship & Regional Development*, Vol. 19 No. 1, pp. 69-88.

National Board for Small Scale Industries (NBSSI), (1996). Enterprise Fund: Providing Long-Term Financing Support to Small and Medium Enterprises in Ghana. EMPRETEC Foundation, Accra, Ghana.

Olebogeng, D. D.(2015) Economic Development post-Sichuan Province disaster, Proceedings of the DII-2015 Conference, on Infrastructure Development and Investment Strategies for Africa, 16-18 September 2015, Livingstone, Zambia

Penrose, E (1959). The theory of the growth of the firm, Oxford, Oxford University Press.

Ribeiro, F. L. and Fernandes, M. T. (2010), "Exploring agile methods in construction small and medium enterprises": a case study. *Journal of Enterprise Information Management*, 23(2), 161-180.

Sexton, D. L. (1989), "Growth decisions and growth patterns of women-owned enterprises", in Hagan, O., Rivchun, C. and Sexton, D. (Eds), *Growth Decisions and Growth Patterns of Women-Owned Enterprises*, Praeger, New York, NY.

Tagoe, N., Nyarko, E. and Anuwa-Amarh, E. (2005), "Financial challenges facing urban SMEs under financial sector liberalization in Ghana", *Journal of Small Business Management*, Vol. 43 No. 3, pp. 331-43.

Urinyo, A. G., Mwila, J. and Jensen, L. (2004). Development of Contractor registration scheme with a focus on small scale civil works Contractors 'Final report: www.ilo.int/public/english/employment/recon/elip/download/zam_contr_reg.pdf (Assessed: 20th June 2015)