

The role of government in developing sustainable SMEs in the construction sector in the Free State province

MAKHAESA JEFFREY MOTSETSE

A field study submitted to the UFS Business School in the Faculty of
Economic
and Management Sciences in partial fulfilment of the requirements for
the
degree

Magister in Business Administration

at the

UFS Business School
University of the Free State
Bloemfontein

Supervisor: Dr JH van Zyl

13th November 2015

ABSTRACT

The objective of the study is to determine the role of government in developing sustainable SMEs in the construction sector in the Free State province. The owners and managers who are on Grading 2 to 7 as per Construction Industry Development Board (CIDB) in the construction sector were the target population. The number of businesses that are failing in their first years of establishment is high, and the rate of unemployment is still high despite government intervention. If government is playing a role in assisting SMEs, to determine whether it is addressing the main challenges that are affecting the growth of small businesses due to the number of companies that are failing is increasing.

The construction sector is also affected by the number of businesses that are failing or liquidated, which is affecting employment negatively, as the sector employs a number of workers who are unskilled.

An empirical research was conducted using quantitative approach and non-probability, stratified sampling technique. A total of 100 questionnaires were distributed to the owners and managers of the construction companies in the Free State that are operating on Grading 2 to 7. The total of 84 questionnaires were returned, representing 84% of the total that were distributed

The result shows that 96% of the respondents did not receive any funding from government, while only 4% received funding. It is also revealed that 64% of the respondents are not participating in the contractor development programme, and only 36% of them are participating. The level of education or training is low, as 36.90% attended the workshop on tendering.

DECLARATION

I declare that the field study hereby submitted for the Magister in Business Administration at the UFS Business School, University of the Free State, is my own independent work and that I have not previously submitted this work, either as a whole or in part, for a qualification at another university or at another faculty at this university.

I also hereby cede copyright of this work to the University of the Free State.

Signed: _____

Date: _____

ACKNOWLEDGEMENTS

I would like to acknowledge and express my deepest gratitude to the following people for their efforts helping me in making this field study the best product:

- The Lord who gave me strength during difficult times
- My supervisor, Dr Johan van Zyl for all the guidance and support
- My family for all the support that they gave during my studies

TABLE OF CONTENTS

ABSTRACT	ii
DECLARATION.....	iii
LIST OF TABLES	xi
LIST OF FIGURES.....	xii
LIST OF ABBREVIATIONS AND ACRONYMS.....	xiii
CHAPTER 1: INTRODUCTION AND BACKGROUND TO THE STUDY	1
1.1. Introduction	1
1.2. Background of SME and construction sector in South Africa	2
1.2.1. SME sector	2
1.2.2. Background on construction sector	3
1.3. Problem statement.....	3
1.4. Purpose and significance of the study.....	4
1.5. Research objectives.....	4
1.5.1. Primary objective	4
1.5.2. Secondary objectives	4
1.6. Research methodology and design.....	5
1.6.1. Research design	5
1.6.2. Target population and sample.....	5
1.6.3. Data collection and analysis.....	6
1.7. Ethical considerations	6

1.8.	Study outline	7
1.9.	Conclusion	8
CHAPTER 2: LITERATURE REVIEW		9
2.1.	Introduction	9
2.2.	Overview of SMEs.....	9
2.2.1.	Overview of SME in South Africa	9
2.2.2.	Defining SMEs	10
2.3.	Contribution of SME	12
2.3.1.	Job creation	12
2.3.2.	Poverty alleviation	13
2.3.3.	Economic growth and development	13
2.4.	Performance of SMEs	13
2.5.	Factors affecting the growth of SMEs	14
2.5.1.	Fraud and corruption.....	14
2.5.2.	Lack of financial support	15
2.5.3.	Lack of entrepreneurial training.....	16
2.5.4.	Access to appropriate technology	18
2.5.5.	Access to markets.....	19
2.5.5.1.	Rivalry among competitors	20
2.5.5.2.	Threats of new entrants	20
2.5.5.3.	Threats of substitute commodities	20
2.5.5.4.	Customer's bargaining power	21

2.5.5.5. Supplier's bargain power	21
2.5.6. Lack of management skills.....	21
2.5.7. Poor cash management and financial control	22
2.5.8. High taxes	23
2.5.9. Statutes and Regulations	24
2.5.10. Late payments	24
2.5.11. Increases in the costs of building materials	24
2.6. Construction sector	25
2.6.1. The construction sector in South Africa.....	25
2.7. The construction sector in the Free State	29
2.7.1. Overview of the sector	29
2.7.2. Contribution of the sector	30
2.7.3. Employment in the sector.....	31
2.8. Role of the government in developing SMEs	32
2.8.1. Government initiatives in developing SMEs	32
2.8.2. Department of Small Business Development.....	33
2.8.2.1. Small Enterprise Development Agency.....	34
2.8.2.2. Small Enterprise Finance Agency	34
2.8.2.3. National Empowerment Fund	35
2.8.2.4. Free State Development Corporation	36
2.8.2.5. Industrial Development Corporation	37
2.8.3. Department of Public Works	37

2.8.3.1.	Contractor Development Programmes	38
2.8.3.2.	Emerging Contractor Development.....	39
2.8.3.3.	Expanded Public Works Programme	39
2.9.	Construction Industry Development Board.....	40
2.10.	Conclusion	41
CHAPTER 3: RESEARCH METHODOLOGY		42
3.1.	Introduction	42
3.2.	Research objectives of the study	42
3.3.	Research design	42
3.3.1.	Sampling	43
3.3.2.	Population	43
3.3.3.	Sample frame.....	44
3.3.4.	Sample design	45
3.3.5.	Stratified sample	46
3.3.6.	Sample size	47
3.4.	Data collection method.....	48
3.4.1.	Methodology	48
3.4.2.	Data analysis	49
3.5.	Ethical considerations	49
3.6.	Demarcation of the field study.....	49
3.7.	Conclusion	49
CHAPTER 4: FINDINGS AND ANALYSIS		50

4.1.	Introduction	50
4.2.	Data analysis	50
4.3.	Findings	50
4.3.1.	Background of the company	50
4.3.2.	Programmes by government.....	56
4.3.3.	Company operations.....	61
4.3.4.	Challenges in implementing projects	67
4.4.	Chi-square tests.....	69
4.5.	Cross-tabulation.....	73
4.6.	Responses from government entities.....	76
4.6.1.	Department of Economic Development, Small Business, Tourism and Environmental Affairs (DESTEA).....	76
4.6.2.	Small Enterprise Development Agency (SEDA)	76
4.6.3.	Industrial Development Corporation (IDC).....	77
4.6.4.	Small Enterprise Finance Agency (SEFA)	78
4.6.5.	Construction Industry Development Board (CIDB)	78
4.6.6.	Department of Public Works	79
4.7.	Conclusion	79
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS		81
5.1.	Introduction	81
5.2.	Summary of the theoretical findings.....	81
5.3.	Research conclusions.....	83

5.4.	Other findings.....	84
5.5.	Recommendations	85
5.6.	Significance of the study	86
5.7.	Limitations of the study	86
5.8.	Further research	87
5.9.	Conclusion	88
	REFERENCES.....	89
	ANNEXURE 1	96
	ANNEXURE 2	108

LIST OF TABLES

Table 2.1: SME definition categories.....	11
Table 2.2: SME thresholds (upper limits) in different sectors	12
Table 2.3: Contribution by province to the construction sector (%)	27
Table 2.4: Number of companies registered in CIDB in South Africa	29
Table 2.5: Number of companies registered in CIDB in the Free State.....	30
Table 2.6: Total employment per broad economic sector in the Free State in 2014	31
Table 3.1: Requirements for contractor grading	44
Table 3.2: Number of companies registered with the CIDB in the Free State	45
Table 3.3: Sample size per group	46
Table 3.4: Contractor classification	47
Table 4.1: Frequency distribution of the grading	51
Table 4.2: Frequency distribution of specialised job.....	51
Table 4.3: Contractor Development Programmes Benefits.....	57
Table 4.4: Contractor Development Programmes Problems.....	57
Table 4.5: p-values for selected variables	711
Table 4.6: Tenure*current grading	733
Table 4.7: Education	744
Table 4.8: Funding*cash flow problems cross-tabulation	755

LIST OF FIGURES

Figure 2.1: Porter's five forces	20
Figure 2.2: South Africa and Free State construction sector growth rates	28
Figure 2.3: Categories for NEF funding.....	36
Figure 4.1: Gender	52
Figure 4.2: Length of time business has been in operation	53
Figure 4.3: Number of partners in the business	53
Figure 4.4: Company grading.....	54
Figure 4.5: Category of grading.....	55
Figure 4.6: Other type of work.....	55
Figure 4.7: Contractor Development Programme.....	56
Figure 4.8: Courses attended.....	58
Figure 4.9: Funding	59
Figure 4.10: Period to receive payment.....	60
Figure 4.11: Government policies, regulations and legislation	61
Figure 4.12: Experience in the construction sector	62
Figure 4.13: Highest educational qualification.....	63
Figure 4.14: Adequate cost and accounting systems in place.....	64
Figure 4.15: Estimating and procurement	65
Figure 4.16: Cash flow problems.....	66
Figure 4.17: Work in other provinces outside the Free State	67
Figure 4.18: Challenges in implementing projects – 1.....	68
Figure 4.19: Challenges in implementing projects – 2.....	69

LIST OF ABBREVIATIONS AND ACRONYMS

ASGISA:	Accelerated Shared Growth Initiative of South Africa
BDS:	Business Development Services
BER:	Bureau of Economic Research
CDP:	Contractor Development Programme
CIDB:	Construction Industry Development Board
CIPC:	Companies and Intellectual Property Commission
CPI:	Consumer Price Index
DETEA:	Department of Tourism and Environmental Affairs
DPW:	Department of Public Works
DTI:	Department of Trade and Industry
ECDP:	Emerging Contractor Development Programme
EDP:	Enterprise Development Programme
EPWP:	Expanded Public Works Programme
ESE:	Entrepreneurial Self-efficacy
FDC:	Free State Development Corporation
FS PGDS:	Free State Provincial Growth and Development Strategy
GDP:	Gross Domestic Product
GEAR:	Growth, Employment and Redistribution
GEM:	Global Entrepreneurship Monitor
GNP:	Gross National Product
HLM:	Hierarchical Linear Modelling
IDC:	Industrial Development Corporation
IPAP:	Industrial Policy Action Plan

IT:	Information Technology
MDG:	Millennium Development Goals
MEC:	Member of Executive Committee
NCDP:	National Contractor Development Programme
NCR:	National Credit Regulator
NDOT:	National Department of Tourism
NDP:	National Development Plan
NEF:	National Empowerment Fund
NGP:	New Growth Path
NYDA:	National Youth Development Agency
RDP:	Reconstruction and Development Programme
SACEM:	South African Construction Excellence Model
SAMAF:	South African Micro-Finance Apex Fund
SARS:	South African Revenue Service
SBP:	Small Business Programme
SEDA:	Small Enterprise Development Agency
SEFA:	Small Enterprise Finance Agency
SME:	Small Medium Enterprise
SMME:	Small, Medium and Micro Enterprise
Stats SA:	Statistics South Africa
TEA:	Total Entrepreneurship Activity
VAT:	Value-added Tax

CHAPTER 1: INTRODUCTION AND BACKGROUND TO THE STUDY

1.1. Introduction

South Africa has been characterised by high unemployment rate. Chimucheka (2014) indicated that most social ills that are confronting South Africa and other African countries are rooted in high levels of unemployment. It has been indicated that since 1994, the unemployment rate has been in the region of 25%, with the latest figure being 25.5% (Statistics South Africa [Stats SA], 2014). Amra, Hlatshwayo and McMillan (2013) have highlighted that unemployment, together with poverty and inequality, has been and remains one of South Africa's key development challenges.

Small Medium Enterprises (SMEs) have been developed and are used as vehicles that are stimulating the economy of developing countries (Mahembe, 2011). Mahembe (2011) also indicated that SMEs have played a pivotal role in creating jobs, alleviating poverty, creating new products and contributing to growing economies of developing countries.

The South African SME sector is a critical component of the government's initiative to stimulate job creation. To create 5 million jobs over the next decade, as envisaged by the government, approximately 13 600 new manufacturing businesses would need to be set up; in current terms, this would mean that about 100 000 new firms in all sectors must be created. This is an ambitious goal (Small Business Programme [SBP], 2011:3).

Even though SMEs are regarded as the vehicle that will assist in increasing employment, they are still facing challenges that are affecting their growth, and they fail in their first years of establishment. It is indicated that South Africa suffers from a high failure rate of SMEs, with the estimate being between 70% and 80% (Fatoki & Smit, 2011:193). Many SMEs do not reach their full potential and fail to grow, resulting in lost jobs and wealth for the region in which they are based. Given this high failure rate, it becomes vital to research the factors that are affecting them from growing and to enable them to survive.

Although the construction sector has special characteristics that distinguish it from other sectors, it is not excluded from the high failing rate of business. The industry is complex and investments in construction projects from public and private sectors are continually increasing. Many people saw an opportunity due to the increase in investments in construction, and they started to open construction companies. The problem of the high rate of failure also increased, as there is no regulating body that will screen all the new registration to determine if the owners of the companies have experience; therefore, it makes it very easy for anyone to start a company in the construction industry. Past studies have shown that many people that have opened companies do not have experience in the construction industry even though they can have start-up capital.

This study examines the role of government in developing sustainable SMEs in the construction sector. To contextualise the study, the following section provides background information such as the role of SMEs in the global economy and the manner in which SMEs operate.

1.2. Background of SME and construction sector in South Africa

1.2.1. SME sector

The country has prioritised the development and promotion of Small, Medium and Micro Enterprises (SMMEs). There were different economic policies that were developed in order to assist the promotion of SMMEs such as Reconstruction and Development Programme (RDP); Growth, Employment and Redistribution (GEAR); the Accelerated Shared Growth Initiative of South Africa (ASGISA); New Growth Path (NGP); and National Development Plan (NDP).

SMEs are contributing to a large part of the gross domestic product (GDP) of each country. This was supported by Ahiawodzi and Adade (2012) where they indicated that SMEs in Ghana account for 70% of GDP, and they make up 92% of businesses in the country. In South Africa, 97.5% of businesses are SMEs, and 70% of the manufacturing sector in Nigeria constitutes SMEs (Abor & Quartey, 2010).

1.2.2. Background on construction sector

The construction sector plays an essential role in South Africa's economy and contributes significantly to the economic growth as compared to many other sectors (Construction Industry Development Board [CIDB], 2011). The sector is regarded as a critical sector of the economy that produces building and civil engineering structures and determines the extent to which efforts in a resource-rich country are translated into investment outcomes.

The employment figure (in terms of people employed) in construction in the third quarter of 2014 was 1 280 000 in the country, and it was the largest increase of 99 000 from 1 181 000 in all the sectors (Stats SA, 2014). The construction sector is the largest sector that employs unskilled workers. The contribution of the construction sector to the South Africa GDP between 2007 and 2012 was significant, as it amounted to 13% (Stats SA, 2014). The sector was regarded as one of the few that managed to increase the contribution by 2.3% as compared to other sectors that showed negative growth.

1.3. Problem statement

The number of businesses that are failing in their first years of establishment is high, and the rate of unemployment is still high despite government intervention. If government is playing a role in assisting SMEs, is it addressing the main challenges that are affecting the growth of small businesses, as the number of companies that are failing is increasing? Adcorp (2012) revealed that 440 000 small businesses were closed down in the last five years in South Africa.

The construction sector is also affected by the number of businesses that are failing or liquidated, which is affecting employment negatively, as the sector employs a number of workers who are unskilled. The unemployment rate in the Free State is 32.2%, which is higher as compared to other provinces such as Limpopo with 15.9% and Northern Cape with 28.7% despite the increase in government spending (Stats SA, 2014).

The CIDB reports that 173 253 contractors were registered, and 59 306 (34.23%) contractors were suspended, expired or deregistered (CIDB, 2015). The percentage

of the number of contractors that are failing is very high, and others can operate for a long period but without going to higher grading.

The research problem of the study is to look at government interventions in developing sustainable companies in the construction sector, as the results have shown poor sustainability as compared to equivalent businesses in other sectors in the Free State.

1.4. Purpose and significance of the study

The overall purpose of this study is to determine the role of government in developing sustainable SMEs in the construction sector in the Free State.

1.5. Research objectives

The objectives that follow provide a specific focus on the research problem.

1.5.1. Primary objective

The primary objective of this study is to determine the role of government in developing sustainable SMEs in the construction sector in the Free State.

1.5.2. Secondary objectives

The secondary objectives of this study are to:

- determine factors that are affecting the growth of SMEs in the Free State in the construction industry;
- assess programmes in place to support the small and medium contractors in the Free State;
- determine the interventions that are necessary in order to address challenges that are affecting the growth of SMEs; and
- investigate strategies that can be employed by small and medium contractors in countering challenges and increase employment in this sector.

1.6. Research methodology and design

1.6.1. Research design

This section outlines the study design and the research methodology used in the study. The study will be a formal survey of the current situation in the Free State, with a specific focus on the role of government in developing SMEs in the construction sector.

1.6.2. Target population and sample

The sample type will be a non-probability, stratified sample that will be used to gather the primary data. This method was chosen because of the nature of the research problem and the fact that the participants are already involved in the field of interest and have different grading as per Construction Industry Development Board (CIDB) grading. Thus, it is neither feasible nor desirable to select a random sample from this population group. The people of interest to the researcher are already part of a non-random group, and the researcher will attempt to contact and recruit as many of these people as possible into the study (Blumberg, Cooper & Schindler, 2008:235).

Possible reasons for people choosing not to participate in the study will not be investigated, and the researcher will not attempt to ascertain whether significant demographic differences exist between those who choose not to participate and those who do. The same limitation will apply to those who agree to participate in the semi-structured interviews.

The study will focus on contractors who are Grade 2 to Grade 7 and registered with the CIDB. The registration for Grade 1 can be completed by any company, as it does not have any requirements except registration with the Companies and Intellectual Property Commission (CIPC). Therefore, most of the companies that are on Grade 1 are not operating or have not operated for a long period. For companies registered in electrical engineering, the contractor must have an Electrical Contractor Licence issued by the Electrical Contractor Board of South Africa. All contractors that are still active will be selected from the CIDB database.

1.6.3. Data collection and analysis

Data will be obtained through quantitative techniques. Quantitative data collection will entail questionnaires that will be sent to the owners and managers of SMEs in the construction sector in the Free State. The questionnaire will be divided into two parts; the first part will evaluate the background of the company, and the second part will focus on the operations of the company. The questionnaire will have 25 questions in order to obtain enough information to ensure that the objectives of the study are achieved, and data collected will be analysed using statistical software.

The second questionnaire will be sent to different government and entities that are responsible for SME in order to determine their role to ensure sustainability. The findings will inform the researcher's overall recommendations and conclusions.

1.7. Ethical considerations

In achieving the objectives of the study, ethical issues need to be considered such as protecting the anonymity or confidentiality of participants so that they can speak their mind honestly without any fear of adverse consequences. The researcher will be guided by moral values when interacting with the participants so that they are not exposed to risk or undue influence and do not develop unrealistic expectations regarding their involvement in the study.

Participants will be informed as to the nature and purpose of the study, and they will provide their voluntary consent to participate. Participants will not receive any reward or punishment, whether social or financial, for choosing either to participate or not to participate. Those who do participate will only be thanked by the researcher, and the results of the study will be made available to them. Personal information on participants will be seen only by the researcher and (if necessary) a research assistant. The data will be used only for this study and will not be put to any illegal use or used in any way that the participant did not agree to. Data will be analysed for the entire group rather than for a single respondent. Data will be collected and analysed in a professional manner at all times. The findings will be scrutinised and interpreted with objectivity and neutrality by the researcher. The researcher will also briefly describe his own personal orientation to and interest in the research topic.

1.8. Study outline

Chapter 1: Overview of the study

The chapter outlines the purpose of the study. The background to the study and the problem statement of the study are provided. The aim and objectives of the study will be outlined.

Chapter 2: Literature review

The chapter will provide relevant literature in assisting to reach the objectives of the study. SMEs will be defined as per National Business Act, and their contribution to the economy and their performance will be highlighted. The factors that affect the growth of SMEs are discussed in detail. The overview of the construction sector and its contribution is outlined. The last part of the chapter discusses the role of government in developing SMEs. The background of different institutions that assist SMEs is discussed, and the assistance they provide to SMEs is outlined in detail.

Chapter 3: Research design and methodology

The chapter will focus on the methodology that will be used in the study, through research design, population and sample, data collection method, reliability and validity of the study.

Chapter 4: Findings and analysis

The analysis and interpretation of results that were gathered from the questionnaires that were sent out will be discussed in this chapter. The results of the background of the company, programmes by government, company operations and challenges in implementing projects are discussed. The last part discusses the chi-square test and cross-tabulation, where the correlation between the variables is determined.

Chapter 5: Conclusions and recommendations

The last chapter of this study focuses on the conclusions that were drawn from the findings. Recommendations are made that will assist future research.

1.9. Conclusion

The study is motivated by the number of SMEs that are failing despite government support as indicated in the purpose of the problem statement. The number of SMEs that have failed have been indicated to highlight that there is a high failure rate of businesses.

The primary objective was discussed in order to determine the intervention that is needed to reduce the number of SMEs that are failing. The secondary objectives are also outlined. The research methodology that will be used in order to meet the objectives was discussed. Ethical considerations while conducting research to make respondents aware of the ethics that bind the researcher are also discussed in the last part of the chapter.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

The previous chapter provided a general overview of the study, elaborating on the significance and purpose of undertaking the study. The methodology to achieve the objectives was briefly discussed.

This chapter discusses a literature review on small and medium enterprises. SMEs will be defined in order to get an understanding of them and categories applicable to them, as they have been categorised according to the turnover and number of employees. It is very important to look at their contribution to the economy as reducing unemployment and inequality.

Factors affecting the growth of SMEs will be discussed in detail in order to obtain reasons for the high failing rate to achieve the secondary objectives of the study. The performance and contribution of the construction sector will be evaluated, since it is the study area of interest. The last part evaluated will be the role of government institutions in assisting SMEs.

2.2. Overview of SMEs

2.2.1. Overview of SME in South Africa

The economy of any country is driven by private and public sector investment. The White Paper on Small Business and National Development Plan are identified as the key policies in developing and promoting SMEs in South Africa in order to include previously disadvantaged individuals in the mainstream economy (NDP, 2011). The creation and promotion of SMEs are important to the government, as they assist in job creation, alleviation of poverty and reduction of inequality. The number of SMEs that are created is increasing on a yearly basis.

The total number of businesses that were classified as medium enterprises in South Africa were 2.4 million and micro-enterprises were 1.4 million in 2006 (Timm, 2011). According to Finscope (2010), the number of SMEs increased to 5 979 510, which is an increment of 57% in four years as compared to the figures in 2006.

2.2.2. Defining SMEs

SMEs are defined differently in different countries, but the definition and categories of the National Small Business Act 102 of 1996 will be used (South Africa, 1996). The Act defines five categories of businesses using the number of employees as the main criterion, annual turnover figures and gross assets (excluding fixed property) to define the categories (Abor & Quartey, 2010:221). The columns that are shaded in Table 2.1 will be the area of interest for this study. The definitions for the various categories of businesses are brought out in the table.

Table 2.1: SME definition categories

Category	Description
Survivalist enterprise	The businesses that are categorised as survivalist generate less than the minimum income standard. These include hawkers, vendors and subsistence farmers.
Micro but formal enterprise	The businesses under this category are regarded as informal, as most of them are not registered, such as spaza shops and minibus taxi operators. The turnover of micro-enterprises falls below the value-added tax (VAT) registration threshold (now R1 million per annum).
Very small enterprise	These companies employ up to 10 people and have a turnover of R1 million, unless they fall within the mining, electricity, manufacturing and construction sectors, in which case they may employ up to 20 people.
Small enterprise	The upper limit is 50 employees and turnover of R3 million. Small enterprises are generally more established than very small enterprises, and they make use of more sophisticated business practices.
Medium enterprise	The maximum number of employees is 100, unless the company operates in the mining, electricity, manufacturing or construction sectors, in which case the upper limit is 200 employees and turnover of R26 million. Medium enterprises tend to show a decentralisation of power and make use of an additional management layer.

Source: National Small Business Act 102 of 1996

Table 2.2 shows only the classes that are relevant to this study (medium and small enterprises).

Table 2.2: SME thresholds (upper limits) in different sectors

Sector	Class	Number of employees	Turnover (million ZAR)	Total asset value (million ZAR)
Agriculture	Medium	100	5	5
	Small	50	3	3
Manufacturing	Medium	200	51	19
	Small	50	13	5
Construction	Medium	200	26	5
	Small	50	6	1
Catering and accommodation	Medium	200	13	3
	Small	50	6	1

Source: National Small Business Act 102 of 1996

2.3. Contribution of SME

Stats SA (2014) indicate that SMEs make up 97% of all businesses in the country; as a result, they contribute to 35% of GDP. The South African government prioritised SMEs in terms of job creation in order to assist in solving the high rate of unemployment in the country.

2.3.1. Job creation

SMEs are regarded as engines that are used by the government in creating more jobs. SMEs are more labour-intensive as compared to larger firms, and expansion of SMEs will boost employment and reduce poverty.

2.3.2. Poverty alleviation

Poverty affects the whole world even though it just differs in levels and it is indicated that poverty in developing countries is high (Ogundele et al, 2012). South African government identified SMEs as the key to alleviating poverty. SMEs have been set up to create employment that is sustainable than having programmes that are not sustainable such as state social grants that are developed by the Department of Social Development and are short term in nature.

Poverty alleviation is aimed at reducing the negative impact of poverty on the lives of poor people. Poverty alleviation has been identified as one of the Millennium Development Goals (MDG) precisely because poverty can destabilise the world economy and lead to global unrest. According to Mbande (2010), given the MDGs intention to fight poverty, many donor nations are linking their funding of infrastructure to the achievement of socio-economic goals. Therefore, accessing infrastructure development funds can be a useful tool in construction industry development.

2.3.3. Economic growth and development

SMEs are regarded as a vehicle that assists people who are earning the lowest income in South African to gain access to economic opportunities. It was estimated that SMEs contributed to 35% of the GDP and also employed close to three-quarters of the nation's employed population (Stats SA, 2014). SMEs can also be regarded as part of assisting in training, as it offers apprenticeships for the youth. SMEs contribute largely to the sustainable development of the country in areas of economic growth, employment generation and poverty alleviation.

2.4. Performance of SMEs

Even though they contribute significantly to economic growth, SMEs are still faced with many challenges that are preventing them from growing (Mahembe, 2011). The factors that affect the growth of the SME will be discussed in detail. Adcorp (2012) indicated that 440 000 small businesses were closed down in the last five years in South Africa.

2.5. Factors affecting the growth of SMEs

South Africa has a very high rate of business failure (around 40% of businesses fail in their first year) possibly due to lack of managerial capacity (Adcorp, 2012). The poor sustainability of start-ups in South Africa, relative to other countries in the Global Entrepreneurship Monitor (GEM) sample, also highlights the need for policy interventions aimed at supporting and mentoring entrepreneurs through the difficult process of firm birth. It was indicated that the support offered begins and ends with the provision of a generic business plan (Herrington, Kew & Kew, 2010:18).

SMEs face numerous challenges that affect their growth, not only in South Africa but also across the world; this increases the number of businesses that are failing (Mahembe, 2011). This has resulted in high rates of business failure, thus making South Africa one of the lowest construction SMEs survival regions in the world (Mahembe, 2011; Ahiawodzi & Adade, 2012). Other challenges that were discussed by other authors (Mahembe, 2011; Ahiawodzi & Adade, 2012) include lack of management skills, finance and obtaining credit, access to markets and developing relationships with customers, appropriate technology and low production capacity, recognition by large companies, government bureaucracy, and support for the role that they play in economic development. The obstacles that follow appear to be most prevalent.

2.5.1. Fraud and corruption

Given the important economic role played by SMEs, the negative effects of fraud and corruption within this sector must be examined. Despite their contribution to the economic progress of South Africa, SMEs are vulnerable to the high cost associated with fraud and corruption in the corporate sector (GEM, 2014).

According to the Global Competitiveness Report 2010-2011, South Africa ranks poorly in several areas because of the high levels of crime and corruption in this country (Herrington et al., 2010:18). Crime and corruption were ranked, respectively, as the third and fifth most severe problems facing businesses in South Africa. Out of 139 countries surveyed, South Africa ranked 137th for the cost of crime and violence to the business community, and 104th in terms of public perceptions of the efficiency of

national police services. Statistics from 2009 showed that more than 70% of reported robberies that year had targeted small businesses. The owners and managers of South African SMEs perceive the crimes of fraud and theft as major threats to business (Rankhumise & Rugimbana, 2010). Indirectly, such crimes also result in the loss of business confidence and investment, as well as increased rates of emigration and the erosion of a stable infrastructure or economy. The situation essentially forces SMEs to improve their security measures, which results in higher business overheads. Furthermore, it is found that senior employees engage in theft and fraud relatively frequently, further undermining the profitability of small businesses (Rankhumise & Rugimbana, 2010).

2.5.2. Lack of financial support

SMEs use internal sources of funding when they are established, but as the needs increase, there is a need for an external source of funding to support the growth. Fatoki and Garwe (2010) indicate that lack of financial support is the second highest contributor after education and training that causes SMEs to fail or low creation of firms.

In short, the main reason that applications for financing are refused is lack of collateral. If SMEs are to be better developed in South Africa, financiers need to understand the position of potential small business owners and the challenges facing their businesses (Rankhumise & Rugimbana, 2010:9). Without such support, the growth of SMEs will continue to be hampered.

The SBP Survey 2011 investigated 500 enterprises and found that only 8% had been able to access finance through commercial banks. A further 57% of people running SMEs had made use of private funding or their personal savings, which included cashing in on their pension policies, remortgaging their homes, or relying on access bonds (SBP, 2011:32). Only 2% had received government finance such as an Industrial Development Corporation (IDC) loan.

A survey of 100 firms in the Free State showed that the owners of a majority of these firms had used their own funding as start-up capital (Fongwa, 2011:26). Approximately 53% of Free State business owners had used their own savings; 16% had received

loans from banks; and 14% had obtained micro-financing from the National Youth Development Agency (NYDA).

Current government policies focus on providing SMEs with credit from formal sources. However, the practical results of this policy have been disappointing, largely because of inefficiency among the funding organisations (GEM, 2014). Many entrepreneurs who wish to start up SMEs lack a formal track record or the ability to provide collateral, and as a result, they are often denied access to finance.

Collateral security thus remains a challenge for previously disadvantaged entrepreneurs. The situation is largely the result of socio-economic inequalities caused by the apartheid regime, in which preference was given to certain racial groups, hence leaving an overwhelmingly large number of South Africans ensnared in ongoing poverty. Many South Africans do not possess assets that could be used to provide surety to banks, often as a direct consequence of poverty and unemployment as well as imbalances of the past.

Financial institutions need to have a positive track record in order to provide funding for SMEs. This creates a challenge for SMEs because they cannot provide the evidence of a track record.

Fatoki and Garwe (2010) argue, with reference to Europe, that there are various internal characteristics of SMEs that usually determine the rate and pace of the growth of firms. While size and age seem to have been key traditional determinants of growth, lately several studies have also revealed financial structure and productivity to be some additional key determinants. The following factors are particularly important: internal finance, growth opportunities, indebtedness, and product innovation. All of these are firm-specific characteristics.

2.5.3. Lack of entrepreneurial training

Njoroge and Gathungu (2013) indicate that training and education for entrepreneurs can facilitate small business activities, with the main focus being stimulating entrepreneurial activity and performance. The importance of entrepreneurial education and training has been well documented and is probably a critical factor in promoting long-term economic growth and reducing unemployment. The GEM (2010) survey

findings showed that the quality of such education requires drastic upgrading and that appropriate entrepreneurial education should also be offered at all levels of the schooling system. Thus, education plays a key role in the survival of small businesses, and SME owners should be given the opportunity to attend training programmes to boost their knowledge in fields that are relevant to their business (Njoroge and Gathungu, 2013)

The South African government wishes to encourage people to start new businesses, particular as a method of addressing the problem of unemployment in South Africa. However, as already mentioned, without adequate support from the DTI, growth within the SME sector is not sustainable. A study by Fongwa (2011) shows that public sector organisations have not proved to be effective providers of business development services (BDS) to SMEs in South Africa. This scenario is partly attributable to the lack of awareness among SME owners and managers of the support services that they may be eligible to receive from the DTI; many people are not even aware of these services or how to access them. Fongwa (2011) emphasises that the onus is on the DTI and its subsidiaries to understand the needs of small business owners.

Thus, the lack of entrepreneurial training is a challenge to SMEs, and the growth of this sector is hampered by inadequate skills and knowledge (Arogundade, 2011). If the government wishes to foster SME growth and sustainability, it must do so by providing effective and accessible training.

With regard to entrepreneurship education, research has found that, amongst other variables, formal learning from entrepreneurship-related courses had the strongest positive relationship with entrepreneurial intentions. The influence is through the mediation of entrepreneurial self-efficacy (ESE) as well as through the successful performing of certain tasks such as identifying new business opportunities, creating new products, thinking creatively and commercialising an idea.

Despite the well-documented benefits of entrepreneurship education, many secondary schools are still lacking in this respect. An expert was quoted in the GEM 2010 report to saying that there is a lack of entrepreneurship education and training in primary and secondary schools in South Africa and further stated that the current education system continues to favour academic learning and largely ignores the realities of the world of

work. It perpetuates a culture of entitlement and jobseeking. The system also encourages higher education as the sole pathway to professional advancement and success, and creates the implication that vocational expertise is distinctly inferior to academic knowledge. Teachers are barely competent academically, let alone entrepreneurially, so they are unable to inspire and support those who show flair and passion. Worst of all, the system discourages individualism (GEM South Africa, 2010).

According to Fongwa (2011), research findings bring out that to encourage students to become active during learning and to give them the opportunity to get hands-on experience in realistic situations will enable them to build competence levels. As they practise, students are expected to gain confidence in using the acquired competencies in different situations. Current research suggests the use of a variety of learning experiences to expose students to real-world situations

2.5.4. Access to appropriate technology

In the past, international sanctions on South Africa resulted in the somewhat paradoxical situation of local companies being “frozen” into a relatively competitive position. This scenario resulted from the lack of exposure to or interaction with international research and development initiatives. Changes in the political climate have meant that South African companies have needed to upgrade and improve their technologies to catch up with global change and developments (GEM, 2014). Successful entrepreneurs are by necessity technology-orientated and are willing to adapt to a changing environment. In a changing environment, innovation is the key to survival.

Regarding the Internet, South Africa’s fixed-line broadband penetration rate is a mere 1.4% compared with the OECD penetration rate of 24.9% (OECD, 2015). Although South Africa’s electrical infrastructure is relatively good compared with other sub-Saharan countries, it still underperforms compared to Mauritius and Latin American countries. South Africa currently has a 75% electrification rate, and 12.5% of the population is still without electricity. For people who do not have easy access to electricity, the prospects for potential new business activities are severely limited (Herrington et al., 2010:34-35).

In certain areas of South Africa, small businesses rely greatly on information technology (IT). Nonetheless, small business owner-managers are reluctant to embrace IT to the extent that larger companies do, which means that they do not tap fully into its potential benefits. The reasons for this reluctance include lack of knowledge of computers, lack of funds, and an inability to identify the exact nature of their company's business information needs (Herrington et al., 2010:34-35). Contractors are not using technology to look at viable alternative building methods and innovative building systems.

2.5.5. Access to markets

SMEs need to operate globally so that they can grow and succeed; therefore, they need to access the market outside their provinces and country. The success and growth of SMEs depend on two main factors: (i) improving production, and (ii) marketing and sales. A company's access to markets largely determines its ability to survive and compete. The level of concentration in the economy suggests that finding and breaking into new markets is challenging for most SMEs.

It is self-evident that businesses that fail to market their services or products sufficiently will perform poorly. This is one area in which most SMEs can improve their performance and become more competitive; products must be properly marketed to achieve business success (GEM, 2014). The marketing capacity of SMEs is limited because of their limited financial resources; hence, they mostly serve their immediate localities. This focus on local markets and the local environment suggests that there is a need for SMEs to develop a stronger marketing orientation and market expansion. It is important for SMEs owners and managers to understand the dynamics of the competition in the sectors that they are operating in so that they can succeed.

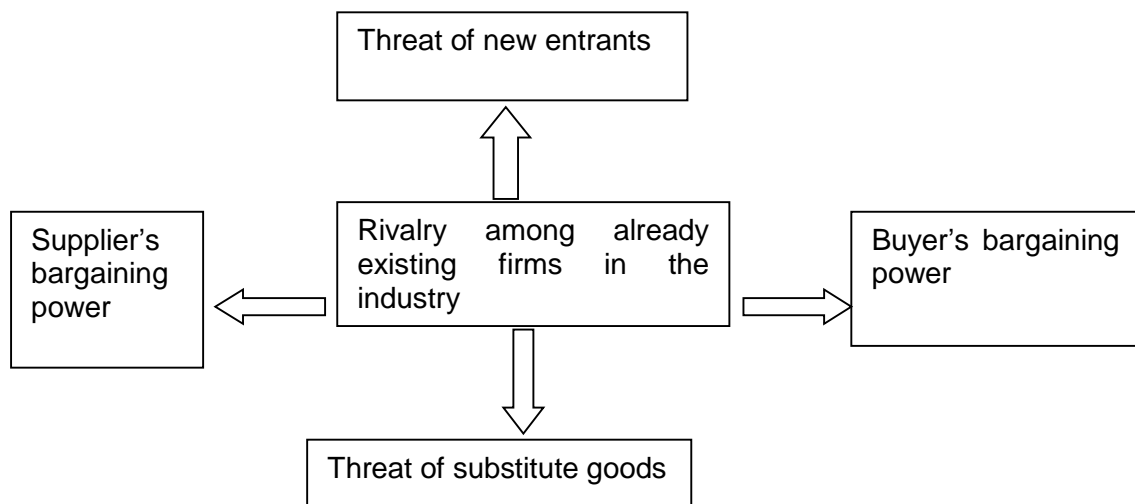


Figure 2.1: Porter's five forces

Source: Louw and Venter (2015:201)

2.5.5.1. Rivalry among competitors

Businesses do not operate alone, as there are competitors in the market. The businesses need to know their competitors and their strong points in order to penetrate the market (Louw and Venter, 2015).

2.5.5.2. Threats of new entrants

The threats of new entrants can impact negatively on existing ones, as they will reduce their share of the profit and also increase competition. It is easy to eliminate other companies where the entry barriers are easy. The barriers of entry in the construction industry are low. The capital investment requirements for entry are low, as the equipment can be rented and companies can subcontract (Louw and Venter, 2015).

2.5.5.3. Threats of substitute commodities

Louw and Venter (2015) indicated that a substitute product is a product that can be substituted but satisfy the same needs. However, a substitute product in the construction industry does not exist, as there is no substitute for building for residential purposes.

2.5.5.4. Customer's bargaining power

Customers are powerful if they are able to bring prices down while they are able to receive good quality (Dess, Lumpkin & Eisner, 2010:58).

2.5.5.5. Supplier's bargain power

Supplier's bargaining power refers to suppliers who bargain for lower prices in order to maximise profit (Louw and Venter, 2015).

2.5.6. Lack of management skills

A related problem is lack of managerial skills and capacity among South African business people. Approximately 40% of South African businesses fail within a year of starting up, which might be partly attributable to poor management (Fatoki & Smit, 2011:193). Lack of management skills during the early stages of a business can cause business failure, as the owners prefer to manage their business in order to reduce costs.

In South Africa, the ongoing demand for the development of housing, infrastructure and technology suggest numerous business opportunities for SMEs. According to the Department of Public Works (DPW), contractors currently possess a relatively low level of skills and resources, and require greater up-skilling; on the positive side, this situation means that historically disadvantaged people should find it relatively easy to enter the industry and participate as contractors (CIDB, 2011). A large presence of functional small-to-medium black-owned contracting businesses would help to decentralise the construction industry, which has historically been dominated by whites. Furthermore, independent contractors can perform small projects at numerous locations or sites that are geographically remote with greater ease and profitability than would be the case for larger companies. Because of their lower overheads, contractors are able to offer more competitive prices.

In PwC's latest Annual Global CEO Survey released in 2014, more than two-thirds of CEOs in the construction sector said they were extremely concerned about their access to key skills (PWC, 2014). In addition, 70% of the CEOs express concern about

rising labour costs in high-growth markets, and 37% of them believe that creating a skilled workforce should be a government priority (PWC, 2014).

However, only 17% of CEOs believe governments have been effective, while 62% of them believe that they have made up-skilling the workforce an internal business priority (PWC, 2014). Lack of workforce expertise not only affects a company's ability to compete for and complete contracts but also adds to the growth risk the company faces. Similarly, staff retention is critical to the sustainability of a company. In line with the requirements of the Construction Charter, construction companies recognise the development of skilled labour as critical to their sustainability.

Entities included in the analysis in this study confirm that they remain committed to investing heavily in skills development, with a significant portion of their expenditure being directed towards bursaries and learnerships (PWC, 2014). Candidates are selected both on the basis of academic merit as well as a strong emphasis on students from historically disadvantaged backgrounds. This contributes to addressing the challenge of skills shortages and achieving the objectives of the Construction Charter.

2.5.7. Poor cash management and financial control

Familiarity with accounting practices is a prerequisite for all business owners. A qualified accountant should be employed to perform this task, and he or she should know how to manage cash and expenses. Poor record keeping affects the growth of business negatively, as contractors normally want to cut corners when it comes to record keeping. Business management skills are key to operating a business.

Contractors normally lose track of their daily transactions as they do not record them; therefore, they cannot account for their expenses at the end of the month, which affect their profit and cash flow. Proper record keeping assists contractors to have accurate information in order to take the correct decisions, especially in doing projections for a project (Rankhumise & Rugimbana, 2010:8).

Poor cash management is affecting the completion of projects, as payments are done in stages, and it is difficult for contractors to manage their cash flow until they receive the next payment. Liquidity is the key to the success of any business and can have a negative impact on profitability and sustainability.

Internal control processes should be put in place to reduce the chances of employees stealing from the business. Managers should allocate responsibilities in a manner that will minimise misappropriation of funds (Rankhumise & Rugimbana, 2010:8). This goal will also be facilitated by regular reconciliation between the bank account and the enterprise's expenses and income. Stringent controls and measures are required to root out any internal theft so that it does not jeopardise the business.

In the majority of businesses, managers and owners reward themselves with large amounts of money before prioritising the growth of the enterprise. This tendency is especially obvious among young enterprises and entrepreneurs. Business owners and managers should be encouraged not to use the assets of their businesses for personal use, at the expense of the enterprise (Rankhumise & Rugimbana, 2010:8).

2.5.8. High taxes

Another serious challenge facing South African entrepreneurs is heavy taxation. For SME owners who are not adept with figures, sorting out the finances of a business can be extremely time-consuming or costly. The time required to keep proper records and the amount of paperwork involved for tax returns are problematic. Many people feel tempted to avoid paying tax because they would rather use that money to grow their business interests or because of the implications to the cash flow of the enterprise (Marti, 2010). The South African government should exempt small businesses from having to pay punitive taxes. President Zuma said in his State of the Nation speech of 2009, "the inclusive government will loosen the laws and implement a tax relief strategy for small and medium enterprises" (SOPA, 2009). The necessary actions are as follows:

- Assessment by the government of the tax obligations of an SME.
- Business people must know what tax regulations involve.
- Entrepreneurs must pay their taxes timeously to avoid later problems.

Government legislation on VAT places a relatively large burden on small businesses compared with that incurred by larger companies. This scenario is largely attributable to the complexity of the process of VAT registration and administration and to cash flow problems. Businesses stand to lose interest while waiting for their VAT refunds,

and VAT is paid at the point of invoice rather than the point of receipt. Inefficiencies in government departments, including the South African Revenue Service (SARS), create further barriers, while paying VAT on invoices jeopardises firms' cash flow and competitiveness.

2.5.9. Statutes and Regulations

Government has passed more regulations in past years such as labour, and health and safety provisions that affect the construction sector directly (NDP, 2011). The labour legislation was repeatedly criticised for raising costs associated with employment. Complying with tougher labour laws was a costly exercise. Small and micro-enterprises relied heavily on informal labour contracts so as to keep costs down, and this was being challenged by new laws. The SME sector found it difficult to attract skilled labour as the cost was seen as too high.

2.5.10. Late payments

The delay in receiving interim and final payments by contractors imposes huge constraints for the sector. Most of construction firms have been liquidated because of the delay in receiving payment, especially from government. The problem is that the contractors need to use their finances before they can claim any payment. Milford (2010) observes that lack of public sector capacity has led to an inefficient and cumbersome process of funding construction projects by the government and, in some cases, backlogs of more than six months in payments to contractors. Therefore, government is unable to spend allocations received. According to CIDB (2011), there are specific issues that have been raised due to the quality of tender documents and specifications and the management of change orders. The CIDB report notes that these factors are a reflection of the procurement capability of clients and their agents.

2.5.11. Increases in the costs of building materials

Materials in projects are amounting to 60% of the total costs, and South Africa relies on machinery or equipment that is imported from other countries. The construction sector is affected heavily when materials costs increase because that affects their pricing. Stats SA (2013) and the Bureau of Economic Research [BER] (2011) reported price increases ranging from 70% to 241% between 2000 and 2010. Also, BER (2011)

determined that the prices of building materials increased linearly at an average rate of 70% between 2002 and 2010, and that all building materials prices increased overall up to 2008 when the materials prices reached their peak.

Significant growth in the construction industry is dependent on price stability in materials costs, which have increased at rates higher than the inflation rate. Cockayne (2011a; 2011b) notes the effects that increases in building materials prices have on the construction industry, including the inability of developers to deliver affordable housing, high tender valuations and poor construction industry performance.

Total costs increased by 9.4%, marginally higher than revenue growth, resulting in a slightly lower profit margin. For the heavy construction companies, staff costs continued to represent a significant component of operating costs, constituting 28.3% of total operating costs (2013: 27.8%) and increased by 10% in the prior year.

The increase noted in the current year is higher than the 7% increase in construction revenue year-on-year. Retention of key skills to serve prospective contracts is one of the construction companies' biggest investments in anticipation of the potential upswing. Although tender activity has been very high according to some companies, there were limited tenders awarded.

Companies, therefore, have to decide whether they can continue carrying excess staff or whether they need to downsize. Announcements of various levels of retrenchments were made by most of the heavy construction companies. Construction material companies were still impacted by above-inflation energy cost increases and steel prices. Although Eskom's increases for next year will be higher, the decrease in oil prices and global steel prices should assist with next year's input costs.

2.6. Construction sector

2.6.1. The construction sector in South Africa

The construction sector plays a vital role, as it contributes directly and indirectly to South Africa's economic growth. According to Adendorff, Appels and Botha (2011), the development and growth of construction SMEs are important for all countries, as a strong construction SME base has the capacity to produce a high-quality

infrastructure for the country. It is regarded as a significant employer that assists in absorbing the excluded and creates more opportunities. The sector is the fourth highest in employing people with no education after agriculture, households and mining.

The construction sector includes different categories such as bricklayers, plumbers, painters, tilers, electricians, carpenters and other trades. Professionals employed by the sector include architects, engineers (mechanical, civil, electrical and structural), quantity surveyors and cost engineers.

The government is the larger contributor in the capital expenditure, as the expenditure increased by 4.8% in 2013, amounting to R212 billion. However, the effective growth rate from 2010 to 2014 was only 5.7%, which is less than inflation. It is estimated that it will drop to 4.5% during 2016. Construction input cost inflation is also above the Consumer Price Index (CPI) inflation.

The construction sector is regarded as the major contributor to the GDP and the gross national product (GNP) because of its sizeable projects and role in economic growth. The sector is playing a major role, as it produces structures that add to productivity and quality of life. The nation's workforce is active when the sector is operating at full capacity because it is labour-intensive.

Table 2.3: Contribution by province to the construction sector (%)

Province	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Western Cape	18.4	19.9	18.2	17.6	16.8	16.3	15.3	18.2	18.9	20.2
Eastern Cape	6.5	6.2	7.8	7.6	7.1	7.4	7.9	7.2	7.7	9.1
Northern Cape	1.2	1.1	1.4	1.6	1.4	1.8	1.5	1.3	1.3	1.5
Free State	3.2	3.2	3.7	3.9	3.6	4.5	4.0	4.1	3.6	3.6
KwaZulu-Natal	16.7	14.8	15.9	15.2	16.6	18.6	19.1	20.6	18.1	18.3
North West	4.9	5.0	5.0	4.9	5.3	5.1	4.9	3.6	3.4	4.1
Gauteng	40.3	41.0	37.5	37.5	37.1	32.8	33.6	34.6	36.0	31.2
Mpumalanga	4.4	4.4	5.8	6.6	6.3	6.7	6.4	5.4	5.7	6.2
Limpopo	4.4	4.4	4.8	5.1	5.7	6.8	7.3	5.1	5.3	6.0

Source: Stats SA (2014)

Table 2.3 illustrates the contribution by each province towards GDP. The highest contributor is Gauteng at 31.2% in 2013, and Free State contributed 3.6% during the same period. The lowest contributor was Northern Cape with 1.5%.

Although there was pressure in the sector, there was a slight increase in the growth rate. Figure 2.2 indicate the growth rate between Free State and South Africa.



Figure 2.2: South Africa and Free State construction sector growth rates

Source: Stats SA (2014)

Table 2.4 proves that even though there is a slight growth rate in the construction sector, the number of contractors registering from lower grading to higher grading is not increasing as expected due to the number of contractors that are liquidated. The number of construction companies that are suspended, deregistered and expired is very high. An example will be Grade 2 where 52.37% are suspended, deregistered and expired.

According to the DPW, contractors currently possess a relatively low level of skills and resources, and require greater up-skilling. On the positive side, this situation means that historically disadvantaged people should find it relatively easy to enter the industry and participate as contractors (CIDB, 2011).

Table 2.4: Number of companies registered in CIDB in South Africa

GRADE	ACTIVE	SUSPENDED	DEREGISTERED	EXPIRED	TOTAL
1	200 000	1 536	172	15 001	216 709
2	4 038	1 738	306	2 396	8 478
3	1 826	464	69	723	3 082
4	2 176	619	80	1 080	3 955
5	1 610	396	51	711	2 768
6	1 609	326	40	515	2 490
7	819	125	14	143	1 101
8	307	39	2	53	401
9	113	16	0	30	159
TOTAL	212 498	5 259	734	20 652	239 143

Source: CIDB (2015)

2.7. The construction sector in the Free State

2.7.1. Overview of the sector

The construction sector in the Free State comprises economic activity directed towards renovations, extensions, upgrading and construction within the province (Free State Socio-economic Review, 2014). The construction sector grew by an average of 5.9% as per Figure 2.2. There was negative growth in 2010 because of the end of construction of the FIFA World Cup infrastructure.

Table 2.5: Number of companies registered in CIDB in the Free State

GRADE	ACTIVE	SUSPENDED	DEREGISTERED	EXPIRED	TOTAL
1	4 052	76	6	2 738	6 872
2	231	94	11	130	466
3	77	16	2	22	117
4	117	24	2	45	188
5	63	17	1	29	110
6	75	15	1	25	116
7	29	6	0	6	41
8	10	1	0	1	12
9	4	0	0	1	5
TOTAL	4 658	249	23	2 997	7 927

Source: CIDB (2015)

Table 2.5 indicates the number of companies that are registered with the CIDB in the Free State, where 87% of them are still on Grade 1. It is an indication that the companies are not growing even though the sector is growing. The construction sector is also affected negatively by the companies that are failing, as 41% of the companies are either suspended, deregistered or expired.

2.7.2. Contribution of the sector

The sector contributed 3.6% to the GDP in 2013. The Free State Member of Executive Committee (MEC) for Finance confirmed that the provincial economy has been performing below the national average (Mohai, 2011). During 2010, the Free State economy grew by 1.9% and was projected to grow at 2.4% in 2011. The MEC for DETEA indicated that agriculture and manufacturing sector has shrunk by 4% in the past decade (Dukwana, 2011:5).

2.7.3. Employment in the sector

The total population of Free State in 2014 was 2 800 000, with an average annual growth rate of 0.25%, which makes up only 5.2% of the national population of 53 800 000 people (Stats SA, 2014). According to Stats SA (2014), the rate of unemployment in the Free State is highest at 32.2% as compared to other provinces and even the national unemployment rate, which was 25% in the last quarter of 2014. The rising unemployment rate leads to other serious problems, such as crime. The provincial unemployment rate is currently growing by 2% per annum, which does not bode well for the future of the Free State (Dukwana, 2011:5).

Table 2.6: Total employment per broad economic sector in the Free State in 2014

Sector	Employment	Percentage
Agriculture	55 200	7.59%
Mining	30 800	4.24%
Manufacturing	58 400	8.03%
Electricity	3 360	0.46%
Construction	45 700	6.29%
Trade	154 000	21.19%
Transport	31 800	4.37%
Finance	76 600	10.54%
Community services	189 000	26.00%
Households	82 000	11.28%
Total	726 860	100.00%

Source: Stats SA (2014)

The total number of employed people in the Free State is 726 860. In the Free State, the economic sectors that recorded the largest number of employed people in 2014 were the community services sector, with a total of 189 000 employed people or 26% of the total employment in the province. The construction sector only employed a total of 45 700 people (6.29%), and the electricity sector employed the least, with 3 360 (0.46%) in the province.

Although the rate of unemployment is still high, government is still playing a role in assisting SMEs in creating job opportunities. There are different programmes with different institutions of government that are assisting SMEs.

2.8. Role of the government in developing SMEs

Since 1994, numerous SME support programmes have been established in South Africa. The results of these programmes have generally been poor, with no obvious positive influence on the small-to-medium enterprise sector.

2.8.1. Government initiatives in developing SMEs

The country's Total Entrepreneurship Activity (TEA), which is an estimate of the number of working-age adults (18-64 years old) involved in starting or operating businesses up to 3.5 years old, is one of the lowest in the world (Herrington et al., 2010). In 2011, the TEA rate in South Africa was 8.9%, which is considerably lower than the average of 14.1% for countries with similar economies as South Africa which participated in the GEM annual review (Herrington et al., 2010). In 2011, the country's entrepreneurial intention rate was also one of the lowest at 17.6%.

Herrington et al. (2010) point out that the growing body of unemployed youth in South Africa places an additional burden on a limited government budget that is already burdened with a large number of demands. Young people's engagement in entrepreneurship helps them to archive economic independence and to reduce their reliance on state welfare. Youth entrepreneurship improves self-esteem and makes youths more productive members of their families and communities.

Secondary, entrepreneurial intention is influenced by perceptions of feasibility, which focus on one's ability to adopt entrepreneurial behaviour given the prevailing

environmental conditions regarding entrepreneurship. Factors that influence the development of entrepreneurship include, amongst others, political-legal and economic conditions and infrastructure development. Thirdly, social and cultural norms about entrepreneurship in a particular country or locality are considered to influence one's decision to become an entrepreneur. The perception of social norms is to a large extent influenced by an individual's family and friends.

The business or the degree to which others attach high status to entrepreneurs might be termed entrepreneurial attitudes. Other relevant attitudes might include the level of risk that individuals might be willing to take and individuals' perception of their own skills, knowledge and experience in business creation. GEM (2014) considers those who perceive good opportunities for starting a business as well as believe that they have entrepreneurial capabilities to be potential entrepreneurs in society, i.e. those most likely to have entrepreneurial intentions. More specifically, they will be opportunity-driven entrepreneurs.

The DTI has been the main driver of SMME policy development in South Africa. However, the emphasis has tended to fall on micro-enterprises rather than larger SMEs. Generally, the relevant support institutions officially assist SMEs, but in reality, they are orientated mainly towards micro-enterprises.

2.8.2. Department of Small Business Development

South African government recognises the importance of SMME so much that they established the new ministry of Small Business Development in 2014 in order to facilitate the promotion and development of small businesses.

The Minister Lindiwe Zulu indicated that he department is addressing lack of access to finance and the major obstacle that are affecting the growth of small business (Zulu, 2015). The minister also indicated that there is lack of co-ordination between different levels of the government where the source of funding were located which results in the funds end up going to the wrong places.

The allocation for the Department of Small Business Development for the three year period is R3.4 billion which Minister indicated that it is not sufficient to address challenges that are faced by SMMEs (Zulu, 2015). The department is planning to

implement program that will ensure that together with provinces, municipalities, development finance institutions offer both financial and non-financial support in one place (Zulu, 2015).

2.8.2.1. Small Enterprise Development Agency

Small Enterprise Development Agency (SEDA) was created under the Department of Trade and Industry in order to support small businesses in South Africa. It started to be active in 2006 in the Free State. The mandate of SEDA is to design and implement one standard national delivery network for the whole country, as well as providing non-financial support and promoting small enterprises.

SEDA assists both existing and start-up business even though it focuses more on the establishment of new businesses. It provides business support to SMMEs through development of business plans, development of marketing material, training, mentoring and coaching.

SEDA has its in-house materials that assist to SMMEs to develop business plans such as templates, software and books that are free. The development of business plans is outsourced to service providers where SMMEs will pay 10% of the total costs.

The mentoring and coaching is provided to businesses that have received funding. The programme assists in identifying gaps and running the business with someone supervising during the period of mentoring.

SEDA also organises workshops and seminars so that it can identify challenges experienced and resolve them. It also assists in exhibiting the products nationally and internationally.

2.8.2.2. Small Enterprise Finance Agency

Khula Enterprise Finance Limited and South African Micro-Finance Apex Fund (SAMAF) were incorporated to form this system. Small Enterprise Finance Agency (SEFA) was established on 1 April 2012. Services provided include a credit guarantee scheme, the provision of equity (capital and gearing), and private sector funding for small businesses in certain sectors. This company finances small-to-medium-sized enterprises by partnering with financial intermediaries. The company grants a loan

from a minimum of R50 000 to a maximum of R5 million. According to their Annual Report of 2013/14, they have approved 87 applications to the value of R142 379 000 in 2013/14 financial year in the construction sector.

2.8.2.3. National Empowerment Fund

The National Empowerment Fund (NEF) aims to promote business ventures headed by historically disadvantaged people or to drive broad-based black economic empowerment and to ensure that they inclusive in the economy. The agency provides tailored financial and non-financial support. It assists with the acquisition of shares in government and private enterprises and provides funding of at least R250 000 per business (NEF, 2015). The different types of funding offered by the NEF are presented next.

(a) Entrepreneurship finance

The purpose of the funding is to assist in start-up companies at an early stage of businesses that are owned by previously disadvantaged individuals.

(b) Procurement finance

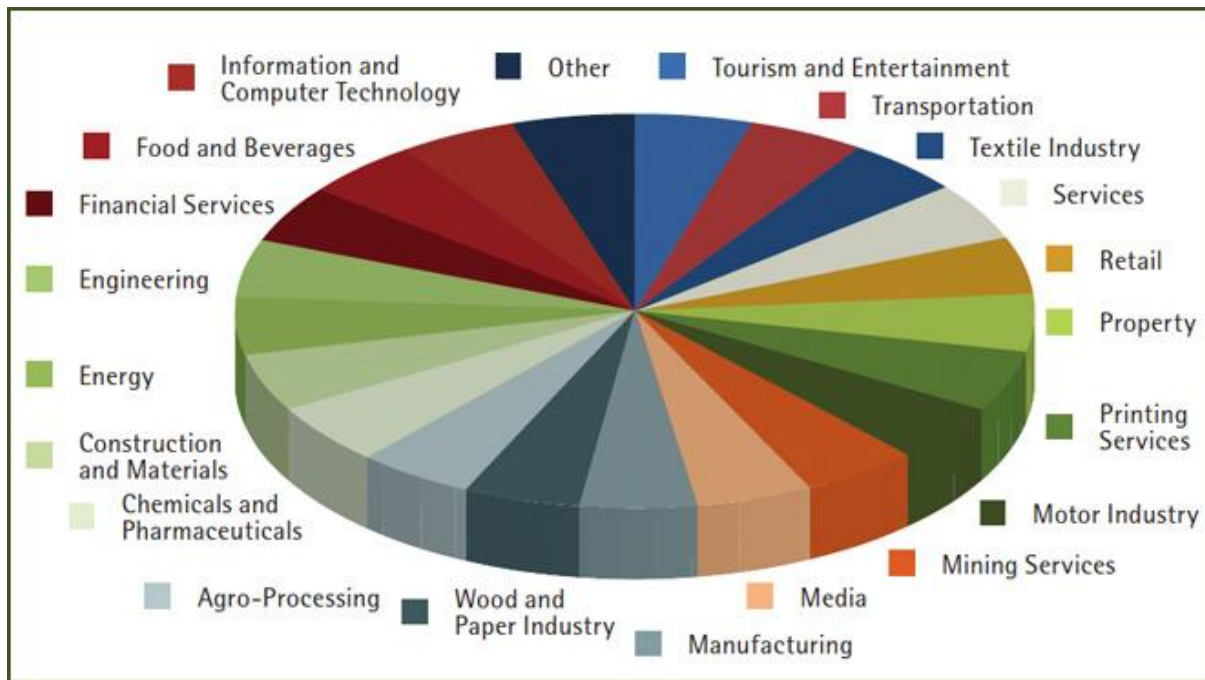
The product assists black-owned SMEs that have been awarded tenders or contracts by public and private sector entities. The product's main objective is to ensure that qualifying SMEs have the capacity to carry out the contracts.

(c) New venture finance

This product provides capital of R5 million to R25 million per project for BEE parties seeking to participate in medium-sized green fields projects with total funding requests of between R10 million and R200 million.

(d) Strategic projects fund

The fund has been established with a mandate to increase the number of black people who participate in early stage projects. It is aligned to national government policy and seeks competitive opportunity for the South African economy and the inclusion of black participation in opportunities at the outset of projects, as opposed to doing so during equity closure.



Source: NEF (2015)

Figure 2.3: Categories for NEF funding

2.8.2.4. Free State Development Corporation

The Free State Development Corporation (FDC) is a specialist economic development agency that was instituted to provide citizens in the Free State with a range of services that will assist them in building sustainable SMEs. The FDC supports SMMEs financially by providing loans and also with other forms of non-financial support (FDC, 2015). Investors receive comprehensive assistance in setting up businesses in the Free State. The different products are classified as follows (FDC, 2015):

(a) *Micro-loans*

Micro-loans are provided for amounts between R5 000 to R20 000 to assist a micro-enterprise that may need start-up capital (FDC, 2015).

(b) *Bridging loans*

FDC (2015) provide a bridging loans assisting SMEs that have received a tender to deliver on a project, but the SMEs do not have the cash to start with the project. The

SMEs often receive projects, but they do not have the cash flow to start with the project, as they sometimes cannot manage their cash flow. The maximum bridging loan does not exceed 50% of the total project value.

(c) Initiator

The assistance was developed to assist entrepreneurs who are moving from the informal to the formal sector by providing them financial assistance with a minimum amount of R20 000 and a maximum of R1 million. The SMEs do not need their own contribution, as this has been raised as a major contributor of businesses failing to obtain funding or loans from financial institutions (FDC, 2015).

(d) Propeller

The funding assists small businesses that need to graduate to medium-sized enterprises by providing them with funding of between R5 million and R20 million (FDC, 2015).

2.8.2.5. Industrial Development Corporation

The IDC is mandated to develop industrial capacity. The priorities are aligned with government policies such as the NDP, Industrial Policy Action Plan (IPAP) and NGP. The priority of funding the companies is to enable job creation and develop sustainable growth and increase sector diversity by boosting local production (IDC, 2015). The IDC works closely with other government agencies in coordinating industry development.

2.8.3. Department of Public Works

The DPW implemented Contractor Development Programmes (CDP) in order to assist historically disadvantaged contractors in developing competent skills, create jobs and alleviate poverty. The purpose of the programme is to overcome all the challenges that are faced by small-medium contractors by giving them all the equipment in building a sustainable business (Thwala & Mofokeng, 2012).

The department uses different models that are appropriate to different levels of development, and these can be broadly grouped as follows:

- Expanded Public Works Programme (EPWP) learnership type is for development of the Grade 1 and 2 construction workforce;
- Emerging Contractor Development Programmes (ECDPs) is Grade 2 to 3 emerging contractors and incorporates mentorship supported by formal business and technical training;
- Enterprise Development Programmes (EDPs) for contractors in Grading 3 to 6 who exhibit potential to develop and programmes focusing on improving the performance of established contractors; and
- Contractor Incubator Programme is for Grade 4 to 7 in line with the South African Construction Excellence Model (SACEM).

2.8.3.1. Contractor Development Programmes

Current contractor development combines EPWP and ECDP models and applies in all gradings, with the main objectives of enabling environment, developing contractors and creating jobs. Programmes focus on workforce development, job creation and the development of emerging contractors, enterprise development or improving the performance of established contractors.

The CDP aims to create an enabling environment for selected existing contracting enterprises to develop into sustainable contracting enterprises for the historically disadvantaged such as blacks, women and disabled persons. The CDP assists contractors who have a market of between R1.5 million and R30 million. The programme includes access to mentorship, financial support, information and other development support that would be relevant for contractor development.

The programme uses learners in order to spend money on goods and services or incubation programmes for small emerging enterprises. The purpose is to involve different departments in order to assist historically disadvantaged individuals.

2.8.3.2. Emerging Contractor Development

The ECDP is provided through the DPW which assists in providing access to projects for developmental purposes:

- Contractors compete for projects through normal public procurement methods, which sometimes form part of the prequalification for contractors to enter into a development programme.
- Contractors within development programmes receive preferential access to projects through limited bidding schemes.
- No single model for contractor development fits all gradings of contractors and all levels of business maturity.

Several programmes are needed in order to improve contractor development, improve stability, improve industry performance and restructure industry such as:

- an opportunity and support-based approach;
- the promotion of emergence and monitoring through a register for contractors;
- public sector support;
- the promotion and integration of emerging contractors into the industry;
- promote access to information, advice and mentoring;
- entrepreneurial and skills training; and
- finance and credit.

2.8.3.3. Expanded Public Works Programme

The EPWP is a project initiated by the government to create temporary jobs so as to reduce the rate of unemployment in the country. The purpose of the programme is to provide skills and training to people while they are doing the job, especially for the unskilled. The purpose of the programme is to bridge the gap that exists between economic growth and the growing numbers of unskilled and unemployed individuals.

The programme also improves the education system, which will equip individuals with skills so that they can be able to contribute to economic growth. Employment

opportunities will be increased in the economy to ensure that the jobs that are created are more than the new entrants on the labour market.

Skills shortage is one of the challenges that are facing the construction sector, which is badly implicated in the delivery of infrastructure projects. EPWP can assist very well in employing graduates that are not employed. Government and training institutions should work together to make the programme a success. The basic infrastructure should be improved in the rural and urban areas so that the programme can assist in alleviating poverty and creating jobs.

2.9. Construction Industry Development Board

The aim of the CIDB is to assist contractors and emerging contractors by giving them support through the Construction Industry Development Board Act (38 of 2000). The CIDB and the National and Provincial Departments of Public Works are responsible for implementing the National Contractor Development Programme (NCDP).

The CIDB assists in unlocking the constraints that contribute to the growth and development of sustainable contracting capacity, especially individuals from previously disadvantaged backgrounds. Skills development and contractor performance should be developed in order to reduce the number of projects that are not completed by the contractors and contribute negatively to the economic growth of the country.

The programme assists contractors from previously disadvantaged backgrounds by:

- establishing an enabling environment for contractor development;
- enhancing and strengthening mechanisms to develop contractors, including development programmes for emerging contractors;
- facilitating the improvement of contractors' performance; and
- supporting the creation of more skilled artisans, technicians and technologists for the construction industry.

Productivity will be improved if there are adequate management skills in the company that will assist in improving profits and economic growth. The CIDB was created to

assist contractor's development, but there is not much change, as the contractors are still facing challenges in growing their businesses.

2.10. Conclusion

The general overview of SMEs and their contribution was discussed consider their importance in creating job opportunities. SMEs were defined in order to determine the number of employees that are employed in the small and medium enterprises and their turnover. They are regarded as the largest employer in the country. SMEs are assisting in alleviating poverty and creating jobs, especially for unskilled workers.

Although SMEs are regarded as the engines that are creating wealth and employment, they are still faced with challenges that are affecting them to grow, as the failure rate is between 70% and 80%. The factors that are affecting them are discussed in detail, such as lack of education and lack of financial support.

Lack of education is regarded as the main cause of business failure followed by lack of financial support. SMEs are not marketing their businesses properly, as they only depend on government and nothing else.

The construction sector was discussed in detail, as it is the point of interest in this study. The performance and employment of the sector in South Africa and Free State was indicated.

The last part of the chapter elaborated of the programmes that are created by government institutions to assist SMEs and contractors. The CDP assists contractors to develop their skills by providing training. The next chapter will discuss the research methodology used in this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

The contribution of SMEs in South Africa was discussed to determine their importance and contribution to the economy including reducing unemployment and alleviating poverty. The challenges that are affecting the growth and the role of government in developing sustainable SMEs as well as literature pertinent to this study were briefly outlined in the preceding chapter. This chapter will discuss the research methodology that will be taken to achieve the objectives of the study.

3.2. Research objectives of the study

The objective of this study was to determine the role of government in developing sustainable SMEs in the construction sector. To achieve primary objective, the following secondary objectives were addressed:

- To determine factors that are affecting the growth of SMEs in the Free State in the construction industry;
- To assess programmes in place to support the small and medium contractors in the Free State;
- To determine the interventions that are necessary in order to address challenges that are affecting the growth of SMEs; and
- To investigate strategies that can be employed by small and medium contractors in countering challenges and increase employment in this sector.

3.3. Research design

The two most popular ways to classify research is through quantitative and qualitative conceptualisation. Qualitative research methods intend to address research objectives through techniques that allow the researcher to provide elaborate interpretation of phenomena, without depending on numerical measurement (Zikmund, Babin, Carr & Griffin, 2012:132). Creswell (2009:16) added that in this research method, the

researcher seeks to find the meaning of the phenomenon from the views of the participants.

The general purpose of qualitative research methods, as claimed by Salkind (2012:13), is to examine behaviour in the social, cultural, and political contexts in which they occur. On the other hand, Bryman (2012:75) held that when the researcher attempts to determine the cause-and-effect type of the relationship between independent and dependent variables, then it is a quantitative study. Also, Creswell (2009:16) added that the researcher in quantitative research tests a theory by formulating hypotheses, collecting data and then analysing the data to support or refute those hypotheses. This means that the research is quantitative in nature. The proposed cross-sectional study will be conducted in the Free State of South Africa.

The chapter is divided into research design, target population, and sampling method. The research design provides the methods that will be used in order to achieve the objectives of the study.

3.3.1. Sampling

It was established that the number of emerging construction firms amounted to 7 927. However, a simple randomly selected number of emerging construction businesses will be identified for the study according to the minimum 10% conventional rule in order to allow for sound statistical analysis to be done. The same rule was applied so that a sufficient number of elements would be selected for each population group.

3.3.2. Population

The population for the purpose of this study will be the owners and managers who are in the construction sector in the Free State. The total number of companies that are registered with the CIDB are 7 927 in all the gradings. The companies are registered in different categories as per the value of contract they have performed. The grading requirements from Grade 1 to 9 are indicated in Table 3.1.

Table 3.1: Requirements for contractor grading

Designation	Upper limit of tender value	Best Annual Turnover	Largest Contract	Available Capital
	R'000	R'000	R'000	R'000
1	-	-	-	-
2	R650		R130	-
3	R2 000	R1 000	R450	R100
4	R4 000	R2 000	R900	R200
5	R6 500	R3 250	R1 500	R650
6	R13 000	R6 500	R3 000	R1 300
7	R40 000	R20 000	R9 000	R4 000
8	R130 000	R65 000	R30 000	R13 000
9	No limit	R200 000	R90 000	R40 000

Source: CIDB (2015)

3.3.3. Sample frame

The sample frame represents all the elements in the population in which the sample is obtained. A sample of 100 companies from a population that represented different gradings was tested. The list of companies that are registered on the database of CIDB were downloaded from the CIDB website (CIDB, 2015).

3.3.4. Sample design

The sample type was a non-probability, purposive sample, which was used to gather primary data. This method was chosen because of the nature of the research problem and the fact that the participants are already involved in the field of interest. Thus, it was neither feasible nor desirable to select a random sample from this population group. The people of interest to the researcher were already part of a non-random group, and the researcher attempted to contact and recruit as many of these people as possible to participate in the study (Blumberg et al., 2008:235).

Table 3.2: Number of companies registered with the CIDB in the Free State

GRADE	ACTIVE	SUSPENDED	DEREGISTERED	EXPIRED	TOTAL
1	4 052	76	6	2 738	6 872
2	231	94	11	130	466
3	77	16	2	22	117
4	117	24	2	45	188
5	63	17	1	29	110
6	75	15	1	25	116
7	29	6	0	6	41
8	10	1	0	1	12
9	4	0	0	1	5
TOTAL	4 658	249	23	2 997	7 927

Source: CIDB (2015)

3.3.5. Stratified sample

The total population was divided into groups as per their grading where a stratified sample was drawn from each group. The method was appropriate because the companies are known and in different categories. The percentage for each group was determined to make up the total number of the participants. The percentage was used to determine the proportion of each group. The participants were selected randomly.

There were 4 052 companies that were registered and active on Grade 1. There were no requirements when the companies were registered in this Grade, and it was found that most of the companies are not operational; therefore, all the companies will be excluded from the sample. Grades 8 and 9 were considered in the sample, as they represented large firms that did not fall under SME as defined in the National Small Business Amendment Act, No. 26 of 2003 (South Africa, 2003).

Table 3.3: Sample size per group

	Grade 2	Grade 3-4	Grade 5-6	Grade 7	Total
Total Active	231	194	138	29	592
Percentage of total group	39%	33%	23%	5%	100.00%
Sample size	39	33	23	5	100

3.3.6. Sample size

The companies that were targeted as a sample were 100 from different gradings and categories. The information for the companies that are on Grade 2 to 7 were collected from the database of the CIDB. The companies that are suspended, expired and not active were not included in the sample. Some of the companies were registered in different categories but were owned by the same individual; therefore, only one category in those cases was considered, as it would have resulted in duplication.

This study only focused on the companies that are active. The reasons for determining why the companies were suspended or did not renew their registration were not investigated. Table 3.4 classifies the contractors per category.

Table 3.4: Contractor classification

Category	Description	Brief explanation of the work
ME	Mechanical engineering	Construction works that deals with development, extension, installation of engineering infrastructure
GB	General building	Construction works that deals with materials such as steel and concrete
EB	Electrical engineering works – building	Construction works that deals with materials such as steel and concrete
CE	Civil engineering	Construction works that deals with materials such as steel and concrete
EP	Electrical engineering works – infrastructure	Construction works that deals with development, extension, installation of engineering infrastructure

Source: CIDB (2015)

3.4. Data collection method

3.4.1. Methodology

A quantitative research method was used, and data was collected through questionnaires. The data was collected by means of an unstructured and self-administered questionnaire. Two set of the questionnaires was developed and send to SMEs in the construction sector and the other one was send to government entities.

The questionnaire for SMEs was divided into two sections to ensure that all information was covered. The first section covered the company itself such as:

- owner information
- education background
- background of the company
- company operations
- number of employees in the company

The second section of the questionnaire was designed to respond to the primary and secondary objectives of the study such as:

- government intervention
- factors affecting the growth of their company

The questionnaire was used as a method of collecting data, as it was inexpensive to use. A large number of contractors were reached across the Free State using the questionnaire method. The data was evaluated to determine the reliability and the correctness of the information and to determine if the research goal was met (Denscombe, 2010). The interview served as a follow-up, especially in instances where the information provided was not clear and clarity was required. The appointment with managers and owners identified in the sample was arranged before the interview took place.

3.4.2. Data analysis

Data analysis is one of the steps that need to be followed when conducting a research study. The data that was collected was analysed using SPSS (statistical package for the social science) program. SPSS is a Windows-based program that can handle large data. It can further use the coded data to provide analysed data in the form of tables and graphs.

3.5. Ethical considerations

The researcher ensured that ethical considerations such as protecting the anonymity or confidentiality of participants were included and were discussed before the beginning of the research. Confidentiality assisted in ensuring that the participants spoke their mind honestly without any fear of adverse consequences. The researcher was guided by moral values when interacting with the participants so that they were not exposed to risk or undue influence and did not develop unrealistic expectations regarding their involvement in the study.

Participants were informed as to the nature and purpose of the study, and they provided their voluntary consent to participate. Participants did not receive any reward or punishment, whether social or financial, for choosing either to participate or not to participate.

3.6. Demarcation of the field study

The primary purpose of this research was to determine the role of government in developing sustainable SMEs in the construction sector. The owners and managers who were on Grade 2 to 7 in the construction sector were the target population. The study only focused on the Free State.

3.7. Conclusion

This chapter provided a detailed description of the research method that was followed in the study. The method that was followed was the qualitative method. The research design was discussed in detail including its components. The next chapter will present and analyse the results of the data obtained from the questionnaires that were completed by the 100 respondents.

CHAPTER 4: FINDINGS AND ANALYSIS

4.1. Introduction

The objective of the study is to determine the role of government in developing sustainable SMEs in the construction sector. This study was motivated by the number of companies that are failing within a very short period after they have started as discussed in the literature review in Chapter 2. The research methodology that was employed to obtain data was discussed in the foregoing chapter.

This chapter reports on the results of the responses from the companies that were sent the questionnaire, i.e. companies that are in the construction sector in the Free State. The questionnaire was developed with the view of addressing the primary and secondary objectives of the study. The results will cover the background of the company, operations of the company and challenges that are affecting the growth of the companies. The reasons for failure of the companies were not determined in the research.

4.2. Data analysis

The research questions were self-administered in English. A total of 100 questionnaires were distributed to the owners and managers of the construction companies in the Free State that are operating on Grade 2 to 7. Grade 1 was not included because the majority of the companies on that grade are just registered with the CIDB but are not operating. Grades 8 and 9 are regarded as established and large, as indicated in the National Small Business Act (South Africa, 2003). 84 questionnaires were returned, representing 84% of the total that was distributed.

4.3. Findings

4.3.1. Background of the company

The research findings on the data relating to the grading of the company as per CIDB requirements will be presented using frequency distribution. Table 4.1 indicates that the majority of the companies are registered on Grade 2 as per CIDB grading. This accounts for 34.5% of the respondents, followed by Grade 3 with 20.2%, Grade 6 and

Grade 7 are 16.7% each, Grade 4 is 7.1%, and the last one is Grade 5 with 4.8%. Table 4.1 shows the frequency distributions of the grading.

Table 4.1: Frequency distribution of the grading

	Grading	(N)	%
Valid	Grade 2	29	34.5
	Grade 3	17	20.2
	Grade 4	6	7.1
	Grade 5	4	4.8
	Grade 6	14	16.7
	Grade 7	14	16.7
	Total	84	100.0

Table 4.2 illustrates the frequency of the work that the companies specialise in. Most of the respondents are in general buildings, which sits at 59.5%; followed by civil works with 22.6%; road and earthworks is third with 14.3%; and other companies did not specify their field of speciality. The reasons that there are no requirements for registering in general buildings might be the contributing factor for the higher number of SMEs in that category.

Table 4.2: Frequency distribution of specialised job

	(N)	%
Valid General buildings	50	59.5
Civil works	19	22.6
Road and earthworks	12	14.3
Other	3	3.6
Total	84	100.0

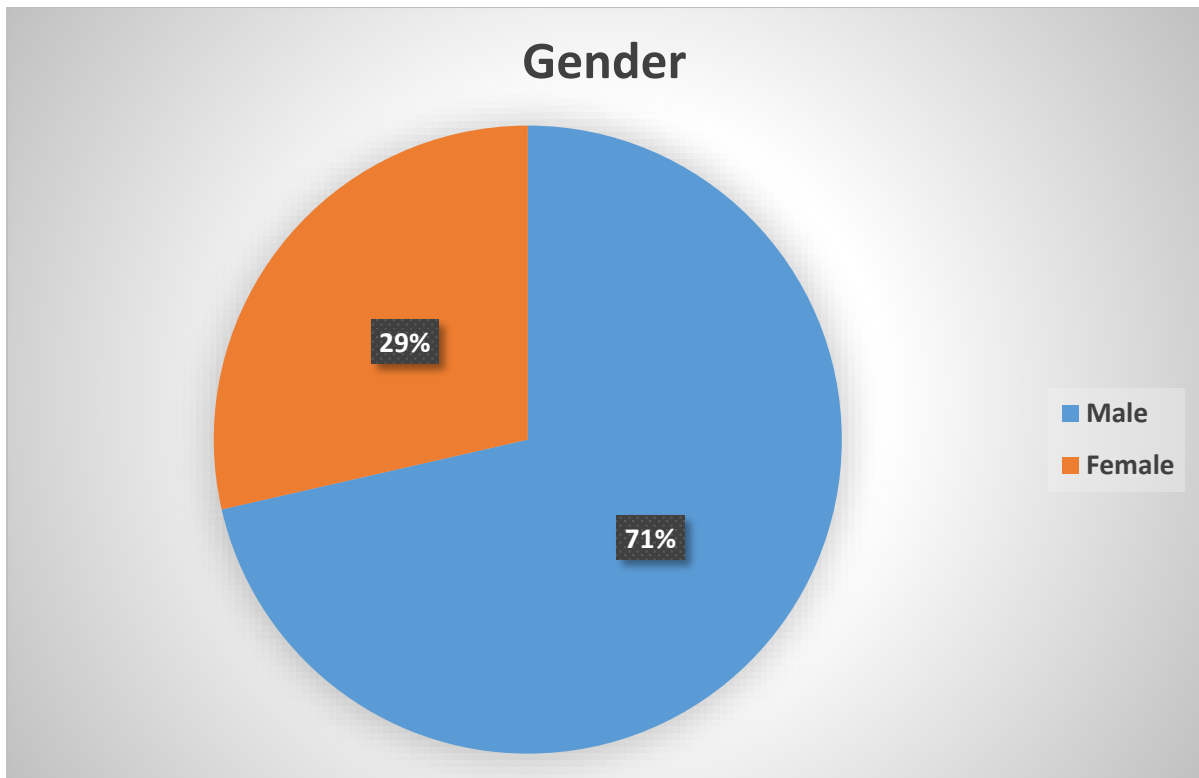


Figure 4.1: Gender

Figure 4.1 demonstrates that 71% of the respondents are male and 29% of them are female. The results were also supported by a study in the Western Cape where it was found that the majority of the owners of SMEs are male at 61% (Brijlal, Naicker & Peters, 2013). Although the number of women in the business has increased, the majority are still men. Sectors such as construction are still dominated by men. It can be assumed that the nature of work and conditions are normally not suitable for women.

Brijlal et al. (2013) supported that the issue of gender and entrepreneurship limits women's ability to accrue financial capital. Therefore, the authors place the limitations on the ability to generate personal savings in order to have attractive resources and be able to impact on the growth of the business.

The purpose of the gender classification is to determine if the companies are male-dominated in the sector, as it is often regarded as a male business. The reason for the question of the number of women in the business was to determine if the companies are supporting the initiatives of government in empowering women in the country. The

government wants to empower women, and it was indicated that the companies should have 50% women in their business.

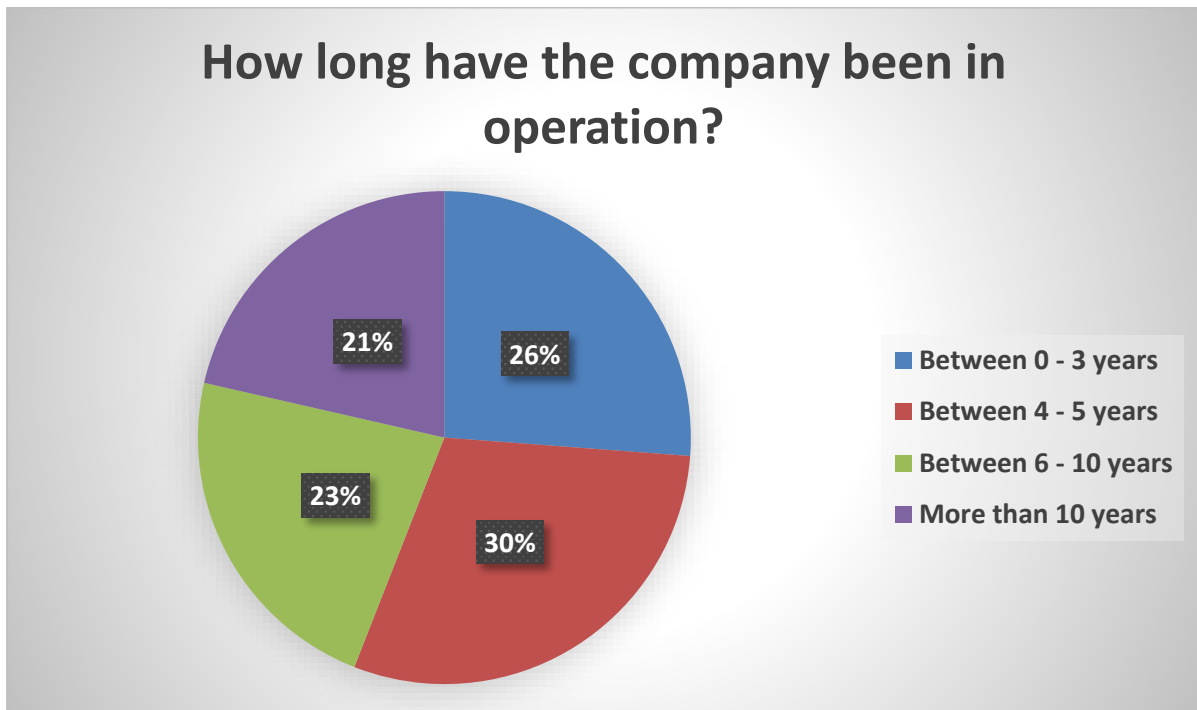


Figure 4.2: Length of time business has been in operation

Figure 4.2 depicts that 26% of the respondents have been operating for less than three years. Furthermore, 30% of them have been in operation for 4 to 5 years, 23% for 6 to 10 years, and 21% for more than 10 years.

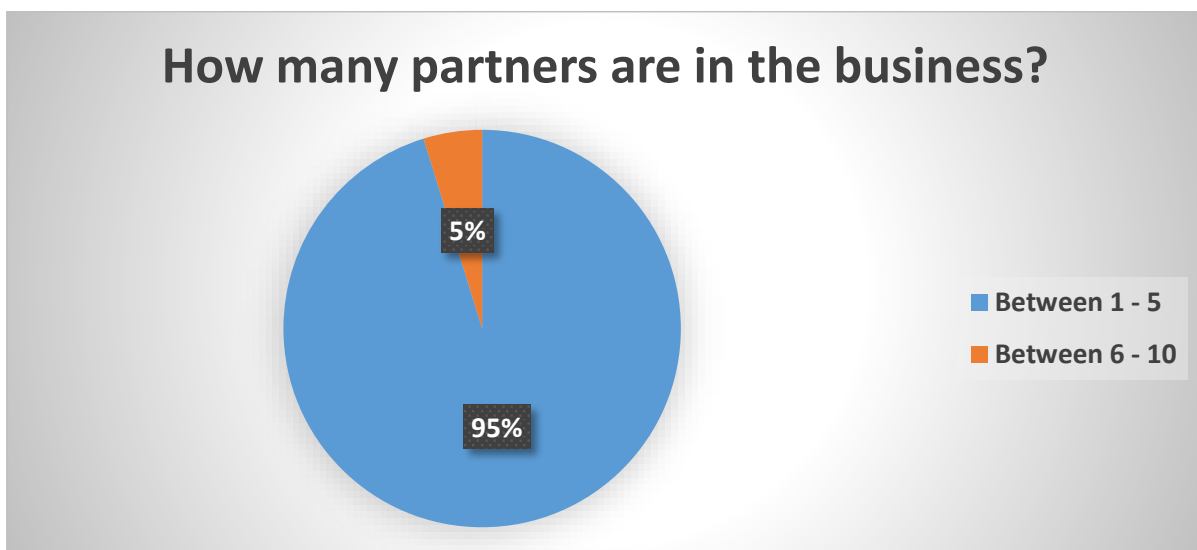


Figure 4.3: Number of partners in the business

Figure 4.3 reveals that 95% of the respondents have between 1 to 5 partners and 5% have between 6 and 10 partners. The information will assist in determining if the partner of the company possesses different skills in business and how is it affecting their operations. The number of partners might play a role when coming to the capital contribution for the growth of SMEs.

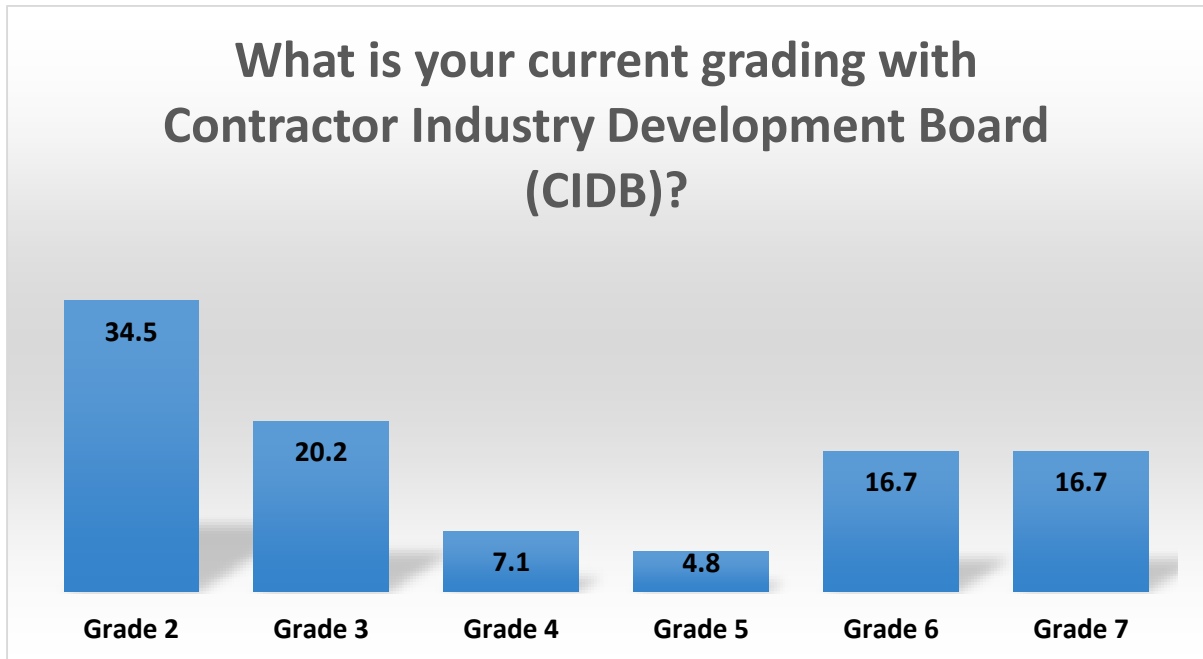


Figure 4.4: Company grading

The question of grading will ensure that the study focus only on the small medium contractors. The small contractors are categorized into Grade 1 to 3 and medium contractor in Grade 4 to 7. Figure 4.4 indicates that 34.5% of the respondents are on the lower category in terms of CIDB grading, as they are still on Grade 2. This is followed by Grade 3 with 20.2%, Grade 6 and Grade 7 are 16.7% each, Grade 4 is 7.1%, and the last one is Grade 5 with 4.8%.

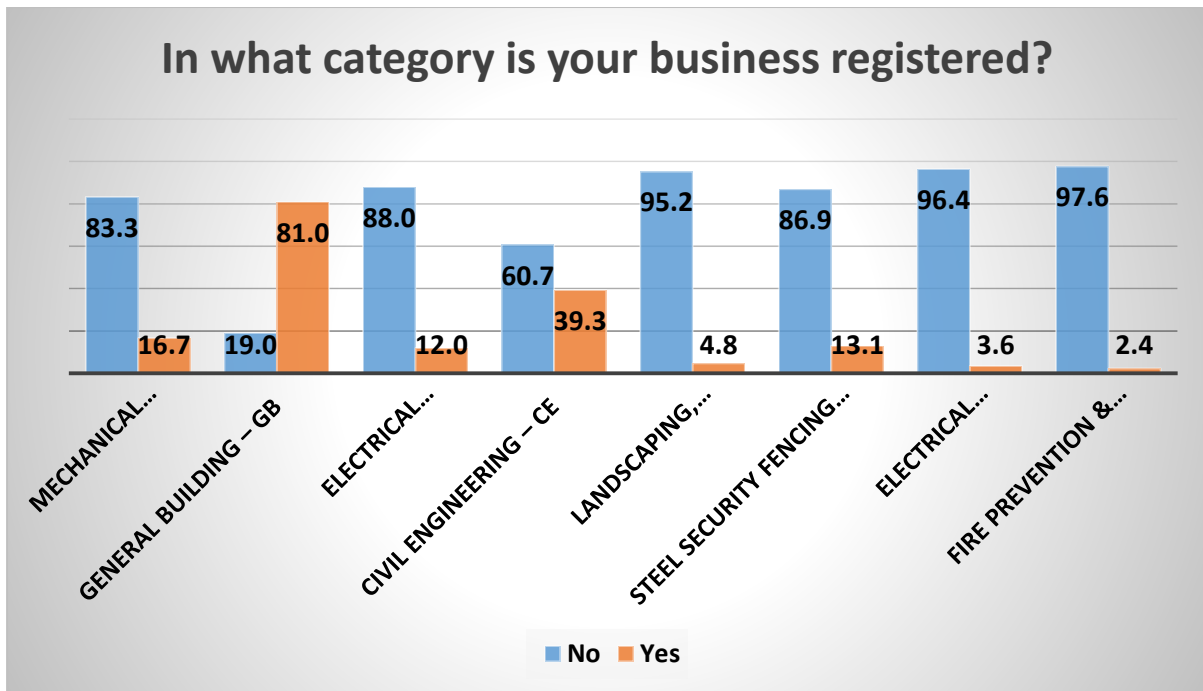


Figure 4.5: Category of grading

Figure 4.5 highlights that 81% of the respondents are in general building, followed by 39.3% in the civil engineering, 16.7% in mechanical engineering, 13.1% in steel security and 12% in electrical engineering.

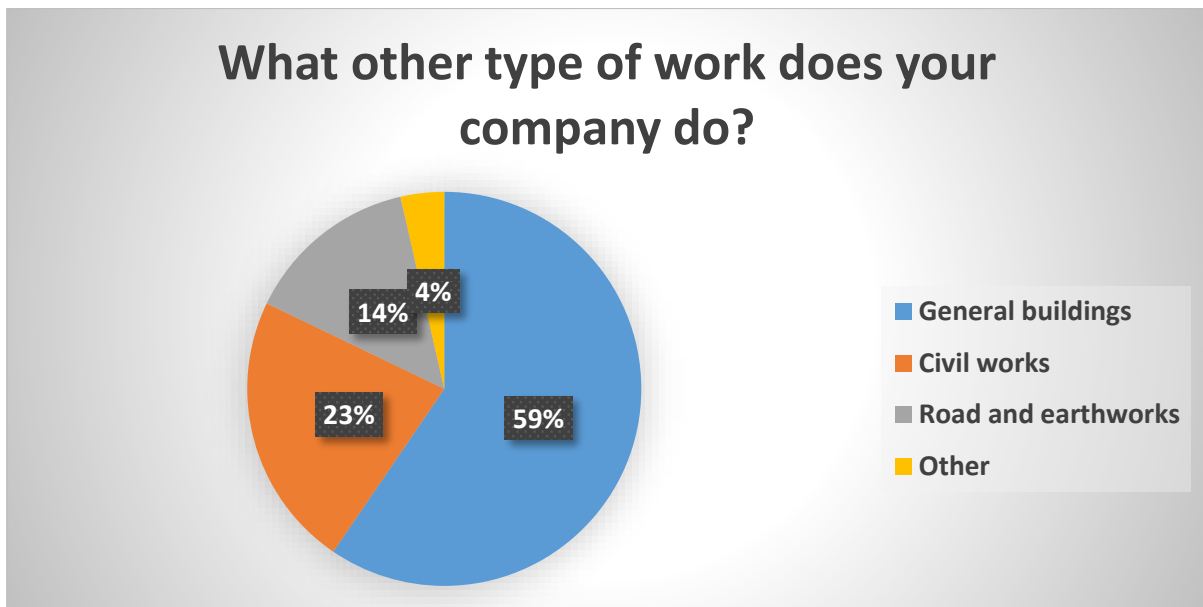


Figure 4.6: Other type of work

The study is directly focused on the small medium construction companies, hence it is imperative that the business types are specified. Figure 4.6 shows that 59% of the respondents are involved in general building, 23% does civil works, and 14% is involved in road and earthworks. The contractors can do different works in the construction industry as long they have registered to do that specific type of work. The number in this question will vary.

4.3.2. Programmes by government

This section presents the role of the government in developing sustainable SMEs in the construction sector as the primary objective of the study. The literature review indicated that government has provided training and funding for SMEs. The results of the programme by government, funding and government policies will be presented.

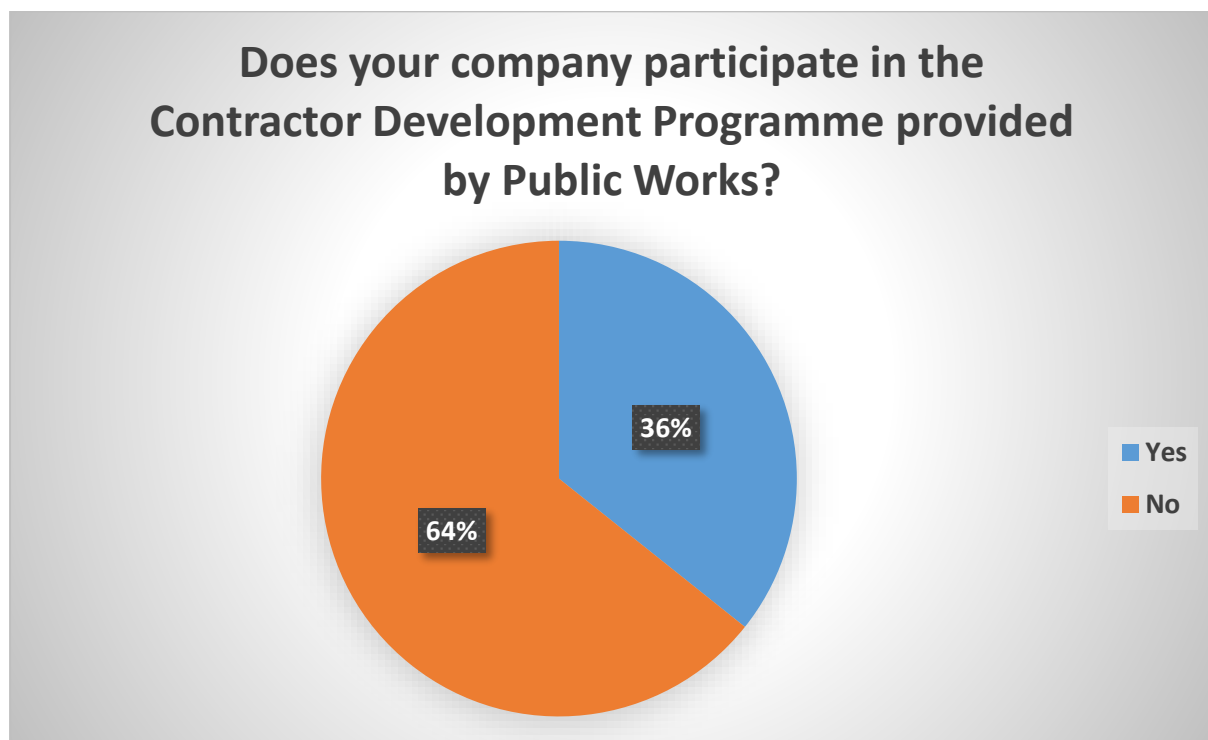


Figure 4.7: Contractor Development Programme

Figure 4.7 reveals that 64% of the respondents are not participating in the contractor development programme, and only 36% of them are participating. The respondents indicated that they are not aware and not invited for the programmes. The results are supported by a study that was done in the Free State, where it was highlighted that

74% of the respondents were not exposed to contractor development programmes; therefore, they did not attend while 26% attended (Thwala & Mofokeng, 2012).

The information contradicts the information received from the CIDB office, where it was indicated that invites are sent to contractors, but the attendance is not satisfactory. The problem identified was lack of resources by the contractors such as emails.

Table 4.3: Contractor Development Programmes Benefits

Contractor Development Programmes Benefits	Number Mentioned	Rank
Becoming innovative & competent contractors	43%	1
Having business sustainability	33%	2
Financial control and competitive tendering	13%	3
Better Technical & Business understanding of the construction	10%	4

Table 4.3 indicate that from the 36% respondents who have attended the development programme, 43% indicated that the programmes assisted them to become innovative and competent while 33% indicated business sustainability.

Table 4.4 reveal that from the 36% respondents who have attended the development programme, 40% indicated that the programmes were not well publicized and most of the contractors did not about them. 36% said that there was not enough support given to the contractors after the programmes.

Table 4.4: Contractor Development Programmes Problems

Contractor Development Programmes Benefits	Number Mentioned	Rank
The programmes were not well publicized for everyone to know about them	40%	1
There is not enough support given to the contractors after the programmes	36%	2
The government does not take responsibility for the growth and success of the contractors	16%	3
Work and funding is not provided by the department	6%	4

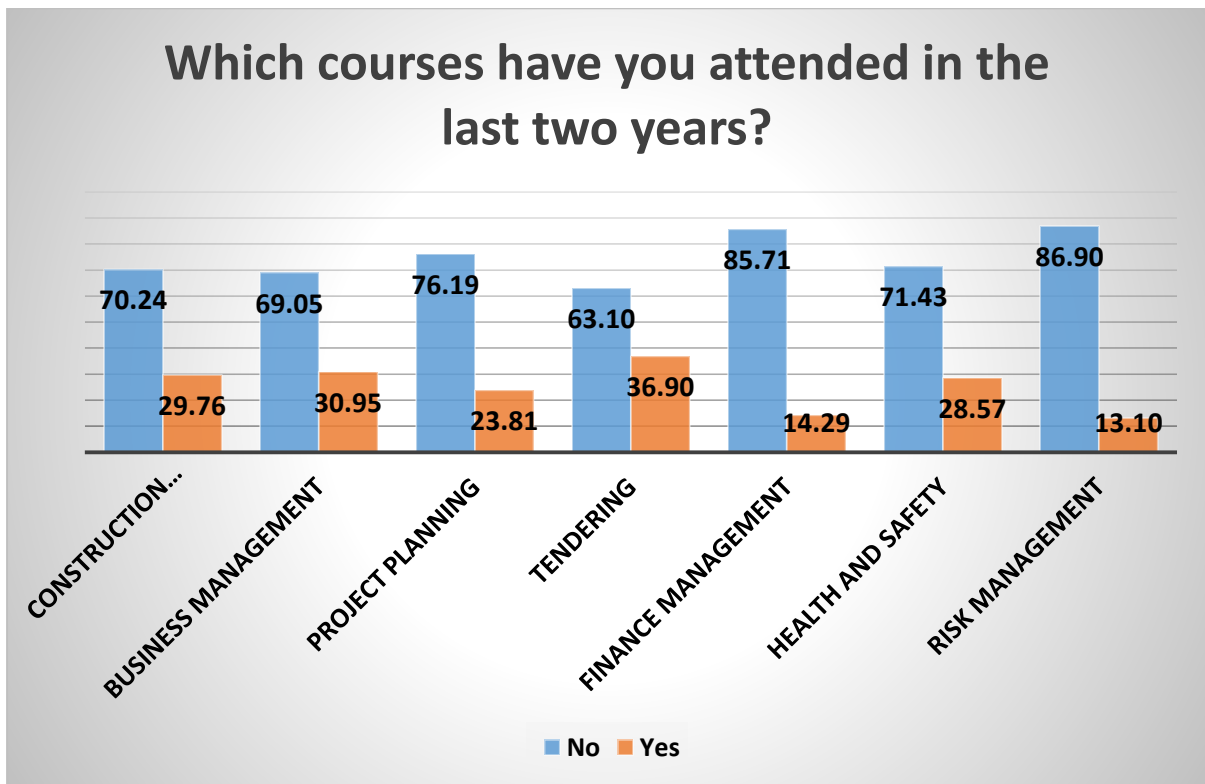


Figure 4.8: Courses attended

For the business to keep in touch with the development in order to be successful it is important that the management of companies attend short courses. Figure 4.8 indicates training that was attended in the past two years by the contractors in terms of the percentage. The respondents indicated that 36.90% attended the workshop on tendering, followed by 30.95% for business management, 29.76% in construction courses, 28.57% in health and safety, 23.81% in project management, and the rest are below 20%.

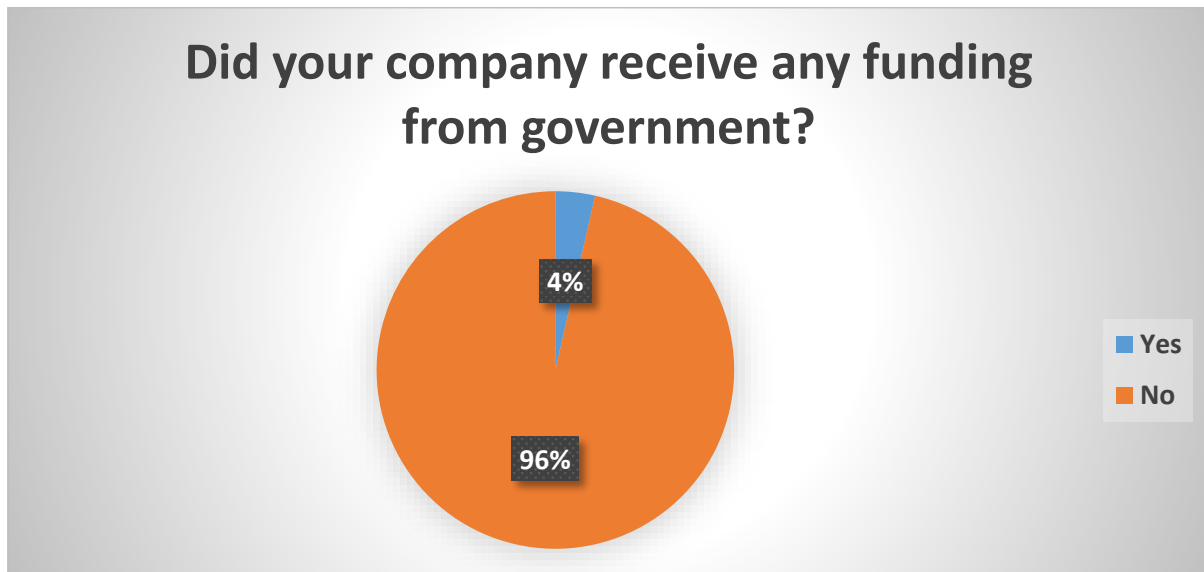


Figure 4.9: Funding

Figure 4.9 shows that 96% of the respondents did not receive any funding from government, while only 4% received funding. The reason is that the process to receive funding takes too long, and the disbursement of information is not up to standard. The results agree with a study that was carried out in Gauteng, where 3.3% of SMMEs received funding from government, while 56% of the SMMEs' capital were owner's contribution (Njiro, Mazwai & Urban, 2010). The results are also confirmed by a study that was carried out in South Africa by National Treasury in all provinces (Mago & Toro, 2013). These results are also supported by the findings of Amra et al. (2013) whose study found that SMEs are not applying for funding because of lack of collateral and do not have the cash flow to afford monthly repayments. Lack of funding for SMEs was also supported by a survey done by SBP in 2011, where it was found that only

2% of 500 enterprises received funding from through the IDC, whereas 8% had been able to access finance through commercial banks.

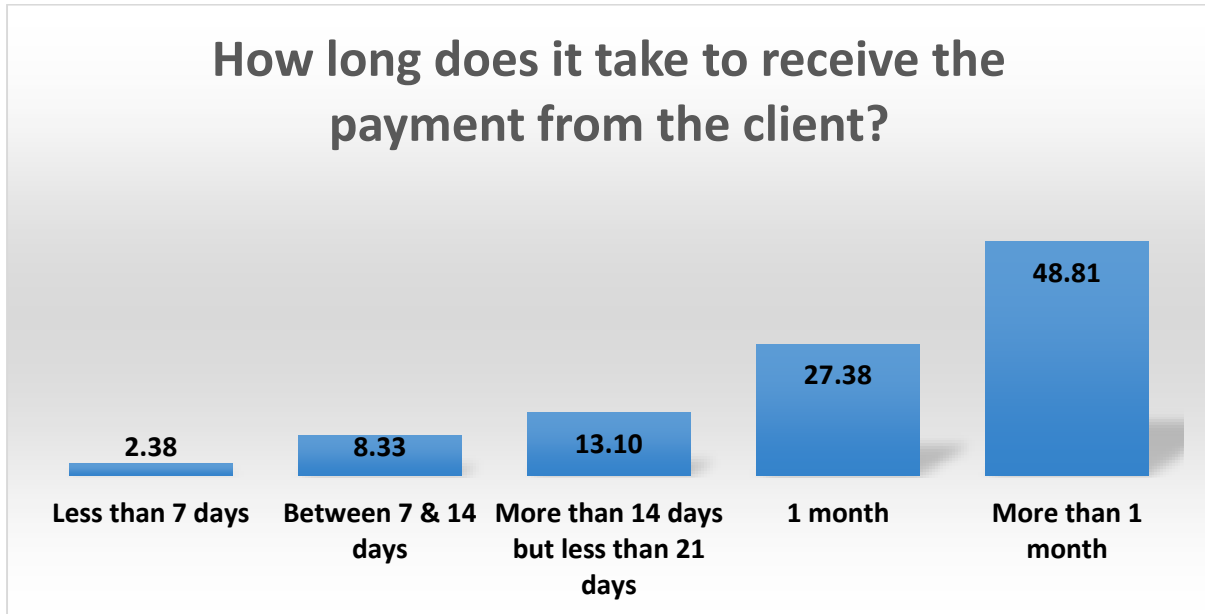


Figure 4.10: Period to receive payment

Payments from clients are very important, and it is even more important be paid as soon as possible. Figure 4.10 illustrates that 48.81% of SMEs receive their payments after a month, 27.38% within a month, 13.10% between 14 and 21 days, 8.33% between seven and 14 days, and only 2.38% receive their payments within seven days. The payment period affects cash flow negatively if it is longer, as this affects the contractor in completing the projects on time.

How do government policies, regulations and legislations affect your company?

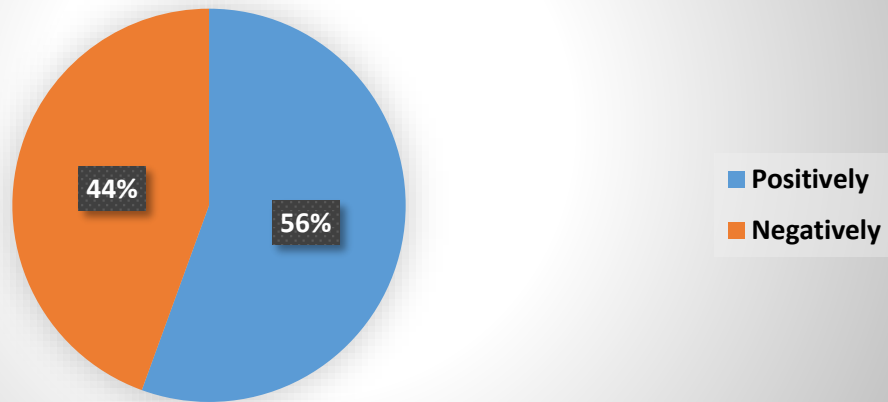


Figure 4.11: Government policies, regulations and legislation

Figure 4.11 demonstrates that 56% of the respondents are affected positively by government preferential procurement policies, while 44% of them are affected negatively. The contractors need to meet certain CIDB requirements before they can tender for jobs in government, meet BEE targets and NHBRC regulations.

4.3.3. Company operations

The results of the operations of the company such as experience, skills and accounting systems will be presented under company operations. The results will determine the period that they have operated in the construction and skills acquired during that period to deal with the challenges that affect the growth of the company.

How many years does the company have experience in the construction industry?

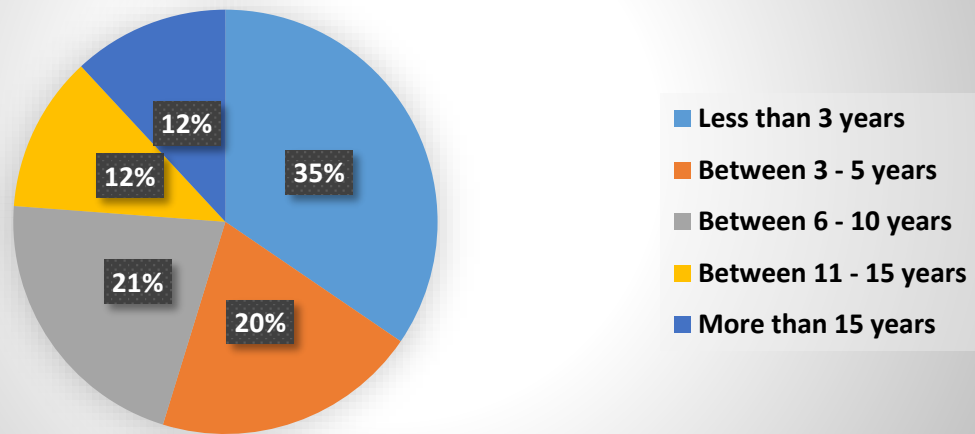


Figure 4.12: Experience in the construction sector

In every industry it is important to have experience for the role to be performed to excellence. Figure 4.12 illustrates the experience that respondents have in the construction. Experience in the construction sector provides clients with confidence when they award a contract because the contractor will have a track record on the jobs that they have performed in the past. Thirty-five per cent of the respondents indicated that they have less than three years experience in the construction industry; 20% of them have experience of between 3 and 5 years, followed by 21% with between 6 and 10 years experience; and the rest (with experience of between 11 and 15 years, and 15 years or more) are made up by 12% each.

The other study that was done by Thwala and Mofokeng (2012) indicated that 40% of those in the construction sector have experience of between 6 and 10 years, and 12% of them have experience of more than 15 years.

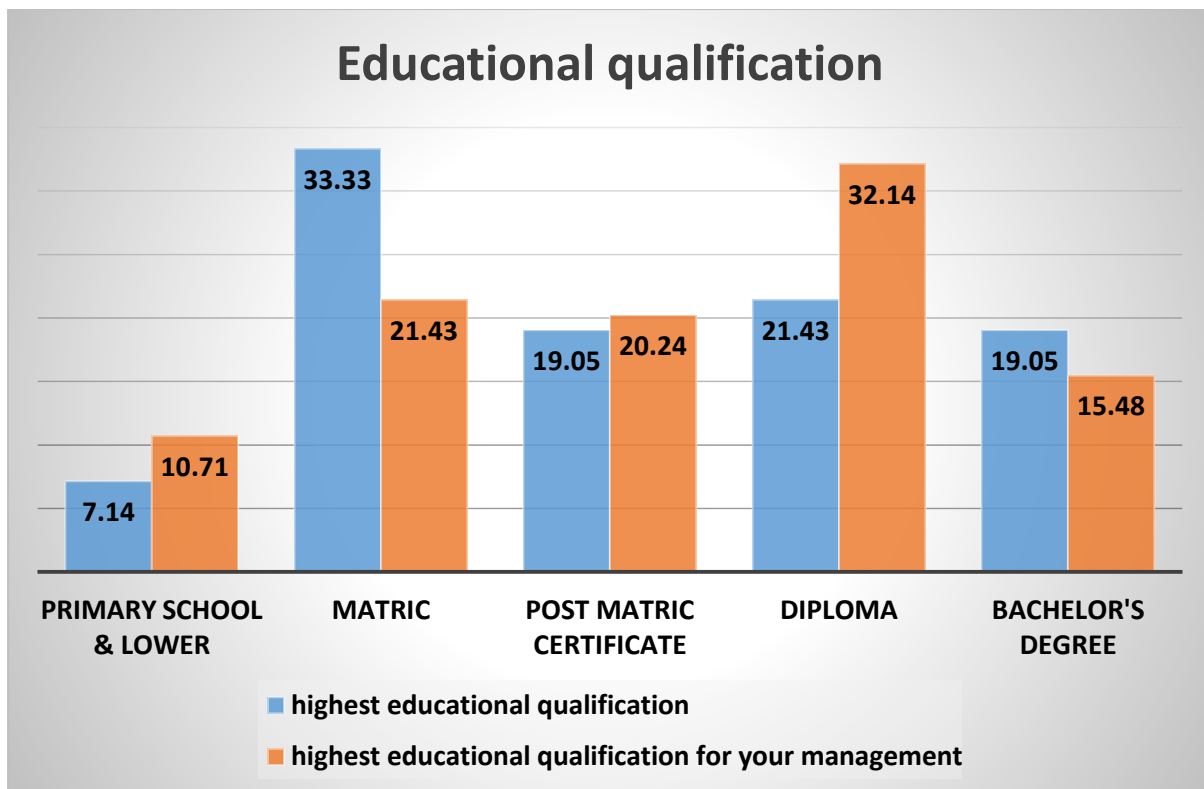


Figure 4.13: Highest educational qualification

It is anticipated that the higher the level of small and medium contractors education the more skills they will have in managerial positions. Figure 4.13 shows the qualification of the owners and management of the respondents. Further, 33.33%, which represents one-third of the respondents indicated that they have matric; 21.43% of them have a diploma, followed by bachelor's degree and diploma with 19.05%; and 7.14% of the respondents have a primary school qualification.

It is evident that this is a group of educated people who are educated hence the assumption that they are aware of methods of running a company in relation with experience.

The results concur with the results that were discovered at Mbombela Municipality, where it was indicated that 23% has matric, 13% has a post-matric certificate, 33% has a diploma, while 27% has a bachelor's degree (Aigbbavboa & Thwala, 2014).

The management of the SMEs pointed out that 32.14% has a diploma, followed by 21.43% with matric, 20.24% with a post-matric certificate, and those who have a

bachelor's degree and primary school qualification are made up of only 15.48% and 10.71% respectively. The relevance of the qualification in the construction industry was not addressed in the study. The results support the issues that construction is taken as another business venture of interest (Aigbbavboa & Thwala, 2014).

In another study conducted by Amra et al. (2013), the results were indicated that approximately 70% of individuals employed in the informal sector have lower than matric, and only 4% of them have matric or higher. The construction sector is affected negatively by low skills, as the majority of the employees do not possess most of the skills required. It level of education or training in is low

It is clear that the success and growth of a business depend on the level of skills the owner or management possesses. It is indicated in the figures that follow that a business whose owners have less skills are not doing well, as they cannot be able to overcome the barriers that they face in business.

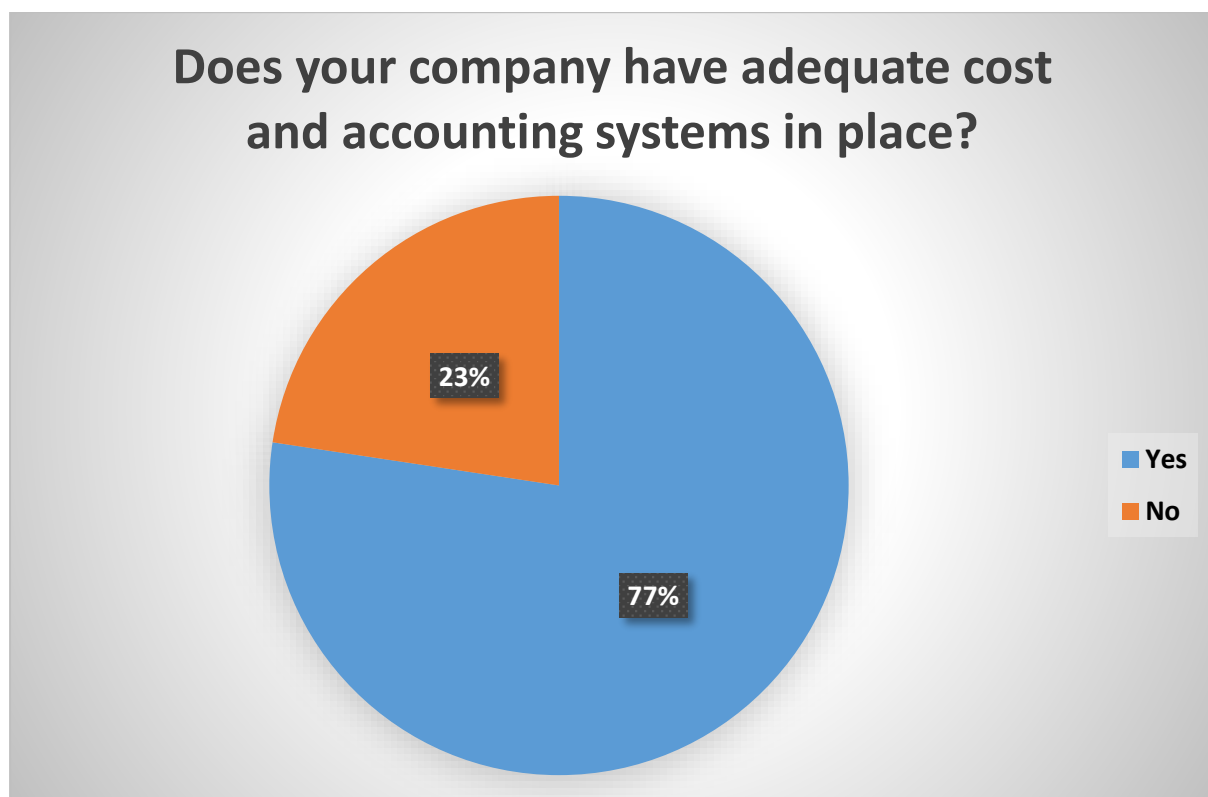


Figure 4.14: Adequate cost and accounting systems in place

It is demonstrated in Figure 4.14 that 77% of the respondents have adequate cost and accounting systems in place, whereas 23% does not have systems in place and uses consultants for the required services. A proper cost and accounting system is crucial for the company because it directly deals with the finances of the company. Using consultants assists the respondents even though such an avenue is costly for them.

The results contradict with the response where the contractors have cash flow problems more often. It was not determined in the study that if the systems are available whether they are being used properly.

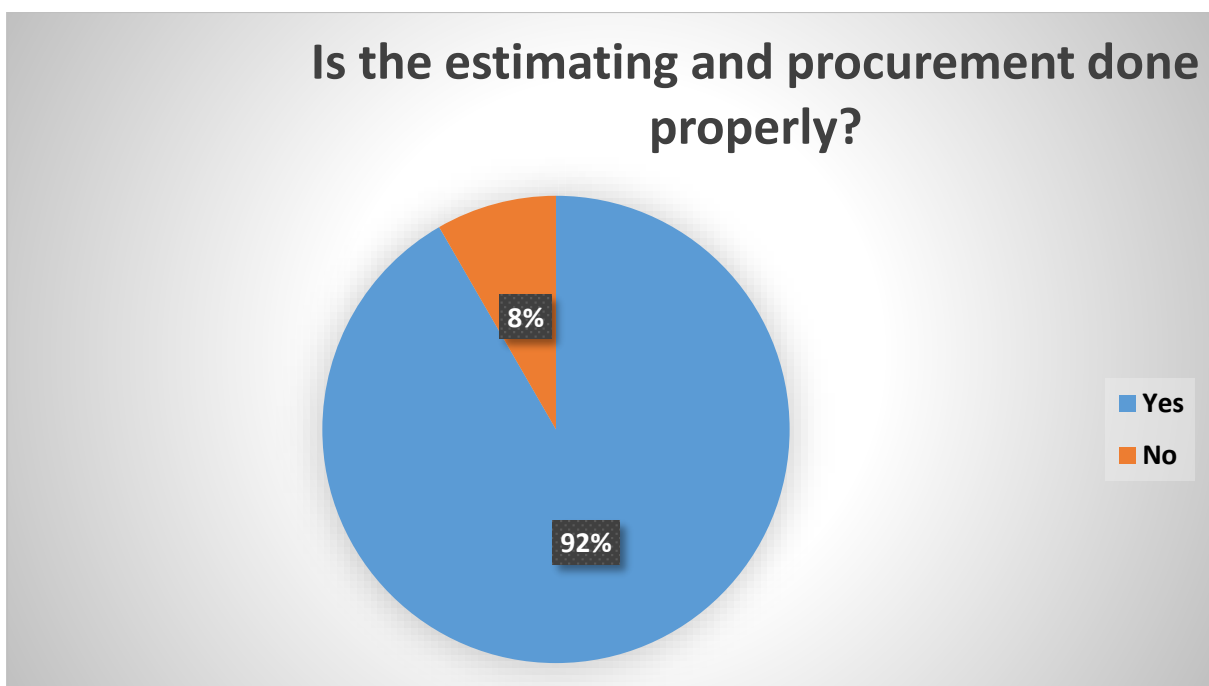


Figure 4.15: Estimating and procurement

Figure 4.15 highlights that 92% of the respondents feel that estimating and procurement is done properly, and only 8% feels that it is not done properly. Consultants are used when the costing is done for tendering. The problem with the estimating that are not correct is that the respondents are not completing the projects that they are doing and it is affecting their cash flow negatively.

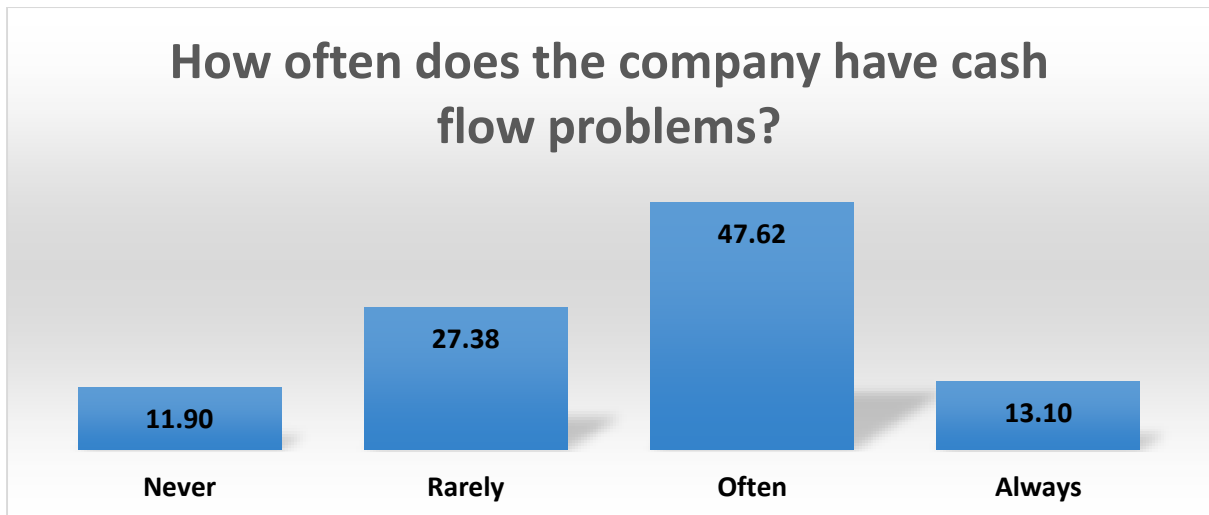


Figure 4.16: Cash flow problems

Construction companies are driven by cash flow to run sufficiently and if the cash flow is negative it spells out problems. Figure 4.16 indicates that 47.62% of the respondents have cash flow problems often; 27.38%, rarely; 13.10%, always; and 11.90% never had cash flow problems. Cash flow problems can affect the company negatively, as the company can be liquidated if it cannot pay its creditors. Several studies that were conducted indicated that SMEs view cash flow as a major challenge in developing their companies. Other studies indicated that 38% of SMEs are experiencing high cash flow problems (Ejon & Mbohwa, 2015).

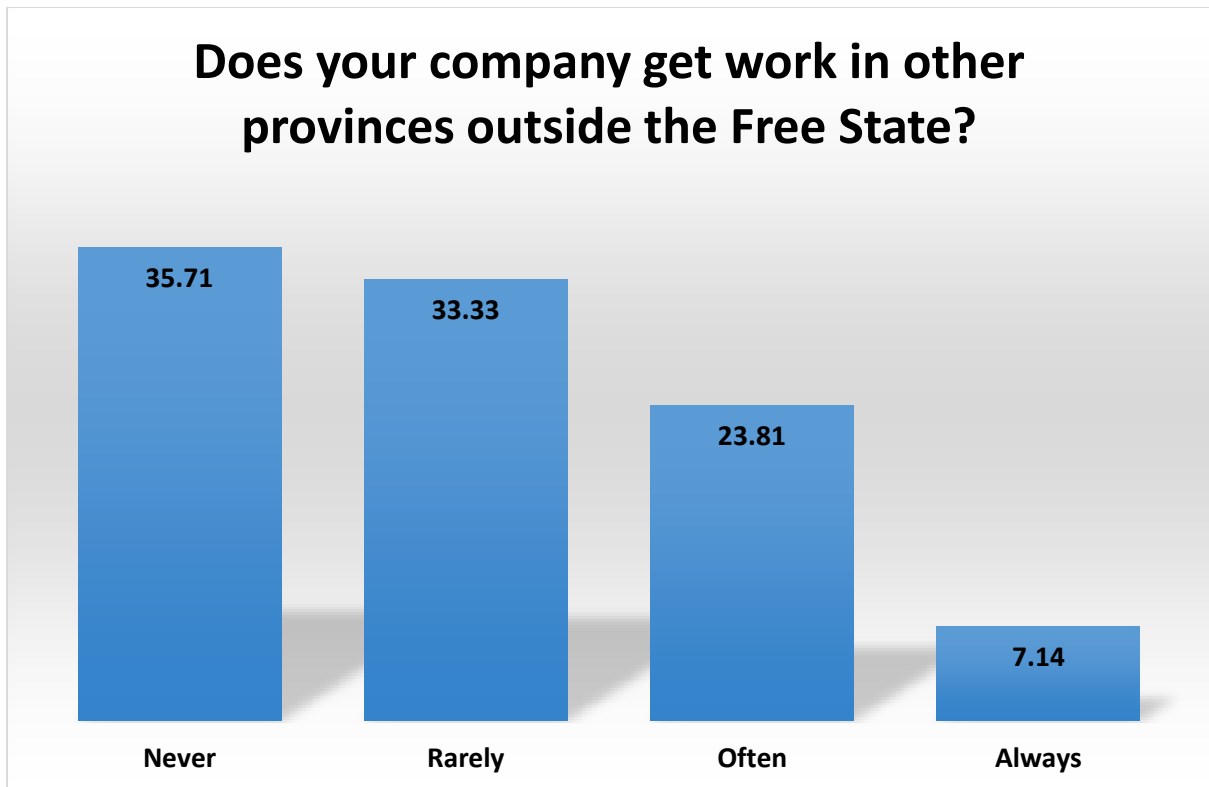


Figure 4.17: Work in other provinces outside the Free State

It is common in the construction industry that a construction company will market and get the work outside their geographical area. Figure 4.17 reveals that 35.71% of the respondents are only getting contracts in the Free State; 33.33% rarely gets contracts outside the Free State; and 23.81% often gets contracts outside the Free State. On the other hand, 7.14% always gets contracts outside the Free State. This is an indication that companies are not marketing themselves, and they are afraid of competition.

4.3.4. Challenges in implementing projects

The challenges that are faced by the contractors when implementing projects will now be discussed. Results represent one of the secondary objectives that highlight the challenges that are faced by the contractors in implementing projects as discussed in Chapter 1. A Likert scale was used in these questions, ranging from 1 for no extent to 5 for very large extent.

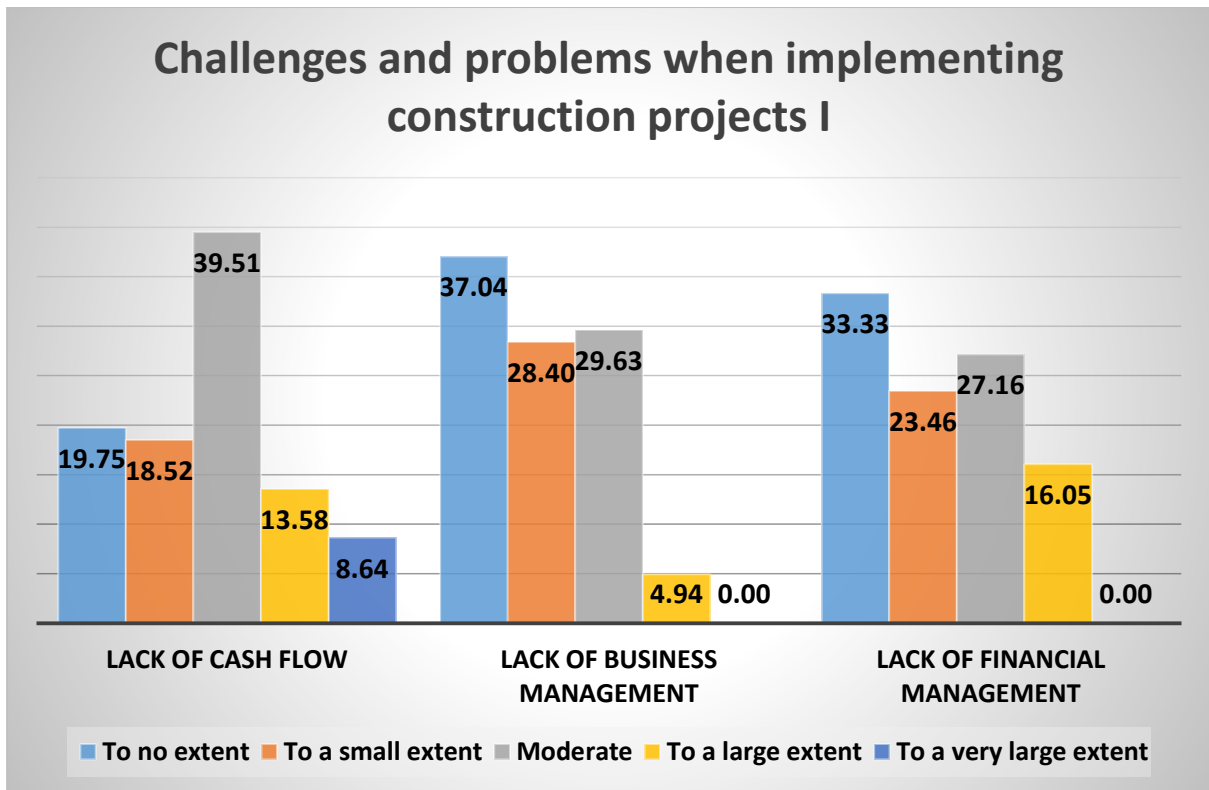


Figure 4.18: Challenges in implementing projects – 1

Figure 4.18 illustrates that the SMEs are facing many challenges while implementing projects. 39.51% of the respondents indicated that they are moderately affected by the cash flow when they implement the projects. Further, 29.63% of the respondents indicate that they lack business management skills, while 27.16% lacks financial management skills.

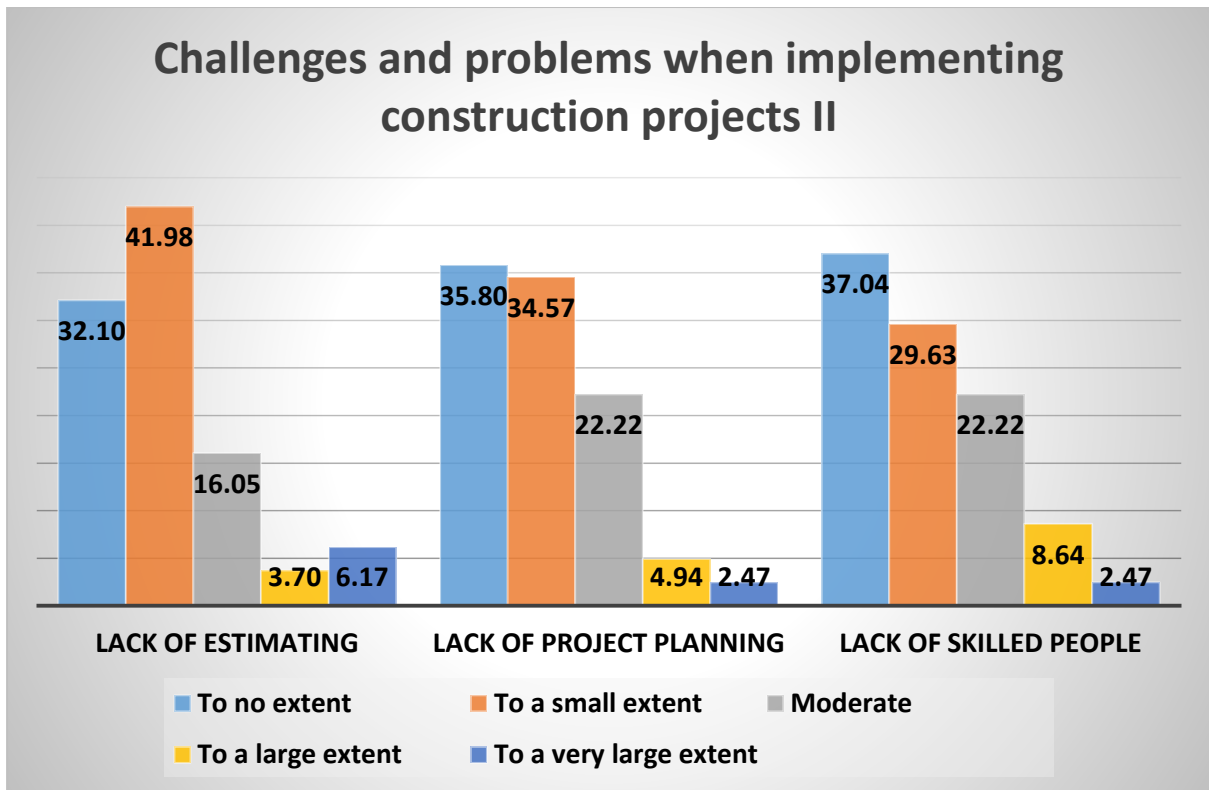


Figure 4.19: Challenges in implementing projects – 2

Moreover, Figure 4.19 shows that 22.22% of the respondents moderately lack skilled people. Also, 34.57% of the respondents lack project planning to a small extent, whereas 41.98% of them lack when it comes to estimating. The respondents indicated that they do have the costing estimate.

4.4. Chi-square tests

Chi-square tests are used to examine the relationship or association between two nominal (i.e. categorical) variables. Variables can be either independent or dependent of each other. The null hypothesis is that there is no association between two variables (the variables are not correlated). The alternative hypothesis is that there is an association between the two variables (variables are correlated). The conclusion is based on the p-value (reported in the Table 4.5), which is compared to a significance level of 0.1 (other options are 0.05 and 0.01). If the p-value is less than 0.1, the conclusion is that there is an association between the two variables in question (the two variables are correlated). If the p-value is greater than 0.1, the conclusion is that

there is no association between the two variables in question (two variables are not correlated).

Table 4.5 on the following page shows a number of variables and significant associations that are highlighted in bold. There is a significant, dependent association that exists between education and lack of business management as indicated by the p-value of 0.006. The relationship between skills and employment is reflective of the general economy. It is assumed that a person with a higher level of skills is likely to succeed than a person with less skills.

Brijlal et al. (2013) indicates that the quality of skill that the owner of the business possesses plays a critical role, as it will assist in overcoming barriers that the business might face in order to survive and achieve sustainable growth. Brijlal et al. (2013) also confirms that the majority of business owners who do not have skills in the business are less likely to run their business successfully.

Period of operation was cross-tabbed with grading and education to determine if there was an association between these variables. From Table 4.6 on page 73, it can be noted that 56.3% of the owners or managers of the SMEs that operated for more than 10 years have a bachelor's degree, and 57.1% of them have matric and operated for between 0 and 3 years.

It is indicated that the 29.8% of the SMEs have been operating for between 4 to 5 years, followed by 26.2%, which represents companies that have been operating for between 0 and 3 years. More than 50% of the companies that have been operating for between 0 and 3 years are still on Grade 2, and 24.1% of the companies that have been operating for between 6 and 10 are still on Grade 2. It shows that the number of contractors can increase, but the growth in terms of the grading is stagnant.

Table 4.5: p-values for selected variables

Variables	Cash flow Problems	Payment period	Work outside the province	Government policies	Lack of business management	Lack of financial management	Lack of project planning	Lack of skilled people
How long (years) has the company been in operation?	0.132	0.026	0.000	0.557	0.002	0.405	0.128	0.168
How many partners in the business?	0.633	0.169	0.038	0.207	0.806	0.635	0.777	0.499
What is the current grading?	0.001	0.327	0.000	0.794	0.004	0.018	0.014	0.016
Does the company participate in the Contractor Development Programme?	0.493	0.115	0.032	0.514	0.232	0.765	0.557	0.233
Did the company receive any funding from government?	0.331	0.069	0.133	0.001	0.977	0.255	0.654	0.006
How many years does the company have experience in construction industry?	0.059	0.011	0.000	0.069	0.155	0.035	0.342	0.003
What is the highest educational qualification?	0.012	0.001	0.001	0.001	0.006	0.437	0.098	0.003

What is the highest educational qualification for management?	0.000	0.000	0.003	0.133	0.014	0.466	0.002	0.035
Does the company have adequate cost and accounting systems?	0.112	0.303	0.041	0.168	0.007	0.106	0.000	0.071
Is the estimating and procurement done properly?	0.504	0.361	0.854	0.557	0.779	0.018	0.001	0.656

4.5. Cross-tabulation

The frequency of two variables at a time is determined using cross-tabulations, also known as two-way frequency tables.

Table 4.6: Tenure*current grading

		Current_grading						Total
		Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7	
Between 0-3 years	Count	16	1	3	0	0	2	22
	% within Current_grading	55.2%	5.9%	50.0%	0.0%	0.0%	14.3%	26.2%
Between 4-5 years	Count	4	12	1	2	5	1	25
	% within Current_grading	13.8%	70.6%	16.7%	50.0%	35.7%	7.1%	29.8%
Between 6-10 years	Count	7	3	2	0	5	2	19
	% within Current_grading	24.1%	17.6%	33.3%	0.0%	35.7%	14.3%	22.6%
More than 10 years	Count	2	1	0	2	4	9	18
	% within Current_grading	6.9%	5.9%	0.0%	50.0%	28.6%	64.3%	21.4%
Total	Count	29	17	6	4	14	14	84
	% within Current_grading	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.7: Education

		Education					Total
		Primary school & lower	Matric	Post-matric certificate	Diploma	Bachelor's degree	
Between 0-3 years	Count	1	16	4	1	0	22
	% within Education	16.7%	57.1%	25.0%	5.6%	0.0%	26.2%
Between 4-5 years	Count	1	6	4	9	5	25
	% within Education	16.7%	21.4%	25.0%	50.0%	31.3%	29.8%
Between 6-10 years	Count	2	6	5	4	2	19
	% within Education	33.3%	21.4%	31.3%	22.2%	12.5%	22.6%
More than 10 years	Count	2	0	3	4	9	18
	% within Education	33.3%	0.0%	18.8%	22.2%	56.3%	21.4%
Total	Count	6	28	16	18	16	84
	% within Education	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.7 demonstrates that companies that have been operating for longer are likely to employ more skilled workers. Also, 56.3% of workers with a bachelor’s degree are employed in companies that have been operating for more than 10 years, while 31.3% of them are employed in companies that have been operating for between 4 and 5 years.

How a company employs will depend on the management of the company and the running of the company. The company can operate for a few years but still manage to employ skilled labour with qualifications or operate longer and not be able to employ skilled and qualified workers. The latter point is supported by the companies that have been operating for between for 6 and 10 years and that have only employed 12.5% of people with a bachelor’s degree.

Table 4.8: Funding*cash flow problems cross-tabulation

			Cash flow problems				Total
			Never	Rarely	Often	Always	
Funding	Yes	Count	0	0	3	0	3
		% within Cash flow problems	0.0%	0.0%	7.5%	0.0%	3.6%
	No	Count	10	23	37	11	81
		% within Cash flow problems	100.0%	100.0%	92.5%	100.0%	96.4%
Total		Count	10	23	40	11	84
		% within Cash flow problems	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.8 reveals that 96.4% of the respondents never applied for funding, and only 3.6% applied for the funding. Additionally, 92.5% of the respondents that are not applying for funding often have cash flow problems. Moreover, 7.5% of the respondents that received funding are often confronted with cash flow problems.

4.6. Responses from government entities

4.6.1. Department of Economic Development, Small Business, Tourism and Environmental Affairs (DESTEA)

The respondent from the DESTEA indicated that they have a program that is assisting SMMEs by providing assistance to micro-enterprise in the form of grants. The assistance or support is not provided in monetary terms but through the purchasing of essential equipment needed to keep the micro-enterprise viable.

The above-mentioned programme is targeting the micro-enterprise sector, as well as cooperatives. The program is still faced with the challenges as it just been implemented. The department assist all sectors but there is no monitoring tool in place to ensure that the companies are sustainable after receiving assistance.

4.6.2. Small Enterprise Development Agency (SEDA)

The respondent indicated that their policies are aligned with the Strategy for the Development and Promotion of Small Business. The Free State province has an annual training target of 1 500 entrepreneurs per annum.

SEDA do not have the programme that is aligned to the contractors such as Contractor Development Programme. Their training are not tailor made for one sector as they want to address all the SMEs.

The government should ensure that big construction companies sub contract smaller companies and this can be done by ensuring that no fronting takes place, access to funding from government institutions, transfer of skills.

The respondent indicated that lack of financial management skills, inadequate skills and knowledge, costing and pricing are affecting the SMEs to grow. Lack of understanding business environment in which they operating.

They do help companies develop, they empower the companies with necessary skills to operate business, like costing and pricing, marketing, operational requirements, and compliance with the relevant legislations in that specific industry

SME'S can help solve the problem of unemployment, they are in a better position to employ people whilst they are growing, expanding and identifying new opportunities in terms of the market and in the process more people can be employed

Challenges faced with training of SMEs:

- Occasionally invitees do not attend training even after confirming availability to attend training.
- Level of education is not matching training provided. Trainees are either lacking basic education to understand content or the training content being too basic for other trainees) this includes understanding of language of instruction. The modules are in English and the presentation is done mostly in English.
- There is no evidence of trainees starting businesses or improving their businesses after attending training. There is also no follow-up from Seda to monitor progress and to encourage implementation of the knowledge gained.
- Assessment tests are not always conducted to evaluate understanding of the training content remains unknown.
- Unsuitable venues and other facilities that are not conducive for training purposes especially in the townships are often the only options available and are used for training purposes. Poor lighting of the venue; lack of functional ablution facilities; lack of enough and suitable desks and chairs.
- Different age groups being trained in the same classrooms. Training is delayed because the elderly people tend to absorb the training content at a slower rate than the younger people.

4.6.3. Industrial Development Corporation (IDC)

The respondent from IDC indicated their policies are aligned with the Strategy for the Development and Promotion of Small Business. They assist SME with funding almost all the sectors involved in the manufacturing and value-adding activities, except for construction and transport.

The respondent indicated that their process of processing the application can take 2 – 6 months due to the verification that is supposed to be done on the businesses. IDC

has the post investment department that is doing the monitoring after they have funded the project to ensure that the companies are sustainable.

Own contribution was identified as one of the challenges by IDC as it is about 40% and more often SMEs do not have such contributions.

4.6.4. Small Enterprise Finance Agency (SEFA)

The respondent indicated that they assist SME with funding. They have assisted 67 companies in the past two years with the funding. The programme do assist with the developing of companies.

The challenges that were identified by respondent are as follows:

- Lack of coordination between government entities
- Long process of filling application and documents required
- Marketing of the available services is considered to be poor because the information is accessible on the Internet and pamphlets provided at the office.

4.6.5. Construction Industry Development Board (CIDB)

The respondent indicated that their policies are aligned with the Strategy for the Development and Promotion of Small Business. CIDB assist the contractors by training in order to improve their gradings. They facilitate training, contractor development implementation and funding through partnerships with industry stakeholders.

The respondent indicated that there is a need for financial management, skills training and regulations such as Contract Law is required in order to improve the construction sector.

The respondent also identified monitoring as a challenge as it is not done after assisting the contractors due to lack of staff and no proper monitoring tool.

The SMEs can assist government in solving to reduce the unemployment.

4.6.6. Department of Public Works

The Department of Public Works is the department that has a tailor made program in developing the SMEs in the construction sector. The respondent from Department of Public Works indicated that they have 100 companies that are on the Contractor Development Programme.

Contractors in the development programme are trained to a higher CIDB level where they will be able to sustain their business through sourcing and marketing for job opportunities. The program assist contractors as they mentored from Grade 3 (General Building) to Grade 7.

The SMEs will be able to create more job when they can be allocated long terms jobs with sufficient and sustainable funding when required.

Government should rather provide projects for contractors that are going through theoretical training and job opportunities that are aligned with mentorship for sustainable development.

The respondent indicated the following as the challenges they meet during the implementation of the programme:

- Contractors are not committee in the program as they send junior officials to the meeting.
- Attitude of some of the contractors towards the mentors.

4.7. Conclusion

The findings of this study were discussed in this chapter in order to determine that the objectives of the study were achieved. The results indicate that the majority (34.5%) of the SMEs in the construction sector are on a Grade 2 as per CIDB grading and 59.5% of them are in the field of general building.

The high percentage of 47.62% of SMEs that have cash problems support the literature study that indicated that SMEs are still facing challenges that are affecting their growth. Cash flow affects the running of the business. As the SMEs are not able to pay their creditors, eventually, they are inevitably liquidated.

The delay in receiving payment from clients such as government was also highlighted as affecting the company negatively because they cannot be able to complete their projects and pay their labourers. The government does not stick to its policy of 30-day payment from date of invoice.

Lack of business management is also affecting the SMEs in construction, as their owners and managers cannot run their businesses successfully. The SMEs does employ skilled workers. However, even though the sector employs more unskilled workers, there is still a need for project managers or engineers.

The construction sector is showing growth, as the government is investing largely in capital expenditure. However, the growth of individual companies in terms of moving to a higher grade is very little.

The other challenges faced by the SMEs include awareness, as the SME are not aware of the programmes that are driven by government. The results have shown that government intervention is limited. The final chapter will consider the conclusions and recommendations of the study.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The background that motivated this study was the rate of high failure rate of SMEs despite the fact that government is assisting. The purpose of the study was to determine the role of government in ensuring that the SMEs become sustainable in the construction industry in the Free State. The primary objective of this study was to determine the role of government in developing sustainable SMEs in the construction sector. In achieving the objectives, a literature review was conducted in understanding the SME sector in general in South Africa, the contribution by SMEs in the construction sector, the role that SMEs are playing in assisting to reduce unemployment, and the challenges that are affecting the growth of SMEs.

The research was conducted in order to obtain primary data to determine the role of government and factors that are affecting the growth and high failure rate of SMEs in the construction industry. Secondary objectives also determined the impact of employment where companies are not growing to higher gradings.

The analysis of results that were obtained through questionnaires that were sent to owners and managers in the construction industry was discussed in the penultimate chapter. This chapter presents the conclusions of the field study that is guided by the study objectives and findings. The recommendations are based on the results of the study. The significance and limitations of the study will also be discussed in detail.

5.2. Summary of the theoretical findings

The findings

In order to conduct the investigation of the problem statement of main research topic and to answer the objectives they were as follows:

Objectives:

- To determine factors that are affecting the growth of SMEs in the Free State in the construction industry;

- To assess programmes in place to support the small and medium contractors in the Free State;
- To determine the interventions that are necessary in order to address challenges that are affecting the growth of SMEs; and
- To investigate strategies that can be employed by small and medium contractors in countering challenges and increase employment in this sector.

Based on the first objective of the study “*to determine factors that are affecting the growth of SMEs in the Free State in the construction industry*” whereby: 48.81% of the respondent indicated that it takes more than a month to receive money from their clients after issuing invoices; 47.62% indicated that have cash flow problems; low level of education as 33.33% of responded have matric only; 70.6% have been in operation for more than 4 years but they are still in Grade 3 and 96% of respondents never receive the funding from government.

The second objective “*to assess programmes in place to support the small and medium contractors in the Free State*”. The study revealed there are Contractor Development Programmes that available in the Province but 64% of the respondents are not aware about the programmes that available as they did not participate in those programmes. The respondents from government indicated that they do not have monitoring tool in place to ensure that the contractor

The third objective “*to determine the interventions that are necessary in order to address challenges that are affecting the growth of SMEs*”. It has been revealed in the study that there is a lot of intervention that is required from Public Sector and Private Sector.

The intervention by Public Sector

- Develop guidelines to direct private sector interventions to high impact initiatives
- Consolidation of various pockets of enterprise development funds into one port to be jointly managed by the department

- Develop programmes to encourage the entrepreneurial culture from basic education level
- To develop monitoring tool that will assist government entities to monitor after providing assistance to ensure sustainability

The intervention by Private sector

- Raise awareness within Supply Chain Managers
- Expand Enterprise, Supplier Development Programmes and incubation to build capacity of SMEs
- Include them in database as preferred suppliers and provide them with procurement opportunities
- Increase access to knowledge/information on existing procurement opportunities

The last objective “*to investigate strategies that can be employed by small and medium contractors in countering challenges and increase employment in this sector*”. The study revealed that the contractors can overcome the challenges by

- Taking part in the skills development programmes
- To request government to intervene in expediting the payments
- To market their companies and be more competitive

5.3. Research conclusions

The primary objective of the study was to determine the role of government in developing sustainable SMEs in the construction sector as indicated in the introduction. It has been that the role of government in developing the SMEs in the construction is minimal as the failing rate is still high which is supported by 64% of the respondents that are not participating in the programmes offered by government.

Government institutions that have been established to assist SMEs in terms of information, training and financing are not visible to ensure that the majority of the

SMEs that are operating in the province are aware of them and where their offices are situated. This is limiting the SMEs in obtaining information and is affecting them negatively.

Cash flow was one of the greatest challenges that were indicated by the majority. It is the one that can make or break the company and that can lead to liquidation or not being able to complete projects.

The following challenges are faced by SMEs and are affecting their growth:

- lack of business management skills
- access to funding from government institutions
- delays in receiving payment from clients such as government departments
- lack of collateral when applying for finance
- policymakers are failing to distinguish the needs of SMEs in different sectors when they design programmes
- failure to grow to higher gradings
- lack of access to technology
- inability to pay high levels of skilled employees

5.4. Other findings

The SMEs are not aware of the opportunities that are provided by government institutions and the private sector, as they are still failing. One of the challenges currently facing South Africa is the shortage of skilled construction workers and lack of education. Lack of education and experience are impacting negatively on the success of businesses in the construction industry, and they sometimes lead to the failure of more businesses.

Projects are not completed because they are given to companies that do not have experience in the construction due to cash flow problems. Delays in receiving payments from clients also lead to incomplete projects.

5.5. Recommendations

The research findings indicated that there is a need for the South African construction industry to address the challenges that are faced by small and medium contractors.

This section indicates the recommendation that will help SMEs:

- Government should make more funds available in order to roll out the programmes of ECDP to both public and private institutions where the private institutions can be incentivised to become more involved; incentives can be in the form of tax rebates or preferential status on the evaluation of tenders.
- The CIDB and government should develop a programme of screening people who want to be construction contractors as there is no system currently in place and any person can just register.
- The timetable for development and mentoring programmes should be developed for the financial year and advertised early so that all the small and medium contractors can have information in advance, as they are not aware of the programmes that are available for their development.
- Government should put strict rules on companies, departments and municipalities that are not paying the contractors within the prescribed period of 30 days.
- Performance and skills should be some of the criteria for registering on the database of the CIDB, as they will improve in enabling contractors to grow in the construction market.
- The training should also focus on women to assist them in improving their low level of education, as their level of involvement has been relatively low. The training should be tailor-made for each industry in addressing the specific challenges that are facing the industry.
- Thus, the EPWP must be planned to address the issue of unemployment in a holistic manner. To achieve this, both government, training institutions and the

private sector must work together in the skill revolution for the betterment of the country.

- The companies in the construction sector must develop an intensive marketing strategy in order to target the private sector also and not only government jobs.
- The private and public sectors should set specific goals, where each organisation establishes clear goals on the percentage they will spend per annum on small and medium contractors. The goals should be in the SMART principle, where they are specific, measurable, attainable, realistic and time-bound. The focus should be shifted from the old approach, where there is a huge database of contractors with little work opportunities forthcoming to any single one and where the smaller group could access opportunities. The opportunities will allow the contractors to progress from sub-contracting within a certain period to being main contractors, and this can be done on a rotational basis to give all the contractors opportunities.
- The intervention of training and development of small and medium contractors by government is required, as it will assist them in improving their management skills and enable them to run their businesses successfully and sustainably.

5.6. Significance of the study

The study has revealed that despite the government's role, SMEs are still facing challenges that are preventing them from growing. The companies indicated that they did not receive assistance from government except the workshops on training, which are sometimes not helpful, as there are no follow-ups. SEDA provides training that is not categorised according to the sectors in order to address specific needs but offers only general training, which proves to be an impediment because sectors have different challenges. The training is only provided for two days, and there is no follow-up after that to determine if there was any implementation.

5.7. Limitations of the study

The study was subject to limitations that are as follows:

- The study population was SMEs in the construction sector.
- The study was concentrated on the construction sector in the Free State.
- The study was only done from Grading 2 to 7 as per CIDB gradings.
- The reasons for the companies that failed, expired and suspended were not determined.

The above-mentioned limitations motivate that the study could not be generalised.

5.8. Further research

The research can be investigated further in the following areas:

- the opportunity in researching the reasons for the failing businesses
- the performance of the companies where the owners have relevant qualifications in construction as compared to owners without qualifications
- to determine if there is a correlation between qualified business owners and the success of the business
- to determine if gender has an impact on business growth
- to find out the reasons and problems that are causing clients or government departments to take long in paying contractors

5.9. Conclusion

The conclusions are made from the primary data results as presented in Chapter 4 about the role of government. It is concluded that SMEs are still facing challenges that need attention from government. The recommendations that will assist in building the SMEs to increase employment were provided. The other challenges that are still facing the SMEs were mentioned, and they can be researched further in order to assist government in improving the services that it provides. This study has clearly highlighted the role of government in developing sustainable SMEs in the construction sector in the Free State province. Therefore, the study has made a contribution to the existing body of research relating to the research area of this study.

REFERENCES

- Abor, J. & Quartey, P. 2010. Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39(6):218-228. [Online]. Available at: <http://www.eurojournals.com/finance.htm> (Accessed: 25 May 2014).
- Adcorp. 2012. New Business Start-ups Slump to Alltime Low. [Online]. Available: www.adcorp.co.za/News/Pages/Newsbusinessstart-upsslumptoall-timelow.aspx (Accessed: 22 March 2014).
- Adendorff, C., Appels, G. & Botha, B. 2011. Strategic management: An Eastern Cape construction SME case study. *ActaStructilia*, 18(2), 40 – 63.
- Ahiawodzi, A.K. & Adade, T.C. 2012. Access to credit and growth of small and medium scale enterprises in the Ho Municipality of Ghana. *British Journal of Economics, Finance and Management Sciences*, 6(2):34-51.
- Aigbavboa, C.O. & Thwala, W.D. 2014. Challenges facing Black Owned Small and Medium Construction Companies: A Case Study of Nelspruit – Mbombela Municipality, South Africa. *Journal of Economics and Behavioural Studies*. 6(10): 771 – 778
- Amra, R., Hlatshwayo, A. & McMillan, L. 2013. SMME Employment in South Africa.
- Arogundade, B.B. 2011. Entrepreneurship Education: An Imerative for Sustainable Development in Nigeria. *Journal of Emerging Trends in Educational Research and Policy Studies (JETERAPS)*. Vol. 2 No.1: 26-29.
- Blumberg, B., Cooper, D.R. & Schindler, P.S. 2008. *Business Research Methods*. Second European edition. Maidenhead, Berkshire: McGraw-Hill.

Brijlal, P., Naicker, V. & Peters, R. 2013. Education and SMME Business Growth: A Gender Perspective from South Africa. *International Business & Economic Research Journal*, 12(8).

Bryman, A. 2012. *Social research methods*. 4th edition. Oxford University Press.

Bureau of Economic Research (BER). (2011). *Building and Construction: First Quarter*. Stellenbosch, South Africa: BER.

Chimucheka, T. 2014. Entrepreneurship Education in South Africa. *Mediterranean Journal of Social Sciences*, 5(2):403-416.

CIDB. 2011. *The CIDB Construction Industry Indicators Summary Results*. Pretoria, South Africa: CIDB.

CIDB. 2015. National Register of Contractors. [Online]. Available at: <http://www.cidb.org.za/Reports/public/default.aspx> (Accessed: 15 May, 2015).

Creswell, J.W. 2009. *Research Design. Qualitative, Quantitative and Mixed Methods Approaches*. 3rd edition. London: Sage Publications.

Cockayne, R. 2011a. *Business Report-Construction Costs Threaten Industry*. [Online]. Available at: <http://www.iol.co.za/business/business-news/constructioncosts-threaten-industry-1.1036062> (Accessed: 15 May 2014).

Cockayne, R. 2011b. *Business Report-Cement Price to Rise*. Available at: <http://www.iol.co.za/business/business-news/cement-price-to-rise-1.1080601> (Accessed: 30 June 2014).

Denscombe, M. 2010. *The Good Research Guide for small scale social research projects*. 4th edition. Open University Press McGraw-Hill

Department of Trade and Industry (DTI). 2008. Annual Review of Small Business in South Africa 2005-2007. Pretoria: Department of Trade and Industry.

Dess, G.G., Lumpkin G.T. & Eisner, A.B. 2010. Strategic Management: Creating Competitive Advantages. 5th edition. New York: McGraw-Hill Irwin.

Dukwana, M. 2011. Budget Speech: Department of Environment, Tourism and Economic Affairs, Free State Provincial Government. [Online]. Available at: <http://www.info.gov.za/speech/DynamicAction?Pageid=461&sid=12346&tid=15654> (Accessed: 25 May 2014).

Eljon, J.A. & Mbohwa, C. 2015. Financial challenges faced by SMMEs in Gauteng South Africa. International Association for Management of Technology.

Fatoki, O. & Garwe, D. 2010. Obstacles to the growth of new SMEs in South Africa: A principal Component analysis approach. *African Journal of Business Management*, 4(5):729-738.

Fatoki, O.O. & Smit, A.V.A. 2011. Constraints to credit access by new SMEs in South Africa: A supply-side analysis. *African Journal of Business Management (AJBM)*, 5(4):1413-1425.

FinScope. 2010. Small business survey 2010. Finscope, South Africa.

Fongwa, S. 2011. "An examination of the challenges in developing the private sector in South Africa: Case study of the Free State business environment", Research Report for Light Africa Investment and Trading and the Institute for Democracy in South Africa (IDASA) by the Centre for Development Support, Bloemfontein, University of the Free State.

Free State Development Corporation. 2015. [Online]. Available at: <http://www.fdc.co.za/loan-products#article-id-57> (Accessed: 15 August, 2015).

Free State Provincial Economic Review & Outlook. 2014. Department of Treasury. Free State Province.

GEM, 2010. Global Entrepreneurship Monitor South Africa.

GEM. 2014. [Online]. Available at: <http://www.gemconsortium.org>. (Accessed: 15 September, 2015).

Herrington, M., Kew, J. & Kew, P. 2010. Global Entrepreneurship Monitor, Graduate School of Business, University of Cape Town, Cape Town. [Online]. Available at: <http://www.gemconsortium.com> (Accessed: 15 March, 2015).

Industrial Development Corporation. 2015. [Online]. Available at: <http://www.idc.co.za/sbu-overview/industrial-infrastructure.html> (Accessed: 15 March, 2015).

Louw, L. & Venter, P. 2015. Strategic Management, Developing Sustainability in Southern Africa. 3rd edition. Oxford University Press. Cape Town. South Africa.

Mago, S. & Toro, B. 2013. South African government's support to small, medium, micro-enterprise (SMMEs): The case of King William's town area. *J Economics*, 4(1):19-28.

Mahembe, E. 2011. Literature Review on Small and Medium Enterprises. Access to Credit and Support in South Africa. Underhill Corporate Solutions. National Credit Regulator (NCR): Pretoria, South Africa.

Marti, L.O. 2010. Taxpayer's attitudes and tax compliance behaviour in Kenya. *African Journal of Business & Management*. 1. 112 – 122.

Mbande, C. 2010. Overcoming construction constraints through infrastructure deliver. *Proceedings: The Association of Schools of Construction of Southern Africa (ASOCSA), Fifth Built Environment Conference*. Durban, South Africa, 18-20 July.

Milford, R. 2010. Public capacity payment and procurement issues should be a challenge to the operations of contractors in South Africa. *Paper presented at the Fifth Built Environment Conference of the Association of Schools of Construction of Southern Africa*. Durban, South Africa, 18-20 July.

Mohai, S. 2011. Budget Speech, Department of Finance, Free State Government, Bloemfontein.

National Empowerment Fund. 2015. [Online]. Available: <http://www.nefcorp.co.za/AboutbrtheNEF/WhatSectorsdoestheNEFFund.aspx> (Accessed: 11 May 2015).

National Planning Commission. 2011. National Development Plan: Vision for 2030. National Planning Commission.

Njiro, E., Mazwai, T. & B. Urban. 2010. A situational analysis of small businesses and enterprises in the townships of the Gauteng Province of South Africa. First International Conference, Centre for Small Business Development, Soweto, 27-28 January 2010.

Njoroge, C.W & Gathungu, J.M. 2013. The effect of entrepreneurial education and training on development of small and medium size enterprises in Githunguri – Kenya. *International Journal of Education and Research*, 1(8):1 – 2.

OECD. 2015. *OECD Economic Surveys: South Africa*. Paris:Organisation for Economic Co-operation and Development.

Ogundele, O.J.K, Akimgbade, W.A. & Akinlabi, H.B. 2012. Entrepreneurship training and education as strategic tools for poverty alleviation in Nigeria. *American International Journal of Contemporary Research*. 2(1): 148 -149

Rankhumise, E.M. & Rugimbana, R.O. 2010. Micro-enterprise owner perspectives on performance: Insights from selected municipalities in Mpumalanga Province, South Africa. *African Journal of Business Management*, 4(16):3500-3507.

Salkind, N.J. 2012. *Exploring research*. 8th edition. Pearson.

Small Business Programme (SBP). 2011. *Priming the Soil: Small Business in South Africa*. Johannesburg, SBP.

South Africa. 1996. National Small Business Act, No. 102 of 1996.

South Africa. 2003. *National Small Business Amendment Act*. Government Gazette. [Online]. Available: <http://www.info.gov.za/gazette/acts/2003/a26-03/pdf> (Accessed: 11 August 2015).

State Of National Address. 2009. http://www.parliament.gov.za/live/content.php?Item_ID=7001 (Accessed: 15 March, 2015).

Statistics South Africa (Stats SA). 2014. Quarterly Labor Force Survey: Quarter 4, 2014.

Thwala, W.D. & Mofokeng, G. 2012. *An Exploratory Study of Problems Facing Small and Medium Sized Contractors in the Free State of South Africa in Business Dynamics in the 21st Century*, (Editors) Chee-HeongQuah and Ong Lin Dar: Slavka; INTEC Publishers.

Timm, S. 2011. *How South Africa can Boost Support to Small Businesses: Lessons from Brazil and India*. Trade and Industrial Policy Strategies (TIPS).

Zikmund, W.G., Babin, B.J., Carr, J.C. & Griffin, M. 2012. *Business research methods*. 9th edition. South-Western Cengage Learning. USA.

Zulu, L. 2015. Budget Vote, Department of Small Business Development, South African Government, Cape Town. <http://www.gov.za/speeches/minister-lindiwe-small-business-development-dept-budget-vote-201516> (Accessed: 15 October, 2015).

ANNEXURE 1

PART A: BACKGROUND OF THE COMPANY

This section of the questionnaire focuses on the background of the company.

1. Gender		
Male	1	
Female	2	

2. How long (years) has the company been in operation?		
Between 0-3 years	1	
Between 4-5 years	2	
Between 6-10 years	3	
More than 10 years	4	

3. How many partners are in the business?		
Between 1-5	1	
Between 6-10	2	
More than 10	3	

4. In what category is your business registered?		
Mechanical engineering – ME	1	
General building – GB	2	
Electrical engineering works – building – EB	3	

Civil engineering – CE	4	
Landscaping, irrigation & horticultural works – SH	5	
Steel security fencing or precast concrete – SQ	6	
Electrical engineering works – infrastructure – EP	7	
Fire prevention & protection systems - SF	8	

5. What other type of work does your company do?		
General buildings	1	
Civil works	2	
Road & earthworks	3	
Other (specify)	4	

6. What is your current grading with the Contractor Industry Development Board (CIDB)?		
Grade 2	1	
Grade 3	2	
Grade 4	3	
Grade 5	4	
Grade 6	5	
Grade 7	6	

7. How many employees are currently employed by your company?

8. How many employees in your company are registered under the following categories?		
Construction project manager	1	
Construction manager	2	
Quantity surveyor	3	
Architect	4	
Civil engineer	5	

9. In your opinion, how can the construction industry can solve unemployment?

10. Does your company participate in the Contractor Development Programme provided by Public Works?		
Yes	1	
No	2	

If yes, what are the benefits of those programmes?

If no, why?

**11. Are there any problems that were identified during those programmes?
(Please mention in detail the specific problem)**

12. Did the programme improve in developing the company?

13. Which courses have you attended in the last two years?		
Construction Management	1	
Business Management	2	
Project Planning	3	
Tendering	4	
Finance Management	5	
Health and Safety	6	
Risk Management	7	
Other, please specify	8	

14. Did your company receive any funding from government?		
Yes	1	
No	2	

If yes, describe in detail

Source of funding	Year	Amount	How did you spend the money?

If no, why not?

PART B: COMPANY OPERATIONS

This section of the questionnaire focuses on the operations of the company.

15. How many years does the company have experience in the construction industry?		
Less than 3 years	1	
Between 3-5 years	2	
Between 6-10 years	3	
Between 11-15 years	4	
More than 15 years	5	

16. What is your highest educational qualification?		
No Education	1	
Primary School	2	
Grade 12 (Matric)	3	
Post-matric certificate	4	
Diploma	5	
Bachelor's Degree	6	
Other, please specify	7	

17. What is the highest educational qualification for your management?		
No Education	1	
Primary School	2	
Grade 12 (Matric)	3	
Post-matric certificate	4	
Diploma	5	
Bachelor's Degree	6	
Other, please specify	7	

18. Does your company have adequate cost and accounting systems in place?		
Yes	1	
No	2	

If no, what system are you using for costing?

19. Is the estimating and procurement done properly?		
Yes	1	
No	2	

If no, how is the procurement done?

20. How long does it take to receive payment from the client?		
Less than 7 days	1	
Between 7 and 14 days	2	
More than 14 days but less than 21 days	3	
1 month	4	
More than 1 month	5	

21. How often does the company have cash flow problems?		
Never	1	
Rarely	2	
Often	3	
Always	4	

If yes, please specify reasons for cash flow problems

22. Does your company get work in other provinces outside the Free State?		
Never	1	
Rarely	2	
Often	3	
Always	4	

If yes, which provinces

23. How do government policies, regulations and legislation affect your company?		
Positively	1	
Negatively	2	

Please specify

24. To what extent do you encounter each of the following challenges and problems when implementing construction projects? Please indicate your answer using the 5-point scale:

	To no extent		To small extent		Moderate		To large extent		To very large extent	
Lack of cash flow	1		2		3		4		5	
Lack of business management	1		2		3		4		5	
Lack of financial management	1		2		3		4		5	
Lack of estimating	1		2		3		4		5	
Lack of project planning	1		2		3		4		5	
Lack of skilled people	1		2		3		4		5	

25. List the main challenges and problems that you are facing in running the company.

26. What can government do in order to promote greater involvement in the South African construction sector?

Thank you for your assistance in completing this questionnaire!

ANNEXURE 2

The Questionnaire will only be used for this research purpose only.

1. NAME OF THE ENTITY:		
FDC	1	
DESTEA	2	
IDC	3	
NEF	4	
SEFA	5	
CIDB	6	
PUBLIC WORKS	7	

2. RESPONDENT'S POSITION:		
CEO	1	
CFO	2	
MANAGER	3	

3. Are your policies aligned with the Strategy for the Development and Promotion of Small Business?		
Yes	1	
No	2	

4. How many companies participate in the Contractor Development Programme?		
1 – 100	1	
101 – 200	2	
201 – 300	3	
301 – 400	4	
401 – 500	5	
More than 500	6	

5. How do you assist companies in improving their CIDB gradings?		
Training	1	
Mentoring	2	
Funding	3	

6. What can government do in order to promote greater involvement in the South African Construction sector?

7. What kind of assistance do you offer to SME?		
Training	1	
Funding	2	
Mentoring	3	

Other, please specify	4	
-----------------------	---	--

Other, please specify

8. How many companies have you manage to assist in the past two years?		
1-100	1	
101 – 200	2	
201 – 300	3	
301 – 400	4	
401 – 500	5	
More than 500	6	

9. Are there any problems that were identified during those programmes?

(Please mention in detail the specific problem)

10. Do you do the monitoring after assisting SME to ensure sustainability?		
Yes	1	
No	2	

If No, why?

11. Do the program improve in developing the companies?

12. Are you assisting all the sectors?		
Yes	1	
No	2	

If No, which sectors are you assisting?

13. In your opinion, can SME solve unemployment?

Thank you for assistance in completing this questionnaire