



**FACULTY OF HEALTH, ENGINEERING AND SCIENCES  
DEPARTMENT OF CIVIL ENGINEERING AND SURVEYING  
UNIVERSITY OF SOUTHERN QUEENSLAND**

**An investigation of the key barriers preventing development of  
Small Medium Enterprises (SMEs) in the South African  
construction industry**

A dissertation submitted by

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in fulfillment of the requirements of

**Courses ENG4111 and 4112 Research Project**

towards the degree of

**BACHELORS ENGINEERING (HONOURS – CIVIL ENGINEERING)**

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**Submission Date:** 15 October 2020

## **Abstract**

The aim of the research project was to determine the prevalent causes that contribute to slow development of SME contractors, to learn whether business owners understand the constraints slowing the development of their business and whether the existing government initiative programs are sufficient to support the development of SMEs.

A quantitative research method was adopted as a method of conducting this study. The primary data was collected using a structured interview guide which incorporated the research questions. The salient findings of this study are:

- SME contractors lack start-up capital and are unaware of the information related to access to capital published by the government
- SME contractors do not receive capital from banks when they don't have security or income
- SME contractors are still paid later than the 30 day period for completed projects
- Half of the SME contractor owners who had started their construction companies lacked construction project management training

The conclusion of the study was that SME who have start-up capital have high probability of growing their businesses than those who have not. The lack of access to information must be addressed by the government to ensure all SME contractors have an equal opportunity. Government departments together with private sectors must be constantly informed about the negative consequences that late payment has on SME contracts. Late payments should be categorized as a negative audit finding by the general auditor for the government departments to change.

The study recommended that;

- Government departments need to work together to promote the development of SME contractors;
- Information designed to assist the development of SME contractors must be centrally published so that it reaches the majority of SME contractors;
- Government needs to ensure institutions established to assist with financing of SME contractors are accessible and assessment procedures to acquire funding are not bureaucratically burdensome;
- SME owners should take advantage of training courses offered by private and government institutions if they truly seek to improve the performance of their businesses; and lastly,

- SME contractors must improve their research capabilities to identify opportunities designed to promote SME growth.

**Keywords:** Small medium Enterprise, Development, Contractors, Capital, Information and Bankruptcy.

**Certification/Declaration**

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## **Acknowledgements**

Firstly, I would like to thank God, the almighty, my anchor and hope, for the strength and motivation to complete this research project successfully.

I cannot express enough thanks to my research supervisor, Mr. Gary Elks, for the continued support and encouragement. I offer my sincere appreciation for the time and support he gave me during my research project.

My completion of this research project could not have been accomplished without the support of my beautiful wife (Zona). I am extremely grateful for her love, kindness, guidance, and motivation before and during the progression of this study.

My sincere thanks to my children, Lidini, Lidinga and Lizalise for partially behaving during the late nights when I was busy with the research, and the joy and motivation they have bestowed me with.

I also thank my father and mother for their spiritual support and encouragement throughout my life.

Lastly, but not least, I would like to thank all the SME owners for the valuable time they have given me during the progression of this study.

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## **1. INTRODUCTION**

### **1.1 Background**

The construction industry is an important player in reducing unemployment in South Africa. The Strategic Business Partnerships for Growth in Africa (SBP) report (2006, p. 5) states that the building construction industry is a major player in contribution to employment and GDP in South Africa. This is because SMEs tend to be more labour-intensive than large firms.

Since the year 2008, the construction sector has contributed approximately 8% to the formal and informal employment in South Africa. By comparison to other sectors of the South African economy, the construction Gross Fixed Capital Formation (GFCF) has accounted for about 9.6% on average to GDP between 2008 and 2016. The Small Medium Enterprises (SME's) currently contributes about 30% to South Africa's GDP – which is less than small businesses in developed countries that contribute around 50% to the GDP and those in Asia that contribute around 40% (CIDB, 2017).

South Africa faces a challenge of high unemployment and skills shortages, the unemployment rate currently stands at 27 per cent, and one of the main goals that South Africa has set itself in the National Development Plan is to cut the unemployment rate to 6 per cent by 2030 (National Planning Commission, 2012). SME's absorb about 70% to 80% of the employed population in South Africa; this number is far lower than developing and developed countries. When compared to Brazil whose economy in many respects resembles that of South Africa's, the estimated number absorbed is around 96% of the employed population. According to the report published by Australian Department of Innovation Industry, Science & Research (2009, p. 13), Australia's small businesses absorb around 96% of the employed population, while 4% is absorbed by medium-sized businesses and less than 1 per cent is absorbed by large businesses.

The prevalent challenge facing the South African construction industry is the slow development of SMEs is which in turn affects economic growth. The South African Construction Sector has been involved in extensive structural reforms and improvements in the past; despite that, certain cumbersome regulatory controls and restrictions remained unchanged and continue to pose significant challenges to the development of SME's (Abor & Quartey 2010, p.218-228).

### **1.2 Problem Formulation**

The stagnation and failure of the emerging construction firms obstructs not only the growth of the construction industry, but also the development and economic growth of the country (Ntuli & Allopi, 2009, p. 364).

Olawale and Garwe (2010, p. 729) states that SMEs in South Africa have a higher failure rate than that of rest of the world. Brijlal et al. (2013, p. 1) citing and sharing the same opinion as Ladzani & van Vuuren (2002, p. 155) stated that many SME's fail at the infancy stage and some fail a few years after start up. Brijlal et al. (2013, p.1) further reports that about 50 per cent of all start-ups in South Africa fail in their first year, while 75 per cent fail within the first three to five years in the United States of America.

Business licensing and other registration requirements tend to result in high start-up costs for SME firms and impose excessive and unnecessary burdens on SMEs. Blaauw (2016) states that the cumbersome process of registration with South African Construction Industry Development Board (CIDB) and National Home Builders Registration Council (NHBRC) and the completion of numerous documentation for tender submissions discourages entrepreneurial small business development in the construction sector.

Other than cumbersome regulatory controls and restriction, which may be considered organisational external factors, there are many other internal organisational factors that cause the high rate of SMEs failure. Internal organisational factors such as lack of finance, shortage of technical skills, poor strategic planning and poor marketing are some of the other evident causes (Tshivhase 2009, p.268).

The question that should then be asked is; what are the main barriers preventing the development of SMEs in the South African construction industry? In addressing this research question, the study will investigate the internal and external factors that cause the slow development of SMEs in the construction industry of South Africa.

### **1.3 Research Questions**

The study aims to answer the question:

What are the main barriers preventing development of SMEs in the South African construction industry?

The sub-questions below were formulated to address the main question stated above.

- a) Does lack of access to information negatively affect the growth of SMEs?
- b) Does lack of start-up capital cause slow growth?
- c) Does late payment cause of bankruptcy for SME contractors?
- d) Does lack of business skills and management of finances the cause slow growth for SME contractors?

## **1.4 Objectives of Research**

The primary objective of this study is to determine the factors that cause SMEs to develop slowly in the construction industry. The specific theoretical objectives would be:

- To conceptualise whether SME owners are motivated in developing their SMEs.
- To conceptualise whether SME owners understand the constraints slowing the development of their business.

The specific empirical objective would be:

- To determine if current regulations are cumbersome and unfavourable to SMEs.
- To determine whether the existing government initiative programs have failed the SMEs.

## **1.5 The Delimitation's**

The study will focus on small, medium and micro enterprises that are registered with CIDB and with CIDB level between one (1) and four (4). The study will be limited to Western Cape, South Africa with most focus on contractors located in Cape Town.

## **1.6 Benefits**

The study will assist government to understand current challenges facing construction SMEs. The study will contribute in identifying solutions that can be adopted in supporting the development of SMEs. The study will contribute in the available literature study of SMEs in order to fill the existing gaps. This study will guide policy makers and management of government department in developing new strategies to improve the SMEs in the construction industry. Furthermore, the study will recommend appropriate strategies to be adopted by SMEs to enable them to increase their success rate in the construction sector.

## **1.7 Research Gaps**

Tshivhase & Worku (2012, p. 20) states that CIDB has progressed well in promoting emerging contractors, but the requirements for upgrading SME contractors remain cumbersome, particularly for high grades. For instance, contractors are required to have registered professionals when registering for Grade 7 or higher. This requirement is perceived negatively as a barrier to emerging contractors in light of a shortage of professionals in the country for higher CIDB grades.

## **1.8 Implications & Risks**

The stagnation and failure of the emerging construction firms obstructs not only the growth of the construction industry, but also the development and economic growth of the country (Ntuli & Allopi, 2009). The risks and implications of not executing this study could result in not providing meaningful literature to assist further researchers to make available

strategies that SME's could adopt in their development. Diale (2008) states that South Africa entrepreneurial activities remain relatively low in comparison with other nations around the world.

## **1.9 Organisation of the research project report**

### **Chapter 1 – Introduction**

This chapter provides an introduction, setting of the problem and the manner in which these are addressed. It provides insight into the nature of the topic and issues relating to SME contractors in Cape Town.

### **Chapter 2 – Literature Review**

This chapter provided an in-depth study of SMEs in construction, problems affecting SMEs and factors contributing to the failure of SMEs growth.

### **Chapter 3 – Research Methodology**

This chapter presents the research approach, research methodology and the way in which data were collected to respond to the research problem is deliberated. The research and data collection methods are outlined, as well as the type of instruments used in the collection of data.

### **Chapter 4 – Results & Analysis**

This chapter presents the responses on the investigation of SME contractors in Cape Town and provides the results of the study and discusses the implications thereof.

### **Chapter 5 – Conclusions & Recommendation**

This chapter presents an overview of the study by looking at the results obtained against the literature review, and further gives conclusions related to the objectives and research questions of this study. Recommendations for future studies are also presented in this chapter.

## **2. THE REVIEW OF THE RELATED LITERATURE**

### **2.1 Introduction**

This literature reviews the performance and development of SMEs in the construction industry from a theoretical point using literature. The literature is sourced from recent journal articles, Internet searches, reports and books. In the case where no recent information was unavailable, older sources are used.

### **2.2 Definition of SME**

There are several definitions of a SME across the globe, however there is no specific definition that may be taken as a reference by all economies, statistical agencies or researchers of economy (Berisha and Pula, 2015, p.18). Storey (1994) also states that “there is no single and uniformly acceptable definition of a small firm”. According to Tonge (2001) organizations differ in their levels of capitalisation, sales and employment, hence definitions which employ measures of size (number of employees, turnover, profitability, net worth), when applied to one sector, could lead to all firms being classified as small, while the same size definition, when applied to a different sector, could lead to a different result.

In South Africa the National Small Business Act 102 of 1996 classifies SMEs according to five size categories, namely; survivalists, micro enterprises, very small enterprises, small enterprises, and medium enterprises. These are defined as follows:

- Survivalist enterprise: The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers.
- Micro enterprise: The turnover is less than the Value Added Tax (VAT) registration limit (that is, R150 000 annually). These enterprises usually lack formality in terms of registration. They include, for example, small shops, minibus taxis and household industries. They employ no more than five people.
- Very small enterprises: These are enterprises employing fewer than twenty (20) paid employees, in sector such as mining, electricity, manufacturing and construction. These enterprises operate in the formal market and have access to technology.
- Small enterprises: The upper limit of small enterprises is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

- Medium enterprise: The maximum number of employees in medium enterprises is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by the decentralization of power to an additional management layer (Department of Trade and Industry, 1998).

The European Commission (EC) suggests that small enterprises are defined as those enterprises employing less than 50 persons and with annual sales or total assets that do not exceed \$13 million.

An analysis of both the South African and international definitions of SMEs supports that, there is agreement on what constitutes an SME in terms of the number of employees. The minimum number of employees is between 1 and 50 and the maximum is approximately 500 for medium enterprises depending on the industry. What is crucial is that sufficient capital must be made available so that SMEs will be successful and will be able to grow and develop (Mago and Toro 2013, p. 22). There seems to be an agreement in both South African and international definitions of SMEs that an SME must be registered and be formal (Mago and Toro, 2013, p. 22).

### **2.3 Method of measuring the development of SME's**

When noting different studies of the development of a company, the problem that normally arises is the method to measure the growth of company (Grimsholm & Poblete 2010, p. 10). A study by Barkham et al. (1996) suggests that there is no general method on how to measure the growth of a company; hence, most researchers use different indicators for measuring growth. The most frequently used variable by researchers is employment growth during a specific period of time, since the information is easy to access and uncomplicated to measure (Delmar et al., 2003; Sleuwaegen & Goedhuys, 2002; Barkham et al., 1996).

Lind (2005:55) states that “the best measure of competitive advantage for SMEs is added value, rather than profit, return on investment or market shares”. Furthermore, a rising standard of living depends on the capacity of a nation's firms to achieve high levels of productivity and to increase productivity over time. Productivity is mostly measured by the amount of added value being produced with the input of resources (e.g., capital, labour), and added value has become a frequently used measure at macroeconomic levels (Lind, 2005, p. 55).

The development of SME's in South Africa is crucial for the economy. The support for the development of small, medium and micro-enterprises (SMEs) remains one of the cornerstones of Local Economic Development (LED) programs that have been introduced across South Africa over the past decade (Nel & Rogerson, 2005, p. 15-20).

## 2.4 South African Construction Sector

### 2.4.1 Construction Industry Development Board

The Construction Industry Development Board (CIDB) is a schedule 3A public entity that was established by Act of Parliament (Act 38 of 2000) to promote a regulatory and developmental framework. The purpose of the CIDB is to ensure (CIDB, 2014):

- that the construction industry delivers capability for South Africa's social and economic growth; and
- South Africa's construction industry delivers to globally competitive standards.

In order to improve industry performance and best practice the CIDB established a framework for grading contractors in the construction sector based on their capabilities, previous experience and type of projects they can undertake. When the CIDB regulations were implemented in 2000, contractors were graded on two criteria, namely; by the track record and by the available capital. The available capital meant that a contractor could attain a high grading irrespective of its track record.

In an attempt to improve the development of SMEs, the CIDB regulations were amended in 2013 to provide for a ranking framework based on both the track record and available capital. The current grading of contractors is set out in table 2.1. The CIDB grades, from 1 to 9, determine the value of tender a firm can bid for based on its annual turnover, value of projects undertaken and available working capital. This system thus regulates the extent to which firms can participate in bids in the public sector.

*Table 2. 1 CIDB Grading Information*

Designation	Upper limit of tender value range	Best annual turnover	Largest contract	Available capital
2	R650 000	–	R130 000	–
3	R2 000 000	R1 000 000	R450 000	R100 000
4	R4 000 000	R2 000 000	R900 000	R200 000
5	R6 500 000	R3 250 000	R1 500 000	R650 000
6	R13 000 000	R6 500 000	R3 000 000	R1 300 000
7	R40 000 000	R20 000 000	R9 000 000	R4 000 000
8	R130 000 000	R65 000 000	R30 000 000	R13 000 000
9	No limit	R200 000 000	R90 000 000	R40 000 000

### 2.4.2 Importance of Construction SMEs in South Africa

Construction SMEs play a vital role in the economy of South Africa. Shakantu (2012) notes that construction SMEs form a critical role in government's strategies to create

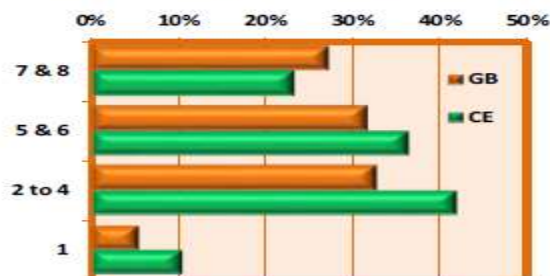


employment opportunities, and foster economic growth and national development. The SMEs provide a vehicle through which most of the under-privileged, who lack financial resources and skills, can typically gain access to economic opportunities. In addition, it is mentioned that construction SMEs are the potential engines of wealth creation, value reorientation, job creation, and poverty eradication (Shakantu, 2012). This is particularly crucial for South Africa that is characterised by the legacy of big business dominance and huge unequal distribution of wealth.

## 2.5 Growth of SME's in the Construction Sector

One indicator of development is the growth in a contractor's Construction Industry Development Board (CIDB) grading over time. The contractor upgrades for General Building (GB) & Civil Engineering (CE) contractors over the past three years (2015 to 2018) is given in the table below. It is seen that around 23% and more of contractors in Grades 2 to 8 have upgraded one or more grades over three years (CIDB, 2018).

Upgrades; 201503 to 201802							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
<b>General Building (GB)</b>							
7 & 8			103	26	129	472	27%
5 & 6		177	277	1	455	1 440	32%
2 to 4	871	635	69		1 575	4 809	33%
1	3 772	225			3 997	72 158	6%
<b>Total</b>	<b>4 643</b>	<b>1 037</b>	<b>449</b>	<b>27</b>	<b>6 156</b>	<b>78 879</b>	<b>8%</b>
<b>Civil Engineering (CE)</b>							
7 & 8			104	31	135	579	23%
5 & 6		241	360		601	1 653	36%
2 to 4	1 001	777	66		1 844	4 409	42%
1	3 469	248			3 717	35 406	10%
<b>Total</b>	<b>4 470</b>	<b>1 266</b>	<b>530</b>	<b>31</b>	<b>6 297</b>	<b>42 047</b>	<b>15%</b>



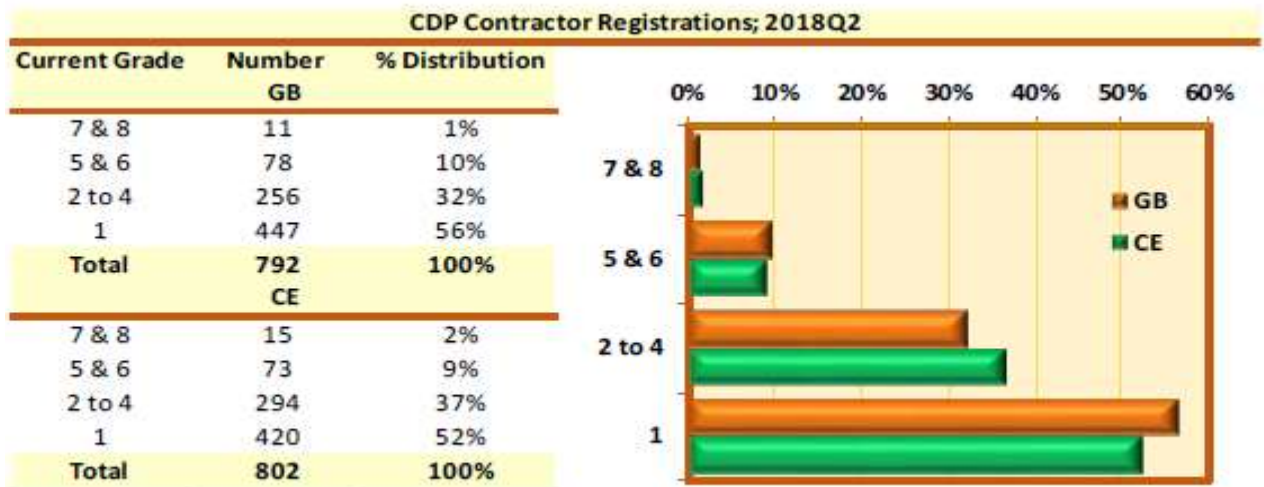
**Figure 2:1 Contractor Upgrade (Source: CIDB, 2018)**

For grade 1 contractors both GB & CE, upgrades were between 8% and 10% for one or more grade over three years. This shows that there is strong need to focus on developing contractors in grade of one (1) in order to create a healthy competition in all grades of the CIDB.

### 2.5.1 Contractor Registrations

An overview of the total number of contractor registrations in General Building (GB) and Civil Engineering (CE) classes of works as at 2018 Q2 is given in figure below. The graph reflects registration that are currently active, and that contractors can have more than registration. It is seen that around 792 contractors hold a GB registration and around 802

hold a CE registration. The largest number of contractors, by Grade, are Grade 1 contractors.



**Figure 2.2 Contractor Registrations (Source: CIDB, 2018)**

Figure 2.1 and 2.2 above demonstrates that there is a problem of slow pace development of contractors with CIDB grade 1 registration. There is a high number of registrations compared to other grade, yet the percentage of growth is by far the lowest in terms of upgrades to other levels.

## 2.6 Competition in the construction sector

Competition for small and medium projects in the construction sector of South Africa is extremely high. Whereas with large projects, competition is far smaller. The smaller competition is because of the fact that there are fewer enterprises compared to other grades with the grading of 9 as per CIDB requirements. Collusion and price fixing has also contributed to the reduction of competition in the South African construction industry.

In 2013, the competition commission of South Africa (CCSA) reported that 21 big South African construction companies had admitted to the Competition Commission (CC) that they were involved in bid-rigging to a combined value of R26 billion (CCSA, 2013). In total, 300 projects were affected by bid rigging and collusion for the period of at least between 2000 and 2009. The CCSA concluded settlements with the majority of firms that were involved in the bid rigging and collusion on various projects, for which the contraventions occurred between 2006 and 2009. The total administrative penalties out of the settlement process amounted to R1.46 billion (CCSA, 2013). The CCSA findings had serious negative impact for the construction industry, the South African economy and the country at large (Cruywagen, 2013).

## **2.7 Performance of Contractors in the construction sector**

The Construction Industry Development Board (CIDB) developed a report in 2007 called Construction Industry indicators (CII) report. The report measures the performance of the South African construction industry by measuring employer satisfaction with the project milestone dates achieved, construction costs versus tender amount, contractor's performance, agent's performance and quality of material used.

The main findings on the CII (2017) report were that contractors made a loss on 3% of all projects completed and there was no relationship between profit and the financial grade of contractors, as small contractors made large profit on many projects than the higher graded contractors. Although the results were not different with 2011's results in these regards, government should continue to give serious consideration to contractor development programs in order to improve performance significantly.

Cost, time and quality are the three basic and most important performance indicators in construction projects followed by others such as safety, functionality and satisfaction (Chan and Ada, 2004).

### **2.7.1 Subcontracting in the construction sector**

Subcontracting is very prevalent in the South African construction industry. Up to 70% of building and 30% of civil construction projects in the construction sector are normally subcontracted out. The most prevalent types of subcontracting are labour-only, trade contracting in the building sector and specialist subcontracting in the building and civil sectors. Building a contractor's track record is particularly relevant to subcontractors that are new entrants into the construction industry as they strive to become main contractors and need to improve their CIDB grading.

## **2.8 Factors affecting Growth of SMEs**

In South Africa up to 50 per cent of new businesses eventually fail, even though it remains problematic to assess the true nature of SME failure due to absence of accurate data on this phenomena. One of the reasons for such a high mortality rate is the entrepreneur's lack of managerial skills, which eventually impairs the new business. Moreover, such a high mortality rate indicates that there is a deficit of management skills, particular in terms of operational skills (Ladzani and Van Vuuren, 2002 p. 155).

SMEs are affected by both internal and external factors, and according to Morrison (2006), enterprises are affected by external macroeconomic environment that cannot be controlled, such as the political environment, economic, social, technological, environmental and legal factors. These factors are rarely affected by management decisions because they are external factors and beyond the control of SMEs.

### **2.8.1 Internal Factors**

Internal Factors are the inner strengths and weaknesses that an organization exhibits. Internal factors can strongly affect how well a company meets its objectives, and they might be seen as strengths if they have a favourable impact on a business, but as weaknesses if they have a deleterious effect on the business (Business dictionary, 2018).

Internal factor that affect organization are detailed below;

#### ***Skills level and experience***

The skills level and experience is pivotal to business growth. Gamble (2004, p. 192-193) states that 92% of emerging civil contractors have a low-level of knowledge and skill. With an increasing number of SMEs emerging in the construction sector, it becomes increasingly challenging for authorities to regulate the level of skills and training of the country's construction workforce. Added to this is a lack of skills at management level – where a shortage of skilled project managers often has significant consequences for building projects (Franck, 2013).

#### ***Poor Leadership***

Leadership is a process of how to impact people and direct them to achieve organisational goals (Northouse, 2007). Davies *et al.* (2002) state that inadequate leadership and management skills are primary factors contributing towards the failure of SMEs. Adding to this, Ihua (2009) citing Beaver (2003) state that some researchers contend that failures of small businesses are associated with poor leadership.

#### ***Financial Management***

Financial management is necessary for any type of enterprise. Du Toit and Mol Van Reeve (1997) states that if and when the finances of the business are managed accurately these could decrease the risk of the business going bankrupt or even being liquidated. The lack of financial management creates problems related to the management of the enterprises. Since the major source of income for many entrepreneurs is the enterprise, they spend money out of the business on their private matters. Numerous enterprises have faced crises due to the use of money without appropriate calculation of profits (Priyanath 2006, p. 102).

#### ***Marketing for SMEs***

Lack of marketing abilities is another weakness that SMEs have, and that tend to limit the growth of SMEs Brush *et al.* (2009, p. 485). Since many businesses have challenges in communicating service features, pricing products and services in an

attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development is required in order to increase revenue.

### ***Technological factor***

Technology provides construction-contracting organisations with an entry point into the learning domain. According to Chinowsky et al. (2007, p. 28) technology in construction is important as it is used in developing integrated solutions that extend beyond the bounds of the construction industry to include participants throughout the design/construction interface.

### ***High employee turnover***

The SMEs have a tendency to offer very limited growth prospects for employees. Qualified and experienced employees may not stay long as they may gain some experience and change employment (Raghavan, 2005). This creates instability and affects the growth of SMEs.

## **2.8.2 External Factors**

According to Morrison (2006, p.30) businesses are influenced by external macro-environments that they cannot control such as political, economic, social, technological, environmental and legal factors, which can rarely be influenced by management decisions since they are external to the company

### ***Government Regulation and Laws***

The South African construction market is highly regulated and the cost of compliance is significant, and is proportionately higher for small businesses than larger enterprises. Tax compliance cost is one type of regulatory costs that is often viewed to have a large negative impact on SMEs. The administration of tax, the planning system, municipal regulation, the administration of labour law, and in specific sectorial regulatory environments, unnecessarily hampers the development of businesses. Many small businesses do not have dedicated in-house tax specialists or human resources staff to help them navigate red tape (Sinxoto, 2007: 41).

### ***SME Funding and Capital***

In the case of South Africa, the Department of Trade & Industry (DTI) in 2008 reported that despite the availability of an array of funding programs, awareness of these programs and the uptake has been very low, especially for Government

supported schemes. For those SMEs who apply for finance, the rejection rate has been high, particularly for bank-sponsored schemes.

There seems to be:

- (i) a general lack of awareness of the funding programs;
- (ii) a mismatch between the products offered on the supply side and that which is required by the SME market; and
- (iii) a gap between the minimum requirements for a business loan and status (especially on the issue of formality) of the majority of SMEs. This means that even registered microenterprises are less likely to have access to credit.

Only 59% of SMEs had any credit products as compared to 82% for large firms. Other reasons hindering SMEs' to access credit include the lack of business managerial experience and skills, insufficient information on available products, relatively low levels of financial literacy, poor business plans and other external factors.

### ***Market information***

Orford *et al.* (2004, p.4) state that many small enterprises are unaware of government initiatives to support them and since they are unaware of them, they are unable to use them for their benefit. Nguyen *et al.* (2009, p.67) note that due to distorted market factors, the modern unfavourable business environment does not permit SMEs to apply their creativity in order to further their business expansion, due to a lack of information about the legal and business environment. SME's also face problems of missing out on business opportunities and cooperation or being deceived due to the lack of reliable information.

### ***Late Payments***

The CIDB (2013) reported that a majoring of SMEs undertaking subcontracting indicated that delayed payments is the most significant problem especially where the main contractor uses the "pay when paid" terms of contracting. According to Crosswell and McCutcheon (2001), many construction firms suffer financial loss and bankruptcy because of delays in payment, and that this is common with government contracts.

## **2.9 Contractor Development Programs & Initiatives**

The National Contractor Development Program (NCDP) is a sector-specific intervention within the framework of South Africa's Accelerated and Shared Growth Initiative (ASGISA). Led by the Minister of Public Works and the Provincial MECs, it is committed to the accelerated growth of the construction industry to meet rising national demand. Specifically, the NCDP is geared to address enhancing capacity and equity ownership across the different contracting categories and Grades, as well as improved skills and performance in the delivery of capital works and maintenance across the public sector (CIDB, 2009). The NCDP recognises that contractor development initiatives should therefore cover a broad spectrum of activities, including (CIDB, 2009):

- Construction Work Force Development that will incorporate the development of the construction workforce through artisan and supervisor development (typically the ungraded workforce and CIDB Grade 1 and 2 contractors). Key instruments that can be used include learnerships of various forms together with the necessary supporting structures;
- Contractor Development that will focus on the development of contractors and comprises several subcomponents starting at the emerging contractor stage and progressing to the stage which focuses on developing the contracting enterprises (i.e. focusing on the business development), together with a focus on improving the performance of contractors; and
- Emerging Contractor Development that will focus typically on CIDB Grade 2 and 3 contractors. Key instruments that can be used include learnerships within Emerging Contractor Development Programs (ECDPs), predominantly incorporating mentorship in which the emerging contractor learns the business side of contracting including tendering for work, pricing, HR management, marketing, financial management, contract administration, etc. Within the ECDPs, budgets are typically ring fenced for allocation to ensure sustainable work for the learner contractors.

## **2.10 Conclusion**

This chapter has provided an in-depth study of SMEs in construction, problems affecting SMEs and factors contributing to the failure of SMEs growth. The next chapter will outline the research methods used in the collection of data for the study. The data collection methods will be outlined as well as the kind of instruments to be used in the collection of data.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The method of research provides the tools and techniques by which the research problem is undertaken. In this chapter the procedures and techniques for conducting the research study will be discussed.

#### **3.2 Research method**

There are three (3) methods commonly used in research, namely; quantitative, qualitative and mixed method research.

##### **3.2.1 Quantitative research**

Creswell (2014, p.52) describes quantitative research as a method of testing objective theories by means of examining the relationship among variables. These variables in turn can be measured typically on instruments so that numbered data can be analysed using statistical procedures. A quantitative survey design was appropriate for this study as data was collected in the form of numbers.

##### **3.2.2 Qualitative research**

Qualitative research is a method of exploring and understating the meaning individuals or groups ascribe to a social or human problem. The method of research involves emerging questions and procedures, and the data is typically collected in the participant's setting. The data analysis inductively builds from particular to general themes and the researcher makes interpretations of the meaning of the data (Creswell, 2014).

##### **3.2.3 Mixed methods**

Mixed methods research attempt to use both quantitative and qualitative methods to offset each other's strengths and weaknesses or mix methods to answer a research question or questions by all means available (Wiggins, 2011). The core assumption of this form of inquiry is that the combination of qualitative and quantitative data provides a more complete understanding of the research problem than either approach alone (Creswell, 2014).

#### **3.3 Sampling**

According to Neumann (2006, p.219) a sample is "a subset of items a researcher selects from a specific population" A study population refers to the entire group of items in which the researcher has an interest (Neuman, 2006, p.219). The target population for this study will be all SMEs registered with the CIDB between 1 and 4 and have been registered for no more than 10 years.



### 3.3.1 Sampling Method

There are two methods used in sampling, probability and non-probability. A probability is a method of sampling in which each individual of the population has the equal chance or probability of selection of the individuals for constituting a sample. In contrast, in non-probability sampling, a person being studied in the population does not have an equal chance of being included in the sample (Fox & Bayat, 2010: 54-58). For this study a non-probability sampling was used.

#### 3.3.1.1 Types of Non-Probability Sampling

According to Kumar (2011) there are four types of non-probability sample used in research, namely;

**Quota sample** - This combines both judgement sampling and probability sampling. The population is classified into several categories: on the basis of judgement or assumption or the previous knowledge, the proportion of population falling into each category is decided. Thereafter a quota of cases to be drawn is fixed and the observer is allowed to sample as he likes (Kumar, 2011, p.188).

**Judgement sample** - This involves the selection of a group from the population on the basis of available information. It is to be representative of the total population. Or the selection of a group by intuition on the basis of criterion deemed to be self-evident. Generally, the investigator should take the judgement since this sampling is highly risky (Kumar, 2011, p.189).

**Purposive sample** - The purposive sampling is selected by some arbitrary method because it is known to be representative of the total population, or it is known that it will produce well matched groups. The idea is to pick out the sample in relation to some criterion, which are considered important for the particular study. This method is appropriate when the study places special emphasis upon the control of certain specific variables (Kumar, 2011, p.189).

**Convenience sample** - The term convenience applied to those samples that are taken because they are most frequently available, i.e. this refers to groups which are used as samples of a population because they are readily available or because the researcher is unable to employ more acceptable sampling methods (Kumar, 2011, p.189). For this study an accidental sampling was used.

### 3.3.2 Size of Sample

The sample size must be carefully determined in order to adequately draw valid and generalised conclusions. The selection of sampling methods and determination of sample size are essential in research problems to draw correct conclusions. If the sample size is

too small, even a well developed study may fail to discover the important effects or may estimate those impacts incorrectly. Similarly, if the sample size is too large, the study would be more complex and may even lead to inaccuracy in results. Moreover, taking a too large sample size would also escalate the cost of study (Singh and Masuku, 2015). Therefore, the sample size is an essential factor of any scientific research.

There is no single rule that can be used to determine sample size, but the best answer to the question of size is to use as large a sample as possible. It is often suggested that one should include at least 30 subjects in a sample since this number is acceptable as a starting point (Singh, 2006, p.93). Huyshamen (1993, p.25) states that any sample with less than 15 units of analysis should not be used, but rather one with more than 25 units of analysis. For this study the sample size was 30 contractors.

### **3.4 Data collection**

There are two types of data in research, namely, primary and secondary data. Primary data consist of numeric and textual or image based data arising from the direct study, however secondary data consists of information obtained from sources that a range of publications, newspapers, internet, textbooks, journals and conference papers (Leedy & Ormrod, 2014, p.98).

For this study, the interview method was used to collect primary data. There are many definitions of interviews, however according to Burns (1997, p.29), 'an interview is a verbal interchange, often face to face, though the telephone may be used, in which an interviewer tries to elicit information, beliefs or opinions from another person'.

### **3.5 Types of Interviews**

#### **3.5.1 Unstructured Interviews**

Unstructured interviews provide complete freedom in terms of content and structure they do not follow a system of pre-determined questions and standardised techniques of recording information. Unstructured interviews are dominantly used in qualitative research (Kothari, 2004, p.98).

#### **3.5.2 Structured interviews**

In structured interview a number of predetermined questions are set using the same wording and order of questions as specified in the interview schedule. According to Kumar (2011, p.137) "an interview schedule is a written list of questions, open ended or closed, prepared for use by an interviewer in a person-to-person interaction (this may be face to face, by telephone or by other electronic media)". For this study a structured interview will be adopted and an interview schedule will be used as an instrument of collecting data.

Interviews were conducted using an online video communication software application, i.e Zoom or WhatsApp.

### **3.6 Interview Schedule**

A study by Chilipunde (2013, p.66) citing Desta (2006) states that a research design needs to ensure that the evidence collected addresses the research questions and must have logic and objectivity. It also essential that the questionnaire is structured to ask appropriate questions in order to acquire relevant data and deliver the data to test the validity of the problem statement.

The interview schedule for this study will be structured to include the sub-problems and the hypothesis. The interview schedule will consist of questions that will be structured in scale rating method of 0 to 5 to ensure uniformity of the feedback. The setup of the interview schedule will be designed to also provide data on demographics of owners of SME's, specialty of SME business, level of education of owners of SMEs and age of owners of SME's.

#### **3.6.1 Interview schedule administration**

The interview schedule administration was undertaken in the following stages:

##### **Stage 1**

An attempt to obtain a covering letter of endorsement, from the USQ, will be made.

##### **Stage 2**

A list of SME's registered with CIDB were be obtained from CIDB database.

##### **Stage 3**

Pre-testing of the interview schedule was done to obtain ideas to increase the creditability of the questions.

##### **Stage 4**

Setting up interviews via emails or telephone with the target population. All respondents were informed of the intention to use Zoom or WhatsApp to conduct emails. Each email was personally addressed to each respondent with a request letter to conduct interview for the study being instigated.

##### **Stage 5**

Respondents who were not available for interviews were removed from the sample and replaced with other SME contractors.

## **Stage 6**

A reminder via email or telephone call were done to follow up respondent who do not honour the appointment dates and times.

### **3.7 Data analysis**

Prior to data entry, all the data collected from the research participants were screened to ensure accuracy of collected data. Graphs, means and tables were used to illustrate occupational and biographical information of the participants. Research data was captured, analysed and compared with literature review.

### **3.8 Ethical considerations**

Prior sending setting up interview appointments with the respondents, a consent was be obtained from the ethics committee of University of Southern Queensland (USQ). The researcher ensured that all the respondents included in the sample gave their informed consent to participate. The researcher ensured that the participants are asked to sign a consent form before taking part of the study. The researcher ensured that the identities of all participants are protected and permission for subsequent disclosure is obtained.

The researcher informed participants about the reason, objectives and the purpose of the study. The researcher informed the participants about what the investigation involved and what will happen to the data obtained from them. Findings were reported as they are and data was not be influenced by the researcher's personal opinion or reported in a way that deliberately favour the researcher's thoughts.

### **3.9 Conclusion**

This chapter has discussed the research methodology, the research method, and research instruments adopted for this study. The following chapter will report the findings of the research and present the analysis of the results and discuss the findings of the study based on the results obtained.

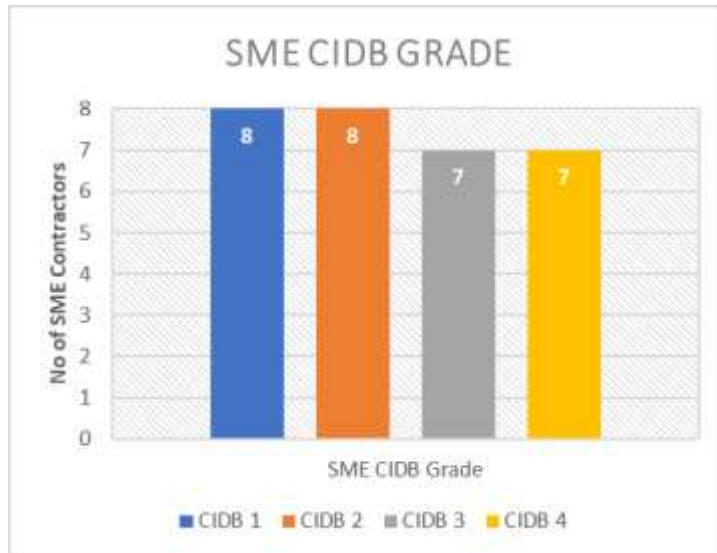
## 4. RESULTS, ANALYSIS AND INTERPRETATION

In this chapter the results obtained from the interviews conducted with SME's located in Cape Town are presented with graphs and discussed in detail. The interviews were performed on Zoom and WhatsApp video calls with owners of the SMEs. The interviews began on the 24<sup>th</sup> of July 2020 and were completed on the 8<sup>th</sup> of August 2020.

### 4.1. Demographics

#### 4.1.1 Number of Interviews per CIDB Grade

A total number of 30 SME contractors were interviewed. The contractors consisted of civil and building contractors based in Cape Town. All SME contractors interviewed were registered with the CIDB. The researcher interviewed 8 x CIDB 1, 8 x CIDB 2 and 7 x CIDB 3 and 7 x CIDB 4 contractors. Figure 4.1 shows the number of interviews per CIDB grading.

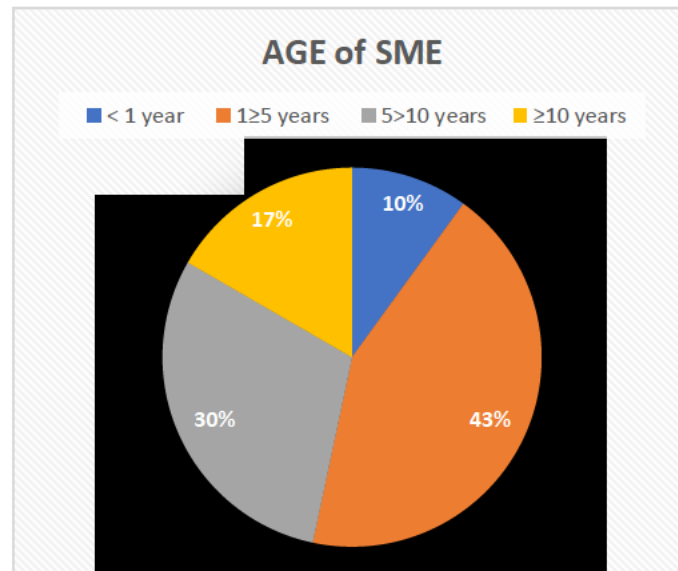


**Figure 4.1 Number of SMEs interviewed per CIDB Grade**

#### 4.1.2 Age of Construction Company

Table 4.2 shows the age of the construction business. The SME responded as follows:

- ❖ Ten percent (10%) of the SME contractor's age was less than a year;
- ❖ Forty three percent (43%) of the SME contractor's age was between 1-5 years;
- ❖ Thirty percent (30%) of the SME contractor's age was between 5 -10 years; and
- ❖ Seventeen percent (17%) of the SME contractor's age was 10 years and more.



**Figure 4.2 Age of Construction Company**

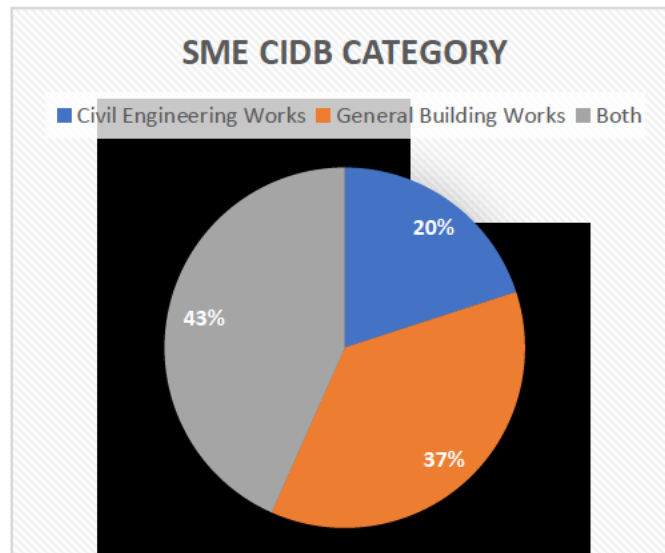
The findings reveal that majority of the SME contractors interviewed have been in business for over five (5) years. Although this may be the case, the findings show that most of the SMEs are not older than 10 years.

#### **4.1.3 Specialty of SME**

Figure 4.3 shows the CIDB category of the SME contractors interviewed. The SME contractors responded as follows:

- ❖ Twenty percent (20%) of the SME's were registered only for civil engineering works only;
- ❖ Thirty seven percent (37%) of the SME's were registered for general building works only;
- ❖ Forty three percent (43%) of the SME's were registered for both civil engineering and general building works; and

The findings reveal that majority of the SME contractors interviewed are registered for both civil engineering and building works with the CIDB.

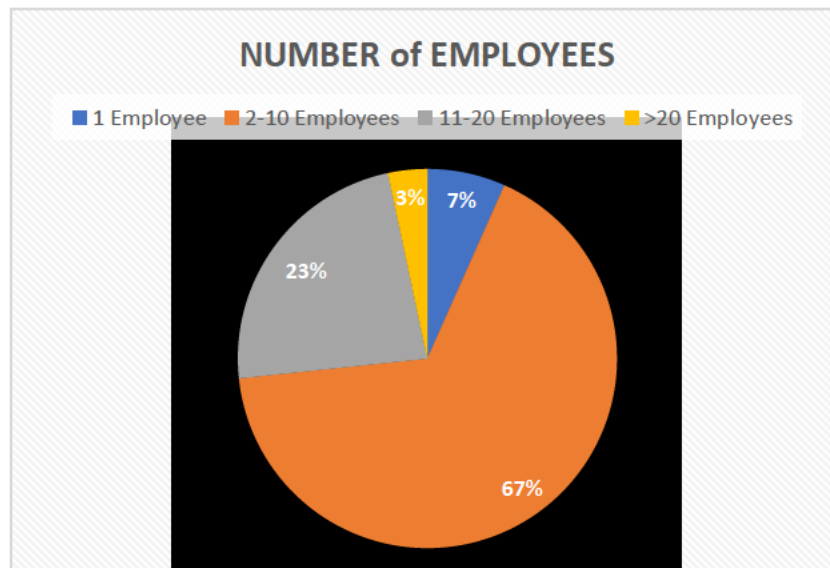


**Figure 4.3 Specialty of SME Contractor according to CIDB registration**

#### 4.1.4 Number of workers employed by SME Contractors

Figure 4.4 shows the number of workers employed by the SME contractors. The SME contractors responded as follows:

- ❖ Seven percent (7%) of the SME's had 1 worker which was mainly the owner;
- ❖ Sixty seven percent (67%) of the SME's had 2 -10 workers;
- ❖ Twenty three percent (23%) of the SME's had 11-20 workers; and
- ❖ Three percent (3%) of the SME's had more than 20 workers.



**Figure 4.4 Number of workers employed by contractors**

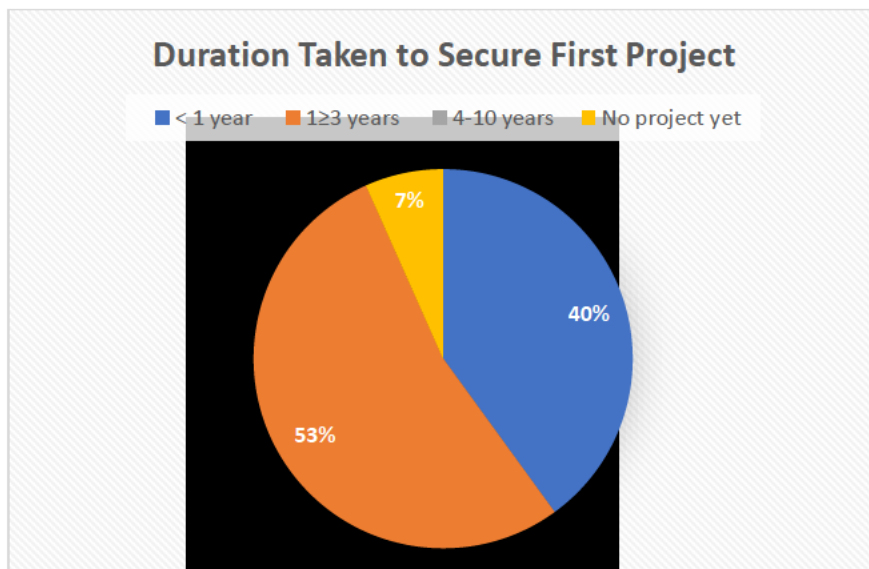
The SME contractors with the highest numbers of employees had CIDB grading more than two (2). This shows that as the SME contractors grows in CIDB grade, the number of workers tend to grow as well. It can be argued that there is a positive relationship

between an increase in CIDB grading and an increase in the number of workers. Another possible contribution to low employees in grades less than two (2) is that projects undertaken by SME contractors in a year are few and the project duration is normally less than a year. The skilled employees tend not stay for long in small contractors because employment is normally for a short duration of time.

#### 4.1.5 Duration taken to secure first construction project

Figure 4.5 shows the duration taken by SME contractors to secure their first construction project. The SME contractors responded as follows:

- ❖ Forty percent (40%) of the SME's obtained their first construction project less than a year after registering their businesses;
- ❖ Fifty three percent (53%) of the SME's obtained their first construction project between one to three years after registering their businesses; and
- ❖ Seven percent (7%) of the SME's had not secured any construction projects after registering their businesses.



**Figure 4.5 Duration taken to secure first project**

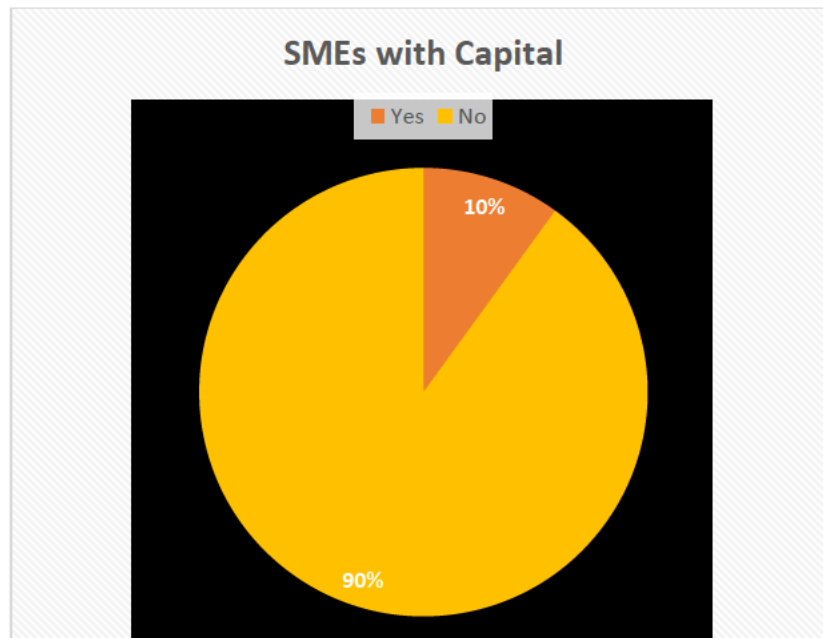
The findings reveal that most of the SME contractors obtained their first construction projects a year after registration. The reason cited by most SMEs is that tendering is highly competitive and there are many small contractors in the construction industry, but there are few small projects. This normally results in many small contractors under pricing in order to obtain work. This is most often on government tenders rather than private projects.



## 4.2. Sub-Problem 1: Access to Capital

### 4.2.1 Availability of Capital

Figure 4.6 shows the percentage of SMEs that had capital when they started their businesses. Ninety percent (90%) of the SME contractors did not have capital whilst ten percent (10%) did have capital.



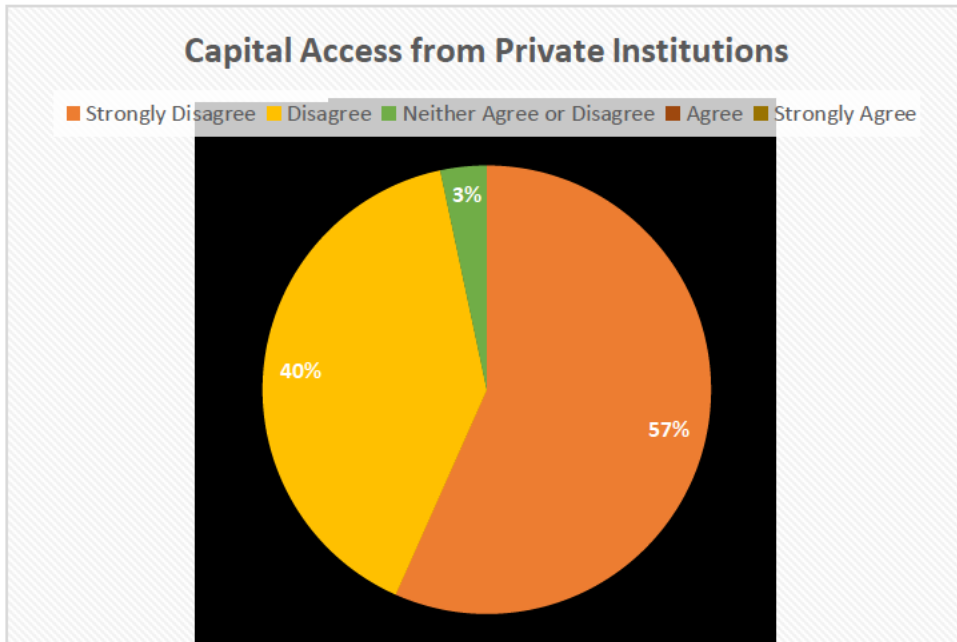
**Figure 4.6 SME Contractors with own capital before start of business**

The results show that most contractors start their business without capital. This is extremely challenging for most SME contractors since most projects require SME contractors to have some sort of capital before commencing their projects.

### 4.2.2 Accessibility of Capital from Private Banks

Figure 4.7 shows whether SMEs agree if it is easier to access capital from private banks. The responses of the SME contractors are as follows:

- ❖ Fifty seven percent (57%) of SME contractors strongly disagreed;
- ❖ Forty percent (40%) of SME contractors disagreed; and
- ❖ Three percent (3%) of SME contractors neither agreed nor disagreed.



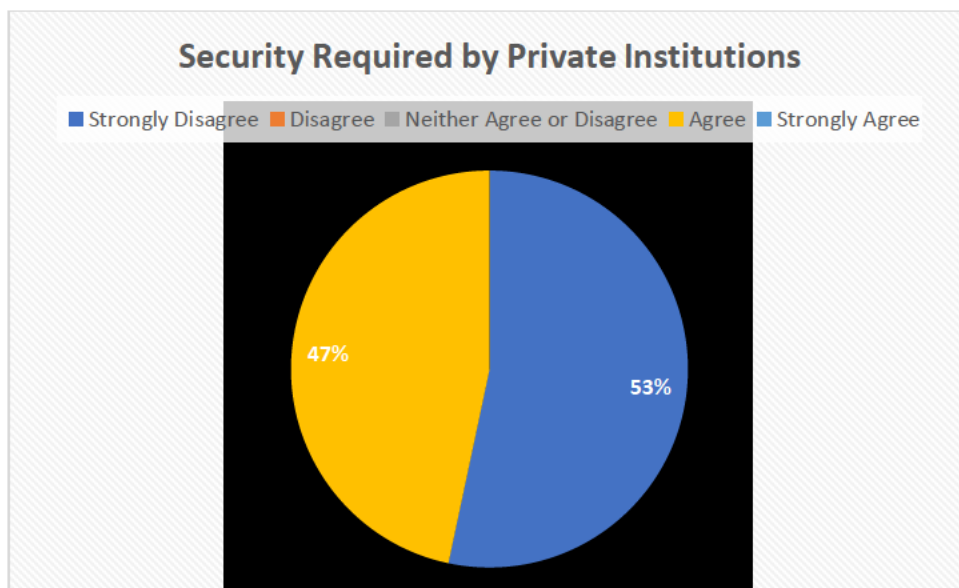
**Figure 4.7 Capital accessibility from Private Institutions**

The findings reveal that most SME contractors believe that it is not easier to access capital from private banks. The most significant reason reported by the SME contractors is that banks require financial security or a demonstration that SME contractors are receiving income before accessing funds.

**4.2.3 Private banks require financial security in order to grant capital to SMEs**

Figure 4.8 show whether SMEs agree that private banks require financial security before grating capital to SME contractors. The responses of the SME contractors are as follows:

- ❖ Fifty three percent (53%) of SMEs strongly agreed; and
- ❖ Forty seven percent (47%) of SMEs agreed.



**Figure 4.8 Financial security required by private banking institutions**

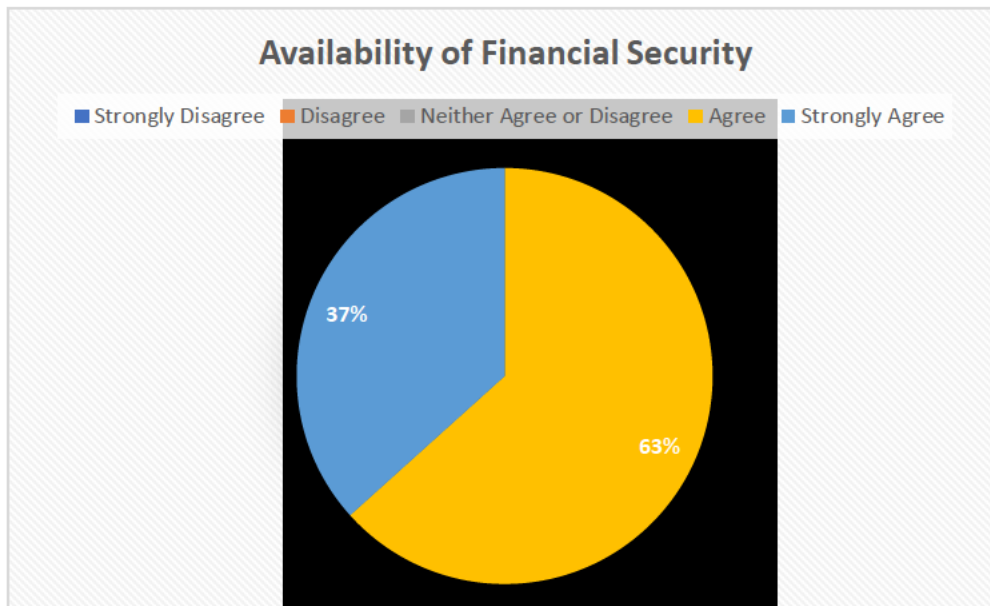
The findings reveal that SME contractors believe that banks require proof of security or some sort of income in order to receive capital or bank loans.

#### 4.2.4 Most SMEs do not have financial security when they start their businesses

Figure 4.9 shows the number of SMEs who agreed that they had financial security before they started their businesses. The responses of the SME contractors are as follows:

- ❖ Sixty three percent (63%) of SMEs strongly agreed; and
- ❖ Thirty seven percent (37%) of SMEs agreed.

The findings reveal that all the respondents agreed that most SME contractors do not have capital when they start their businesses. Most of the owners interviewed left their jobs or have not been employed for a while and decided to start their own companies.



**Figure 4.9 SMEs with financial security before starting their businesses**

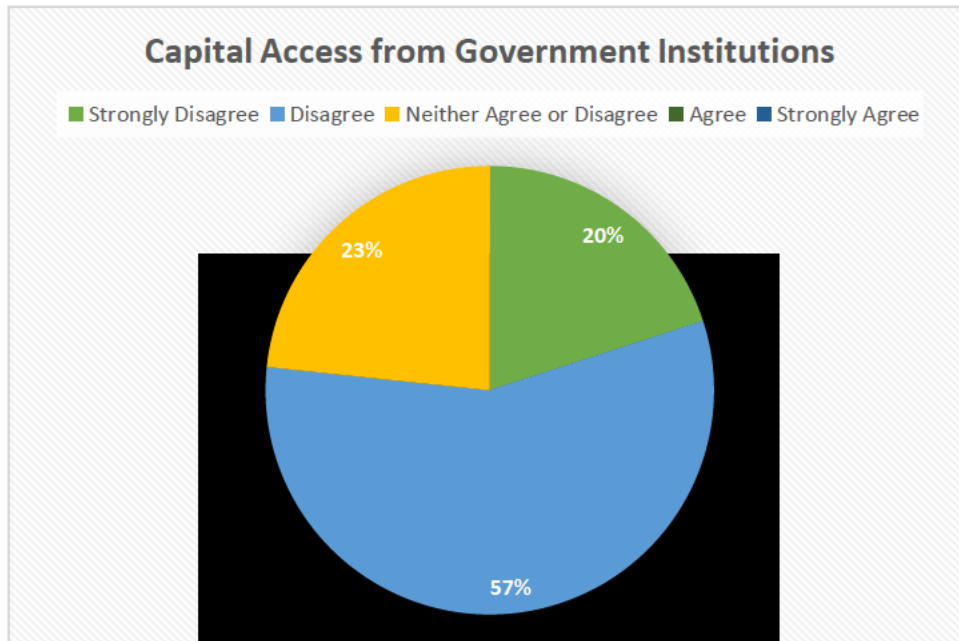
#### 4.2.5 Access to Capital from Government supported Schemes

Figure 4.10 shows whether SMEs agree if it is easier to access capital from government supported schemes. The responses of the SME contractors are as follows:

- ❖ Twenty percent (20%) of SMEs strongly disagreed;
- ❖ Fifty seven percent (57%) of SMEs disagreed; and
- ❖ Twenty three percent (23%) of SMEs neither agreed nor disagreed.

The findings reveal that most of the SME contractors believe that it is not easy to obtain capital from government supported schemes. The issues raised by most SME contractors

is that the process to apply for funding is normally cumbersome and that it takes long for the application to be approved. This result in SMEs seeking for funding elsewhere.



**Figure 4.10 Accessibility of Capital from Government Institutions**

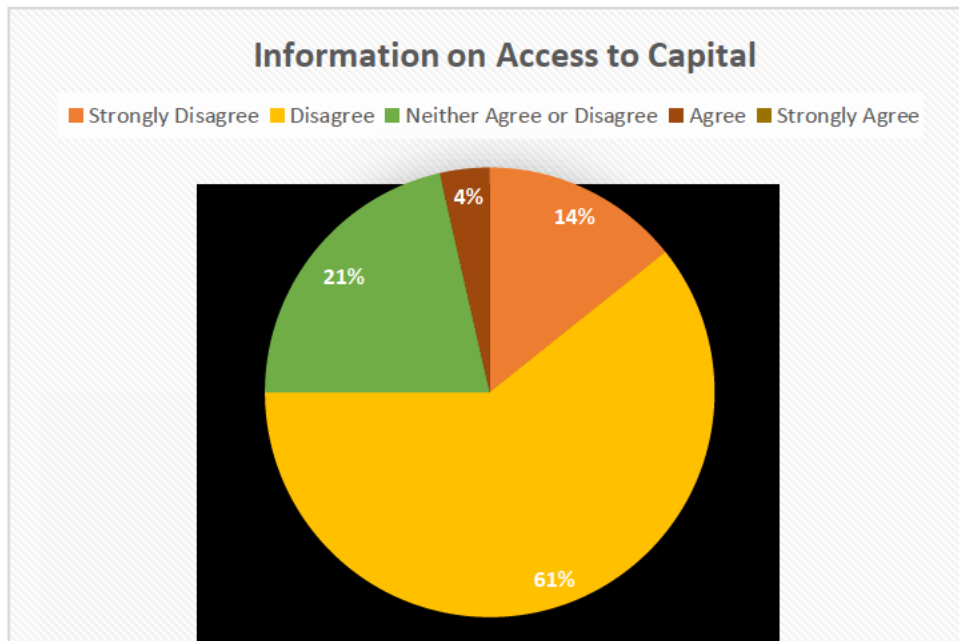
### 4.3. Sub-Problem 2: Access to Information

#### 4.3.1 Local Government Supported Initiatives are properly advertised or accessible

Figure 4.11 shows if local government supported initiative are properly advertised or accessible to SMEs. The responses of the SME contractors are as follows:

- ❖ Fourteen percent (14%) of SMEs strongly disagreed;
- ❖ Sixty one percent (61%) of SMEs disagreed;
- ❖ Twenty one percent (21%) of SMEs neither agreed nor disagreed; and
- ❖ Four percent (4%) of SMEs agreed.

The findings reveal that most SMEs believed that information on accessing capital from government institutions is not adequately advertised or published to be recognized by SMEs.



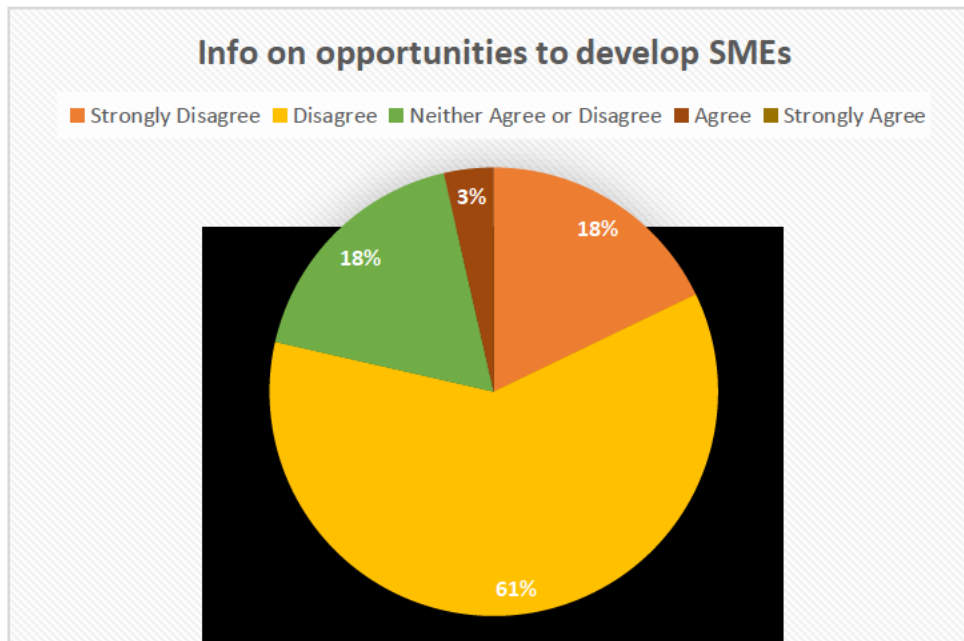
**Figure 4.11 Information is Accessible to SMEs to access capital from government institutions**

#### **4.3.2 Local government provides information about opportunities to develop SMEs**

Figure 4.12 shows if local government provides sufficient information about opportunities to develop SMEs. The responses of the SME contractors are as follows:

- ❖ Eighteen percent (18%) of SMEs strongly disagreed;
- ❖ Sixty one percent (61%) of SMEs disagreed;
- ❖ Eighteen percent (18%) of SMEs neither agreed nor disagreed; and
- ❖ Three percent (3%) of SMEs agreed.

The findings reveal that SME contractors believe that information related to accessing capital from government institution is not adequately visible to the SME contractors. Most of the SME contractors reported that the information on how to access capital from government institutions is not easily accessible.



**Figure 4.12 Information on opportunities to develop SME Contractors**

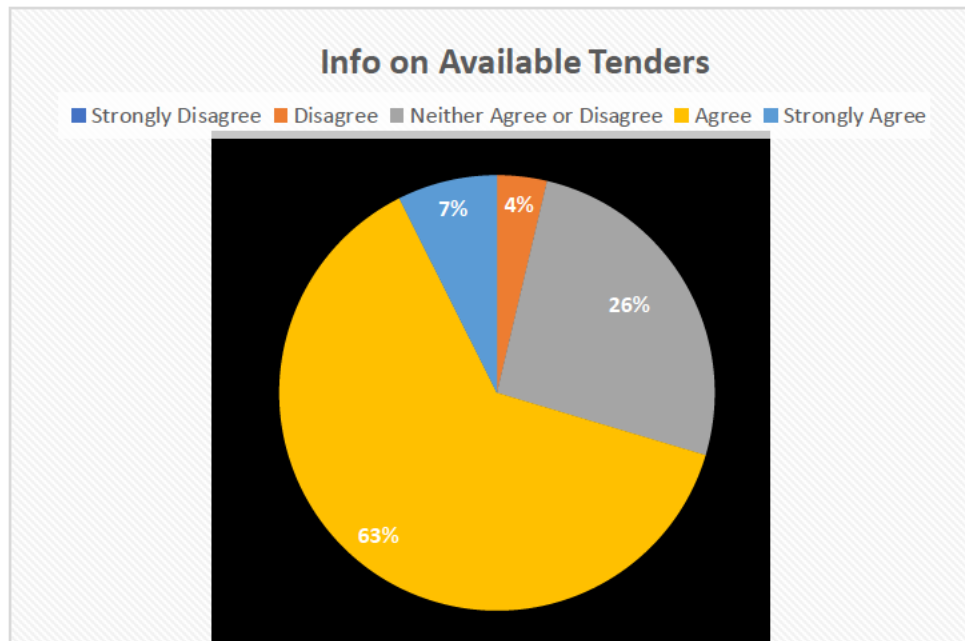
#### **4.3.3 Local government tenders are properly advertised to reach SMEs**

Figure 4.13 shows if local government tenders are properly advertised to reach SMEs.

The responses of the SME contractors are as follows:

- ❖ Four percent (4%) of SMEs disagreed;
- ❖ Twenty six percent (26%) of SMEs neither agreed nor disagreed;
- ❖ Sixty three percent (63%) of SMEs agreed; and
- ❖ Seven percent (7%) of SMEs strongly agreed.

The findings reveal that most SME contractors agree that information on available tender opportunities are properly advertised. This is contributed by the central supplier data base system launched in 2015 which gives suppliers the opportunity to view available tenders in all the government departments of South Africa.



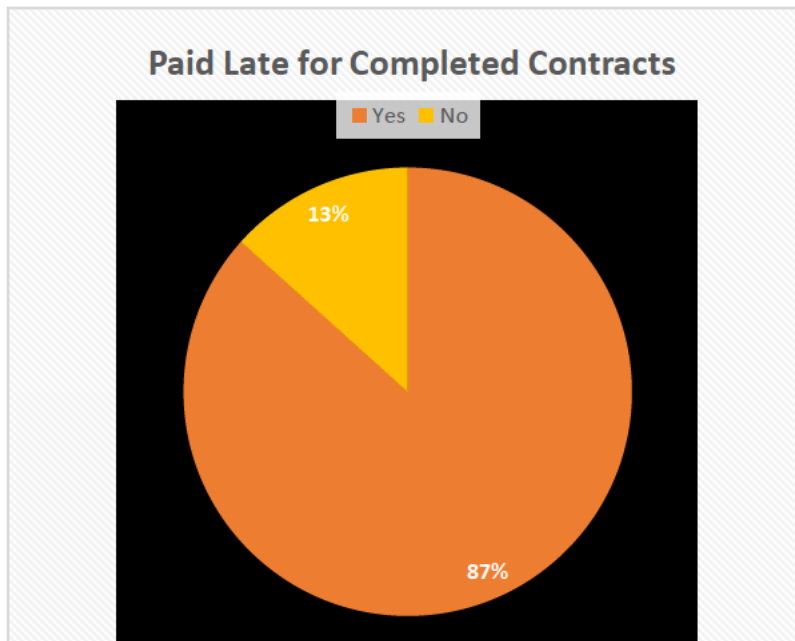
**Figure 4.13 Local government tenders are properly advertised to reach SMEs**

#### **4.4 Sub-Problem 3: Bankruptcy among SMEs is high**

##### **4.4.1 Contractors paid late for completed projects**

In figure 4.14 eighty seven percent (87%) of the respondents indicated that they have been paid late for completed projects. The other thirteen percent (13%) of the respondents indicate to have never been paid late.

The findings indicate that late payment remains a significant challenge for SME contractors. The results of (87%) does not indicate any improvements when compared with similar study by Mofekeng (2012:212), where the findings revealed that 60% of the SME contractors were paid later than the 30-day period. Supporting this statement, Malongane (2014:57) reported that most of the SME contractors were paid later than 30 days by their clients.

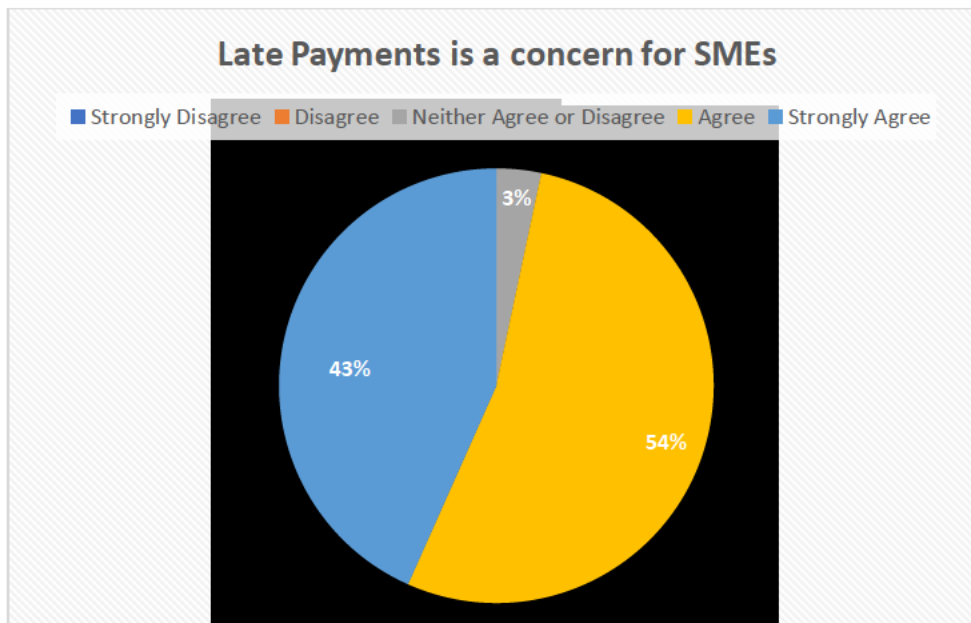


**Figure 4.14 SME Contractors paid late for completed projects**

**4.4.2 Late Payments is a Significant challenge facing SMEs**

Figure 4.15 shows if late payment is the most significant challenge facing SMEs. The responses of the SME contractors are as follows:

- ❖ Four percent (4%) of SMEs neither agreed nor disagreed;
- ❖ Fifty three percent (53%) of SMEs agreed; and
- ❖ Forty three percent (43%) of SMEs strongly agreed.



**Figure 4.15 Late Payments is the most significant challenge facing SMEs**

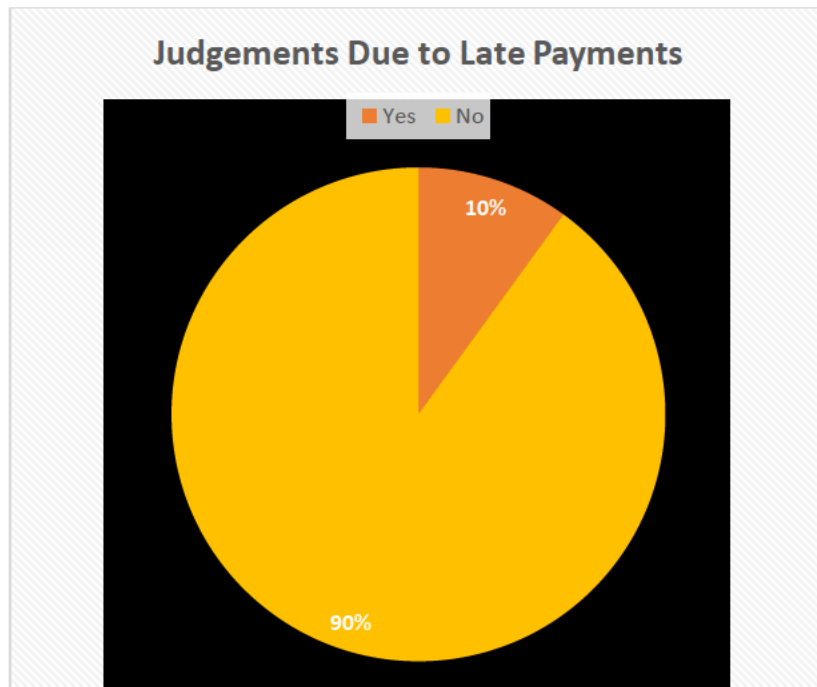
The findings reveal that most of the SME contractors were paid late for completed work. This is more prevalent in subcontracting projects, where there is sometimes no contract



binding the main contractor and SME contractors. A similar study by the Human Sciences Research Council (HSRC) (2004:27) also reported that many of the SME contractors indicated that their financial crisis is caused by late payment by main contractors.

#### **4.4.3 SME Contractors with judgement against them due to late payments**

Figure 4.16 shows ten percent (10%) of the SME contractors indicated that they have judgements against them due to late payments. The other ninety percent (90%) indicated that they do not have judgements against them due to late payments.



**Figure 4.16 Judgments due to late payments**

The findings reveal that most SME owners do not have judgements against them.

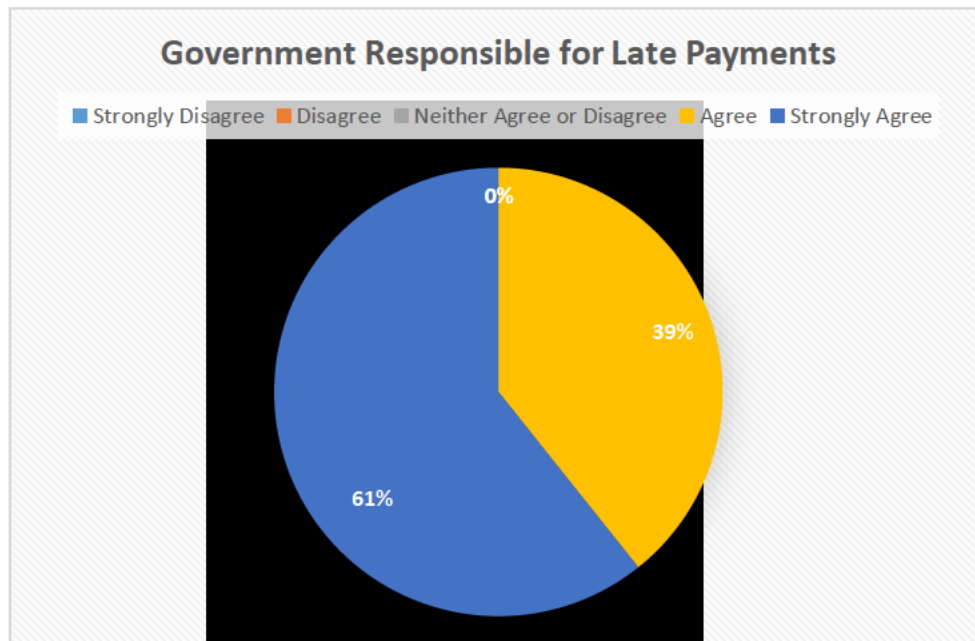
#### **4.4.4 Governments departments are frequently responsible for late payments**

Figure 4.17 shows if government departments are frequently responsible for late payments. The responses of the SME contractors are as follows:

- ❖ Thirty nine percent (39%) of SMEs agreed; and
- ❖ Sixty one percent (61%) of SMEs strongly agreed

The findings reveal that SME contractors believe that government is frequently responsible for late payments. One of the SME contractors interviewed revealed that he was paid 6 months after submitting a tax invoice. Although many SME contractors agreed that government departments pay late, they however also indicated that there are some government departments that pay less than a month after receiving a tax invoice. Late payments affect the cashflow and cause financial instability for SME contractors. Crowell and McCutcheon (2001) also agrees that many construction firms suffer financial loss

and bankruptcy because of delays in payment, and that this is common with government contracts.



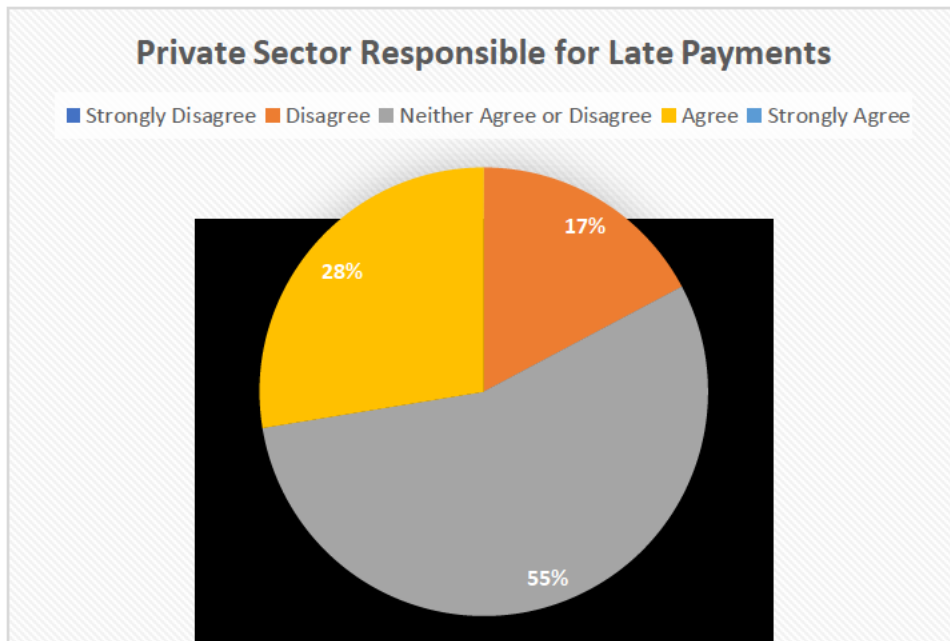
**Figure 4.17 Government are frequently responsible for late payments**

#### **4.4.5 Private Sector Businesses are frequently responsible for late payments**

Figure 4.18 shows whether private sector businesses are frequently responsible for late payments. The responses of the SME contractors are as follows:

- ❖ Seventeen percent (17%) of SMEs disagreed.
- ❖ Fifty five percent (55%) of SMEs neither agreed nor disagreed.
- ❖ Twenty eight percent (28%) of SMEs agreed.

The findings reveal that the private sector is also responsible for late payments. Although the number is less than the government sector, the findings show that late payment is a serious challenge facing SME contractors in all sectors of the economy.



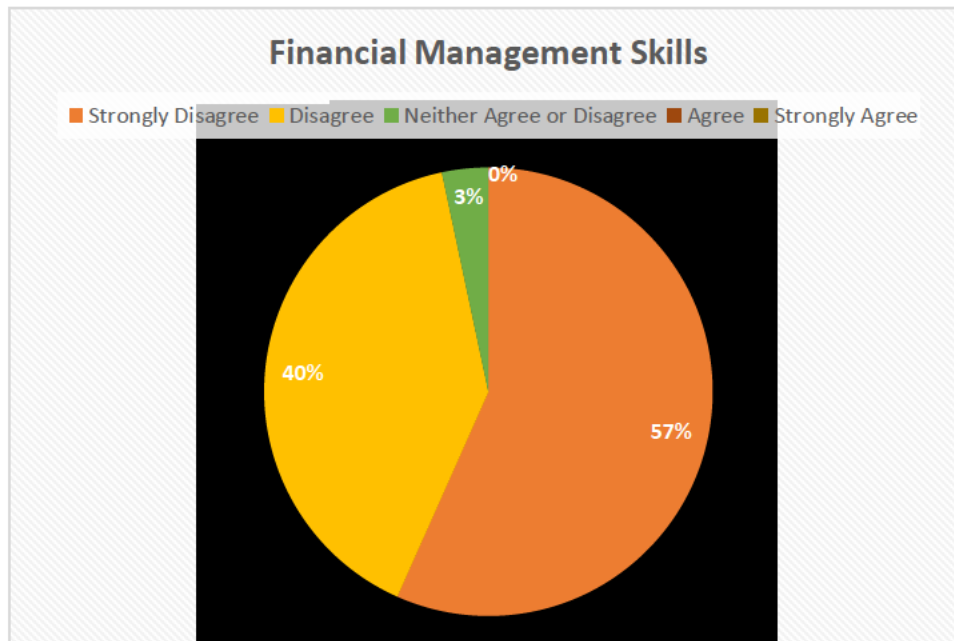
**Figure 4.18 Private Sector Businesses are frequently responsible for late payments**

#### **4.4.6 Financial Management Skills are extremely important for growth of SMEs**

Figure 4.19 shows if SMEs agree that financial management skills are extremely important for growth of SMEs. The responses of the SME contractors are as follows:

- ❖ Four percent (4%) of SMEs neither agreed nor disagreed
- ❖ Seventy one percent (71%) of SMEs agreed
- ❖ Twenty five percent (25%) of SMEs strongly agreed

The findings reveal that majority of the SME contractors believe that the ability to manage finances is important for the growth of SMEs.



**Figure 4.19 Importance of financial management skills for growth of SMEs**

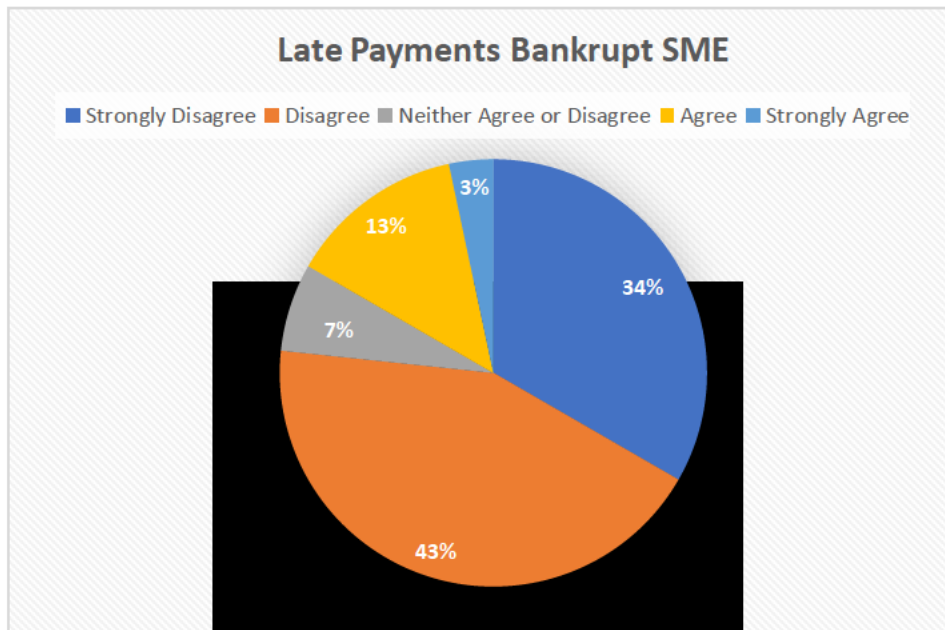
#### **4.4.7 Late payments almost led my business to bankruptcy**

Figure 4.20 shows if late payment led SME contractors to bankruptcy. The responses of the SME contractors are as follows:

- ❖ Thirty four percent (34%) of SMEs strongly disagreed;
- ❖ Forty three percent (43%) of SMEs disagreed;
- ❖ Seven percent (7%) of SMEs neither agreed nor disagreed;
- ❖ Thirteen percent (13%) of SMEs agreed; and
- ❖ Three percent (3%) of SMEs strongly agreed.

The findings reveal that some of the SME contractors almost closed their business because of late payments. Even though the study did not probe the debt levels of the SME contractors, most of them reported that they were heavy indebted for a long duration after being paid late. Some of the SME contractor reported that they had to resort small finance lenders with high interest rates in order to keep their businesses operational.

It should be remembered that this research included active businesses only, not businesses that had gone bankrupt or closed down due to financial issues.

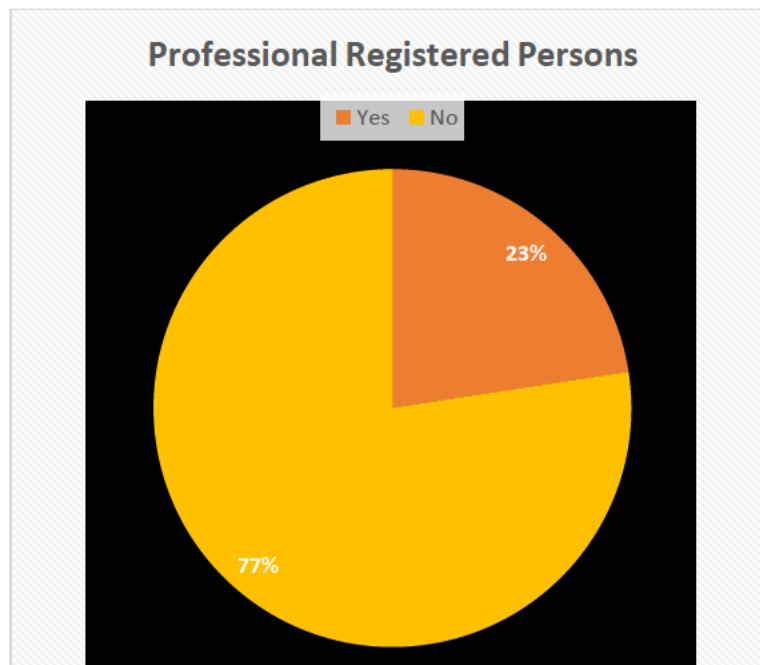


**Figure 4.20** Late payment led my SME to bankruptcy

#### 4.5 Sub-Problem 4: SMEs Contractors lack business acumen

##### 4.5.1 SME's with registered professionals with recognised professional body

Figure 4.21 illustrates seventy seven percent (77%) of SME contractors indicated that they did not have any person registered with recognised professional body; whilst twenty three percent (23%) indicated they did have construction management experience.



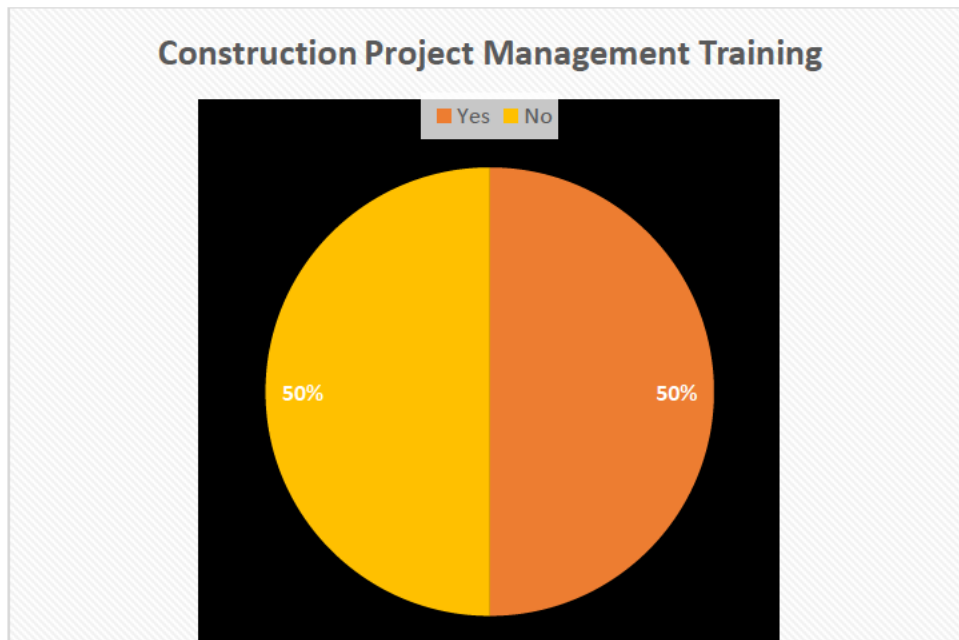
**Figure 4.21** SME Contractors with registered professionals

The findings reveal that a small number of the SME had professional registration with a recognised accredited body. This is extremely low, since professional registration can help customers have confidence in the abilities of SMEs. The low levels could also be

contributed by the stringent requirement of registration and by burden of paying annual fees.

#### 4.5.2 SME owners who attended construction project management training

Figure 4.22 illustrates fifty percent (50%) of SME contractors indicated that they did not attend any construction management training before and after starting their businesses; whilst the other fifty percent (50%) indicated they did attend some sort of construction management training before and after starting their businesses.



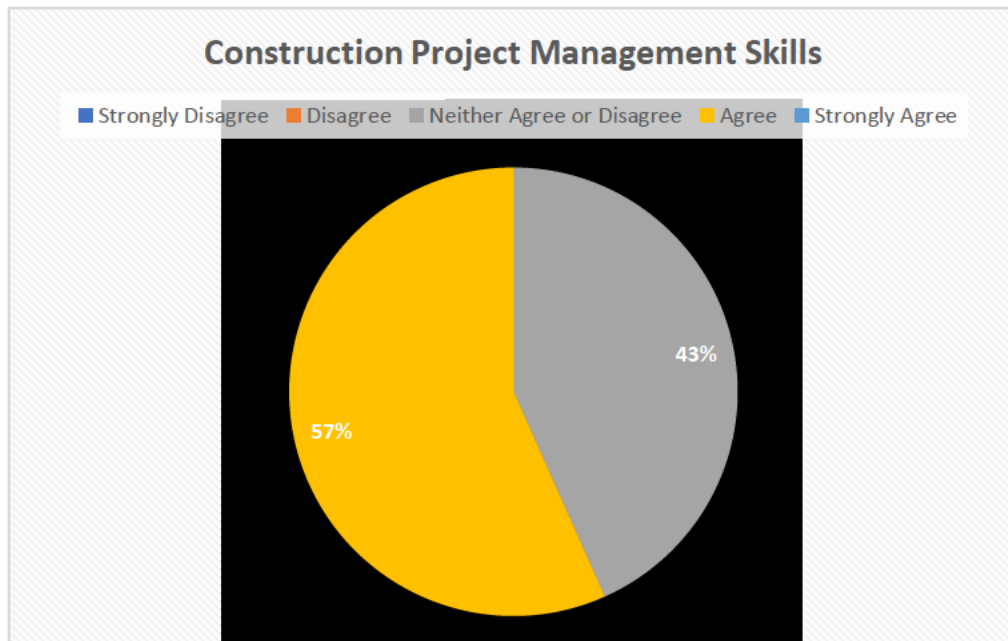
**Figure 4.22 SME owners who attended construction project management training before are after starting their business**

The findings reveal that half of the SMEs do not have any formal training in construction project management. The lack of formal training reduces the SME ability to develop their businesses. Yanta (2001:44) also states that low levels of formal education and training contributes to lack of capacity and poor business efficiencies among SMEs.

#### 4.5.3 SME contractors with good construction project management skills

Figure 4.23 shows SME contractors who indicated that they have good construction project management skills. The responses of the SME contractors are as follows:

- ❖ Forty three percent (43%) of SMEs neither agreed nor disagreed; and
- ❖ Fifty seven percent (57%) of SMEs agreed.



**Figure 4.23 SME contractors with good construction project management skills**

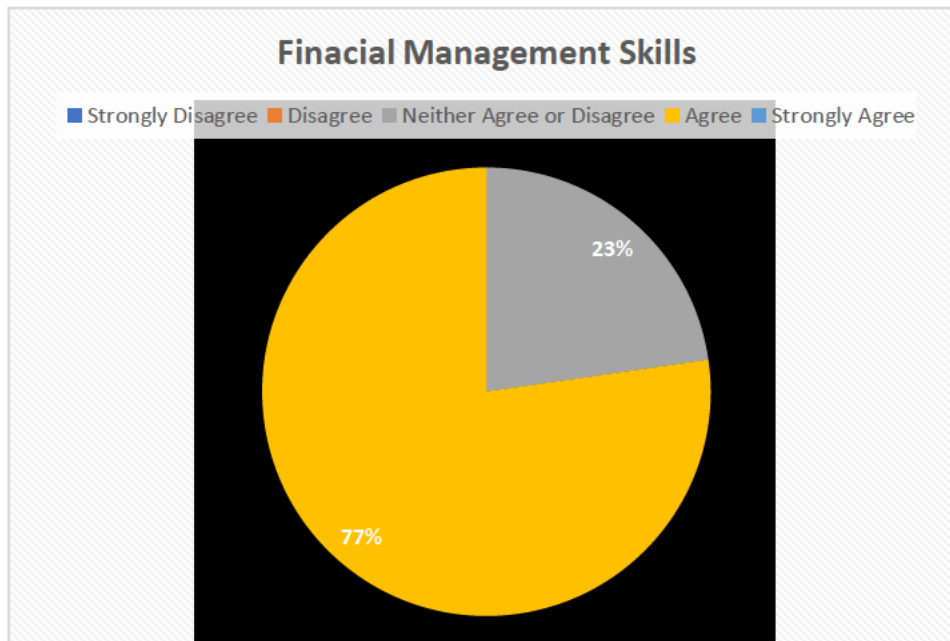
The findings reveal that majority of the SME contractors are confident in their construction project management skills and the other forty three percent (43%) of the SME contractors indicated that they neither agreed nor disagreed they had good project management skills. The findings are interesting since only fifty percent (50%) of the SMEs had undertaken construction management training. Perks & Struwig (2005:172) states that technical skills are required for start-up businesses in order to survive.

#### **4.5.4 SME contractors with good financial management skills**

Figure 4.24 shows SME who indicated that have good financial management skills. The responses of the SME contractors are as follows:

- ❖ Twenty three percent (23%) of SMEs neither agreed nor disagreed; and
- ❖ Forty percent (77%) of SMEs agreed.

The findings reveal that majority of the SME contractors are confident in their financial management skills. These results are in contrast with the findings by Brink & Cant (2003:4) were they argue that lack of financial management skills is prevalent amongst SMEs. Although the survey questions did not probe if SME contractors had completed any financial management course, it would be interesting to compare these results with SMEs who had not undertaken any financial management training. Only a few responded that they either agree or disagree if they have good financial management skills.



**Figure 4.24 SME contractors with good financial management skills**

#### **4.5.4 Business Marketing**

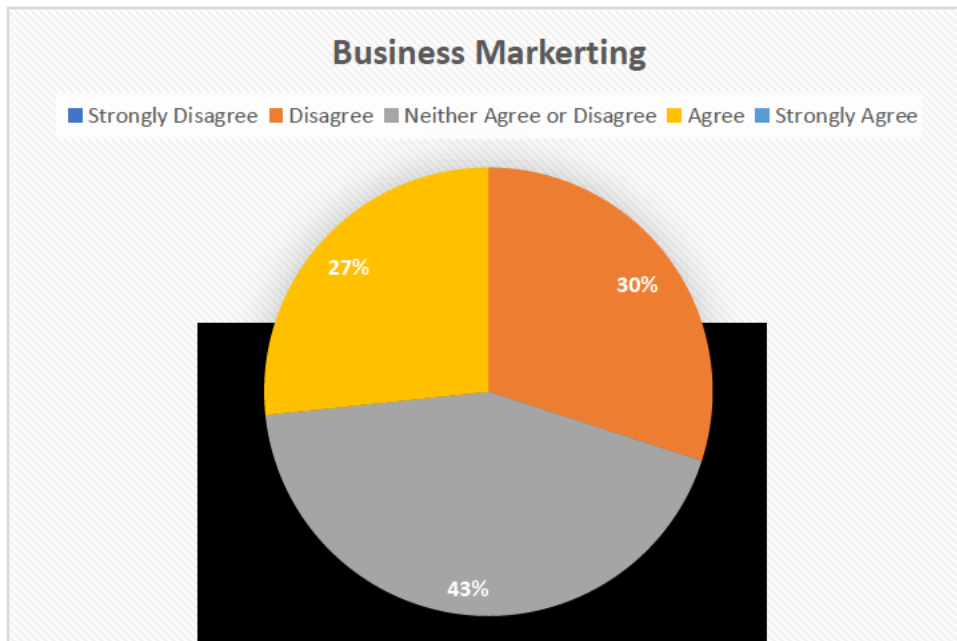
Figure 4.25 shows whether SME contractors frequently market the services they provide.

The responses of the SME contractors are as follows:

- ❖ Thirty percent (30%) of SMEs disagreed;
- ❖ Forty two percent (42%) of SMEs neither agreed nor disagreed; and
- ❖ Twenty seven (27%) of SMEs agreed.

The findings reveal that most of the SME do not market the services they provide adequately. Because SMEs face several challenges to growth it is important to focus on marketing their business for business confidence. The study by Brush et al. (2009, p. 485) states that the lack of marketing abilities tends to limit the growth of SMEs.





**Figure 4.25 Business marketing by SME Owners**

#### **4.6 Conclusion**

This chapter presented the data obtained from the interviews and summarises the research findings. Chapter five summarises the complete study, gives recommendations and highlights areas that still need further research.

## **5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents an overview of the study by observing the results obtained against the literature review, and further gives conclusions related to the objectives and research questions of this study.

The first part of Chapter 5 provides a summary of the previous chapters of this study. Concluding statements and the objectives and research questions that were formulated for this study are also given. Limitations of the study and recommendations are also discussed.

### **5.2 Summary and Conclusions of the Study**

In summary, the study was undertaken in order to determine the main barriers preventing development of SMEs in the South African construction industry, with greater focus on contractors located in Cape Town. In doing so four questions were formulated, i.e;

1. Does lack of start-up capital cause slow growth of SMEs?
2. Does lack of access to information negatively affect the growth of SMEs?
3. Does late payment cause bankruptcy for some SME contractors?
4. Does lack of business skills and management of finances contribute to the slow growth for SME contractors?

The study revealed that a significant number of SME contractors located in Cape Town have experienced either: lack of access to information, late payment, lack of business skills or lack of start-up capital.

The findings of the first research question revealed that most of the SME contractors do not have a start-up capital when they start their businesses. This is extremely challenging for most SMEs since most projects require SMEs to have some sort of capital before commencing their projects. Most SME contractors also highlighted that it is difficult to obtain capital from private and government institutions. The SMEs cited that the private banks require security before giving capital to SMEs and that government institutions normally have cumbersome process which results in applications taking longer to be approved. This tends to discourage SMEs from applying from government institutions and seeking funds elsewhere.

The findings of the second question revealed that most SMEs agreed that information on accessing capital from government institutions is not adequately advertised or published, however a significant number of SME contractors agreed that government is doing enough to advertise tender opportunities. Although tender opportunities are properly advertised, the findings revealed that most SME owners are still not entirely aware of the

available government support programs formulated to give SME contractors access to capital.

The findings of the third question revealed that most SME contractors are still being paid late for completed projects by both private and government sectors. Eighty-seven (87%) of the SME contractors reported that they have experienced late payments. The results do not indicate any improvements when compared with a similar study by Mofekeng (2012:212), where the findings revealed that 60% of the SME contractors were paid later than the 30-day period. In a similar study, Malongane (2014:57) reported that most of the SME contractors were paid later than 30 days by their clients. This shows that more still needs to be done to ensure that SME contractors are not negatively affected by late payments.

Lastly, the findings of the fourth research question revealed that half of the SME owners who had started their construction companies did not have formal training in construction project management. Although half of the SME contractors indicated to have no formal training in construction project management, only forty three percent (43%) of SMEs indicated that they were not sure about their construction project management skills. Although the survey questions did not probe if SME contractors had completed any financial management course, most of the SME contractors were confident in their financial management skills. The findings also revealed that few SME contractors had a professional certification with accredited bodies. Finally, the findings also revealed that most of the SMEs do not market the services they provide adequately. Because SMEs face several challenges to growth it is important to focus on marketing their business for business confidence. The study by Brush et al. (2009, p. 485) states that the lack of marketing abilities tends to limit the growth of SMEs.

In conclusion, it can be argued that SME contractors who have start-up capital have higher probability of growing their business than those who have not. The lack of access to information must be addressed by the government to ensure all SME contractors have an equal opportunity. Government departments together with private sectors must be constantly informed about the negative consequences that late payment has on SME contracts. Late payments should be categorized as a negative audit finding by the general auditor for the government departments to change. The CIDB must promote training and education among SME contracts in order for them to improve their knowledge and skills to compete positively in the built environment.

## **5.3 Recommendations**

### **5.3.1 Recommendations for Government**

The outcomes of this study revealed that there is a lot to be done to create an environment that promotes the development of SME contractors. Government departments need to work together to promote the development of SME contractors. Information designed to assist the development of SME contractors must be centrally published so that it reaches the majority of SME contractors. Government needs to ensure institutions established to assist with financing of SME contractors are accessible and assessment procedures to acquire funding are not bureaucratically burdensome. Government and private banks must collaborate and setup programs that make it easier for SME contractors to acquire capital. Lastly, South African government institutions must ensure that the SME contractors payment cycle is not more than 30 days.

### **5.3.2 Recommendations for SME Contractors**

SME contractors must focus on educating themselves to ensure that they are equipped to manage and deal with challenges facing SME owners. SME owners should take advantage of training courses offered by private and government institutions if they truly seek to improve the performance of their businesses. Lastly, SME contractors must improve their research capabilities to identify opportunities designed to promote SME growth.

### **5.3.3 Recommendation for further study**

The main limitation of this study was to focus on SME contractors located in Cape Town. Further research should be done on SME contractors located in other cities to compare whether the challenges experienced would be similar. It is also recommended that a semi-structured interview is conducted in the future to explore the participant thoughts and beliefs about the topic studied. Lastly, future research should also be done looking into the consequence of late payment to SME contractors in retaining their best employees.

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## **7. APPENDICES**

### **List of Appendices**

1. Consent Form for USQ Research Project Interview
2. Interview Schedule/Questionnaire
3. Approved Ethics Application
4. Project Specification – Appendix A





## Consent Form for USQ Research Project Interview

### Project Details

Title of Project: **An investigation of the key barriers preventing development of Small Medium Enterprises (SMEs) in the South African construction industry**

Human Research Ethics Approval Number: H20REA143

### Research Team Contact Details

#### Principal Investigator Details

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 Mobile: +61 418 750 184

### Statement of Consent

**By signing below, you are indicating that you:**

- Have read and understood the information document regarding this project. Yes /  
No
- Have had any questions answered to your satisfaction. Yes /  
No
- Understand that if you have any additional questions you can contact the research team. Yes /  
No
- Are over 18 years of age. Yes /  
No
- Agree to participate in the project. Yes /  
No

Participant Name

Participant Signature

Date

**Please return this sheet to a Research Team member prior to undertaking the interview.**

## Interview Schedule/Questionnaire

### 1. Demographics

What is the CIDB grade and name of your construction company?

--

How old is the business?

< 1 year		1≥5 years		5>10 years		≥10 years	
----------	--	-----------	--	------------	--	-----------	--

What area does the construction company specialize in?

Civil Engineering Works		General Building Works		Both	
-------------------------	--	------------------------	--	------	--

How many employees are employed currently by your SME?

1		2-10		11 - 20		>20	
---	--	------	--	---------	--	-----	--

How long did it take to secure your first project after registering your company?

< 1 year		1≥3 years		>10 years		No project yet	
----------	--	-----------	--	-----------	--	----------------	--

### 2. Access to Capital & Funding

I. Before you started your business, did you have Capital?

Yes		No	
-----	--	----	--

II. It is easier for SMEs to access capital from private banking institutions.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

III. Private banking institutions require financial security in order to provide capital to SMEs.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

IV. Most SMEs do not have financial security when they start their businesses

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

V. It is easier for SMEs to access Capital from Government supported schemes.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

### 3. Access to information

I. Local government supported initiatives for access to capital are properly advertised or accessible to SMEs.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

II. Local government provides sufficient information about opportunities to develop SME contractors.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

III. Local government tenders are properly advertised to reach SMEs.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

#### 4. Bankruptcy among SMEs is high

I. Have you ever been paid late for completed work?

Yes		No	
-----	--	----	--

II. Late payments is the most significant challenge facing my SME.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
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III. Do you have creditors who have judgments against you because of late payments?

Yes		No	
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IV. Government departments are frequently responsible for late payments.

Strongly Disagree	Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
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V. Private sector businesses are frequently responsible for late payments.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

VI. Financial management skills are extremely important for growth of SME.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

VII. Late payments almost led my SME to bankruptcy.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
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#### 5. SME contractors lack of business Acumen

I. Do you have professionals registered persons in your company with any recognized professional body?

Yes		No	
-----	--	----	--

II. Have you attended any construction project management training before or after starting your business?

Yes		No	
-----	--	----	--

III. My SME has good construction project management skills

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

IV. My SME has good financial management skills.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
-------------------	--	----------	--	---------------------------	--	-------	--	----------------	--

V. Services provided by my SME are frequently marketed.

Strongly Disagree		Disagree		Neither Agree or Disagree		Agree		Strongly Agree	
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## Approved Ethics Application

**UNIVERSITY OF SOUTHERN QUEENSLAND**

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**H20REA143 : An investigation of the key barriers preventing development of Small Medium Enterprises(SMEs) in th...**

Application Status: **Approved**    Workflow State: **HREC Exec review complete - Approved**    Other Forms: **HRE Application Form v3.2**

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**Form**

Expand Collapse

- Instructions ✓
- Pre Application
  - 1 Application Type ✓
  - 2 Potential Participant Group ✓
  - 3 Proposed Procedures ✓
  - 4 Operational Requirements ✓
- Application Detail
  - 5 Project Title and Summary ✓
  - 6 Investigators ✓
  - 7 Benefit and Risk ✓
  - 8 Type of Research ✓
  - 9 Conflict of Interest ✓
  - 10 Funding ✓
  - 11 Data Access and Security ✓
  - 12 Communication of Research Findings to Participants and Dissemination of Project Outputs ✓
- No. of Human Participant Groups
  - Participant Group Recruitment ✓
- Group 1 - Participant Recruitment and/or Observation

**Instructions**

Please read each question carefully. Ensure you provide the requested information clearly, and succinctly.

Answers must be provided using 'everyday language'. Avoid using discipline specific jargon, or acronyms to enable all members of the Human Research Ethics Committee to understand what your project entails. If you do wish to include specific terms, ensure you include an 'everyday language' definition or description in the first instance. Acronyms, if used, must be outlined in full in the first instance within each section.

Use the to learn more about that question.

You must **NOT** commence your research until you receive ethical approval and any conditions have been met.

**Note:** Text boxes are limited to 2000 characters.

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**Information**

<b>NHMRC Information</b>	<b>USQ Information</b>	<b>User Guides</b>
National Statement on Ethical Conduct in Human Research (2007) (updated 2018)	Human Ethics Review and Meeting Dates	Applicant Guide
Human Research Ethics Committees	Human Ethics Process	Head of Unit Endorsement Guide

Click the **green arrow** to go to the next page.

Comments

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## Research Ethics Applications

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Research Ethics Applications (1)

Application ID	Application Title	Application Status	Primary Contact	Workflow State	Template N
H20REA143	An investigation of the key barriers preventing d...	Approved	Mr Kolekile Putumani Jameson Mibambe	HREC Exec review complete - Approved	HRE Application I

**ENG4111/4112 Research Project**

**Project Specification**

<b>For:</b>	Putumani Mbambe
<b>Title:</b>	An investigation of the key barriers preventing development of SMEs in the South African construction industry
<b>Major:</b>	Civil Engineering
<b>Supervisors:</b>	Mr. Gary Elks
<b>Sponsorship:</b>	Thahla Projects
<b>Enrolment:</b>	ENG4111 - EXT S1,2020 /ENG4112 - EXT S2,2020
<b>Project Aim:</b>	To determine the main factors that cause SMEs to develop slowly in the South African construction industry.

**Programme: Version 1, 18<sup>th</sup> March 2018**

1. Review literature of the methods used to measure development of SMEs and factors affecting growth of SMEs.
2. Develop research design and describe how data will be collected.
3. Design questionnaire to be sent to SMEs for collection of data.
4. Pre-test questionnaire to obtain ideas to increase the creditability of the questionnaire and to reveal the flaws of some of the questions.
5. Send questionnaire to selected population sample (SMEs).
6. Analyse data using statistical methods.
7. Interpret results and compare with existing studies.

## Project Resources

- Need to obtain a Statistician to assist with data analyses
- Need to obtain emails of Civil Engineering grade 4 Contractors from Construction Industry Development Board (CIDB) for distribution of Questionnaires
- Need to appoint and obtain services of a proof reader prior submission of final dissertation.
- Need to identify Contractors to assist with completing pilot questionnaires before completion and distribution of final questionnaire