

Strategic management in construction firms with focus on small and medium enterprises: A case study eThekwini, South Africa

Amit Rambaruth¹, Jamila Khatoon Adam² and Suresh Babu Naidu Krishna³
^{1,2,3}Durban University of Technology,
Email: amit.rambaruth@gmail.com; adamjk@dut.ac.za; sureshk@dut.ac.za

Abstract:

Small and Medium Enterprises (SMEs) play a vital role in the economy and have contributed significantly to the growth of the economy, however, there is still a high-level failure rate. Many face a threat of failure within the first few months of establishment and the lack of strategic planning may prevent them from achieving their full potential. Therefore, the aim of this study is to address the factors that influence the adoption of strategic management in an organization and to identify persuading factors that contribute to strategic management to improve performance and to categorise challenges faced by SMEs in implementing a strategic plan. The results advocate that majority of the eThekwini-based SMEs in the construction industry are applying strategic management practices in their business and through this application they have improved the performance of their business. Furthermore, the study found that there were high levels of agreement with the challenges facing the implementation of a strategic plan in an organization. The research concluded that that majority of the eThekwini-based SMEs in the construction industry are applying strategic management practices in their business and through this application they have improved the performance of their business. The study also concluded that there were high levels of agreement with the influencing factors that drove SMEs to adopt a strategic plan and high levels of agreement with the contributing factors of strategic planning in improving performance of the business. Furthermore, the study found that there were high levels of agreement with the challenges facing the implementation of a strategic plan in an organisation.

Keywords: Challenges, construction industry, small and medium enterprise, Strategic planning, South Africa

1 Introduction

The Construction Industry is known for its economic contribution to South Africa. The sector is regarded as a key engine of job growth and is recognised for its contribution to infrastructure production (Anamalay, 2014). According to Ntuli (2016), the construction industry is vulnerable to the political and socioeconomic environments. South Africa acknowledges the role of small and medium-sized enterprises (SMEs) actively participating in the economy. They contribute to the growth of the economy by generating jobs and alleviating the country's social problems (Mashwama, Thwala, & Aigbavboa, 2020). In addition, in South Africa, statistics published by the South African Federation of Civil Engineering Contractors (SAFCEC) in 1992 indicated that this sector's productivity was supposed to decrease overall. This is link to the government turning its attention to housing and other associated programs, which were mostly aim at meeting the

demands of historically deprived populations. At that time, major construction firms struggled financially, and some went bankrupt. Even though these firms contribute significantly to the economy, there is still a strong failure rate.

Small, medium, and micro businesses continue to be the driving force behind economies around the world. They contribute significantly to the growth of employment, alleviating poverty and contributing to innovations in the sector. However, there is a high failure rate and poor performance among small and medium enterprises (SMEs). According to Global Entrepreneurship Monitor, small enterprises account for 50 percent of all job openings in South Africa and contribute more than 45 percent of the country's GDP (Chikeya, 2019). However, statistics have shown that only 37 percent of small businesses survive in the first four years and a 9 percent chance of survival leading up to 10 years. Furthermore, statistics also reveal that 70 to 80 percent of SMEs fail in the first year.

Although most firms agree that a good strategy lays the foundation for growth and development, many of these firms do not know or agree on what constitutes a good strategy (Lombardi, Tiscini, Trequattrini, & Martiniello, 2020). According to Barney and Hesterly (2010), having a good strategy can add value to an organization, however, many seem to be divided in agreeing on what a strategy is and what contributes to a good strategy. Without a coherent strategy, a business has no direction in pursuing opportunities and cannot identify its objective, which results in lack of focus and vision needed to move the organization forward. Therefore, the objective of this study to identify the reasons that affect an organization's acceptance of strategic management, as well as the motivating factors that lead to strategic management to increase efficiency, and to define the obstacles that SMEs face when executing a strategic plan.

2 Literature Review

Various challenging factors continue to hinder SA's economic growth and development of the SME sector (Sitharam & Hoque, 2016). According to latest Annual Report 2018 to 2019 presented by the Construction Industry Development Board (CIDB), there were 51 513 contractors listed on the register of contractors, of which approximately 85% of the contractors were Grade 1 contractors, indicative of the appeal that the industry has on entrepreneurs. Agreeing to statistics, 90 percent of emerging black contractors do not survive their first five years in the building industry (Ntuli, 2016). Strategic planning entails developing and executing an organization's long and short-term goals. Having a development strategy in place will help businesses gain the advantages of potential prospects and achieve a sustainable edge in the industry (Kibuuka & Tustin, 2019).

2.1 The Construction Industry in South Africa

The construction industry is known for its complex characteristics and risks associated with projects. The industry recorded a decline of 14.3% in the face value of construction projects awarded compared to 2017 and reported a decrease in tender activity following the elections period. In 2019, the infrastructure budget reduced by 12% and as result, it left the construction industry unsettled (Nkomo & Thwala, 2014). The civil construction sector relies on government spend to keep the industry afloat and their performance plays a critical role in the sector. SOEs are the big spenders of government's budget. Government anticipates spending at least 43% of the infrastructure budget in the next three years (Cokayne, 2019). The decline in infrastructure projects

is of great concern to the construction industry. However, the industry remains optimistic. The industry is struggling and as a result, several construction companies are filing for business rescue. Sustainability is the key element to success for small businesses in the construction industry (Gunduz, Naji & Al-Salahi, 2020). The barriers to entry for the construction industry remains low, which encourages black entrepreneurs to enter the market, thereby, increasing competition. Many of these start-up companies are inexperienced and may experience difficulty with finances or a lack of technical or managerial expertise and as a result, many businesses fail. Therefore, government has taken initiatives; such as Broad-Based Black Economic Empowerment (B-BBEE) and the Construction Industry Development Board (CIDB) to support black owned companies (Anamalay, 2014).

2.2 Role of strategic Management in SME

Strategic management is the science of making, applying, and reviewing decisions (David, David, & David, 2013). The goal of strategic management is to improve an organization's market position and accumulate internal capital to achieve a competitive edge over competitors (Parthasarthy, 2008). Small and medium-sized businesses (SMEs) often neglect strategic management in their organizations. Strategic management methods enable an organization to identify opportunities and threats. The process in addition aids in the development of the organization's competitive edge (Wenzel, Stanske et al. 2020). Organizations that implement strategic management in their operations often have increases in profits and turnover, increased efficiency through coordinated allocation of personnel and supplies, better interactions with internal and external partners, and strengthened employer and employee ties. It also instils a feeling of pride and loyalty in workers, making them feel motivated. Furthermore, strategic management offers a framework for staff to better understand and participate in the process (Ehlers & Lazenby, 2004).

2.3 Environmental Scanning

The internal environment of a company consists of a variety of resources and capabilities. Improving these skills and tools may provide the organization with a competitive edge. For organizations to gain a strategic edge by skills and resources, the internal environment must be examined. SMEs that adopt a strategic objective tend to be more focused on growth within the business, it provides a formalized structure of the business (Kibuuka and Tustin 2019). This mechanism is an opportunity for organizations to find weaknesses in their organizational structure and provides a realistic understanding of the specifications. Furthermore, it allows the integration of theories and techniques such as the SWOT analysis (Gürel & Tat, 2017), resource-based perspective (Hamdoun, 2020), and value chain analysis (Benachio, Freitas, & Tavares, 2020).

3 Research Methodology

3.1 Questionnaire and data collection

For data collection, Mori's previous study was used to develop and base the questionnaire on (Mori, 2013). The questionnaire had two sections. The first section contained demographics details of respondents. Second section comprised questionnaire on strategic planning that drove businesses to adopt a strategic plan and factors that refine performances, and the challenges businesses face

in implementing a strategic plan. All questions were closed-ended, which allowed the variables to be analysed statistically. Additionally, the Cronbach Coefficient Alpha for this analysis was 0.876, which is an acceptable measure of reliability (Msani, 2011). There were no major problems noted or encountered, and the data collected was reconciled with what was initially plan to collect. The questions were short, simple, and unambiguous. An online survey tool was used to distribute the questionnaire to the participants and to retrieve the data by using QuestionPro Software. The self-administered questionnaires were given to 106 small and medium enterprises from 18th September 2020 to 4th October 2020. These construction companies are registered with CIDB as active participants in the industry. The respondents were individuals who were involved in the strategic planning of the business. There were three reminders that were sent out after a week to ensure proper follow-up on the responses.

3.2 Validity of data

The method that is use as a measure of reliability is Cronbach's Alpha. The Cronbach Coefficient Alpha for this analysis was 0.876, which is an acceptable measure of reliability (Table 1).

Table 1: Cronbach Alpha Results

	Section	Number of Items	Cronbach's Alpha
B2	Factors that drove your business to adopt a Strategic Plan	6	0.605
B3	Contributions of strategic planning in improving performance of your enterprise	9	0.881
B10	Challenges facing the implementation of a strategic plan in an organisation	10	0.861
Reliability Statistics	Overall	25	0.876

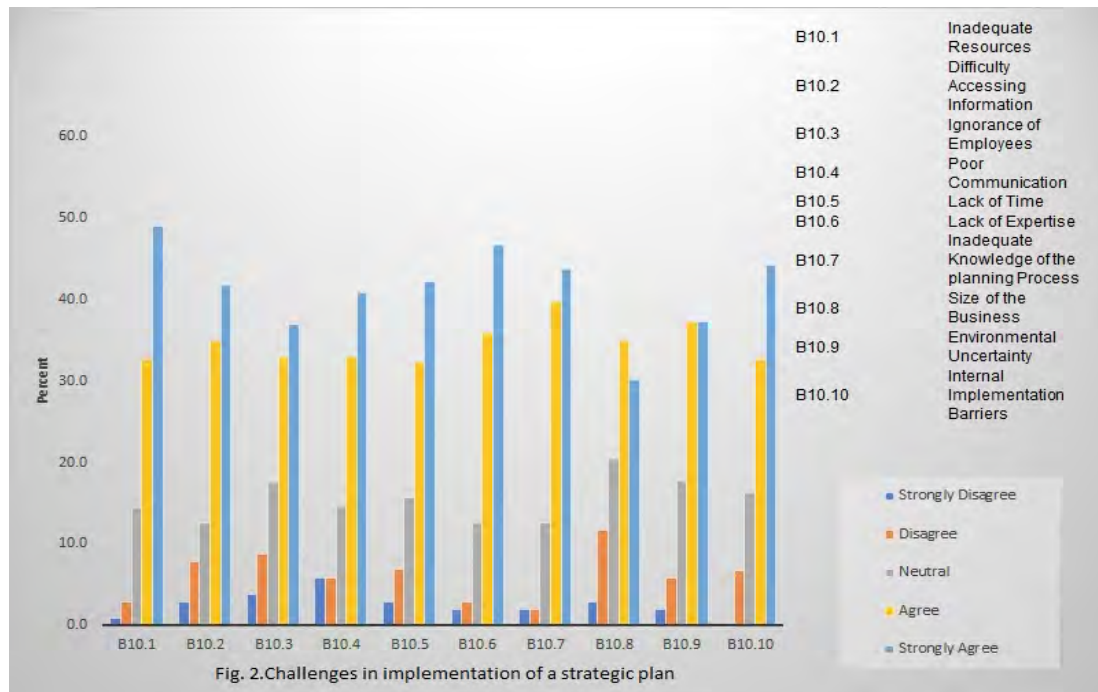
a. Ethical considerations

Ethical clearance to conduct the study was obtained from the Durban University of Technology Ethics Committee (IREC: 18FREC). Informed consent was obtained from each participant prior to the study; thereby ensuring protection and privacy of participants.

b. Data analysis

The descriptive and inferential statistics were used to analyse the data for the study. The raw data were collected and then captured onto an electronic spreadsheet. The SPSS statistical package version 26.0 was used to analyse the data for this study, and the required statistical tests were performed. The data were collated, after which the following tests were carried out, cross tabulation, correlation, chico-square test, and Cronbach Alpha. The Cronbach alpha test was used to measure internal consistency of the data within a group.

4 Findings and Discussion



5 Conclusion and Further Research

The present study highlighted the factors that drove the business to adopt a strategic plan, the contributions of strategic planning in improving performance of one's enterprise and the challenges facing the implementation of a strategic plan in an organisation. The findings of the research revealed that majority of the eThekweni-based SMEs in the construction industry are applying strategic management practices in their business and through this application; they have improved the performance of their business. In addition, it was found that strategic planning could reduce the level of uncertainty in the environment and provide a structured approach in dealing with issues. Furthermore, strategic management promotes the development of the SMEs as they are encouraged to plan and commit to short and long-term goals. As a result, there is a probability that SMEs will attain business success through strategic management. Recommendations include that SMEs develop procedures and policies to address the challenges faced in implementing a strategic plan. Despite these findings, even though businesses adopt strategic planning in their operations, success is not certain due to other influences. Improper implementation or expertise in strategic management could lead to businesses not achieving their goals.

6 References

- Anamalay, D. (2014). *Entrepreneurial Orientation and Business Challenges: A Study of Ethekewini-Based Construction Companies*.
- Barney, J. B., & Hesterly, W. S. (2010). *Strategic Management and Competitive Advantage: Concepts*: Prentice Hall Englewood Cliffs, NJ.

- Benachio, G. L. F., Freitas, M. d. C. D., & Tavares, S. F. (2020). Circular Economy in the Construction Industry: A Systematic Literature Review. *Journal of Cleaner Production*, 260, 121046.
- Chikeya, R. (2019). *Effects of Capital Structure on Company Performance, A Perspective of Small Cap Companies In South Africa*. Faculty of Commerce,
- Cokayne, R. (2019, Jan 22, 2019). SA Building Industry Facing a Trio of Major Risks this Year. *IOL*.
- Daryani, S. M., & Amini, A. (2016). Management and Organizational Complexity. *Procedia-Social and Behavioral Sciences*, 230, 359-366.
- David, F. R., David, F. R., & David, M. E. (2013). *Strategic Management: Concepts and cases: A Competitive Advantage Approach*: Pearson Upper Saddle River.
- Ehlers, T., & Lazenby, K. (2004). *Strategic Management: Southern African Concepts and Cases*: JL Van Schaik.
- Gaultier, T. (2019). Struggling Construction Sector must Develop a New Talent Perspective. Retrieved from <https://www.bizcommunity.com/Article/196/720/185801.html>
- Gunduz, M., Naji, K., & Al-Salahi, K. (2020). Evaluation of Critical Success Factors (CSFs) in Selecting Building Contractors through Pareto and Analytical Hierarchy Process. *Journal of Engineering Research*, 8(4).
- Gürel, E., & Tat, M. (2017). SWOT analysis: A Theoretical Review. *Journal of International Social Research*, 10(51).
- Hamdoun, M. (2020). The antecedents and Outcomes of Environmental Management Based on the Resource-Based View. *Management of Environmental Quality: An International Journal*.
- Kibuuka, P., & Tustin, D. (2019). The Key Triggers for the Transitioning of Informal SMMEs to formal SMMEs: A baseline survey of the Gauteng Province, South Africa. *Psychology Research*, 9(1), 32-44.
- Lombardi, R., Tiscini, R., Trequattrini, R., & Martiniello, L. (2020). Strategic Entrepreneurship. *Management Decision*.
- Mashwama, N., Thwala, D., & Aigbavboa, C. (2020). Obstacles of Sustainable Construction Project Management in South Africa Construction Industry. In *Sustainable Ecological Engineering Design* (pp. 305-314): Springer.
- Mori, G. T. (2013). *Effectiveness Of Strategic Planning on the Performance of Small and Medium Enterprises in Tanzania: A Case Study of Selected SMES in Ilala Municipality*.
- Msani, T. A. (2011). *Critical success factors influencing project success in the Durban construction industry*.
- Muspratt, M. A. (1984). Construction research and education. *Journal of Professional Issues in Engineering*, 110(1), 7-18.
- Nkomo, M., & Thwala, W. (2014). *Review of the importance of mentoring young graduates in the construction sector in South Africa*. Paper presented at the Proceedings of the 3rd Applied Research Conference in Africa (ARCA) Conference, Accra Ghana.
- Ntuli, B. N. S. (2016). *Investigating factors associated with insolvencies among civil engineering contractors in Kwazulu-Natal*.
- Parthasarthy, R. (2008). *Fundamentals Of Strategic Mangement 2008 Edition*: Dreamtech Press.
- Sitharam, S., & Hoque, M. (2016). Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and perspectives in Management*, 14(2), 277-288.

- Williams Jr, R. I., Manley, S. C., Aaron, J. R., & Daniel, F. (2018). The relationship between a comprehensive strategic approach and small business performance. *Journal of Small Business Strategy*, 28(2), 33-48.
- Wenzel, M., S. Stanske and M. B. Lieberman (2020). "Strategic responses to crisis." *Strategic Management Journal*. DOI: 10.1002/smj.3161