IDENTIFICATION OF CRITICAL SUCCESS FACTORS FOR THE SURVIVAL OF SMALL, MEDIUM AND MICRO ENTERPRISE CONTRACTING FIRMS IN THE GREATER JOHANNESBURG METROPOLITAN AREA

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The objective of this study is to investigate the critical success factors (CSF) that influence the success of small and medium sized contractors in the greater Johannesburg metropolitan area, Gauteng province of South Africa. An all-inclusive literature study was carried out. A structured questionnaire was developed for 50 SMME contracting firms to access the standing of their enterprises and also to scrutinize the CSF that influence the success of their businesses. Findings emanating from the study reveal that good management skills, maintaining good relationships with clients, proper record keeping and good cash flow management were the prime CSF needed by the SMME in the greater Johannesburg region for the survival of their firms. This study contributes to the preposition that CSFs are necessary for the survival of SMMEs as they are seen to hold the key to the development of the local economies and the nations at large.

Keywords: contractors, critical success factors, Gauteng Province, South Africa

INTRODUCTION

Small, Medium and Micro Enterprises (SMMEs) play an important role in global economies by creating employment and reducing poverty (Lewis, Pun and Lalla., 2006). For instance, the South African Minister of Finance, Mr. Pravin Gordhan, in his 2013 National budget speech stated that SMMEs play a vital role in the development of the South African economy and are a significant generator of employment. The minister further state that the financing of SMMEs in South Africa has been simplified with the creation of the Small Enterprise Finance Agency (SEFA) in 2012 in order to foster growth and survival amongst them. With that said, the growth of construction SMMEs is a great concern to the South Africa government because of the peculiarity of the SMMEs and as these firms struggle to survive after years of operations. As a major client of the construction industry, the government would gain when SMME companies that are involved in the execution of its projects have the necessary capacities and capabilities to provide value as required. The South African government Small Enterprise Development Agency (SEDA) is vested with

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the responsibility to ensure and monitor SMMEs growth in the country. SEDA is an agency of the South African Department of Trade and Industry (DTI). It is mandated to implement government’s small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government. SEDA’s mission is to develop, support and promote small enterprises throughout the country, ensuring growth and sustainability (SEDA: online). However, construction SMMEs still have a great amount of factors that they need to analyze and understand in order to survive in the industry. Hence, the study seeks to investigate the CSF for the survival of SMME contracting firms. The paper starts with an overview of the literature on SMME and CSF, followed by an explanation of the research design method; presentation of the findings and discussions before conclusion are drawn and recommendations made.

**SMMEs AND CRITICAL SUCCESS FACTORS**

There is consensus among policy makers, economists, and business experts that small and medium enterprises are drivers of economic growth. A healthy SME sector contributes prominently to the any economy through the creation of employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills (National Credit Regulator, 2011). The special role of SMMEs in a developing countries, for instance South Africa insures them as engines through which the growth objectives of developing countries can be achieved. Daniels and Ngwira (1992) and Daniels (1994) estimated that SMMEs employ 22% of the adult population in developing countries. Also, the United Nations Industrial Development Organisation (UNIDO) estimates that SMMEs represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999). A recent study conducted by Abor and Quartey (2010) estimates that 91% of formal business entities in South Africa are SMMEs, and that these SMMEs contribute between 52 to 57% to GDP and provide about 61% to employment. Despite the acknowledged level of contribution and significance of these SMMEs, the Global Entrepreneurship Monitor (GEM) Reports (2001-2010) noted that South Africans SMMEs suffer from poor management skills which is a result of lack of adequate training and education. Thus, this results in high rates of business failure making SA one of the national state with one of the lowest SMMEs survival rates in the world (National Credit Regulator, 2011).

Despite the dynamics of the SMME sector, Baard and van den Berg (2004) states that they faces high failure rates in the first three years of existence. For instance in South Africa, this failure rate is somewhere between 70 and 8%, costing the South African economy millions of Rand (Barron 2000; Streek 2001). SMME failures according to previous scholars have been found to bear on internal factors such as managerial incompetence, a lack of managerial experience, inadequate planning and poor financial control (Pickle and Abrahamson, 1990; Gaskill, Van Auker and Manning, 1993 and Scarborough and Zimmer, 1994). SMMEs exist in a hostile external environment containing legal and regulatory constraints, where access to finance is limited and it operates within a global environment characterized by intensified competition (Goodall, 2000). In South Africa much emphasis is placed by national, provincial and local governments on SMMEs to drive wealth creation and black economic empowerment. Therefore, in order for SMMEs to fulfil this role in the
broader society, an investigation into the CSF necessary for their survival is of vital importance.

Arslan and Kivrak (2008) defined success as, being traditionally known as the degree to which goals and expectations are met. Similarly April (2005) points out that success is achieved if an organization uses its performance to meet, or to exceed the financial, social and personal growth expectations of the persons who have an interest in organization. Although, there is no single agreed definition of business success, but researchers generally use continued viability or longevity as a surrogate for business success (Rogoff, Lee and Suh, 2004). However, Murphy (1996) states that some business owners measures success in their capacity to sustain a lifestyle founded on independence, while for others success would be measured by profit and business growth. Presently the construction SMMEs in the South African construction sector are assessed on the basis of the financial ‘well-being’ of their entities and a demonstrable track record of work that they have done prior (Gasa 2012). Therefore, it can be concluded that SMMEs success depends on competent skills, adequate resources, proper timing of activity planning and performance, teamwork, effective communication, fair dealing with people, honesty and integrity are essential. Despite this assertion, during the formative process of growth, SMMEs need to pay attention to certain prospects/factors that tend to determine their longevity in existence.

Previous studies have disclosed different kinds of variables that impact on the success of SMMEs, but most of these studies concentrated on a few sets of variables such as: the psychological and personality traits of the entrepreneurs; managerial skills and training of entrepreneurs and the external environment (Benzing and Kara, 2009). Also, Jafar and Abdul- Aziz (2005), 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. However, Wijewardena and Zoysa (2005) identified six main factors that had positive and significant impact on the success of their sample firms, these factors include: customer orientation, product quality, efficient management, supportive environment, capital accessibility and marketing strategy. In construction terms, a good reputation in terms of projects history is vital for a company’s longevity in existence. If previous projects have positive feedback from the clients it eventually leads to interests from possible future clients as well as recommendations by the satisfied client base.

Nieman (2006) states that general scarcity of resources occurs for SMME success is lacking, the process of networking is therefore vital for their growth and survival. Likewise Burke (2006) states that networking skills are possibly the most important entrepreneurial trait helping the entrepreneur achieve success. Moreover, De klerk and Kroon (2007) informs that business networks have a huge impact on the capacity of a firm to maintain competitive advantage and further states that it improves the ability of firms to operate by using marketing and distribution models efficiently. Likewise Apulu and Latham (2011) found that the competitiveness of SMMEs will be increased through adopting Information and Communication Technology (ICT). Most firms using some form of technology is a question of whether or not these technologies encourage innovation, efficiency, leadership, and improvements in design etc. Mustafa (2007) states that the need for ICT in organizations and not just construction SMMEs is widely acknowledged and its now accepted that IT is becoming a key element of any organization and researchers have informed that the level of an organization’s reliance on IT in the twenty-first century is similar to the reliance on
electricity in the previous century when it was not expected for an organization to function without electricity. Marsh and Flanagan (2000) acknowledges that project team members engage in frequent communication during the project, thus ICT plays a major role in easing information sharing among individuals or entities.

Furthermore, Olwale and Garwe (2010) state that managerial competencies are very important to the survival and growth of new and existing SMMEs. Hence, Islam and Siengthai (2010) states that most of the core processes of Human Resource Management, namely, recruitment and selection, performance appraisal, training and development, as well as compensations have a momentous and positive impact on firm performance. Moreover, Scott (2011) expounds that correct financial management is an important contributor to the success of any company. The ability to manage risk is also an important subset of management for small firm survival (Deakins and Freel, 2006). This factor was also pointed out by Arslan and Kivrak (2008) who emphasized on how it is important for an organization to practice business management; risk management within the company, job cost control, quality control, good record keeping to name a few. Moreover, Nieman (2006) states that accurate record keeping is vital as a task under the organizing function. Wright (1995) supports this by stating that when keeping 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 it also enables the business managers to assess the progress of the company periodically.

**RESEARCH METHODOLOGY**

The research made use of the quantitative research method using structured questionnaires. Targeted participants of this study were project managers, construction managers, quantity surveyors and contractors in Greater Johannesburg area of Gauteng. These were all domicil in the Greater Johannesburg Region while construction team members whose business and construction activities were out of the research range were excluded. The reason for this was that these businesses and construction team members are involved in SMMEs operations on a daily basis and based on their experiences and being domicil in the chosen region, they were are in a better positions to analyze the factors they see as relevant to succeed and survive in the firms. However, not all respondents were involved in the management and operations of these enterprises. Based on the quantitative methodology of simply random sampling, all SMMEs in Greater Johannesburg area of Gauteng Province, had an equal chance to be drawn and participate in the survey. Out of the 57 questionnaires sent out to construction SMMEs within grade 1-5; 36 were received back representing a 63% response rate. The data presentation and analysis made use of frequency distributions and percentages of all the respondents. The research was conducted between the months of June to August, 2013.

**MEAN ITEM SCORE INDEX (MIS)**

A 5-point Likert type scale was used to determine the critical success factors necessary for the survival of SMMEs in the greater Johannesburg region. The adopted scale read as follows, 1=Strongly disagree, 2= Disagree, 3=Neutral, 4=Agree, and 5=Strongly agree. The five-point scale was transformed to mean item scores indices (MIS) for each of the factors identified from literature as potential sources of survival for SMME firms which were assessed by the respondents. The indices were then used
to determine the rank of each item. These rankings made it possible to cross compare the relative importance of the items as perceived by the respondents. The MIS was based on the previous studies as conducted by Aibinu and Jagboro (2002), Ayodele and Alabi (2011) and Kometa et al. (1995) that used the ‘MIS index’ method in rating their study criterions. This method was also adopted to analyze the data collected from the questionnaire survey.

The computation of the relative importance indices (RII) was calculated from the total of all weighted responses and then relating it to the total responses on a particular aspect. This was based on the principle that respondents’ scores on all the selected criteria, considered together, are the empirically determined indices of relative importance. The index of RII of a particular factor is the sum of the respondents’ actual scores (on the 5-point scale) given by all the respondents’ as a proportion of the sum of all maximum possible scores on the 5-point scale that all the respondents could give to that criterion. Weighting were assigned to each responses ranging from one to five for the responses of ‘strongly disagree’ to ‘strongly agree’. This is expressed mathematically below. The relative importance index (RII) was calculated for each item as follows, after Lim and Alum (1995):

\[
\Sigma N = 1n_1 + 2n_2 + 3n_3 + 4n_4 + 5n_5 \quad \text{Equation 1.0}
\]

Where;

\[n_1 = \text{number of respondents for strongly disagree;}\]
\[n_5 = \text{number of respondents for strongly agree;}\]
\[N = \text{Total number of respondents}\]

Following the mathematical computations, the criteria are then ranked in descending order of their mean item score index (from the highest to the lowest). The next section of the article presents the findings of the survey and some discussion.

**FINDINGS AND DISCUSSION**

Findings from the survey revealed that Black Africans represented 75% of the respondents, followed by 17% of Whites and Indians being 8%. It was further revealed that 16.7% of the respondents had grade 12 as the highest level of education whilst 47.2% of the respondents hold either a diploma or some other degree. Likewise, 19.4% of the respondents hold BTech and the remaining 16.7% hold graduate degrees. Further findings revealed 40.5% of the respondents indicated that their main reason of starting a business was to enjoy the luxury of self-employment, whilst 23.8% was for independence, 14.3% was to make a contribution to the community, 11.9% was for financial reasons, 4.8% was due to the fact that they could not find work, and other 4.8% indicated other reasons such as filling the gap in the market which big corporation where not fully satisfying in the market.
Table 1: Critical Success Factors for Survival of SMMEs

<table>
<thead>
<tr>
<th>CRITICAL SUCCESS FACTORS</th>
<th>MIS</th>
<th>RANK</th>
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<tbody>
<tr>
<td>Good management skills</td>
<td>4.72</td>
<td>1</td>
</tr>
<tr>
<td>Maintaining good relationships with clients</td>
<td>4.67</td>
<td>2</td>
</tr>
<tr>
<td>Proper Recordkeeping</td>
<td>4.58</td>
<td>3</td>
</tr>
<tr>
<td>Good cash flow management</td>
<td>4.53</td>
<td>4</td>
</tr>
<tr>
<td>Effective communication channel throughout firm</td>
<td>4.47</td>
<td>5</td>
</tr>
<tr>
<td>Networking with potential future clients</td>
<td>4.39</td>
<td>6</td>
</tr>
<tr>
<td>Marketing strategies</td>
<td>4.33</td>
<td>7</td>
</tr>
<tr>
<td>Having key clients that respond to the services offered</td>
<td>4.31</td>
<td>8</td>
</tr>
<tr>
<td>Having personnel with risk management expertise in firm</td>
<td>4.25</td>
<td>9</td>
</tr>
<tr>
<td>Having a formal short-term business plan</td>
<td>4.19</td>
<td>10</td>
</tr>
<tr>
<td>Light operating costs</td>
<td>4.11</td>
<td>11</td>
</tr>
<tr>
<td>Having an effective recruiting and strong HR</td>
<td>4.08</td>
<td>12</td>
</tr>
<tr>
<td>Use of ICT and adapting to change in technology</td>
<td>3.97</td>
<td>13</td>
</tr>
<tr>
<td>Having a niche market</td>
<td>3.89</td>
<td>14</td>
</tr>
<tr>
<td>Using social media to increase client data base</td>
<td>3.81</td>
<td>15</td>
</tr>
</tbody>
</table>

Based on the ranking (R) of the weighted average of the mean item score (MIS) for the critical success factors for the survival of SMMEs, the findings revealed that the most critical success factors are good management skills (MIS=4.72; R=1), maintaining good relationships with clients (MIS=4.67; R=2), proper record keeping (MIS=4.58; R=3), good cash flow management (MIS=4.53; R=4). Other factors identified in the study include; having an effective recruiting and strong HR (MIS=4.08; R=12), the use of ICT and adapting to change in technology (MIS=3.97; R=13), having a niche market (MIS=3.89; R=14), and lastly the use of social media to increase client data base (MIS=3.81; R=15) as presented in Table 1. This findings concurs with the work of Deakins and Freel (2003) who found that the difference between those firms that can grow and adapt to conditions and those that do not, lies in the management skills of the entrepreneur and too often the importance of these management skills are ignored through concentration on marketing or the personal characteristics of the entrepreneur. Likewise, Scott (2011) informs that maintaining good relationship is a major critical success factors for the survival of any firms, and also that contractors can benefit from better relationships with their clients through a number of different ways, such as: repeat business, work continuity, and improved profitability.
CONCLUSION

The paper set out to explore the critical success factors (CSF) that influences the success of small and medium sized contractors in the greater Johannesburg metropolitan area, Gauteng province. An all-inclusive literature study was carried out was identified variables that were validated through a structured questionnaire survey conducted amongst construction professional who reside in the research geographical area.

The empirical study, although based on a relatively small sample of SMME construction professionals and contractors in the greater Johannesburg region reveal that the factors which had been identified in the literature as contributory to SMME’s success were in other cultural contexts were common in the study area. Hence, it was found that the most critical success factors for the survival of SMME’s are: are good management skills, maintaining good relationships with clients, proper record keeping, good cash flow management, having an effective recruiting and strong HR system, the use of ICT and adaptation to changes in technology, having a niche market, and lastly the use of social media. Although the sample was limited, but the findings are indicative of the CSF for the survival of SMME’s in the Greater Johannesburg region of the Gauteng Province of South Africa. In terms of reliability of the methodology adopted; when the procedure is followed in a bigger and more diversified sample, findings would justify the current study. Therefore, the results revealed in this study gives valuable insights for the improvement of construction SMMEs in the study area.

It is therefore recommended that construction SMMEs firms should invest more in management training in order to increase performance which will enable them to have a competitive advantage over other those not educated and not upgrading their level of knowledge. Also, SMMEs should employ the services of better qualified personnel’s in their firm as well as having construction mentors who can assist to eliminate some of the factors that cause these firms to fail such as the employment of the services of better qualified construction projects financial accountants who will help keep the books as it was identified in the survey that projects financial management is a major contribution to SMME failures in the research focus area. When these recommendations are given considerations, there will be a significantly reduction in the failure rate of construction SMMEs in the Gauteng Province of South Africa.

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