

**The Sustainability of  
Small, Medium and Micro Enterprises  
within the  
Nelson Mandela Bay Metropole**

by

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## ABSTRACT

This research evaluates the sustainability of Small, Medium and Micro Enterprises (SMMEs) within the Nelson Mandela Bay Metropole. It seeks to identify whether the current government initiatives offered by the SEDA, DTI and CIDB are effectively addressing the major issues faced by SMMEs in order for them to remain sustainable. It seeks clarity on whether large construction companies should also take responsibility for keeping SMMEs sustainable.

The challenges faced by SMMEs include limited financial resources, poor access to markets, little infrastructure, complex labour laws, rampant crime, shortage of skills and bureaucratic systems (SEDA 2016). Government has made concerted efforts to address these challenges so that affirmative action and Broad Based Black Economic Empowerment (B-BBEE) objectives are met. This led to the establishment of the SEDA, DTI and CIDB. Despite the above governments efforts, SMMEs are still failing, and the factors that contribute to this need to be identified. Not being sustainable restricts economic growth and further widens the gap between the haves and have-nots.


The research methodology included interviews with contractors, consultants and SMME employees. Data collected were analysed to establish patterns that emerged, and triangulation was employed to consolidate the analysis. The process was conducted against the backdrop of a literature review that explored definitions, international reviews of SMMEs, the experience of SMMEs in developing and developed nations and an evaluation of government support to SMMEs. The research confirmed that SMME employees were generally inexperienced, had a poor understanding of the construction industry and endured huge financial constraints. Appointed Professional Consultants did not include them in project planning, while large appointed Construction companies needed to acknowledge the vital role that they played in the overall state economy. Finally, recommendations are made to develop and sustain SMMEs so that they take their rightful place in the Nelson Mandela Bay Metropole.

## DECLARATION

I, *Giovanni Sinclair Taft, s20618182*, hereby declare that the treatise titled: *The non-sustainability of small medium and micro enterprises within the Nelson Mandela Bay Metropole* submitted for the degree *Master of Science in Built Environment (Project Management)* is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to any other university or for another qualification.

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Chapter 1	1
THE RESEARCH PROBLEM AND ITS SETTING	1
1.1 Introduction .....	1
1.2 The statement of the problem .....	2
1.3 Aim and objectives of the study .....	3
1.4 Delimitation of the study .....	3
1.5 Assumptions .....	4
1.6 Importance of the study .....	4
1.7 The benefits of this study .....	6
1.8 Research gaps identified .....	6
1.9 Proposed chapter outline .....	7
1.10 Conclusion .....	7
Chapter 2	8
REVIEW OF LITERATURE	8
2.1 Introduction .....	8
2.2 Factors contributing to the failure of SMMEs .....	9
2.2.1 Financial Mismanagement .....	10
2.2.2 Lack of Administrative and Management Knowledge .....	11
2.2.3 The Context: Developing and Developed Countries .....	11
2.2.4 The Impact of Government Policies .....	14
2.3 Factors contributing to the sustainability of SMMEs .....	15
2.3.1 A Supportive Business Environment .....	16
2.3.2 Accessible Training Programmes .....	16
2.3.3 Government Support .....	18
2.3.4 Competent Administration and Management .....	19
2.3.5 Level of Social Development .....	19
2.3.6 Globalisation .....	20
2.3.7 Technological Advancements .....	20
2.3.8 Procurement .....	21
2.3.9 Monitoring the SMME .....	22

2.4	Factors that Sustain SMMEs in Government Funded Projects .....	23
2.4.1	Government Initiatives.....	23
2.4.2	Entrepreneurship as a Solution.....	24
2.4.3	Understanding the Construction Industry .....	25
2.4.4	Funding Viability.....	25
2.4.5	Legislation .....	25
2.4.6	Sub-contracting.....	26
2.4.7	Private Sector Conformance .....	27
2.5	Conclusion.....	27
Chapter 3		29
RESEARCH METHODOLOGY		29
3.1	Introduction.....	29
3.2	Research Paradigms .....	29
3.2.1	Quantitative Research.....	30
3.2.2	Qualitative Research .....	30
3.3	Research Methodologies .....	30
3.3.1	Case Study Research .....	30
3.3.2	Phenomenology .....	31
3.3.3	Research Methodologies Applied in this Study.....	31
3.3.3.1	SMMEs within the Mandela Bay Development Agency	33
3.4	The Credibility of Case Studies.....	38
3.5	The Data Collection Process .....	40
3.6	Data Analysis.....	44
3.7	Reliability and Validity of Research Process.....	46
3.8	Delimitation of the Study.....	48
3.9	Ethical Considerations .....	48
3.10	Conclusion .....	49
Chapter 4		51
PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS		51
4.1	Introduction.....	51

4.2 The Focus of the Data Collection Process.....	51
4.2.1 Selection of Participants for the Interviews.....	52
4.2.2 The Interview Process and Recording of Data .....	53
4.3 Identification of Themes that Emerged from the Data Collection .....	54
•    The effects of quality on non-sustainability of SMMEs.....	55
4.4 Analysis and Results .....	56
4.4.1 Factors that affect the sustainability of SMMEs .....	56
4.4.1.1 Lack of prior construction knowledge	56
4.4.1.2 Inefficient construction planning methods	60
4.4.1.3 Need for SMME inclusion during design of project	61
4.4.1.4 The relationship between sustainability, relevant knowledge and past experience	63
4.4.1.5 The effects of SMMEs being unsustainable	63
4.4.2 Effects of SMME Skills on Quality of Work.....	64
4.4.2.1 SMME quality of work	64
4.4.2.2 SMME quality of labour	65
4.4.2.3 The effects of quality on non-sustainability of SMMEs	67
4.4.3 SMME Time Management .....	68
4.4.3.1 SMMEs do not have knowledge of time management	69
4.4.3.2 The effects of poor time management by SMMEs	71
4.4.4 SMME Budget Management .....	73
4.4.4.1 SMMEs are unable to manage cost.	73
4.4.4.2 Contractor assistance in cost management for SMMEs	75
4.4.4.3 The effects of SMME inability to manage cost	77
4.4.5 SMME Progress after working on an MBDA project .....	79
4.4.5.1 The need for SMME continuity	79
4.4.5.2 SMMEs cannot sustain themselves after development programmes	82
4.5 Summary of relationships .....	84
4.5.1 The graphical presentation, responses and interpretations .....	85
4.5.2 Relationships among the different parties involved .....	89
4.6 Conclusion .....	91
Chapter 5	94
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	94
5.1 Introduction .....	94

5.2 Factors that affect the sustainability of SMMEs .....	96
5.3 Effects of SMME Skills on Quality of Work .....	97
5.4 SMME Time Management .....	97
5.5 SMME Budget Management.....	98
5.6 SMME Progress after working on an MBDA Project.....	99
5.7 Conclusion .....	100
5.8 Recommendations.....	101
5.8.1 Phase 1 – Identification of a Project’s Needs.....	101
5.8.2 Phase 2 – Initiation of the Project .....	102
5.8.3 Phase 3 – Planning the Progress of the Project .....	102
5.8.4 Phase 4 – Implementing the Project Plan .....	103
5.8.5 Phase 5 – Monitoring the Progress of the Project .....	103
5.9 Future research endeavours.....	104
5.10 Caution: .....	105
Annexure A     Questionnaires	106
Appendices A	107
Appendices B	110
Appendices C	113
REFERENCES	116

## **List of Tables**

Table 1: Relationship among the three different parties	90
Table 2: Relationship between emanating factors	91



## **List of Figures**

Figure 1: Contractor perceptions relating to the non-sustainability of SMMEs	85
Figure 2: SMME interviews regarding the non-sustainability of SMMEs	86
Figure 3: Consultant interviews regarding the non-sustainability of SMMEs	88

## **Abbreviations**

- AutoCAD: Automatic Computer-Aided Design
- B-BBEE: Broad-Based Black Economic Empowerment
- CDC: Coega Development Corporation
- CE: Civil Engineering
- CETA: Construction Education and Training Authority
- CIDB: Construction Industry Development Board
- CPM: Construction Project Manager
- DPW: Department of Public Works
- DTI: Department of Trade and Industry
- EPWP: Expanded Public Works Programme
- EME: Emerging Micro Enterprise
- FET: Further Education and Training
- GDP: Gross Domestic Product
- H and S: Health and Safety
- HR: Human Resources
- ISO 9001: International Organisation for Standardisation
- IT: Information Technology
- LED: Local Economic Development
- MBDA: Mandela Bay Development Agency
- NMBM: Nelson Mandela Bay Municipality
- NQF: National Qualification Framework

- OHSAS 18001: Occupational Health and Safety Assessment Series
- PPPFA: Preferential Procurement Policy Framework Act
- RandD: Research and Development
- SADC: South African Developing Community
- SAFCEC: South African Federation of Civil Engineering Contractors
- SAICE: South African Institution of Civil Engineers
- SAQA: South African Qualification Authority
- SARS: South African Revenue Services
- SEDA: Small Enterprises Development Agency
- SMME: Small Medium Micro Enterprise
- TLB: Tractor Loader Back-actor
- VAT: Value Added Tax
- NGO: Non-Governmental Organisation
- NPO: Non-Profitable Organisation

## **THE RESEARCH PROBLEM AND ITS SETTING**

### **1.1 Introduction**

With the onset of democracy in 1994, South Africa was re-integrated into global markets. The Black community, which had been excluded from the mainstream economy, had high expectations of being granted equal opportunities to benefit from the re-integration (Berry, Blotnitz, Cassim, Kesper and Seventer 2002). Their participation in the economy comprised mainly Small, Medium and Micro Enterprises known as SMMEs. According to Berry *et al.*, (2002) such enterprises can be identified as follows:

- Survivalist Enterprises (Informal): These operate to secure a minimal income and they have few overheads, they lack skills and do not prioritise growth.
- Micro Enterprises: These comprise an owner and a family-run business that employs at most 4 people, with a turnover below the threshold for Value Added Tax (VAT). They actively seek growth potential.
- Formal Small and Medium-Sized Enterprises: These comprise owner or manager-run businesses that employ 5 to 150 people, and have acquired the relevant VAT status.

The focus of this research is the Survivalist and Micro Enterprises. It seeks to establish reasons for such SMMEs not being able to sustain themselves.

Generally, SMMEs rely on government-funded projects to sustain their existence. This reliance also needs to be investigated, because they do not seek to improve their company status to a higher level through the governing body - the Construction Industry Development Board (CIDB). SMMEs thus seem to be plagued by their own inabilities, as well as by external factors. Shakantu (2006) and Ofori (2012) indicated that contractors, consultants and clients also contributed to the non-sustainable environment of SMMEs.

Government efforts to assist SMMEs were established and implemented by the Small Enterprise Development Agency (SEDA), Department of Trade and Industry (DTI) and CIDB. However, these initiatives do not seem to be addressing and incorporating the need to sustain the SMMEs once they graduated from their programmes. Support from government seems to be needed for a longer period than just during this initiative and SMME business owners must be able to operate a business independently.

## **1.2 The statement of the problem**

This research proposes to evaluate the sustainability of SMMEs within the Nelson Mandela Bay Metropole (NMBM).

The statement of the research problem that:

Government funded SMMEs do not seem to be able to sustain their business.

Below, the statement of the problem is framed into a research question and then further broken down into researchable sub-questions.

Research Question: What is the sustainability of SMMEs within the Nelson Mandela Bay Metropolitan Area?

Sub-question One: Are SMMEs within the Nelson Mandela Bay Metropole sustainable?

Sub-question Two: Is the quality of work completed by SMME employees acceptable?

Sub-question Three: How do SMME business owners 'manage their employees' production time?

Sub-question Four: How do SMME business owners' manage their budgets?

Sub-question Five: Do SMME business owners' sustain themselves after being granted the opportunity on projects to develop their companies?

### **1.3 Aim and objectives of the study**

This research study proposes to evaluate the sustainability of SMMEs within the Nelson Mandela Bay Metropole. It seeks to identify whether the current government initiatives (SEDA, DTI, CIDB) are effectively addressing all the issues faced by SMMEs in order for them to remain sustainable. It seeks clarity on whether large construction companies should also take responsibility to keep SMMEs sustainable.

To achieve the above aim, the following objectives were formulated for this study:

Objective 1: To identify the factors that affect the sustainability of SMMEs within this study area.

Objective 2: To investigate the skillsets of SMME business owners and the effects that these skills have on the quality of their work.

Objective 3: To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.

Objective 5: To identify the factors that influence SMMEs development after they have received training through development programmes.

### **1.4 Delimitation of the study**

The study includes only Survivalist and Micro Enterprises located in the Nelson Mandela Bay Municipality (NMBM).

Interviews were conducted with practising construction Project Managers based in the Nelson Mandela Bay Metropole who were appointed as the Main contractor responsible for construction works. These managers were undertaking projects assigned through the Mandela Bay Development Agency supply chain management process,

Projects offered by the National Contractor Development Programmes and Incubator Programmes were not included in this study. The Mandela Bay Development Agency (MBDA) does not oversee projects from these programmes.

### **1.5 Assumptions**

Corbin and Strauss (2008) clarify that assumptions are the actions that lead to subsequent courses of action. They are the conditions that are taken for granted and accepted as true without any validation or proof (Leedy and Ormrod, 2013). Within this study, it is assumed that all SMME Business Owners have registered companies that are compliant with the South African Revenue Service (SARS), are approved by the Department of Labour, reside in Nelson Mandela Bay Metrople and have their utility bills paid in full.

### **1.6 Importance of the study**

Ihua (2009) points out that the following factors prevent the progress of SMMEs in developing countries:

- SMME employees have limited abilities;
- Government policies are harsh and unsupportive;
- SMMEs are grossly under-capitalised;
- SMMEs have limited access to credit facilities from banks;
- Infrastructure is dilapidated and inadequate;
- Operating costs are very high;
- Lack of transparency and rampant corruption; and,
- Lack of consistent support from government.

The South African government, through the initiatives of the DTI and CIDB, has been trying to be more supportive of SMMEs by providing them with relevant funding and skills training through the SEDA and CIDB initiatives. This has been done specifically through the Incubator and Contractor Development Programmes.

Entry into the construction industry is allowed even if applicants have no prior understanding of its nature. Skills and competencies are not evaluated.

Louw (2017), articulates that in order to ensure growth and sustainability of SMMEs, it is necessary to understand that they are limited by the following:

- Cyclical demand: Seasonal working opportunities;
- Payment issues: burdening factor on the client and contractor;
- Access to operating capital: Cashflow and access to funding inefficacy; and,
- Lack of administrative and sales resources: lack of staff to optimally operate a business.

Louw (2017) further states that the following solutions which if adopted by industries would assist SMMEs by adopting the following:

- Contractual set-asides: Where SMMEs are identified as nominated sub-contractors who are able to perform and do construction works;
- The build, operate and transfer approach: This allows SMMEs to be forward thinking in long term sustainability with opportunities in the private sector for maintenance; and,
- Call-off agreements: This is a fixed term contract that forces SMMEs to be proactive and is ideal for developmental programmes.

The initiatives established by the CIDB and SEDA can also be viewed as interventionist policies by the SA government. They require larger contracting companies to align and comply with the necessary legislation. If a project is accepted by the MBDA, then the contract conditions have to be met. April (2005) suggests that current conditions and systems should be realigned to be more inclusive. This is to ensure that when projects are designed, the SMME business owner should be included from the inception phase of a Project Life-Cycle.



## **1.7 The benefits of this study**

This research study seeks to understand the driving forces behind successful SMME development, and to identify the type of government initiatives that will provide the means to achieve a sustainable business environment. South Africa has indicated that by 2030 its objective is to reduce poverty by six per cent and SMMEs are the most viable option towards achieving this objective (Makakawe, 2014).

The benefits of SMMEs to a country's economy, as identified by the World Bank, are as follows:

- SMMEs are the engines of growth. South Africa's National Treasury has indicated that eight out of every ten people employed were part of an SMME.
- SMMEs are essential for a competitive and efficient market as their approach to business is different to that of large companies. As such portions of work can be subdivided and allocated to smaller SMMEs instead of remaining within one company.
- SMMEs are critical for poverty reduction as they extend to the outer reaches of a big city, thus creating more opportunities.
- SMMEs play an important role in developing countries as they drive diversification through their progress in new and untapped markets.

Collaborative efforts between SMMEs and main contractors led to significant success in Thailand. SA is similarly trying to assist SMMEs by attracting them to larger contracting companies. Such collaborative efforts made SMMEs more resilient, increased their financial ability, improved their technological understanding and assisted them with improved business understanding and skills development (Chittithaworn, 2011).

Further investigation within the construction industry is needed. Factors that enable success need to be identified and promoted. Those factors already identified need to be consistently applied, and accountability measures taken to ensure their implementation.

## **1.8 Research gaps identified**

The SA government has clearly made efforts to drive SMME development. If so, why do many SMMEs fail? Why are they unable to sustain their businesses?

## **1.9 Proposed chapter outline**

Chapter 1 introduces the research study and its context. It sets out the purpose and objectives of this study. This chapter outlines the challenges faced by the Nelson Mandela Bay Metropole with respect to why SMMEs are not sustainable.

Chapter 2 presents a comprehensive literature review on the non-sustainability of SMMEs, detailing what has been done in broader contexts as identified in Chapter 1.

Chapter 3 discusses the research methodology that was used to investigate the non-sustainability of SMMEs. It also deals with the research design and data collection.

Chapter 4 interprets the findings and summarises the data collected. Reasons for SMMEs being unsustainable are exposed, with MBDA projects being used as evidence to illustrate them.

Chapter 5 presents the conclusions and findings of the research study. A model is proposed on how to address issues that prevent the progress of SMMEs. Recommendations are made regarding how to plan and assign SMMEs into MBDA projects.

## **1.10 Conclusion**

SMMEs are vital to the SA economy and their inclusion in projects is important. Their success in projects assigned by the MBDA as an urban regeneration agency is critical to the development of the Nelson Mandela Bay Metropole. The current context of SMME business owners begs to be analysed, together with an understanding of their environment, the construction industry which employs them, how they are prioritised and what the MBDA can further do to ensure that their businesses are sustained. The objectives of economic growth have to be achieved. Competitiveness, employment generation and income redistribution have to be promoted to stimulate and sustain SMMEs. It is within this context that this research is undertaken.

## REVIEW OF LITERATURE

### 2.1 Introduction

The literature review presented is both descriptive and comparative in nature. Sources include books, academic journals, newspapers, the Internet and Government Gazettes. As previously highlighted by Berry *et al.*, (2012), SMME sectors can be classified as follows:

- Survivalist Enterprises (Informal): These operate to secure a minimal income and they have few overheads, lack skills and do not prioritise growth;
- Micro Enterprises: These comprise an owner and a family-run business that employs at most four people, with a turnover below the threshold for Value Added Tax (VAT). They actively seek growth potential; and,
- Formal Small and Medium-Sized Enterprises: These comprise an owner or manager-run businesses that employs 5 to 150 people, and have acquired the relevant VAT status.

Survivalist Enterprises can be defined as the lowest level of entry into the SMME sector and form the predominant type of enterprise found. Survivalist enterprises mainly undertake very small construction projects (Ofori, 2012). They seldom employ more than five employees at a time and are usually reliant on family members (Ofori, 2012).

At the Micro Enterprise level are small businesses that comprise of some family members, and not more than five paid employees. These enterprises are mostly found in the informal sector and do not adhere to the necessary legislative compliance required of larger businesses. Such legal requirements include business licences, Value Added Tax (VAT) registration, formal business premises, operating permits and accounting procedures (Ofori, 2012). Micro Enterprises are mostly run by owners who have some skill in the market in which the business operates. The average annual

turnover noted for Micro Enterprises varies considerably, reaching up to one million rand in South Africa (Construction Transformation Charter, 2006; Ofori, 2012).

Formal Small Enterprises are businesses that employ between 6 and 60 people and generate a turnover of between R 1.1 million and R 12 million per year (Construction Transformation Charter, 2006). Small Enterprises are owner managed, operate from a business or industrial premises, are tax registered and do conform to additional registration requirements (Shakantu, Kajmo-Shakantu, Finzi, and Mainga, 2006; Ofori, 2012). This type of entity can employ skilled personnel to carry out the required work (Ofori *et al.*, 2012).

Formal Medium Enterprises include companies which employ between 61 and 300 employees and generate a turnover of between R 12.1 million and R 60 million per year (Seeley, 1997; Construction Transformation Charter, 2006). Medium Enterprises are owner managed (Ofori, 2012). Medium Enterprises also have the financial capability to employ skilled personnel (Ofori *et al.*, 2012).

## **2.2 Factors contributing to the failure of SMMEs**

Strischek and McIntyre (2008) indicate that failure in the construction industry is a global phenomenon. The United States, United Kingdom and Malaysia have been experiencing significant contraction in their construction sectors due to the recession which was experienced in 2008. They further state that the Surety Information Office, which is an office that collects data on surety bonds in the United States, identified six broad warning signs that indicate when a construction company is in trouble. They are:

- An ineffective financial management system;
- A bank line of credit constantly borrowed to the limit;
- Poor estimating and/or job cost reporting;
- Poor project management;
- The absence of a comprehensive business plan; and,
- Communication problems.

### 2.2.1 Financial Mismanagement

Striscek and McIntyre (2008) identified that the leading causes of financial mismanagement and inability to succeed were the following:

- Slow collection: This relates to an SMME owner's inability to provide and receive payments;
- Low profit margins: This refers to their inability to price work properly, as well as not accepting work for which they are appropriately skilled;
- Insufficient capital and excessive debt: Insufficient capital reduces the SMMEs' safety net. This is expressed in the SMME owner's inability to save money for a rainy day;
- Bank lines of credit: This refers to the SMME owner's inability to maintain their bank line credit by failing to ensure that they maintain their creditworthiness through ensuring that they have sufficient capital; and,
- Estimating and bidding spread: This refers to the SMME owner's inability to price adequately to ensure that they do make a sufficient profit. (Striscek and McIntyre 2008).

Govender and Watermeyer (2000) and Ofori (2012) believe that the requirements for performance bond poses a financial obstacle for SMMEs because insurers view them as high risk. Ofori (2012) points out that Survivalist and Micro Enterprises are constrained by the lack of financial resources which, in turn, affects their ability to grow and develop. Additional factors that impact on SMME sustainability are the low awareness and usage of intended benefit (Shakantu., 2006 *et al.*; Ofori, 2012), high interest rates (Ofori, 2012), a lack of market exposure and discrimination by financial institutions due to lack of sufficient collateral for loan applications (Gounden, 2000; Shakantu, 2006; Ofori, 2012). This lack of financial resources, coupled with financial mismanagement, plays a critical role in SMMEs collapsing.

### **2.2.2 Lack of Administrative and Management Knowledge**

Poor management knowledge has proved to be a serious problem relating to SMMEs. Strischek and McIntyre (2008) emphasise the following factors that confirm management problems:

- Inadequate management: Their incompetent and untrained personnel restricted their ability to manage and monitor cost controls, so buying equipment or acquiring new business ventures were futile as they could not be justified;
- Failure to manage or consider risk: SMME business owners do not consider the external factors of human tragedy when they occur, and what implications this has on their operations, as well as their inability to retain staff when a fatality occurs;
- Poor project management: This includes inefficient project supervision, inability to get reasonable prices on the change orders, absence of proper administration systems, inability to meet deadlines, high prevalence of claims and disregard for safety regulations; and,
- Having no proper business plan: SMME owners do not have necessary contingency plans in place as they do not have predetermined goals or objectives towards which they can plan their future as a business.

It is clear that lack of administrative and management knowledge contributes much to the failure of SMMEs.

### **2.2.3 The Context: Developing and Developed Countries**

Ihua's (2009) research included a comparison of the failure of SMMEs in the United Kingdom (UK), which is a developed country, and Nigeria, which is a developing country. He identified multiple factors which contributed to the failure of SMMEs.

Common factors contributing to SMME failure in both countries included fierce market competition, poor accounting and bookkeeping, poor marketing and sales effort, improper planning and financial problems. It is noteworthy that factors specifically relating to the SMMEs' financial understanding of business operations and their entrepreneurial abilities were critical causes of SMME failure.

Nigerian SMMEs failed for the following reasons: disasters and crises; poor infrastructure; lack of social support; multiple and high taxes, and poor economic conditions. The Nigerian government is plagued by corruption and ethnic violence, factors which underline the common problem of hostility experienced in developing nations (Ihua, 2009). However, the primary factor leading to SMME failure in the UK was incompetent management, which was not prioritised by Nigeria. With the UK having a high level of employment, with high educational standards, it is of concern that incompetent management was exposed as a pivotal factor resulting in SMME failure. More so that the same reason was identified in Nigeria, which suffers massive unemployment and poor educational standards (Ihua, 2009). This factor was further emphasised by Ahmad, Halim and Zainal (2010), who agreed that incompetent management skills led to SMME failure.

April (2005) investigated factors affecting SMMEs in Namibia, and found similar factors as those identified by Ihua (2009) and Ahmad, Halim and Zainal (2010). The factors exposed by April (2005) included the lack of credit facilities, poor financial options, the lack of managerial and entrepreneurial skills, poor planning, poor government assistance and uncontrolled growth. There are clear similarities in the reasons for failure in both Namibia and Nigeria. The Nigerian government's lack of support, limited facilities and failure to prioritise the upskilling of SMMEs also contributed to their SMMEs collapsing.

SMMEs in Africa struggle more to sustain themselves. Poor countries provide little or no support for SMME development. Continental development is difficult as there is little trade among the nations, no effective transcontinental transport system, limited communication and a multiplicity of monetary systems. These factors compromise the continent and its states from achieving self-sustainability (Ofori, 1980). The very same factor compromises the progress of SMMEs within each state.

Standards of living also differ from one country to another. Ofori (1980) points out that there is too little development to improve standards of living. Two-thirds of the world's population is classified as poor, with most of this poor population is living in Asia, South America and Africa. Ofori (1980) further explains that most of the citizens of these poor nations were displaced through exploitation by their colonisers. Wealth is still

predominantly owned by the ancestral lineage of the colonisers, whether they were still living in the developing country or elsewhere. Colonialism brought with it social disruption, which redressed the natural order of societies to create a new order and established new values. It created the unstable paradox of importing an educational system which was biased against the indigenous peoples. The colonisers had better opportunities and exploited them, leading to many of the inequalities prevalent in societies today.

Mintzberg (1973) and Ahmed *et al.*, (2010) emphasise the important role of managers in causing SMMEs to fail. The incompetency of managers impacts negatively on the performance of the organisations. Aside from management incompetency, Berry *et al.*, (2002) add that the failure of SMMEs to acquire tenders is due to funding - their businesses were not creditworthy and did not have the required skills to conduct the tendered work. Berry *et al.*, (2002) noted that owing to the lack of foreign investors in developing countries and fluctuating interest rates, the supply of capital is limited. They suggest that governments should focus on addressing the financial issues that face SMMEs. Rebello (2005); Cheetham and Mabuntana (2006); Longenecker (2006) and Ofori (2012) add that SMMEs face the additional problems of a lack of market exposure, limited access to work opportunities, the intensity of the construction industry and lastly, an unstable workflow. The lack of experience in sustaining workflow affects the ability of the SMMEs to create sustainable employment and develop economic empowerment.

Ofori (1980) revealed that the number of skilled personnel in Ghana's construction industry has not progressed for many reasons, namely:

- The lack of effective cooperation among participants in the construction process;
- The lack of understanding on the part of most clients;
- The inter-organizational competition amongst bodies that should be cooperating with each other;
- Instances of corruption, patronage, nepotism and favouritism; and,
- Occupations of titular or ministerial headships of some institutions by politicians.



It is clear that the core competencies of SMMEs should be identified and prioritised in both developing and developed countries. This requires skill building platforms which should aim to invest in knowledge-based competencies so that SMMEs may improve their understanding and, in turn, become profitable. ( Hope and Hope, 1997; Shakantu, 2016). The strategy comprises skill settings and expertise, improving understanding around supply chain management compliance, re-engineering business operations, assistance with the interpretation of challenges and finding viable solutions ( Siamuzwe, 2001; Shakantu, 2016).

#### **2.2.4 The Impact of Government Policies**

Berry *et al.* (2002) support Ofori's (2012) view that government policies should be more favourable to SMMEs. Such policies constrain and deprive SMMEs when compared to policy impact on the larger contractors. The problem becomes worse with the high concentration of SMMEs in the supply market, as this affects their competitiveness and leads to overcrowding of the product market. This then further reduces their market access. Such overcrowding, anti-competitive behaviour and limited market access pose major constraints to SMMEs, which should instead be supported by better development policies. Berry *et al.* (2002) suggest that governments should introduce interventions in the supply chain process to remove barriers. Ntsika (1999) and Berry *et al.* (2002) argue that due to the lack of a consistent policy and regulatory environment, SMMEs will be prone to chronic problems. Consider the following illustrations:

- Alternative tendering systems in South Africa create uncertainty and increased cost for SMMEs that do not have tender experience;
- The complicated nature of contractual documents makes it difficult for SMMEs to interpret and understand them, particularly the legal terminology used;
- Ambitious contracts over limited periods of time require different quantities at specific times, posing a supply problem if awarded to SMMEs;
- Low financial value contracts are given to SMMEs. Larger value contracts are circumvented through other tendering processes to restrict SMMEs from getting them;

- Communication of information on the awarding of contracts to SMMEs is not efficient, while interminable delays occur after an SMME has been appointed to the contract;
- Payment cycles determined in governmental contracts are not helpful to SMMEs, and require guarantees and sureties;
- There are long periods before payment is made and the time taken to release funds can cripple an SMME's cash flow ability; and,
- Nepotism is perceived to be a primary reason for SMMEs not benefiting from the tendering processes.

Berry *et al.* (2002) identified that there is almost no collaboration within the institutional environment. Large contractors offer little support to SMMEs for their mutual benefit in the sub-contracting relationship. He pointed out that mistrust and lack of incentives for collaborative efforts made larger contractors reluctant to share information and technical and human resources to capacitate SMMEs.

A significant factor raised by Berry *et al.* (2002) is that wage rates can become a contentious issue for SMMEs. Legislation and other institutional factors regulate them, rather than market forces that relate to policy for labour.

In summary, SMMEs fail because they are poorly supported by external factors like context, state of economies, government policies and limited financial resources. However, internal factors also contribute to their failure, the most important being incompetent administration and management due to the lack of knowledge and professional skills development.

### **2.3 Factors contributing to the sustainability of SMMEs**

The United Nations Centre of Human Settlements UNCHS (1996), Shakantu and Kajimo-Shakantu (2007) and Ofori (2012) concur that if small businesses want to contribute to the economy, they should adapt to changes and become efficient, well organised, technically competent and be able to manage operations that respond to opportunities and challenges in their specific environment. These SMMEs should be

able to offer reliable products with dependable delivery and conformance to quality. To improve their continuous performance, they should be able to price their projects competitively. They should pay attention to “cost effectiveness, integrated quality actions, customer responsiveness, information technology management and human resource management” (Ofori 2012: 257).

### **2.3.1 A Supportive Business Environment**

For self-sustainability, SMMEs need an informative engagement process that addresses activities for the long-term survival of construction companies. Entrepreneurship in the construction industry can improve through the creation of a system of cooperation that prioritises SMME existence and value. Foresight and anticipation should be a priority for any SMME as their sustainability lies in their inclusive decision-making to develop an environment which will be conducive and practical for their involvement in the construction industry (Zoltan, 2003).

The Rwanda National Government noted the benefit of improving infrastructure after it improved the business environment for existing enterprises and promoted the opening of new business activities. The increased economic activity resulting from infrastructure development had a snowball effect on the economy. Efficient infrastructure led to further development, and this expansion created a capacity constraint in the construction industry as it extended beyond its limits (Ofori, 2012). However, this expansion of large-scale projects did create gaps that required supply at the lower end of the market. This supply comprised small municipal infrastructure projects (Shakantu, 2006; Ofori, 2012). SMMEs, specifically Survivalist and Micro Enterprises did therefore benefit by taking on these projects. This enabled their easy entry into the construction industry and they were able to operate their businesses throughout their corporate lives (Shakantu, 2006; Ofori, 2012). The outcome was sustainability for SMMEs, rooted in a supportive business environment.

### **2.3.2 Accessible Training Programmes**

SMMEs can play a significant role in developing countries. Dlungwana and Rwelamila (2004) and Ofori (2012) believe that there should be increased efforts made to develop

programmes that upgrade the contractor. More resources should be dedicated to this task. Well-structured contractor development models and supportive programmes should be developed and implemented to create and improve managerial skills, knowledge and the competitiveness of the SMME contractors. Dlungwana and Rwelamila (2004) and Ofori (2012) suggest that benefits accrued from such effective development will increase competitiveness, ensure sustainable business growth, encourage good environmental management and enhance the socio-economic development of the countries.

Ofori (2012) explains that SMMEs are not unusual in developing countries, despite their failure rate. They do have an important role to play in the economies of all countries, representing 95 per cent of all enterprises and providing up to 50 per cent of employment. They also provide up to 50 per cent of the gross domestic product of most countries, and up to 55 per cent of all technical innovation (Burke, 2006; Ofori 2012: 255). Palma (2005) and Ofori (2012) further emphasise that while SMMEs are important to almost all economies globally, they are critical to the further growth of developing countries as they provide employment and income to the most needy in society.

Pleskovic and Stern (2002) focused on some critical requirements for ensuring sustainability in the SMME development programmes. These include:

- Adequate capacity of programme facilitation staff, as well as government extension staff;
- Credit being used effectively and having sustainable credit programmes;
- Credit being used predominantly by the poor, with no external interference such as Expanded Public Works Programme (EPWP) initiatives;
- Minimum rate of delinquencies;
- Good credit discipline maintained;
- Good management of the project; and,
- Confidence in the groups' ability to borrow.

In addition, the availability of committed, credible trainers through poverty alleviation programmes which are similar to those of the EPWP programme in the South African setting was critical. SMME owners with sound financial knowledge understand the concept of loan facility agreements whereby cost-effective measures are followed within their business, making projects more viable. Their mandate, The Expanded Public Works Programme (EPWP)... “is a national plan aimed at drawing a significant number of unemployed South Africans into productive work. This is done by re-orientating existing public budgets so that public goods and services are delivered labour intensively” (Nzimakwe 2008:207). If incompetent administration and management due to the lack of knowledge and professional skills development is a barrier to SMME growth, then providing accessible training programmes should be a priority by both government and the private sector.

### **2.3.3 Government Support**

Ofori (2012) explains the importance of SMMEs to the economy of developing countries, pointing out that they act as catalytic components in government strategies, thus creating employment opportunities and stimulating economic growth and national development. He added that developing countries should restrict the barriers characterising big business and focus instead on addressing the disparity in the unequal distribution of wealth. In addressing these issues, Ofori (2012) indicates that SMMEs are a vehicle through which the underprivileged, who lack financial resources and skills, could be given access to economic opportunities. Through so doing, it would lead to wealth creation, value reorientation, job creation and poverty eradication.

Ofori (2012) states that for economic and social policies to favour SMMEs, an enterprise conformance approach focusing on labour should be adopted. Creating more labour opportunities is always beneficial, although Berry *et al.* (2002) warn that addressing wage agreement issues is also critical to keeping SMMEs sustainable.

SMME owners are identified as the missing middle class. They are imperative for the economic sustainability of any country as they address levels of unemployment and enable inclusive growth opportunities for all. Government support is therefore imperative if social justice is to be achieved through the SMME sector.

### **2.3.4 Competent Administration and Management**

SMMEs are more sustainable when they are technically sound, have few borrower commitments, enjoy socio-political support, prove to be economically viable and are effectively organised. Sustainability is attainable for an SMME within a period of 5 to 10 years, depending on its ability to evolve around sound viability (Pleskovic and Stern, 2002).

Ahmed *et al.* (2010) established that for SMMEs to be sustainable, they should be competent in functional roles, have technical ability in the conducting of practical work and ensure that such work meets required standards. They should also be competent in managerial roles, which include organisational and relationship skills. Focus on the concept of management competency as essential for SMMEs to be sustainable is not new. The role of efficient managers cannot be underestimated. Management scholars have confirmed that competent leading figures in an organization contribute to its superior performance (Ahmed *et al.*, 2010). Entrepreneurial competency refers to the required knowledge of developing a strategy, identifying opportunity, working with commitment and being able to conceptualise the way forward for the SMME. In summary, three fields of competency significantly contribute to the business success of SMMEs: their being functional, having good managers and showing entrepreneurial knowledge.

### **2.3.5 Level of Social Development**

Countries with a high level of social development have SMMEs that progress better. Where social development was slow, it proved to be a major constraint on the sustainable expansion of micro financing services. Strategies for SMMEs in Uganda were developed to improve the capacity of the poor. These comprised the following:

- Awareness building on micro-finance and formal bank transactions;
- Basic skills training and record keeping; and,
- Social mobilization for formation of community and solidarity groups (Pleskovic and Stern, 2002).

Such development initiatives have a stimulating effect on the economy, confirming that SMMEs have a role to play in reducing the gap between formal and informal

employment, which then directly develops their formal business sustainability and provides significant economic benefit for a country (Mtshibe, 2013). Entrepreneurship is clearly important in developing new market economies, prompting technological reforms and stimulating productive growth. Improving the level of social development is a responsibility of government and all relevant institutions, starting with the individual citizen himself.

### **2.3.6 Globalisation**

For construction SMMEs to be sustainable, they need to change how they operate when it comes to globalisation, technology and procurement procedures. Globalisation emphasises the urgency to preserve our environment and address the causes of climate change. SMMEs need to conform and align to these factors in order to sustain themselves in a global context. Environmental consideration is defining the construction industry significantly and plays a crucial role in how SMMEs need to change their business operations. Government policy needs to cater for such change in order to support SMMEs so that they remain sustainable.

The spinoff from globalisation has a negative effect on African markets, where the local market of the construction industry is being jeopardised. Donor funding for African projects of huge magnitude usually result in international contractors monopolising the market. Their size and expertise give them unfair advantage over local SMMEs. The international financial investment criteria for construction companies are biased against local construction companies as the expectation and conformance for entry transcend their ability. These requirements that are prescribed by the investors are aligned to international creditability, and this compromises local SMME contractors (Shakantu, 2016).

### **2.3.7 Technological Advancements**

Technological advancements have improved construction efficiency through better data processing and information systems. Computer software available can analyse complex tasks such as the scheduling of entire projects, simulating construction processes and developing optimal approaches to achieve the desired outcomes. Such high-tech progress is used effectively in western countries, where the technological infrastructure has been installed and operates successfully. Developing countries do

not have this luxury. One needs to be cognisant of the fact that developing countries are addressing poverty and inequality issues, making technological advancement a mere desire (Shakantu, 2016).

### **2.3.8 Procurement**

McCrudden (1995), Arrowsmith (1995), Thai (2001) and Ofori (2012) established that public procurement goals significantly impact on the sustainability of SMMEs. Their primary goals relate to the sourcing of services, goods and works to achieve best practice in governance. Their secondary goals relate to the utilization of public procurement to achieve a broad range of economic and social objectives that include:

- Stimulation of economic activity;
- Protection of the national industry against foreign competition;
- Improvement in the competitiveness of certain industrial sectors;
- Remedial action for regional disparities; and,
- Achievement of a more direct, social objective that fosters job creation in the promotion of local labour, encourages equality of opportunity between men and women, improves environmental quality, promotes the increased use of the disabled in employment opportunities and prohibits discrimination against minority groups.

Procurement can provide business and employment opportunities, and depending on its structure and how it is conducted, it could be utilized as an instrument of government policy to facilitate social and economic development (Watermeyer, 2002, 2010; Ofori, 2012). Government can leverage its large purchasing capability to influence the behaviour of economic participants as it is the major client to most of the sectors in the economy (McCrudden, 2004; Thompson, 2004; Bayat *et al.*, 2004; Ofori, 2012). This is especially true in the sectors of defence and construction. Arrowsmith (1995), Govender and Wintermeyer (2001), Rogerson (2004), Shakantu (2006) and Ofori (2012) indicate that developed and developing countries utilize the procurement system as a driver to achieve a variety of socio-economic objectives. Ohlin (1992), the CIBD (2009) and Ofori (2012) explain that government plays an important role in socio-economic transformation and the furthering thereof through public procurement, which



can be used to optimize the objectives of labour standards and employment creation. Clearly, support for SMME contractor development could be facilitated through public procurement in South Africa (CIDB, 2009, 2010; Shakantu, 2006; Ofori, 2012).

Subcontracting proves to be beneficial to SMMEs as it stimulates growth and may be an important focal point for new policy development. Procurement policies should ensure that black-owned enterprises are prioritised to redistribute opportunities in what has been traditionally a predominantly white industry (Berry *et al.*, 2002).

### **2.3.9 Monitoring the SMME**

Shakantu (2016:137) reviewed Loosemore's (1995) strategic Reaction Process Model, which proved to be a useful tool for managing conversion to competitiveness. He established that industry players like SMMEs can manage change in the construction markets and increase their competitiveness by using the Reaction Process Model, which comprises the monitoring of:

- Global business trends and the factors affecting business worldwide;
- Regional markets and the factors affecting business in Southern Africa, and
- Local business trends, and the factors affecting business such as economic malaise, political mismanagement, and social constraints (Shakantu, 2016:137).

Shakantu (2016) expanded on Loosemore's (1995) three steps above by adding that they should be integrated and used to analyse an SMME's goals through the application of the Reaction Process Model. This monitoring would ultimately help SMMEs to achieve sustainability and meet customer demands.

Overall, such monitoring would expose the true value of SMMEs in a country. UNCHS (1996), Shakantu (2006) and Ofori (2012) suggest that there is a lack of understanding of what it takes to develop and grow SMMEs in the construction industry. Their progress and impact on the economy is under-estimated. Many SMMEs have developed into sizable, efficient and effective national construction industries, notably in developing countries. Some such countries have even adopted the SMME

initiatives, improving the performance of local construction companies. This was separate to the comprehensive national programmes for improving the capacity and capability of construction industries (Rwanda National Construction Industry Policy, 2009; Shakantu, 2006; Ofori, 2012).

## **2.4 Factors that Sustain SMMEs in Government Funded Projects**

Government is always an industry leader. Studies by Enterprise and Funds (n.d) suggested that any collaboration between experienced industry leaders and SMMEs provided practical understanding for employees within SMMEs. They shared common interests and objectives with each other, allowing SMMEs to gain experience and establish networks to achieve their required objectives. Industry leaders could be government, large conglomerates and those who provide donor funding.

### **2.4.1 Government Initiatives**

In 2014, the Gauteng Provincial Government declared that institutions which incorporated SMMEs within their operations would benefit if they focused on the following needs:

- An approach that recognizes the different specific characteristics of SMME business owners,
- Better information on the SMME sector;
- Integration and transformation of SMME business owners;
- Improvement of access to SMME business owners for development services;
- Reduction of the cost of doing business;
- Addressing crime as it threatens the survival of SMME business owners;
- Broadening the range of service providers who are tasked with SMME business owner development;
- Better provincial and local business environments;
- Encouraging a more entrepreneurial society;
- Improving the institutional framework for SMME business owner development;

- Better business representation and public-private dialogue; and,
- Better business facilities and infrastructure.

Clearly, supportive government initiatives do provide the context needed for SMMEs to develop and grow.

#### **2.4.2 Entrepreneurship as a Solution**

In comparison to other developing nations, South African entrepreneurial activity is relatively low. Brazil and China record 14 and 23 per cent respectively. South Africa's Total Entrepreneurial Activity (TEA) is rated at 9.1 per cent in comparison (Mtshibe 2013:20). This indicates that entrepreneurs in South Africa are afraid of taking risks, including starting a business which may create new jobs, more income, introduce new products and further provide needed services. Mtshibe (2013:20) indicated that although all the efforts initiated by government through training, financial assistance and incentives to develop and support SMMEs are in place, the failure rate of SMMEs is still high.

Mtshibe (2013) adds that entrepreneurship is crucial to new market economies, technological changes and productive growth. These initiatives stimulate the effective development of SMMEs, which is crucial to reducing the gap between informal and formal employment. This further assists in the development of formal, sustainable businesses and generates significant economic benefit for the country. Mtshibe (2013) states that anyone who innovatively and strategically builds vision through the establishment of business, ultimately achieves growth and profit.

Several researchers (Ofori, 2000, 2012; Dlungwana and Rwelamila, 2004; Flanagan, 2007) have found that the high failure rate of local contractors in developing countries is due to the lack of entrepreneurship. This prevents SMME owners from gaining experience in seeking viable business opportunities. Inexperienced entrepreneurs limit the ability of SMMEs to successfully create opportunities for themselves and thus grow their business (Gerber, 2008; Ofori, 2012). Burke (2006) and Ofori (2012) pointed out some key business traits needed for a sustainable SMME: the ability to identify and respond to available business opportunities; self-confidence to pursue and acquire opportunities; displaying passion for their businesses' product; being passionate about services they offered to clients; networking; resilience and not being

afraid to take risks. One needs to also be cognisant of the barriers preventing entry into the construction industry, acknowledging that competition within the industry is healthy. Companies require entrepreneurship to have a sustainable workflow and therefore sustainable growth profiles (Ofori, 2012). South Africa should create a business environment for SMMEs to flourish by addressing the current barriers within the sector.

### **2.4.3 Understanding the Construction Industry**

Considering the difficult nature of construction, Ofori (2012) suggested that SMME personnel should have above average decision making and technical skills; cost and time management abilities; expertise in financial analysis, loss control, preparation of claims; clear knowledge of safety administration and legislation, and know how to manage the environment. It was noted that citizens in developing countries had a significant shortage of such skills, resulting in limited human capital development (Kapur and McHale, 2005; Ofori, 2012). Ofori's (2012) recommendation was that education and training policies should be developed to improve personnel employability, productivity and flexibility so as to reduce the large percentage of unskilled citizens within developing countries.

### **2.4.4 Funding Viability**

The lack of experience in sustaining workflow affects the ability of SMME managers to create sustainable employment and economic empowerment. To assist them, two suggested banking and funding sources were identified as business angel finance and venture capital. These sources do not require collateral or equity resources to qualify for loans. These facilities have, to a limited extent, proved beneficial in funding Micro Enterprises (Wong, 2002; Siddiqi, 2005; Botes, 2009; Ofori, 2012).

### **2.4.5 Legislation**

Ofori (2012) noted that government legislation is a factor that affects the performance of enterprises in the business environment. Kesper (2000), Bhorat *et al.*, (2002) and Ofori (2012) pointed out the cost and inflexibility related to being compliant with labour and employment laws. For SMMEs, this is a general constraint which raises the cost of employment, artificially prolongs retrenchment or corrective action with respect to

human resources, and does not allow them sufficient flexibility, especially in the determination of wage levels and arrangement of their working time (Bhorat *et al.*, 2002; Ofori, 2012). When the legislative framework disrupts the operations of business, SMMEs suffer first, and this impacts on their willingness to create additional opportunities which may ensure their growth and sustainability (Ofori, 2012).

#### **2.4.6 Sub-contracting**

Rebello (2005), Cheetham and Mabuntana (2006), the CIDB (2006) and Ofori (2012) found that SMMEs do not have adequate market exposure and access to work opportunities. Furthermore, in the construction industry the market is intense, creating difficulties for new entrants especially to have sustainable workflow. Governments in some countries had to respond to the problem of providing work opportunities through preferential procurement, even though this is limited because of the number of SMMEs prevalent. Some SMMEs can only access these projects through subcontracting, which creates volume and regulation of workflow (Ofori, 2012).

Subcontracting has proved to be beneficial to SMME business owners as it stimulates growth and is an important focal point for new policy development. This could be established by ensuring the functionality of projects when adjusting procurement policies, ensuring that black-owned enterprises are prioritised to redistribute opportunities in a predominantly white industry (Berry *et al.*, 2002). Siddiqi (2005) validated this. The CIDB (2009, 2010) and Ofori (2012) argued that subcontracting arrangements are mutually beneficial to micro-enterprises and large firms, or between micro-enterprises and medium and small enterprises who will be incentivised within the contract document. This provides capacitation of SMMEs by the main contractor, who provides the required experience, builds up finances, develops business relationships and eventually assists them to penetrate the formal economic sector. Large firms which take on infrastructural contracts can assist microenterprises to grow and develop through projects sub-contracted to them, where provisions in the tender would incentivise the Main Contractor's efforts. Monate (2000) indicated that the purpose of affirmative action is to ensure the distribution of opportunities to black communities and to provide inclusivity through the BBBEE initiative. The Procurement Policies adopted in South Africa are open to all races and no exclusion is made of white people, although white entrepreneurs are the predominant stakeholders in the

construction industry. Black entrepreneurs tend to benefit from subcontracting engagements with them.

#### **2.4.7 Private Sector Conformance**

The private business sector does not always conform to the equitable redistribution of opportunities. To address this, Berry *et al.* (2002) recommended that private sector businesses must conform to other governmental institutional policies when applying for licences. It was also noted that if subcontractors were incorporated in the initial phase of the contract, mutual agreements could be established to prevent disputes on cost, quality and quantity requirements that the subcontracting SMME has to fulfil. Larger contractors are fully cognisant that SMMEs are not capable of providing the quality of product and services required, and they lack willingness in accommodating and capacitating SMMEs (Berry *et al.*, 2002).

Berry *et al.* (2002) indicate that competent intermediary processes between SMMEs and larger contractors should be established to address legal issues based on their employment contracts. SMME employees' claims are mostly not valid owing to their lack of finances, inability to provide the required quality of service and lack of skilled resources.

#### **2.5 Conclusion**

The need to ensure the sustainability of SMMEs within the MBDA led to research studies being scrutinised, specifically on the culture of construction and construction-related companies, projects and on their workers in their developing countries. These findings are proving beneficial in informing the MBDA on how to enable innovation. They include:

- Aiding project managers to integrate the contributions of participants;
- Revealing incentives and actions which can steer construction companies to deliver the best possible product;
- Helping managers through contracting and consultancy organisations to understand how to communicate with and motivate their workers; and,
- Providing guidance on viable ways to transfer technology to local firms.

The survivalist enterprises form 9.1 percent of the Total Entrepreneurial Activity in comparison to 14 to 23 percent experienced on other BRICS countries. This is due to the social, political and economic landscape being different. Due to the past injustice of exclusionary practice in the construction industry, the statements made by Striscek and McIntyre (2008) highlighted the debilitating factors SMME faces. With the growth trajectory of developing countries, 23 percent is a farce if Main Contractors don't actively strive to develop SMMEs to achieve the growth trajectory of these developing countries.

It is against this background and context that this research study was conducted, seeking to establish the sustainability of Small, Medium and Micro Enterprises within the Nelson Mandela Bay Metropole.

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

The purpose of this research study is to evaluate the sustainability of SMMEs within the Nelson Mandela Bay Metropole. It seeks to identify whether the current government initiatives (SEDA, DTI, CIDB) are effectively addressing the issues faced by SMMEs in order for them to remain sustainable. It seeks to identify whether government-funded projects are able to be sustained by SMMEs in the construction industry, with special reference to those conducting their business in the Nelson Mandela Bay Metropole (NMBM). The focus is on those funded and implemented by the Mandela Bay Development Agency (MBDA).

This chapter discusses the proposed method of study, the sample selection, instrumentation and procedures followed in conducting the survey and data analysis. It clarifies the methodology and procedures used to collect and analyse the data presented.

### **3.2 Research Paradigms**

Denzin and Lincoln (1994) explain that a paradigm can be regarded as a set of basic beliefs whose acceptance is based mainly on faith; their ultimate truthfulness cannot be established. Guba and Lincoln (1994) further defined a paradigm as a basis of belief systems or a world view through which an investigation is guided, and consensus drawn.

There are two types of research paradigms that could be utilised for a study of this nature, namely the Quantitative (Positivist) and the Qualitative (Interpretivist) paradigms. Collis and Hussey (2009) explain that the data collected in a Positivist study tends to be quantitative. However, the data collected through the Interpretive paradigm is qualitative and is seldom statistically analysed.



### **3.2.1 Quantitative Research**

Leedy and Ormond (2005) clarify that quantitative research is used to answer questions that evaluate relationships measured against variables with the purpose of explaining, predicting and controlling phenomena. Quantitative research can be further defined as actual events that can be explained logically, and that the researchers' knowledge claims must be consistent with the obtained information. This involves the application of critical evaluation and the use of multiple measures, samples, designs and analyses to investigate multiple research questions in order to understand a phenomenon (Descartes, 1998).

### **3.2.2 Qualitative Research**

Qualitative research is used to answer questions that relate to complex phenomena from the participants' point of view (Leedy and Ormond, 2005). Denzin and Lincoln (1994) further define a qualitative study as a multi-method focus on the subject matter. This involves an interpretive approach as researchers interpret phenomena in terms of the meanings attached to them by individuals. Creswell (1998: 155) elaborates on this definition by emphasising that it is an inquiry process that is conducted in a natural setting with the aim of understanding a social or human problem, namely through forming words to build a complex, holistic picture and reporting detailed views of informants.

## **3.3 Research Methodologies**

### **3.3.1 Case Study Research**

According to Pitsiladi (2015), the advantage of case studies is that they allow for Confirmatory (Deductive) as well as Explanatory (Inductive) findings. By using a variety of data sources, case studies allow researchers the opportunity to explore a phenomenon in a set context. Because the boundaries between the phenomena that is being researched, and the context, are usually not clearly isolated, case study research does help the researcher to establish differences and similarities between the independent variables proposed by asking "how and why type questions" (Baxter and Jack, 2008).

### **3.3.2 Phenomenology**

As a research methodology, phenomenology is a broad discipline, developed by German philosophers Husserl and Heidegger. It is based on the “premise that reality consists of objects and events (‘phenomena’) as they are perceived or understood in the human consciousness, and not of anything independent of human consciousness” ([https://www.philosophybasics.com/branch\\_phenomenology.html](https://www.philosophybasics.com/branch_phenomenology.html)).

“Phenomenology is the study of experience and how we experience things. It studies structures of conscious experience as experienced from a subjective or first-person point of view, along with its ‘intentionality’ (the way an experience is directed toward a certain object in the world.”

([https://www.philosophybasics.com/branch\\_phenomenology.html](https://www.philosophybasics.com/branch_phenomenology.html)).

The phenomenological approach tries to express the meaning of the world as lived by a person, since persons are dependent on the world for their existence and vice versa. Welman, Kruger and Mitchel (2005) describe it as what the researcher observes as reality and interprets as reality.

### **3.3.3 Research Methodologies Applied in this Study**

In this study, the case study and phenomenology were used on a purposefully selected number of building industry contractors, SMME Business Owner Organisations and Professional consultants.

Data collection was conducted via questionnaires and the use of semi-structured interviews with the following groups of persons employed to undertake MBDA projects:

- SMME Business Owners;
- MBDA Appointed Main Construction Contractors; and,
- MBDA Appointed Professional Consultants

The data collected were then analysed through qualitative methods. Triangulation was used to consolidate patterns that emerged from the information provided by the interviewees.

Phenomenology was the point of departure. Observations made were then compared with the answers to questions asked during interviews, with the different role players in selected MBDA projects. Focus was always on the research questions:

Research Question: What is the sustainability of SMMEs within the Nelson Mandela Bay Metropole?

Sub-question One: Are SMMEs within the Nelson Mandela Bay Metropole sustainable?

Sub-question Two: Is the quality of work completed by SMME employees acceptable?

Sub-question Three: How do SMME business owners 'manage their employees' production time?

Sub-question Four: How do SMME business owners' manage their budgets?

Sub-question Five: Do SMME business owners' sustain themselves after being granted the opportunity on projects to develop their companies?

Leedy and Ormrod (2005) explain that a phenomenological approach is a qualitative method that attempts to understand the participants' perspectives of social realities. They add that where researchers had some experience related to a phenomenon being observed, it assisted them in gaining a better understanding of the opinions of others. The researcher for this study is a Civil Engineering Technologist with a BSc Honours Degree in Applied Science. He has thirteen years collective experience, which comprises of seven years of Civil Construction works. He was employed predominantly in Grade 9 Civil Engineering contractor companies. He has specialist background in road building and urban development. He spent six years in the Public Sector environment, of which two years was as a Senior Technologist. He is currently employed as an Engineers Representative/ Small Medium and Micro Enterprise Consultant. The researcher's responsibility is predominantly construction management in developing projects that allow SMME Business Owners to develop their business. The researcher screens SMME businesses for project inclusion by ensuring that they are compliant with Public Sector requirements. He provides mentorship, guidance and assistance on all MBDA implemented projects. Due to the

high failure rate of SMMEs and the prevalence of non-sustainable SMME Businesses, the researcher was able to observe multiple perspectives of the same situation. This led to the researcher deducing an understanding of how something is portrayed from an insider's perspective.

Case study research allows the researcher to explore a specific phenomenon within an organisation's context, in this case the Mandela Bay Development Agency. To explore the non-sustainability of SMMEs within the Mandela Bay Development Agency's funded projects, the relationship between the different responses was investigated by asking the "how" and "why" questions from the respondents of comparable organisations, and then examining the data collected (Baxter and Jack, 2008).

### 3.3.3.1 SMMEs within the Mandela Bay Development Agency

The review of literature on the sustainability of SMMEs has so far focussed on the factors that cause SMMEs to fail and the factors that cause SMMEs to grow and succeed. It also explored the factors that sustain SMMEs when they work on government funded projects. This context has been deliberately set as the background to understanding how SMMEs work through the Mandela Bay Development Agency (MBDA). It is the sustainability of these SMMEs which is the topic of this research study. Following are some of the factors which characterise the sustainability of SMMEs within the MBDA.

#### 3.3.3.1.1 The MBDA Drives Change to Sustain SMME Business Owners

Ofori (2012) concluded that government is involved in four main economic activities:

- The creation of a legal and institutional framework for all economic activities;
- The redistribution of income through taxation and spending;
- The provision of good public services; and,
- The purchase of goods, services and public works from the private sector.

The MBDA operates within all four of these activities.

Ofori (2012) explains that government interventions impact on the economy, although their mandate comprises the four economic activities above. There are two main reasons that justify state intervention in the economy. Firstly, government intervention takes place when there is market failure, so it acts to promote efficiency and to achieve a more equitable distribution of wealth and income (Shakantu, 2006; Ofori, 2012). Secondly, government acts as an active participant in the market and in the economy. It is an important customer for public works, goods and services, and as a supplier of goods and services – all of which are important for the functioning of the economy (CIDB, 2010; Ofori, 2012).

Globally, governments have adopted the responsibility of ensuring the delivery of services such as education, health, security, transport services, and the basic utilities of water, sanitation and electricity (Ofori, 2012). Government provides these services by means of investments in building and maintaining the relevant infrastructure, such as schools, housing, hospitals, roads, bridges, power plants, airports and ports (Govender and Watermeyer, 2001; Ofori, 2012).

This context suits the mandate of the MBDA, as explained by Oranje and Voges (2014). It illustrates the need for local development in South Africa. So far, Local Economic Development (LED) initiatives have failed to live up to such need as stated by Rogerson (2012) that LED's have not lived up to their expectations in bringing about transformation and appear to be deriving limited benefits, as they do not address the needs of the vulnerable among the people who are plagued by poverty. Therefore, Oranje and Voges (2014) proved that a bottom-up approach to urban development was used as an alternative method for urban planning. The MBDA, in the Nelson Mandela Bay Metropole (NMBM), was identified in a case study of the Mandela Bay Development Agency in Port Elizabeth to be a successful example of an LED initiative. The MBDA was described as meeting the needs of the customer (the local community). This was done by showing respect for difference, encouraging a conscious drive to participation from all, and demonstrating a pragmatic action orientation. These were prioritised by the MBDA, resulting in their successful Local Economic Development initiatives.

### 3.3.3.1.2 SMME Business Owner Contribution to the Economy

Berry *et al.* (2002) advised that the MBDA would further enhance its success by including SMMEs and their contribution to employment and economic development. The MBDA therefore considered and introduced the following recommendations:

- SMMEs would contribute to investment, employment and income generation;
- The introduction of mechanisms that would attract previously disadvantaged SMMEs owners, allowing them to take part in the redistribution of economic wealth and income, thus highlighting their participation in the economy;
- Assisting more previously disadvantaged SMME entrepreneurs to graduate to become SMME business owners to overcome the legacy of apartheid disparities;
- Increasing the competitiveness and ability of existing SMME business owners to fulfil their role in society; and,
- Preventing the collapse of SMME businesses by adopting projects that include them.

### 3.3.3.1.3 Local Economic Development

Oranje and Voges (2014) state that the MBDA's core mandate is to implement LED initiatives through urban renewal projects. This would revive the Port Elizabeth Central Business District (CBD). The LED initiatives were incorporated into local government, the private sector; the not for profit sector and the community. All had to work together for improved competitiveness, economic growth rate, job creation and sustainability. This form of inclusive merging of the different sectors within the local economy has been applied in developed countries for over four decades. In South Africa, the legacies of apartheid inform how the MBDA seeks to bring about social justice and economic freedom to the local citizens. The LED initiative implemented by the MBDA seeks to address these issues through the Reconstruction and Development Programmes adopted by the ANC in 1994. These are seen to be catalytic mechanisms led by local government for social and economic development.

LED initiatives have evolved to become a function of the municipalities throughout South Africa. They are aimed at encouraging broad local participation and consensus

building in the preparation and implementation of inclusive, resilient and equitable economic growth proposals that are focused on social welfare-based economic endeavours utilised in the MBDA (Oranje and Voges, 2014). These initiatives primarily took on four forms:

- Local job creation and SMME development/ support through local government procurement practices;
- Community-based initiatives that developed because of the facilitation and support of non-governmental organisations;
- Emphasis on projects that promote selected spatial areas as requested by the municipality; and,
- Top-down LED, which provincial-level government attempts to utilise as catalysts to support local initiatives (Nel, 2001, 2005; Atkinson and Marais, 2006; Voges, 2013).

#### 3.3.3.1.4 Implementing change

The operation and implementation of projects in the MBDA was executed according to a Seven-Step Process. This included the business process, planning, procurement, design and development to implementation. The Seven-Step Process is illustrated as follows:

- (i) Interpreting the problem by determining the focal actors and unique core values;
- (ii) Identifying and analysing the actors;
- (iii) Preparing opportunity maps and developmental possibilities;
- (iv) Holding bilateral talks and round table discussions;
- (v) Developing business cases and business plans;
- (vi) Constituting broad-based partnerships; and,
- (vii) Preparing general plan outlines and project descriptions (Oranje and Voges, 2014).

Through the above steps, an inclusive MBDA involvement could be established with SMMEs. This has worked through the Gauteng SMME Policy Framework, which is not yet being fully addressed by the MBDA. The Gauteng SMME Policy Framework (2014) was an economic strategy developed to accelerate and sustain shared growth using entrepreneurship as a pathway. This process entails generating employment and creating sustainable livelihoods. The strategy included an SMME framework based on a Business Sophistication Measure (BSM) proposing a six-pillar framework which addressed the following challenges faced by SMMEs:

- (i) Non-financial entrepreneurial support initiatives with a focus on entrepreneurial training;
- (ii) Financial entrepreneurial support initiatives;
- (iii) Capacity-building initiatives;
- (iv) Regulatory reform and support of the informal economy SMME sub-sector;
- (v) Research on specific sectors and the role of SMMEs in building partnerships; and,
- (vi) Employment retention and linking with the national Training Layoff Scheme.

These pillars were programmed accordingly, with resources set aside to ensure effective implementation and accountability through monitoring and reporting (Gauteng Provincial Government, 2014). This experience of Gauteng is being followed closely and somewhat applied by the MBDA.

#### 3.3.3.1.5 Administration and Management of the SMMEs

The MBDA seeks to address the project and financial management ability of the contractors, which are critical success factors. Success factors include:

- The ability of contractors to network their services among the industry role players (Ofori, 2012);
- The experience and management expertise of the SMME Business Owner (Ofori, 2012);



- The ability of SMME managers to maintain a good relationship with clients, suppliers and other relevant role players (Ofori, 2012);
- The project management's capability, marketing and supply chain relationship (Ofori, 2012);
- "The manager's understanding of contractual requirements, progressive estimating, scheduling, purchasing, knowing what must be conducted and how, and being flexible enough to adjust to changing situations" (Ofori, 2012:11); and,
- The competence and skill of SMME personnel, sufficient resources, time management of activity planning and performance, teamwork, effective communication, developing people skills, honesty, and integrity (Ofori, 2012).

#### 3.3.3.1.6 Procurement

Ofori (2006) elaborates that procurement influences productivity and innovation, and significantly affects project and team performance through problems with integration of all participants. Although effective in developing countries, temporary organisations could be formed to undertake construction projects which enable more inclusive participation across the country.

Ofori (2006) expresses the view that developing countries should innovate and apply procurement systems that are appropriate to their culture and business traditions. This process was adopted by the MBDA (Oranje and Voges, 2014). Ofori (2006) indicated that this must be done so that the community culture is reflected in the project procurement and management.

### 3.4 The Credibility of Case Studies

The qualitative research study places great emphasis on trustworthiness and credibility at the level of transparency, methodology and adherence to evidence (Yin, 2011:19). For qualitative research to ascribe to empirical research, the research should be based on an open set of evidence which has been analysed and whereby conclusions can be made (Yin, 2011:21).

In order to give credibility to this study, care was taken to meet the above recommendations. The method followed is described below:

- (i) The research study question is clearly written, objectives are provided, and the question is substantiated. This is provided in Chapter One (Research question, sub-questions).

Research Question:. What is the sustainability of SMMEs within the Nelson Mandela Bay Metropolitan Area?

Sub-question One: Are SMMEs within the Nelson Mandela Bay Metropole sustainable?

Sub-question Two: Is the quality of work completed by SMME employees acceptable?

Sub-question Three: How do SMME business owners 'manage their employees' production time?

Sub-question Four: How do SMME business owners' manage their budgets?

Sub-question Five: Do SMME business owners' sustain themselves after being granted the opportunity on projects to develop their companies?

- (ii) An appropriate strategy formulated for the case study (see section 3.3.3.1) was applied and conducted through semi-structured interviews. There were in-depth interviews conducted with at least one participant within the three groups of MBDA project role players, namely SMME Business Owners, MBDA Appointed Main Contractors and MBDA Appointed Professional Consultants.
- (iii) Data was collected and managed systematically through voice recordings of the semi-structured interviews. This primary data was transcribed for analysis (Chap 4).

- (iv) Data was analysed through Atlas.TI software through word count and through co-existence of codes. The propositions were used as source codes and additional codes were added through text analysis (open coding). The first proposition assumed that SMME Business Owners had prior experience in construction, possessed the necessary understanding and knowledge of construction and could operate a construction business independently. The second proposition assumed that SMME Business Owners had no experience, did not understand the construction environment, but could operate a business. The propositions were further linked to whether appointed Main Construction Contractors aided or contributed to the failure of the SMME Business Owners sustainability. To ensure that the process was triangulated, the \*\*proposition further assumed that the appointed Professional Consultants planned and designed for SMME Business Owners inclusion, or excluded the SMME Business Owners from the projects. The Atlas.TI software further assisted the researcher to interpret data through a qualitative method to explore positions and additional themes and negative cases. The comparative analysis from the transcripts of interviews was done in a tabular format. The main themes from interviews were identified and additional themes envisaged or anticipated. These arose from the transcript interpretation and provided clarity as each research question was addressed.

### **3.5 The Data Collection Process**

Data collection came from questionnaires and the use of semi-structured interviews with the following groups of persons employed to undertake MBDA projects:

- A. SMME Business Owners
- B. MBDA Appointed Main Construction Contractors
- C. MBDA Appointed Professional Consultants

The data collected was then analysed through qualitative methods. Triangulation was used to consolidate any patterns that emerged from the information provided by the interviewees (Attached questionnaires included in Appendices).

Each SMME business owner selected to be part of this study was evaluated against the Construction Industry Development Board's (CIDB) Register of verified SMMEs. This reflects a review of the main contractor's developmental stage on the CIDB. The CIDB data base was also used to identify their progression and references from past contractor engagements of these SMMEs.

Data collection was conducted by pre-approved research questions which were given in hard copy format to participants who did not have internet access.

Conversations and interviews were conducted with the owners and employees of SMME Business, the Appointed Main Construction Contractors and the Appointed Professional Consultants. Interviews were conducted by the researcher and were documented in writing. In addition, interview sessions were tape recorded. Records were kept of all written information, the interview questions, telephonic discussions, transcripts and field notes.

Every effort was made to ensure that information shared was not distorted or manipulated in any way. The confidentiality of the respondents was also ensured by giving them codes to identify them. The codes were structured to distinguish between the three different Appointed Professional Consultants, three different Appointed Construction Contractors and the five different SMME Business Owners.

Preparation for the data collection process included reading through source documentation such as textbooks, standard drafting manuals, national and state established standard manuals. Journals were reviewed to determine industry adopted standards, current opinion, ideas, developments and trends in the construction sector. Official records and documents formed part of the additional sources of information. It is these factors that define an SMME's development and sustainability. This review enabled the researcher to identify the skill sets needed in the construction sector, specifically those needed by owners and employees of SMMEs. Semi-structured

interviews then clarified whether SMMEs are sustainable in government-funded projects, focussing also on the skills and competencies required to grow the SMME.

Past and current projects were also carefully analysed, with special focus on key factors that contributed to the success or failure of projects. The final evaluation of the project included its progress based on time, budget allocations and quality of work completed. Reasons for a project failing or succeeding were recorded. Contractual mechanisms were evaluated for their benefit to the SMME being sustainable. This too was included in the semi-structured interviews conducted with MBDA Professional Consultants or project managers, a professional group of persons that designed and implemented the projects on behalf of the MBDA. Contractual documentation, project structure and a project's life cycle were analysed. The review was then discussed in the interviews.

Past and present Appointed Main Construction Contractors were interviewed to understand how SMMEs affected their construction operations. The interviews focused on their past successes and failures, as well as their in-house ability to accommodate and develop SMMEs within the construction industry.

Managerial skills and competencies of registered SMME business owners were further assessed during the interview process. Semi-structured interviews were used as the primary method in determining the required competencies for SMMEs. This would be vital to the study as many SMME Business Owners and employees were actually a group of:

... novice or aspiring contractors who lack the necessary competencies and resources to conduct work. SMMEs manipulate their shortfalls through the government's commitment to allocating thirty per cent of the contract value to SMMEs between grades one and four. Ideally in the MBDA preference is given to black-owned SMMEs between grades one to two (Treasury 2017:27).

In order to collect relevant data, three different interview guides were constructed. The interview questions were constructed for the Appointed Professional Consultants, Appointed Main Construction Contractors and the SMME Business Owners. This was to understand what role each of these played in the sustainability of SMME inclusions, to projects implemented by the MBDA. All contained similar themes, with the responses contributing to the development of a case study that would portray the

actuality of the problems faced by SMME Business Owners. They were structured so as to reveal why SMME businesses were not sustainable even after being granted government-funded projects to complete.

In summary, the primary data collected comprised information obtained from the interviews conducted with the persons who operate a SMME Business Owner Organisation, MBDA Appointed Main Construction Contractors and MBDA Appointed Professional Consultants. As explained, the case study approach was employed.

Case study research thus allows the researcher to explore a specific phenomenon within an organization, in this case the Mandela Bay Development Agency, in context. It explored the non-sustainability of SMMEs employed on Mandela Bay Development Agency funded projects and implemented projects. The relationships of the different responses from the interviews conducted from the three different groups was investigated by asking “how” and “why” questions. The transcripts were analysed (of comparable organizations and interviewees) and data examined as explained by Baxter and Jack (2008: 545).

This approach was applied through the use of semi-structured interviews with the following groups of persons employed to undertake MBDA projects:

- SMME Business Owners
- MBDA Appointed Main Construction Contractors
- MBDA Appointed Professional Consultants

After the semi-structured interviews, data collected were analysed through qualitative methods and triangulation was used to consolidate themes and patterns emerging from the stated interpretations from the different role players.

The data collection process is described through the following steps:

- Semi-structured interview questionnaires were sent to the respondents (SMME Business Owners, Appointed Main Construction Contractor and Appointed

Professional Consultants, MBDA Appointed Professional Consultants) explaining the purpose of the case study before conducting the interview;

- Interviews were conducted with Owners and Employees of SMMEs who were willing to fulfil their obligation in wanting to take part in the interview;
- Interviews were conducted with MBDA Appointed Main Construction contractors and business professionals who had responded;
- Interviews were conducted with MBDA Appointed Professional Consultants who had responded;
- Interviewees chose where the interview should be held;
- Recording of interviews was done during the interview; and,
- Analysis and synthesis of data was done in accordance with qualitative research methods.

### **3.6 Data Analysis**

The data collected were analysed to identify emerging themes. Focus was maintained on the problem statement, namely that government funded SMMEs do not seem to be able to sustain their business.

Data collected were reviewed against the current literature. The relevancy of the emerging themes and recurrent events were analysed. All factors which spoke to the non-sustainability of SMMEs were noted.

One of the research objectives was to determine whether SMME Business Owners/ main contractors/ managers possessed the necessary skills and ability to develop and accommodate their SMMEs in their daily business operations. The research also intended to identify SMME Business Owners/ main contractors who had gone through Contractor Development Programmes. The strategies that they used in sustaining their success and growing their businesses had to be identified. The MBDA had to identify what factors led to the success or failure of SMMEs incorporated into their projects. How could the MBDA ensure that SMMEs on government-funded projects

are supported so that they remain sustainable? How could the SMME environment be improved to address contractual disparities?

On a broader scale, the MBDA had to also identify how tenders are formulated, how designs are structured, whether SMME involvement is considered and whether the level of labour-intensive design considerations is prioritised. The interview sessions with the MBDA Appointed Professional Consultants aimed therefore at understanding the responsibility of government-funded projects. The questions set aimed at determining what approaches were developed within their institutions to fulfil governmental commitments and responsibilities to the community and society at large.

Once all these factors had been analysed and categorised, the data were assessed through a qualitative process which is explained in Chapter 4.

In summary, the research seeks to address the current issues impacting on SMME development and their attachment into the MBDA-funded projects. The difficulty currently being experienced by the MBDA is that the SMMEs have unrealistic financial expectations. SMMEs regularly request upfront payments once a *Letter of Appointment* has been given to them. This was observed and encountered during the researcher's engagement on the project implementation. They also expected an unrealistic amount of profit from the MBDA Appointed Main Construction Contractors, which led to projects becoming non-viable. Then there were the deliberate closure of building operations when their demands were not met, with a high level of intimidation emerging when they were addressed on their quality of work and progress. Such crippling delays from the SMMEs indicate a lack of competency and resources.

The research intends to provide value to the current construction industry. It seeks to enlighten the major role players in the implementation process of the projects. The data analysis seeks to create an improved process to address all role players in the construction sector so that together, more SMMEs could become sustainable.

Leedy and Ormrod (2005) propose that a case study typically involves the following steps:

- Organisational detail about the case;



- Categorisation of data collected;
- Interpretation of single instance;
- Identification of patterns in data; and,
- Synthesis and generalisation.

For this study, this process was carried out once all the interviews had been conducted and the data collected had been appropriately classified per each heading. The report also conformed to the following headings:

- Organisational detail about the case study;
- A detailed description of the facts related to the data collected;
- A description of the data collected;
- Discussion of patterns that formed/developed during the data collection process; and,
- A connection to the larger scheme of things, pointing out where the research would be beneficial (Leedy and Ormrod, 2005).

### **3.7 Reliability and Validity of Research Process**

Leedy and Ormrod (1995) argue that a case study starts with analysing data during the data collection process, with preliminary conclusions which would most likely influence the kind of decisions that the researcher makes after the study. Therefore, the researcher should ensure there is a convergence of data where separate pieces of information all point to the same conclusion. This is analysed and linked through common themes that arose from the interpretation of Atlas.TI from the transcripts of interviews conducted. The common themes were linked with similar themes emerging from the different groups. This was to understand how the non-sustainability of SMME themes emerged from three different projects implemented by the MBDA, and how these themes correlated with the analysis of similar challenges experienced on the three projects implemented by the MBDA.

The data, their treatment and interpretation have to be based on their reliability. Leedy and Ormrod (1995) explain that validity as a measurement instrument is the extent to which an instrument measures what it was intending to be measured. Welman, Kruger and Mitchel (2005:142) further explain that validity is the extent to which the researcher's findings accurately represent what really happened in the observed situation. Welman *et al.* (2005:142) go on further to explain that an effect or test is valid if it demonstrates or measures what the researcher thinks or claims it does. Research errors, such as faulty research procedures, poor samples, and inaccurate or misleading measurements, can undermine validity.

Therefore, Welman *et al.* (2005:145) explain that any given instrument measures three components:

- The construct, the research problem intended;
- Irrelevant constructs; and,
- Random measurements (reliability).

The first two components represent systematic sources of disparities due to individuals remaining constant. The last component refers to accidental factors that vary from one measuring occasion to the next, and from the one individual to the next in a completely haphazard way (Welman *et al.*, 2005:142).

This research construct was dependent on triangulation in navigation. The study followed a triangulation procedure where two or more measures evaluated the same construct: the more they overlap, the higher the relationship between the constructs becomes. To determine the current context of SMME sustainability in government-funded projects, the triangulation procedure was followed on the different projects, taking into consideration the measure of three different role players (for each of the projects) who were interviewed to address the problem statement (Welman *et al.*, 2005:143).

The data collected should also be reliable. Welman *et al.* (2005) state that findings from a research study should be credible. Therefore, to ensure that the data which the

researcher collected conforms to validity and reliability, the following points were addressed:

- Identification of any bias in the researcher's methodology and analysis;
- Drawing of comparisons with different comparable businesses;
- Validation from respondents in acknowledging representation;
- Freedom of expression by respondents;
- Triangulating the data that were collected through interviews and questionnaires conducted with role players; and,
- Reviewing of data to identify unsubstantiated evidence and negative cases that contradict the problem statement, namely that government-funded SMMEs are non-sustainable.

### **3.8 Delimitation of the Study**

The research study focuses on SMMEs which are classified as the Survivalist and Micro Enterprises. These SMMEs had to be allocated projects within the Nelson Mandela Bay Metropole Area, and their construction activity had to be within the Nelson Mandela Bay Metropole. This area includes Port Elizabeth, Despatch and Uitenhage. SMMEs included those who were attached to a Big Business Main Contractor, one who has fulfilled the supply chain criteria and subsequently won a construction tender through the Mandela Bay Development Agency. The research study was focused solely on MBDA-implemented projects, starting from the design and implementation phase to the SMMEs attachment. Labour intensive factors were not considered for this research.

### **3.9 Ethical Considerations**

Ethical approval was sought from the Faculty of Engineering to conduct this study as it included interviews with persons participating in SMMEs in the Construction Sector. The researcher aimed to address issues around trustworthiness, credibility and validity. An Informed Consent Form was obtained from all persons who were

interviewed, clarifying that they participated on their own free will. Interview questions were forwarded to participants ahead of the interview, and the interviews were recorded with their permission. No persons were coerced into participating in the study. The aims and objectives of the study were clearly communicated and outlined to participants.

### **3.10 Conclusion**

This research project was conducted using the constructivist paradigm to investigate a single case study. Data from numerous sources were collated to study the phenomenon in context (Mouton, 2011). This was to develop an information constructor, whereby the researcher actively constructs or creates their own subjective representation of an objective reality experienced on the three projects that were implemented by the MBDA.

Interviews with MBDA role players were conducted. The MBDA was included in context through the interviewing of three groups of participants:

- MBDA Small Medium Micro Enterprises Owner Organisation (five interviewees – Owners and Employees of SMMEs)
- MBDA Appointed Main Construction Contractors (three interviewees); and,
- MBDA Appointed Professional Consultants (three interviewees).

Three groups were investigated so as to explore the possibility that there may be multiple interpretations of the same event (Leedy and Ormrod, 2005). Twelve participants were identified, but only 11 were interviewed. One SMME Business Owner declined to be interviewed as the Business Owner was working outside the Eastern Cape province and could not avail himself for an interview.

The data for this investigation was collected from Appointed Main Construction Contractors who tendered for construction works to be built; the Appointed Professional Consultants who developed the contract and designed and implemented the project, and the SMME Business Owner organisation interviewees based on their intimate knowledge of MBDA projects that were successfully completed. The intention

of the research effort was explained to each participant. Participants were clear that they would not be coerced into participating in the interviews.

Interviews were conducted in a location where each individual would feel comfortable to meet. Permission was requested from each participant for the researcher to record the interview. The interviewees were offered the option to remain anonymous. The interviews were handwritten verbatim and only the position of the interviewee in his/her respective company was noted on the scripts. The scripts were analysed through qualitative methods via Atlas.TI in order to verify the propositions and to discover additional themes. The main themes that emerged from interviews were identified and compared to the main themes that emerged from comparable organisation interviews. The contents of the interviews were analysed by creating a new hermeneutic unit in Atlas.TI for each interview transcript. The coding process was used to discover themes other than those raised in the questionnaire. The co-occurrence analysis tool in Atlas.TI was used to analyse the relationships between various codes from the interviews. Triangulation was used to consolidate any patterns that emerged from the information provided by the interviewees.

## **PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS**

### **4.1 Introduction**

The focus of this research study is the perceived non-sustainability of SMMEs which were attached to in MBDA projects, as discussed in Chapter Three. Qualitative methods were used to address the research question. Qualitative research methods were appropriate for this study as various factors contributing to the non-sustainability of SMMEs were identified by using a constructivist paradigm that suggests that relative truth is dependent on one's perspective (Baxter and Jack, 2008). The perspectives of the following interviewees were explored:

- Three MBDA Appointed Professional Consultants.
- Three MBDA Appointed Construction Contractors.
- Five SMME Business Owners who were employed by the contractors.

The SMME companies provided a holistic understanding of the significant factors that make SMMEs non-sustainable.

The responses from the interviewees identified the needs of SMMEs, and comparisons were drawn based on their input. The identity of all interviewees was protected by allocating them neutral codes as names.

### **4.2 The Focus of the Data Collection Process**

A semi-structured questionnaire (Yin, 2011) formed the basis of interviews with the Professional Consultants and the Construction Contractors. The structure of the interview was based on the proposed perceived factors contributing to the non-sustainability of SMMEs within the MBDA projects. The questions were developed to address the objectives and explore how they could be better understood. The purpose was to identify the perceived reasons for the non-sustainability of SMMEs. How work operations were conducted was investigated, based on the following points:

- Contractor arrangements

- Management of time
- Management of cost
- Management of quality
- Employment of competent staff
- Ability to be sustainable

#### **4.2.1 Selection of Participants for the Interviews**

The participants were selected because they each had prior industry knowledge of the inner workings of their respective fields of expertise. Their input would thus better inform the research study. The respondents' credentials and positions were kept anonymous.

Interviews were conducted with the following respondents:

- Three MBDA Appointed Professional Consultants who were responsible for the designs of projects, and who served as the Project Managers on the respective projects; they designed and implemented the projects.
- Three MBDA Appointed Construction Contractors who successfully tendered for the jobs and were appointed to undertake projects allocated to them; they conducted the construction work on site.
- Five SMME Business Owners who were employed on a sub-contractor basis. It was a pre-requisite that they were employed on projects that were governed by the Preferential Procurement Policy Framework Act (PPPFA) Revised Amendment (National Treasury, 2017) and the Mandela Bay Development Agency (MBDA) to ensure a baseline for comparisons.

It must be noted that even though a semi-structured questionnaire was used, the purpose was not to ascertain information in the form of a survey, but to understand how these individuals conceptualised and viewed the status of developing, designing and assembling a project that is conducive to an SMME's involvement. It also tried to understand how Construction Contractors accept SMMEs, and how SMMEs operate within the construction environment. The validity of the answers was not based on objective questions (Yin, 2011). Therefore, the researcher had to develop an

understanding of what was conveyed in the interview sessions, and what concerns and sentiments were noted. This helped him to understand the actual problems facing the three different groups, as well as to identify the relevant responses that were perceived as causes of the non-sustainability of SMMEs.

#### **4.2.2 The Interview Process and Recording of Data**

The questions were sent to each participant after they had agreed to an in-depth interview with the researcher. This allowed the participants to prepare for the interview. Interviews were conducted at the participants' choice of venue and permission was requested from them for the interview to be recorded electronically. The purpose of the research study was briefly explained, as well as the researcher's interest in the non-sustainability of SMMEs. The researcher later transcribed the interviews. The participants were made to feel at ease during the interviews and were not forced to answer any questions if they did not feel knowledgeable about the sensitive issues pertaining to SMMEs. They did not have to answer any question that made them feel uncomfortable. Participants often took time to explain procedures, processes and concepts in detail, as was evident in the transcripts.

The analysis of the data was done through disseminating the information using a set of Source Codes, developed from the perceived non-sustainability of SMMEs within the MBDA projects, as well as Open Coding (Yin, 2011) during each interview. The content of the interviews was analysed by creating a new hermeneutic unit in Atlas.TI for each interview transcript. The coding process was used to discover themes other than those raised in the questionnaire. The co-occurrence analysis tool in Atlas.TI was used to analyse the relationships between various codes from the interviews.

The answers to each question, from all eleven respondents, were further compared in tabular format, which formed part of the raw data. This served as a summary to find themes or patterns in addition to those discovered through Open Coding. For example, the first respondent, from the Professional Consultant Group responses mentioned early in his interview that SMME Business Owners "lack relevant experience." He felt that this was a major point and supported the perception through their inability to do construction work at various times. The theme that emerged from this interview pushed the researcher to evaluate the experience of the SMMEs: what formal



construction experience did they have before starting a company? Without experience and an understanding of the construction industry, they would not be a sustainable business.

### **4.3 Identification of Themes that Emerged from the Data Collection**

This research study proposed to evaluate the sustainability of SMMEs within the Nelson Mandela Bay Metropole. It sought to identify whether the current government initiatives (SEDA, DTI, CIDB) are effectively addressing the issues faced by SMMEs in order for them to remain sustainable. It sought clarity on whether large construction companies should also take responsibility for keeping SMMEs sustainable.

To achieve the above purposes, the following objectives were formulated for this study:

**Objective 1:** To identify the factors that affect the sustainability of SMMEs within this study area.

**Objective 2:** To investigate the skillsets of SMME employees and the effects that these skills have on the quality of their work.

**Objective 3:** To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

**Objective 4:** To investigate how SMMEs are funded, and how budgets per project are managed.

**Objective 5:** To identify the factors that influence SMMEs development after they have received training through development programmes.

Review and analysis of the data collection led to common themes being identified. They were classified in alignment with the Research Objectives.

**Objective 1:** To identify the factors that affect the sustainability of SMMEs within this study area.

Common Themes: Factors that affect the sustainability of SMMEs

- Lack of prior construction knowledge;
- Inefficient construction planning methods;
- Need for SMME involvement during design of project;
- The relationship between sustainability, relevant knowledge and past experience; and,
- The effects of SMMEs being unsustainable.

**Objective 2:** To investigate the skillsets of SMME employees and the effects that these skills have on the quality of their work.

Common Themes: Effects of SMME Skills on Quality of Work

- SMME quality of work;
- SMME quality of labour; and,
- The effects of quality on non-sustainability of SMMEs.

**Objective 3:** To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

Common Themes: SMME Time Management

- SMMEs do not have knowledge of time management
- The effects of poor time management by SMMEs

**Objective 4:** To investigate how SMMEs are funded, and how budgets per project are managed.

Common Themes: SMME Budget Management

- SMMEs are unable to manage cost;

- Contractor assistance in cost management for SMMEs; and,
- The effects of SMME inability to manage cost.

**Objective 5:** To identify the factors that influence SMMEs development after they have received training through development programmes.

Common Themes: SMME Progress after working on an MBDA Project

- The need for SMME continuity; and,
- SMMEs cannot sustain themselves after development programmes.

## 4.4 Analysis and Results

### 4.4.1 Factors that affect the sustainability of SMMEs

**Research Objective 1** related to the SMMEs' organisational structure, relevant construction skills and the required conditions to procure resources. Their ability to be sustainable was investigated. Relevant inputs from the three groups of interviewees are discussed in this section.

Common Themes: Factors that affect the Sustainability of SMMEs

- Lack of prior construction knowledge;
- Inefficient construction planning methods;
- Need for SMME inclusion during design of project;
- The relationship between sustainability, relevant knowledge and past experience; and,
- The effects of SMMEs being unsustainable.

#### 4.4.1.1 Lack of prior construction knowledge

The Professional Consultants and Construction Contractors both had a primary concern that the SMME Owners did not have prior construction knowledge. This evaluation was confirmed by the SMME Business Owners during their interviews.

Shakantu (2016) emphasised the critical need for core competencies to be identified, and that SMMEs should have the necessary entrepreneurial abilities to develop themselves into a formal business. This prerequisite was also supported by Matshibe (2013).

The three Professional Consultants were made up of one architect and two civil engineers. The Construction Contractors were all civil engineering contractors. All of them confirmed that the lack of previous construction experience and understanding of the construction industry posed major problems to the success and sustainability of SMMEs. The four SMME Business Owners honestly identified this factor as their key weakness as well. Two Professional Consultants added that with the right contractor being appointed, they could further assist in the development and sustainability of SMMEs.

Professional Consultant 2 explained:

“Well, I think with the [Project Name withheld] - we accommodated them [SMME business owners] well when the scaffolding was done well by a SMME, and a large part of the paving, it went really well, so that was more organized.”

Professional Consultant 1 explained:

He was the... “right contractor because he could understand the problems that the SMME had in a far better way than a someone that came from a different background.”

SMMEs do not tender for their respective work packages. This prevents the scope of work from being appropriately negotiated. The procedure followed is that all SMMEs are put onto a list that is obtained from their ward councillor’s office, or the SMME Business Forum. Construction Contractors are given these lists, and they pick SMMEs from the list provided by the ward councillor. The list does not give a comprehensive description of the job competencies of the SMME. This then inadvertently affects the Construction Contractor’s building project. Progress would clearly be handicapped by the SMME Business Owner’s lack of knowledge of construction, and especially by their lack of experience that is needed on sites. From the interviews conducted, it appeared that only one out of the five SMME Business Owners had previous

construction experience. One of the three Construction Contractors actually requested SMMEs through the community liaison officer, did his personal advertising and screened applicants through formal interviews. On the MBDA Project allocated to Construction Contractor 2, he had one SMME that he had appointed himself and ten SMMEs that were given to him by the MBDA as nominated sub-contractors. The others, namely Construction Contractors 1 and 3, both appointed SMMEs from a relevant list given to them from the ward councillor where the construction works were to be done.

Construction Contractor 1 commented as follows:

“Most of our projects, we don’t have much of choice in who we use. It used to be where the list came from the ward councillor, but it seems to be changing, where you will be receiving the list of SMMEs from Supply chain. So, you won’t have much of say in which SMMEs you want to use.”

Only one Professional Consultant planned for an SMME’s involvement in his project development, while the other two relied on the Construction Contractor to plan the work schedule for the SMMEs. It can be concluded, therefore, that the responsibilities for SMMEs are put on the Construction Contractor, even though the Professional Consultants are tasked within their briefs to incorporate SMMEs into the project. It is assumed that when projects were allocated, SMMEs were not prioritised as required by the enacted legislation – the Preferential Procurement Policy Framework Act, PPPFA of 2017 (National Treasury, 2017). This Act stipulates that at least thirty per cent of construction work has to be set aside for SMMEs on all government projects. Construction Consultant 2 was the only one that catered for and incorporated SMME planning into his project strategy.

Consultant 2 explained:

“So, what you want to do is take out the specialist work and the dangerous works and see what is left and see what of the thirty percent could be gotten out of that. We at times had to be creative, one project now is affected due to the SMME digging and applying the material. There is nothing else we could do, but we have to give work to the SMMEs. All that this is doing is pushing up the cost of the project.”

Owing to the multi-disciplinary array of fields of expertise within the construction environment, apportioning works for SMMEs in their variability is difficult. As noted, of the four SMME Business Owners allocated to construction projects, none of them understood how construction companies operated. This was evident during the analysis of the transcripts.

SMME Business Owner 1 explained that he had no prior construction experience and explained why he pursued construction:

“Firstly, unemployment. Secondly, trying to earn something that would put extra income to what I was doing.”

SMME Business Owner 2 shared similar sentiments, as she too had no prior experience. She indicated that she pursued construction to earn some money:

“We chose construction, because we started Red Location accommodation and we did not have the facilities and money.”

SMME Business Owner 3 indicated that he had no prior construction experience and pursued construction for the following reason:

“I felt that I am not going anywhere, and I need a new challenge.”

SMME Business Owner 4 also had no prior experience, and the reason he pursued construction was:

“I see that construction is the way to develop the economy, and there are many jobs.”

It is evident that anyone can start a company and register on the CIDB without prior experience or understanding. This is the key factor noted in the construction industry. It should be emphasised that electrical contractors are required to provide accredited qualifications stating their competencies. This is a pre-requisite for them to register their business and is included in the CIDB application form for contractors. Section D of the form specifies the requirements for registration in Electrical Engineering for EB classes (Code given by CIDB to identify Electrical Contractors) of work available. This would apply to the construction sector as well, demanding that any person starting a construction company must have prerequisite understanding of this specific industry.

This would ensure that whoever enters into the Civil or Building industry has had previous experience and understanding of the works to be constructed.

The conclusion reached was that in order for SMMEs to remain sustainable, they needed relevant construction experience and understanding of the construction industry.

#### 4.4.1.2 Inefficient construction planning methods

When Professional Consultants and Project Managers are appointed to develop a construction project, they should have foresight in the outcome if they include SMMEs in their planning stages. This would cater for in-depth risk analysis.

Of the three Professional Consultants, only one planned for SMMEs (Consultant 2).

Of the three Construction Contractors, only two were open to accommodating SMMEs (Contractors 1 and 3).

It is imperative that project designs within the public sector should have a more labour-intensive approach in their planning. Planning usually includes a needs analysis formulated by the client and stakeholders. SMME Business Owners should be included at this stage. This would ensure that when Professional Consultants and Project Managers are appointed, they develop a project that includes all potential risk factors. Professional Consultant 3 commented that any additional cost attributed to SMMEs should be borne by the client (the funder of the project), and that the full responsibility of SMMEs should be that of the Construction Contractors. This ranges from the appointment of the SMMEs, providing them with the relevant skills to conduct work and the programming for SMME packages of work. Some of the risk and responsibilities would be shifted from the Consultants, and these can now be better facilitated by the Construction Contractors. The objectives of the project can be thus better established, with the SMME Business Owners improving with each project that includes them. The process would foster a habit of tendering, as it was noted that none of the SMMEs tender for work.

Construction Contractor 1 explained:

“Most of the projects, we don’t have much of a choice on who we use. It used to be where the list came from the ward councillor, but as it seems to be changing where you will be receiving your list of SMMEs from Supply chain. So, you won’t have much of a say on which SMMEs you want to use.”

This sentiment is shared by Construction Contractor 3:

“When tendering with different government entities, they have different SMME procedures. Normally we request a listing of compliant SMMEs off a database which is presented.”

The conclusion reached is that the SMME list is the root cause of their being unsustainable. SMMEs who lack construction experience and an understanding of the construction industry are added onto this list, which is then given to Construction Contractors. This is why SMMEs are not able to sustain themselves.

#### 4.4.1.3 Need for SMME inclusion during design of project

Of the five SMME Business Owners, only two (SMME Business Owners 1 and 4) indicated that they tendered for work. This contradicted the fact that they were included in only one construction project, for which they were selected from a list. Two of the five SMME Business Owners (SMME Business Owners 2 and 3) affirmed the statement by the Construction Contractor - that they were selected from a list from the ward councillor’s office. The last SMME Business Owner (SMME Business Owner 5) indicated that he gets work via word of mouth, and that he checks the notice boards in the municipality:

“Work travels by word of mouth and I also go out to supply chains of municipalities and all the parastatals within the Metro.”

It was only SMME Business Owner 5 who understood the need for an SMME to be sustainable. The others did not seem to understand the concept and its relevance.

SMME Business Owner 5 explained that:

“I go out and market my company to other smaller companies and bigger companies. The smaller companies normally take the message to larger companies, what type of work is required. I am currently in civil works and



building construction, with any maintenance works that I require I'll go to informal, smaller tenders. I also try and get these tenders as these works sustain my company and move me forward.”

It would be beneficial to SMMEs and contractors if the construction industry was more accommodating to SMMEs. As noted from the interviews, four out of the five SMME Business Owners resorted to construction as a means to generate more money.

Contractor 3 clearly explained:

“You need to understand the art of building or being a contractor; you can't just walk in and expect to be a contractor. The first thing... the SETA's are a waste of time; they don't give the guys a skill, so we need go back to having proper training colleges that guys come out at the end of the 4 or 5 years with a proper apprenticeship qualification.”

“And that SMME who is a manager is being able to employ people with proper skill, he is then equipped to do the job; he has the right staff to do the job. As long as he manages that staff, he is half way there. But the moment you get a guy who is a teacher, he goes out to the township and he says 'I need brick layers' and 10 people lift up their hand and they are not bricklayers. They haven't got the faintest idea. There is no way he will be able to make money on those guys because he has no clue if that guy could lay 1000 bricks a day. When I started building, if a guy didn't lay 1500 bound bricks a day, he didn't get employed. If a guy lay 300 bricks, he gets employed and that's the difference. That SMME has no hope of success, he doesn't have access to skilled staff. Because he doesn't have access, he uses whoever he gets, so he's destined to fail.”

The conclusion reached is that even though SMMEs are non-sustainable, planning for their inclusion upfront is as important as their relevant skill and understanding of construction.

#### 4.4.1.4 The relationship between sustainability, relevant knowledge and past experience

All three of the Professional Consultants and all three of the Construction Contractors agreed that the non-sustainability of SMMEs was due to their lack of construction experience. They also pointed out that prior accredited training would be a preferred benefit, as this would ensure that SMMEs are able to tender for work instead of being accepted from a list.

Planning for SMMEs, even though it was not prioritised, could be an important factor to consider in ensuring that projects are more efficiently conceptualised. This would ensure that the MBDA's objectives are better developed so that its project strategy aligns with its corporate strategy.

All the respondents agreed that tendering is an important way forward, while the aim of contractors should be the development of SMME competency rather than an easy avenue to access money.

#### 4.4.1.5 The effects of SMMEs being unsustainable

As previously mentioned, owing to SMMEs being attached to projects where the client/funder prioritises their competency, the results of any delay or adverse effects to the project are carried directly by the client. This makes projects implemented by the MBDA non-sustainable, simply because of the cumulative factors associated with the SMMEs attached.

Consultant 3 explained:

“They don't have the technical know-how to do more than basic stuff like painting, bricklaying and so on, and so their use for us is limited... and when they threaten to close the site, it has a severe impact on our projects.”

Therefore, the SMMEs who formed part of the research should be prioritised as their non-sustainability directly affects the projects, which can make the implementation process by the MBDA non-sustainable. Berry *et al.* (2002) emphasises that a relationship should be enabled between contractors and SMMEs to eliminate the potential bias that exists. If SMMEs have the necessary entrepreneurial engagement,

their long-term survival would be beneficial to larger construction companies to enable a sustainable environment (Zoltan and Audretch, 2003). Shakantu (2016) added that a platform where skills and better understanding can be entrenched within SMMEs is essential. Its generation of knowledge would improve an SMME Owner's understanding of the need to be profitable. Both the primary and secondary literature reviews validated the non-sustainability of SMMEs if they did not have the relevant education and training.

#### **4.4.2 Effects of SMME Skills on Quality of Work**

**Research Objective 2** To investigate the skillsets of SMME employees and the effects that these skills have on the quality of their work.

##### Common Themes: Effects of SMME Skills on Quality of Work

- SMME quality of work;
- SMME quality of labour; and,
- The effects of quality on non-sustainability of SMMEs.

Attention to detail and quality form the basis of all construction projects. They form the pillars of successful project implementation. In the MBDA context, it has been established that the SMMEs employed in construction do not have the required competencies. Many lack knowledge of production, and the required portions of materials for works that they will be constructing. This was verified in a study by Ahmed *et al.* (2010). With these known limitations, it is of vital importance to understand how quality is attained and how skilled and semi-skilled labourers are employed.

##### 4.4.2.1 SMME quality of work

The Professional Consultants pointed out that an effectively completed construction project was based on employees from the SMME having relevant skills and competencies. Only one SMME Business Owner interviewed had previous experience. Construction Contractors thus emphasised that they had to guide and train SMME Business Owners into what quality meant, and how quality had to be achieved. SMME Business Owners had no real understanding of construction. Their labour force lack of skills would clearly impact on the quality of work expected of them.

All three Construction Contractors confirmed this as a very real problem that they faced. To achieve quality, SMMEs had to provide competent labour, which none of them had.

This point was further validated in the literature review, where Barry *et al.* (2002) explained that Survivalist and Micro Enterprises (Informal) operate out of survival to secure a minimum income as they have small overhead, lack skills and do not prioritise growth. Four of the five SMME Business Owners interviewed admitted to being survivalist.

Construction Contractor 1 clarified:

“Very few do really have labour, we mostly have to source (labourers) for them and you must understand that most them are CIDB Grade 1 companies and basically starting up.”

Construction Contractor 2 added:

“Proper training, proper mentoring, if the guy has got labour and I mentor him, he’s got hope, but I can’t mentor somebody who’s a blank slate, there is nothing I can do.”

Quality workmanship is a basic requirement in the construction industry. Since they lack understanding and construction experience, SMME Owners and employees do not have the required skill components to provide the quality required – unless they are given assistance by the main contractor. This point was validated in the literature review as well, when Shakantu (2016) clarified that benefits can be accrued from a process where the main contractor develops and trains the SMME labourers. Building capacity in this way would benefit the SMME Business Owner and the contractor.

#### 4.4.2.2 SMME quality of labour

Only one of the five SMME Business Owners indicated that he has some ability to manage skilled labourers. None of them had the required knowledge of any method, or system, that they used to procure and appoint skilled labourers.

SMME Business Owner 5 stated:

“They (Contractors) must know how to manage, and know how to task people with what to do, and highlight to them the timeframe of when the job needs to be finished.”

This view confirms the need for an SMME Business Owner to have prior knowledge, as his/her contribution towards a quality building project would be beneficial to any main contractor. All three Construction Contractors supported this point, confirming that if the SMME Business Owner allocated to a construction company is skilled and has prior knowledge, then quality would be assured.

Construction Contractor 1 explained:

“First prize would be if the owner of the (SMME) company actually knows construction and sort of leads his own people.”

This statement was further affirmed by Professional Consultant 2 as follows:

“The big one is experience on a construction site. If they need to tender for work, they need to know how to cost for work. Quality - best way is if they have experience.”

All three contractors and all three consultants agreed that if the SMMEs are skilled and competent, they would be able to provide a quality product. Only one of the five SMME Business Owners was confirmed as having the ability to appoint skilled labourers. Four of the SMME Business Owners clarified how they would go into the community to ask for the required skilled labourers, and then use them on site without conducting interviews or assessing their skills. In essence, the four SMME Business Owners proved that they would not be able to validate the skills of labourers as they do not know the quality conformance for such approvals.

SMME Business Owner 1 explained:

“We try by all means to hire skilled people, but some of us can’t meet the salary, your pricing can’t be too high, and you must still pay high wages.”

SMMEs are Survivalist and Micro Enterprises - they cannot meet the salary demands of skilled and semi-skilled labourers, and they do not understand the compilation of rates and what they comprise. This affects the SMME Owner’s ability to provide a

quality product because they do not know what quality actually entails prior to any project being undertaken.

Construction Contractor 1 pointed out the following:

“Very few do really have labour, we mostly have to source workers for them and you must understand that most them are CIDB Grade 1 companies and basically starting up.”

The conclusion that can be reached is that SMME Business Owners do not know how to employ qualified people because they do not have the relevant skills, nor the relevant understanding of the construction industry. In the literature review, Berry *et al.* (2002) maintained that wages for skilled labour were a contentious issue for SMME owners. They did not have the resources to employ skilled labour.

#### 4.4.2.3 The effects of quality on non-sustainability of SMMEs

The interviewees seemed to concur that the quality of the final construction project is prioritised even though SMME owners and employees do not have the relevant skills for or understanding of construction. The Construction Contractors all indicated that even though none of the SMMEs had the prerequisite skills, quality was still prioritised by the main contractor. All Construction Contractors shared the sentiment that the quality of the final project was still their responsibility.

Construction Contractor 1 added:

“They (SMMEs) take up a huge amount of our time, because very few of them have the actual knowledge and all the resources to do the actual work and this does mean that we use up a lot of our time to help them to make that quality in the end. At the end of the day, it is still our responsibility, so they do take up a lot of time.”

Since contractors still take responsibility for the quality of the finished project, more specific ways of mentoring and developing SMMEs would be hugely positive for all stakeholders. Skills capacitation can thus be established. This process should include

the Professional Consultants, who should ensure that the scope developed should be labour intensive and structured in such a way that it results in skills transfer through SMME attachments. This concept is validated in Chapter 2 (The Literature Review) by Shakantu (2012), who stated that the necessary skills transfer can be achieved through an understanding of the elements needed to achieve quality. The required quality standards should be the result of contractor development and capacitation programmes.

#### **4.4.3 SMME Time Management**

**Research Objective 3:** To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

##### Common Themes: SMME Time Management

- SMMEs do not have knowledge of time management; and,
- The effects of poor time management by SMMEs.

The major theme emanating from the analysis of the data collected is that SMMEs do not have an understanding and knowledge of construction, and they lack experience of the construction industry. Four of the five SMME Business Owners confirmed this point. In addition to this, the interviewees revealed that SMME owners and employees were not able to manage time. The Professional Consultants all did not plan and incorporate any time for SMME inclusion as well.

Consultant 1 explained:

“That (Time) is a thing we have to look at. I have just finished a project now where SMMEs probably held back practical completion for 5 to 6 months. We haven't taken this into account before. So, time factor is something we have to take into account ... but to date we haven't.”

Clearly, the time management of SMMEs does have an effect on project completion. However, other factors have to be considered as well. External factors such as labour disputes, strikes and site closure often result from lack of communication and engagement with SMMEs.

All three Professional Consultants and one of the three Construction Contractors (Contractor 1) revealed that time delays resulted from site stoppages. Construction Contractor 2 indicated that the lack of experience by SMMEs led to delays. Construction Contractor 3 felt that SMME documentation compliances and financial limitations caused delays.

Construction Contractor 2 explained:

“Incompetence, lack of skill, wrong management, lack of understanding of what it takes to be contractor...”

Contractor 3 added his reasons for time delays:

“Their (SMME) compliancy and financial aid.”

Ironically, all five SMME Business Owners understood the implications of delays in project completion, and how this affects their cash flow and bottom line earnings.

Interestingly, SMME Business Owner 5 explained that he uses a programme to monitor time:

“Before you start the project, you need a programme that you need to work with. This programme has a Gantt Chart or your bar chart, where you need to work out what activities are first and what activities are last.”

SMME Business Owners clearly understood the cost implications associated with delays in production. They had to pay additional costs for resources. This can lead to strikes and stoppages, as mentioned by all three Construction Contractors and all three Professional Consultants.

SMMEs cause delays in time mostly through their inexperience and lack of understanding of construction. The predominant factors that affect time are site stoppages and strikes, which directly delay completion of a project.

#### 4.4.3.1 SMMEs do not have knowledge of time management

What was established through the interviews is that none of the Professional Consultants actually plan for the inclusion of SMMEs in projects. This factor may be covertly contributing to ineffective management of time in completion of a project.



However, the Construction Contractors do try to mitigate delays such as site stoppages and strikes by engaging with SMME Business Owners. They try to address the demands made by SMMEs. SMME Business Owners did not agree with this explanation, claiming that most delays are caused by the contractor not procuring materials within the specified time frames.

SMME Business Owner 3 explained:

“I will understand it better if it (procurement) is done by me, not by the main contractor, because we are ordering directly from him.”

Engagement and clear communication with SMME Business Owners rarely takes place. What contractors want from SMME Business Owners is not simply and clearly specified. Instead, a theme that consistently emerged was that delays in procurement of materials, and lack of information on the project, usually resulted in the delay of a project’s completion.

SMME Business Owner 2 was forthright:

“If you order cement, it takes two days to come.”

SMME Business Owner 3 added:

“Talk to your main contractor. He has the machinery and money to buy materials; sometimes they order materials that are arriving late. That is the main delay.”

SMME Business Owner 4 complained about delays caused through lack of clear communication:

“By not giving the full information, on what is expected of me...”

A significant factor that emerged is that Construction Contractors do not see the role of the SMME as critical to the quality and success of their project. Their lack of engagement and poor communication with SMMEs is evident.

Construction Contractor 2 felt that SMME attachment and supervision was not his concern. This attitude is based on the assumption that contractors only work with

SMMEs because of the legalisation imposed on them. It was not their duty to teach and train SMME owners and employees about construction skills. No interviewee raised the issue of time for the discussion of work schedules and project time frames.

Construction Contractor 2 commented:

“It’s just that you don’t have direct control over them (SMME business owners), and you don’t have the ability to employ them and fire them.”

Since time management is the responsibility of the contractor, special effort should be put into conveying his time frames to SMMEs in order to create a streamlined completion of the project. The SMME Business Owners did show understanding of the concept of time frames, and the effects of delays on cost and capital. Clear communication between the parties is essential for the success of the project. Contractors seem reluctant to work with SMMEs, citing their inexperience and lack of understanding of construction. Significantly, neither the Construction Contractors nor the Professional Consultants conceptualised time as a critical factor in the contribution made by SMMEs to a project.

#### 4.4.3.2 The effects of poor time management by SMMEs

SMME Business Owners are fully aware of the impact of time frames and delays on the completion of a project. The contractor has the responsibility of completing a project within the specified time, while still ensuring quality through the maintenance of required standards. However, there is a clear lack of needed communication between the contractor and SMMEs, even on basic guidelines like timeframes and work schedules. SMMEs are not kept informed of what is expected of them. Four of the five SMME Business Owners had an ad hoc approach, believing that being present on site would prevent delays. Only SMME Business Owner 5 mentioned that he used a Gantt Chart to monitor time.

Based on the responses from the interviews, all three Professional Consultants indicated that they did not make provision for SMME time in their project design. It was left to the main contractor to cater for SMME inclusion and job allocations. This process in itself poses a major concern for the MBDA, as any risk arising from SMMEs would have to be borne by the client - who has to then pay for extension of time claims.

Furthermore, if the lack of efficient communication is evident, this risk becomes a lucrative avenue for litigious contractors who can exploit site closure, strikes, political influence and labour disputes. These views were shared by all the Professional Consultants, and two of the three Construction Contractors (Contractors 1 and 2). The view was validated by SMME Business Owner 5:

“Labour relations issues, or community issues, or community employment issues... sometimes it’s the delivery of material or political leaders that cause delays within projects.”

All three Construction Contractors confirmed that the inability to manage time leads to delays. SMME Business Owners agreed on this point, and that time delays directly affects their profits. If Professional Consultants are not consulting with SMME Business Owners during the planning and conceptualising of a project, they too inadvertently contribute to delays. They place the onus of risk on the client, who has to pay for all delay claims even though no mitigation measures were put in place to ensure that the risk of SMME disruption would not occur.

The conclusions that can be deduced are that SMMEs do not manage time, as the main contractor is responsible for time management. This is not directly a cause associated with an SMME Owner’s inability to manage time, but more that they are not informed of how their time can be better managed. They need to be provided with time frames and consistent prior communication on how the project will proceed. The concept of ‘time is money’ is well understood by SMME owners and employees. However, regarding the planning and management of time, only one out of the five SMME Business Owners knew how to manage time efficiently.

Another conclusion is that Professional Consultants do not plan for time with SMME attachment into a project. This can lead to projects being non-sustainable in their entirety owing to the cost of delays. Mtshibe (2013) confirmed this in the literature review, stating that anyone who innovatively and strategically builds vision through the establishment of business, ultimately achieves growth and profit. The framework developed by the Gauteng Provisional Government (2014) outlined the need to focus on SMME owner’s ability to manage time, among other factors.

#### **4.4.4 SMME Budget Management**

**Research Objective 4** related to how SMMEs are funded, and how budgets per project are managed. The success of a project depends on completion within a stipulated time frame, the maintenance of quality through required standards and keeping within the allocated budget. These three pillars are imperative to any client. SMME owners have been known to struggle to control their finances, and to finance their own construction projects. Various factors contribute to this context.

##### Common Themes: SMME Budget Management

- SMMEs are unable to manage cost;
- Contractor assistance in cost management for SMMEs; and,
- The effects of SMME inability to manage cost.

##### 4.4.4.1 SMMEs are unable to manage cost.

The common theme arising from this analysis of the data collected is that SMMEs are not able to remain sustainable because of their lack of construction experience and understanding. This theme was affirmed by all three Consultants and substantiated by all three Contractors. All confirmed that the SMME owners do not possess the necessary competencies to manage their finances or their capital.

Construction Contractor 2 was very clear:

“The SMMEs can’t manage cost, he is not equipped to manage cost. I took 4 years to get a diploma, then I worked 10 years before I was qualified to run a construction site. This guy comes, he’s a teacher. He got out because he does not enjoy teaching, or he still teaches and does this on the side. They are not equipped.”

This was also a sentiment shared by Construction Contractor 1:

“I think because not a lot of them are (skilled); they are unskilled people. They don’t really understand the implications of having more people on site, and they would think it’s either better or worse. They don’t always quite understand that. For certain works, double the amount of people can have double the output.

But, having five people at work does work like that, then want to double the people and have a third more production. And we have had instances where guys refuse to employ more people... where that was to their own detriment. The other way around was where it was promised that this one and that one was promised work, and we try to give everyone work... and then just had way too many people for the output of the work being achieved.”

It is evident that SMME owners do not have the necessary skills to control or procure the important resources needed which would improve their profitability. How they employ labour and how they manage their finances contribute greatly to their inability to manage costs.

From the interviews conducted with all five SMME Business Owners, it was clear that none of them had any cash flow to do any work. Further, they all indicated that they do not prioritise capital for business in the accumulation of cash flow.

Three of the SMME Business Owners (SMME Business Owners 1, 2 and 3) revealed that their monthly expenditure was dependant on the profit they made, and no money could be saved or apportioned to their business. This explains why they do not prioritise their cash flow. Of the remaining two SMME Business Owners, SMME Business Owner 4 indicated that he does do budgeting and SMME Business Owner 5 indicated that he tries to ensure that all his suppliers and staff are paid.

SMME Business Owner 5 explained:

“Currently most of the SMMEs don’t have financial back up. You can go around and borrow capital, you go to the bank and ECDC that provides financial assistance. These people ask you to pay interest rates that’s not suitable for you as a start-up business. We need financial assistance from the banks or government assistance as a parastatal that is working with a financial assistance. If your company is not equipped to run, or delivering that project on time while there is that financial assistance from government, (then) government must look into that and guide SMMEs in saying... ‘No, you need more training or financial management or whatever in your company.’ On the

other hand, you are creating a negative image for your company, to the client and even to the government institutes.”

It should be noted that SMME Business Owner 5 was unable to generate or attain any cash flow because of his limited credit availability and credit scores. When SMMEs do get credit, they are charged high interest rates. Financial institutions are reluctant to lend money to SMMEs because of the risk involved.

Clearly, SMMEs do not have the essential funding facilities available to provide them with cash flow to start a project. This is because they lack creditability and the relevant conditions to apply, and they do not possess the required ability to grow their business financially. They operate their businesses as survivalists, with contributing factors being their lack of competencies and understanding.

#### 4.4.4.2 Contractor assistance in cost management for SMMEs

The social context of SMME Business Owners is a valid point raised by Barry *et al.* (2002). Of the five SMME Business Owners interviewed, all are survivalists due to their circumstances. They are all from previously disadvantaged communities, namely Black South African citizens. Of the five SMME Business Owners, four of them did not have the ability to generate any prior cash flow as this was their first construction project. For this reason, all five SMME Business Owners had to conclude a financial arrangement with their Construction Contractor. It was agreed that all their resource costs (plant, material and labour) would be paid by the main contractor, and the profit on their work would be paid to the SMME Business Owner. This arrangement was confirmed by all three contractors, who revealed that they carry all the resource costs for SMMEs who do not have the financing or resource capabilities. Construction Contractor 3 added that he aids with cash flow as follows:

“We pay the SMME every 14 days to ensure that they have enough cash-flow to conduct works going forward. We pay them in the interim, although the client has not paid us yet.”

A similar arrangement was confirmed by Construction Contractor 1:

“We normally, on most projects, agree with SMMEs to give them their assistance to get their affairs in order before they start up. Then, mostly if agreed between us and them, then we will assist them either with payment of their labourers or buying their materials for them or what so ever. So, we won’t leave SMMEs to say... because he cannot buy material... that he can’t carry on with the work. We won’t do that. We will assist them with whatever they need.”

However, Construction Contractor 2 was not so inclined, stating:

“(It’s) not my problem, I don’t care. You must understand I have no control over employing, no control over cash flow. His cash flow is his problem. I cannot manage his cash flow.”

However, Construction Contractor 2 did ensure that SMMEs were paid after their respective work allocations were completed. He provided similar support as Contractors 1 and 3, but paid the SMMEs profit only when their entire work package was completed.

SMME Business Owners were of the view that because they did not have direct control of the procurement of resources, it was acceptable for the contractor to manage all their payments.

SMME Business Owner 1 explained:

“I manage my labour through Labour Core to pay labourers, and contractors pay suppliers.”

“Labour Core” was the independent resource company that handled all the payments for labourers on behalf of the SMMEs, ensuring that legislation on labour relations was followed.

SMME Business Owner 3 also worked...:

“Through an agent called Labour Core”

The data collected revealed that all payment and procurement of resources are directly carried by the Construction Contractors; that SMME Business Owners have no control

over budgets and lack the ability to negotiate with suppliers. They also lack the ability to monitor their budgets and the cost associated with their works. They leave all these responsibilities to the contractors.

#### 4.4.4.3 The effects of SMME inability to manage cost

None of the SMME Business Owners had control of any budgets, and none had the ability to monitor the cost of their works. This is the origin of their non-sustainability, as they lose out on the opportunity to establish relationships with suppliers. More importantly, they cannot thus become independent from the contractor who facilitates all the procurement endeavours. They are clearly in need of learning how to manage construction resource costs. The only budgeting competencies that they do have are primary needs associated with Survivalist and Micro Enterprises, where most of their budgeting is focused on personal matters.

SMME Business Owner 3 clarified:

“You don’t really get to save enough money to do something else, other than to pay for groceries and children’s school fees.”

Similar sentiments were shared by SMME Business Owners 1 and 2. Since the main contractor managed the SMME Business Owner’s direct costs, the projects did not pose any risk. However, this still does not meet the CIDB requirement to enable the training of an SMME Business Owner in the construction sector.

Construction Contractor 3 tried to ensure that SMME labourers were paid to avoid potential adverse effects that would arise if SMME Business Owners were not able to pay their labour:

Construction Contractor 3 stated:

“Some SMME’s don’t pay their labourers... which causes conflict to get the works done. So, they need to know the factors, they need to pay on a constant basis within the duration of their working package.”

Since SMME Business Owners do not manage and control their cost, they have high expectations of a profit margin. Their lack of understanding of the percentage of profit



due to them causes tension, especially after they have completed their respective work packages.

Construction Contractor 2 clarified:

“It puts more pressure on the main contractor, because if the SMME does not manage his cost, and he doesn’t perform or make any profits that he assumes he would... it causes all kinds of tension within the contract. Coupled to that, SMMEs have somewhat unrealistic expectations of what profit margins are in construction.”

In addition, SMMEs do not focus on sustainability and continuity of construction works, as they do not plan and set money aside to prioritise their business. They are purely Survivalist and Micro Enterprises and if they attain high profit margins, the money received is not spent wisely:

Construction Contractor 2 confirmed this:

“I had a project where the time he (SMME Business Owner) gets first money... he bought a bakkie. So, then he complains, then it becomes my problem. They don’t understand the concept of what a business is. Business is... you pay yourself last, you don’t pay yourself first. You pay your staff, your suppliers. Then what’s left, you take it. With these guys, it is the other way around. They eat first. Whatever is left, the guys must fight with that. That is a major problem.”

The conclusion that is becoming increasingly clear is that SMMEs contribute much to their demise, to their inability to remain sustainable. All three Professional Consultants and all three Construction Contractors emphasised that SMME Business Owners were not able to manage their finances and not able to undertake costing of their tasks – because of their lack of experience and understanding of the construction industry. Professional Consultant 3 advised that SMMEs should be adequately managed if any profit was to be generated from their work.

None of the five SMME Business Owners raised the important issue of management of finances, cash flow generation and budgets during their interviews. They all accepted that this was to be borne by the main contractor. This trend exacerbates the

non-sustainability of the SMMEs, especially those within the employment of MBDA projects. If SMMEs cannot manage their cost and their finances, their survival within the construction industry would be but a part-time endeavour. These sentiments and conclusions were well addressed in the literature review by Pleskovic and Stern (2002), as well as by Strischek and McIntyre (2008), who emphasised that the factors preventing sustainability of SMMEs in development programmes were rooted within themselves – their inability to manage the cost of operating their business, and their lack of skills required to manage their resources.

#### **4.4.5 SMME Progress after working on an MBDA project**

**Research Objective 5:** To identify the factors that influence SMMEs development after they have received training through development programmes.

##### Common Themes: SMME Progress after working on an MBDA Project

- The need for SMME continuity; and,
- SMMEs cannot sustain themselves after development programmes.

The MBDA's vision was to enable access to SMMEs through its development programme, have them train and gain experience with construction companies, and finally work towards becoming independent and progressing small businesses. What then leads to SMMEs not meeting the proposed vision? The factors leading to SMME non-sustainability after the development programme, or after coming from a construction project where they have been mentored and capacitated within a construction environment, justify examination.

##### 4.4.5.1 The need for SMME continuity

One theme emanating from the research was that SMMEs should seek continuity and be active contractors seeking further opportunities. The Construction Contractors agreed with this view. SMME Business Owner 3 shared a similar sentiment, that continuity was an important step in becoming sustainable.

Construction Contractor 1 clarified:

“They should, like any other company... they need to find some kind of continuity from one project to the next. As much as you don’t waste money or spend money, if you don’t have work for the next six months... you are not going to be able to be sustainable and sustain a company either way. So, I think they obviously should try and find work as quickly as possible again, even if that is not waiting for the next municipal SMME thingy, even if that is trying to get work in the private sector or from contractors, or whatever it takes.”

SMME Business Owner 3 agreed with Construction Contractor 1:

“I have short term and long-term goals. First, I make sure that I’ll maintain my short-term goals... going forward to my long-term goals. To make sure, in my short-term goals to keep thirty thousand in the bank. That will lead me to the long-term goals, where in three years’ time I would like to buy myself a TLB (Tractor Loader Back-actor).”

This indicates that SMME Business Owner 3 envisaged saving money, procuring future business, ensuring continuity and sustainability.

Even more than seeking continuity, the SMME Business Owners revealed that cost was the most important aspect for them to become sustainable. They needed to save money and make provision for future projects. This sentiment was expressed by all five SMME Business Owners, namely that the provision of financial aid and facilities from institutions would help them to become sustainable. SMMEs required funding that would facilitate their independence.

SMME Business Owner 5 captured this as follows:

“Being sustainable means that you have financial back up, you got plant back-up, you got material back up. So, if all the big companies that already exist, that are financial by secured and sustainable... if all of them can come together and provide this division within their companies that can only look after SMMEs, that looks after small business development, they can provide credit facilities to small business.”

The factors needed to enable sustainability were also mentioned by SMME Business Owner 1, who stated that he would like to retain his skilled labour but is constrained by not procuring additional works. Even though he would save money for future endeavours, the continuity of them obtaining work is difficult:

SMME Business Owner 1 explains what he would like:

“To have continuity. To be able to say I can go an extra mile, I can do it on my own.”

This would ensure his sustainability, but he went on further to say:

“Now that I know how to go about doing this financing of my business... to put in something extra. Keeping something extra for my future projects.”

Although noting that opportunities are scarce, he explained that:

“You never know when you will get the next job. I got a job December 2015, and then there was a shut down and I was at home for a year. So, it is important to be sustainable so that you can be ready for everything that comes your way.”

Clearly, SMMEs should prioritise the ability to retain capital from current projects, which they could use to finance their future businesses. They need funding mechanisms to ensure that SMMEs can operate their business independently and pay for the respective resources required without being reliant on the main contractor’s assistance. This would also have a reciprocal effect on their growth, as they can then develop and retain sufficient cash flow to ensure their sustainability. All five SMME Business Owners wanted to grow their businesses, or to form a collective grouping that comprised different SMMEs to focus on works they had previously undertaken. This view was endorsed in Chapter 2 (The Literature Review), where Shakantu (2012) highlighted the funding constraints that face SMMEs, and their repercussions.

SMME Business Owner 3 explained:

“Companies who have offices; people who work with them... like having skilled labourers who go on the field and build. So, sustainability of the company, will help us and growth as well... where you can buy your own plant. You know now

that this job is sustainable. Sacrifice money and invest on a plant, because what is the use of buying plant and there is no job?”

#### 4.4.5.2 SMMEs cannot sustain themselves after development programmes

After the completion of one project, SMMEs still do not have the relevant competencies and understanding of construction. They are still ill-equipped to run a construction company. During interviews, it emerged that SMMEs also cannot find work after development programmes because the construction market is saturated with Grades One and Two CIDB registered SMMEs. Also, opportunities for work were limited to SMMEs residing in the respective wards where the construction works would take place. Then there was the fact that SMMEs are given work from a list, which thus exempts them from tendering.

Professional Consultant 2 clarified:

“The only way they can become sustainable is if they get more work, but the problem is... how do you give them more work if you are working on roster, or if they can't go to another ward? Because where they are, they not allowing other SMMEs. There another 20 SMMEs maybe, all waiting on the list.

Alternatively, you can identify SMMEs in an area, find ten ex foreman or ganger (construction supervisor) that was on a construction site. You take them and train them and staff within their companies... you give them proper training. And you should start building up small companies, to teach them the cost of managing a construction company. You teach them to fill out a tender document; you teach them health and safety. So, you would at least have brought up ten small companies.”

The suggestions from Professional Consultant 2 above are worth heeding.

He indicated that labourers with prior experience would be better able to become SMME Business Owners as they can start to build their experience and could be trained to manage cost, time and quality. This process would assist SMME Business Owners to pursue construction as a career. They would develop in their experience and learn management and administrative strategies.

The SMME Business Owners who were interviewed all indicated that they would be confident in doing work of a similar nature, but the variability of scope from project to project changes significantly. There is no assurance that work they had previously done might be soon offered again. However, this could not be substantiated as none of the SMME Business Owners physically did the work – they instead employed skilled labour to do it. They were employed and paid by the construction contractor. The skills retention within their employment was not prioritised, and they do not have the continuity or entrepreneurial ability to grow their business.

SMME Business Owner 3 explains:

“Having done this project, I can be able to keep 2 or 3 of those guys who worked for me, so we can do another job similar in another place. But, it seems that the job we are doing starts at the end of the project, it doesn’t carry on. What surprises me is that people who get trained to do things but after that, they are not being used as well. Sustainability means ‘I taught you how to build this chair; let’s find someone that will make you build this chair somewhere else.’ ”

The inability of SMMEs to obtain more work after development programmes is also due to the fact that any person can register a business and be added onto the ward list. Therefore, opportunities for continuity are further restricted as an experienced SMME Business Owner has to still wait on a list for a possible next round of selection.

Construction Contractor 2 commented:

“For the amount of work, there are too many SMMEs registered. And if we going to work with them on a rotational basis, there is just too many for them to actually have some kind of continuity for them to build up a company, so basically to wait back in the line... like I said, six months to year for a project... there is no way you are going to build a company.”

The solution proposed to this problematic context is that SMMEs should tender for their respective works. Their skill set should be adequately refined to ensure that they know how to cost a specific item of work, at what rate, within what given time period, what standards of the product have to be met and what the required resources would be. The existence and the sustainability of SMMEs would not continue if they do not understand costing, time management and quality associated with construction. In the

interviews conducted with SMME Business Owners, none of them seemed to realise that having the ability to tender for works would make them sustainable. Instead, they shifted the blame to the contractor and client.

SMME Business Owner 1 shared this point of view:

“It is the main contractor... the main contractor is more concern about their own well-being, than to make sure that the SMMEs are sustainable. But they try by all means to make you leave with nothing. Each and everything they give you... they will charge you. They don't give the specification to the work, and if you complain, they will tell you that you were given a job. 'We were sure that you will use your own discretion.' Like in phase one, I wasn't given any specification to the entrances to yards. I did twelve of them. The previous manager, due to me going over the time and required to pay the guys... she refused... because she expected me to use my discretion.”

As explained by SMME Business Owner 1, the contractor has to be concerned about the final amount to be paid. The main contractor is still the custodian of the project. It is important to note that once SMMEs understand the concept of quality, time and cost, they would appreciate the skills required to nurture and develop personally, as well as developing a better understanding of construction. Shakantu (2012) points out that for SMMEs to contribute to the economy, they should be versatile to adapt with change and become efficient, well organised, technically competent and have the ability to manage their opportunities and challenge their environment. It was further noted that if SMMEs adapt to change, they will have the ability to give attention to detail. They will be able to understand cost effectiveness, integrated quality actions, customer responsiveness and human resource management.

#### **4.5 Summary of relationships**

All the responses obtained from the interviews are represented graphically. The program Atlas.Ti was used to illustrate the responses based on the collective contribution to understand the shared sentiments from each individual from each group. The relationship was correlated to understand the non-sustainability of SMMEs, to either disproof or proof the objectives outlined in the five research questions.

#### 4.5.1 The graphical presentation, responses and interpretations

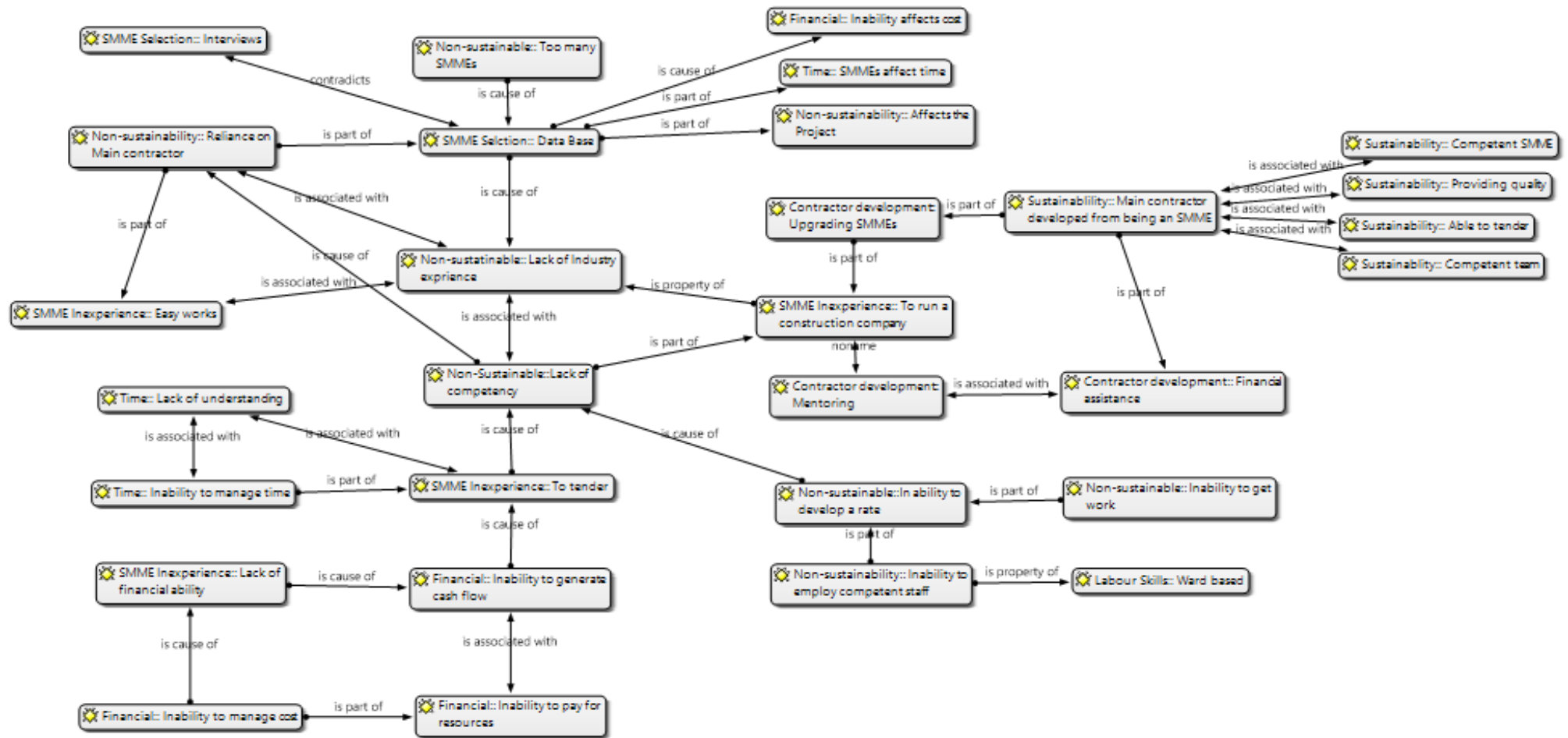


Figure 1: Contractor perceptions relating to the non-sustainability of SMMEs. Researcher's own compilation.



Figure 1 illustrates that due to SMMEs not having the ability to operate a construction company or to understand the technical competencies required, contractors apportion activities that will not affect the overall production of the project.

SMMEs can become sustainable. They can be appointed as subcontractors if they acquire the skills being transferred to them and understand the technicalities involved in running a construction company. As illustrated, the main contractor can act as a contractor capacitor in developing an SMME owner’s understanding of construction. The key focus would be on them understanding employment, being competent contractors or skilled labourers. Understanding quality and being able to tender independently for their respective works would be crucial. This would alleviate the necessity to ring-fence works to those within their respective wards.

While SMME owners are not equipped to run construction companies, they can be trained to understand the technicalities and operational aspects. The main contractor (as revealed in the analysis) can assist the SMME owners with time, quality and cost management. As predicted by Shakantu (2012), if SMME owners acquire what is being taught to them and have the ability to adapt to change, they will inevitably become sustainable.

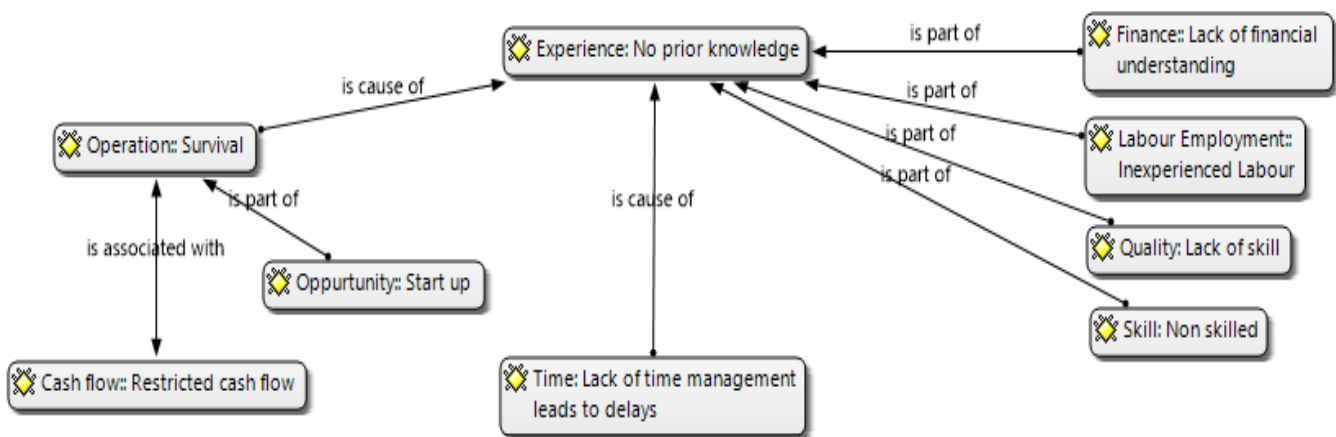


Figure 2: SMME interviews regarding the non-sustainability of SMMEs.

Researcher’s own compilation

SMME Business Owners do not have the required understanding or competencies in construction, as has been confirmed. The illustration shows that SMME owners do not know how to manage cost, as evidenced by their inability to generate sufficient cash flow to follow up on additional opportunities and tender for work. SMME owners are reliant on the contractor to pay for and manage all their costs and resources. They prefer to recognise the profit made as a final claimable amount. This factor contributes much to their non-sustainability, as they do not control their overheads and payments directly. They lose the essential ability to understand cost assimilation and control of how their rates are formulated. They do not focus on what daily production output should be achieved, and how their progress affects their cost. Coupled with this, time and quality become important in ensuring that they can price items required, schedule these and understand the quality conformance. They do employ skilled labourers and understand the necessity of building a quality product, but they do not have continuity of works to provide additional work opportunities. This means they are unable to retain their current labour force.



Figure 3 illustrates that Professional Consultants supported the view that SMME owners lack understanding of construction and are unable to run a company due to their inexperience. This makes their business non-sustainable. It was, however, noted that SMME owners could be developed through contractors training them on easier tasks. By giving SMME owners the easier tasks, production is not affected as their works are not critical to the completion of the project.

Focus could be given to training SMME owners without affecting the progress of the project. This process, however, employs the SMME owners on projects simply for compliance purposes, and not to develop them. Professional Consultants admitted that they do not plan for SMMEs in their design and conceptualisation of a project. If excluded at the initiation stage, then this might be the very factor for SMME owners not being trained and developed. Construction Contractors are employing SMMEs only for compliance purposes, while Professional Consultants are opposed to SMMEs being involved from a project's inception stage. Contractors therefore become responsible for all matters concerning SMMEs and their progress.

#### **4.5.2 Relationships among the different parties involved**

The responses from the interviewees were tested and summarised. They were then analysed, through qualitative methods, on the basis of their relationship with their relevant dependencies. In conducting the analysis, it was found that a positive relationship existed between the responses, thereby substantiating the respective sub-problems.

<b>Table 1: Relationship among the three different parties</b>					
	Independent Questions	Consultants	Contractor	SMMEs	Triangulated data
P1	Are SMME businesses non-sustainable?	P (100%(3/3))	P (100%(3/3))	P (100%(5/5))	P
P2	Is the quality of work completed by SMME business owners acceptable?	P (100%(3/3))	P (100%(3/3))	NS (100%(5/5))	NS
P3	Do SMME business owners manage their production time?	P (100%(3/3))	P (100%(3/3))	NS (80%(4/5))	NS
P4	Do SMME business owners manage their budgets?	P (100%(3/3))	P (100%(3/3))	NS (100%(5/5))	P
P5	Do SMME business owners sustain themselves after being granted projects to develop their companies?	P (100%(3/3))	P (100%(3/3))	P (100%(5/5))	P
<b>P = positive; NS = not significant; N = negative</b>					
Source: Researcher's own compilation					

The data analysed revealed a positive relationship that was substantiated.

<b>Table 2. Relationship between emanating factors</b>					
	Independent variable	Consultants	Contractor	SMMEs	Triangulated data
P1	Not planning for SMME business owners	N (66.7%(2/3))	P (100%(3/3))	P (100%(5/5))	P
P2	Funding availability to SMME business owners	NS (100%(3/3))	P (100%(3/3))	P (100%(5/5))	P
P3	Ring-fencing of project to specific wards.	N (33.3%(1/3))	P (100%(3/3))	P (100%(5/5))	P
<b>P = positive; NS = not significant; N = negative</b>					
Source: Researcher's own compilation					

#### 4.6 Conclusion

This case study was presented through qualitative research. A positive relationship was established and analysed between Appointed Professional Consultants, Appointed Construction Contractors and SMME Business Owners. The study revealed that SMMEs within the MBDA are not sustainable.

Based on the analysis of the data collected from the interviews conducted, it was revealed that the inexperience and lack of understanding of construction by SMME Business Owners contributed directly to their non-sustainability.

- SMMEs were not sustainable because of their inexperience and lack of understanding of the construction industry.
- SMMEs were not sustainable because Professional Consultants did not plan for them right from the conceptualising and design stage of the project.
- SMMEs were not sustainable because they were unable to fund themselves so as to successfully operate a construction business.

- SMMEs were not sustainable because their inability to tender was also due to ring-fencing of construction works, which are restricted to SMME Business Owners who reside within the respective wards where the project is being conducted.

The outcome is that SMME Business Owners do not have adequate opportunity to be more technically and entrepreneurially skilled. They do not have financiers to adequately assist them with cash flow and start-up capital to start a business. All five SMME Business Owners expressed their reliance on the Construction Contractor for all their procurement needs. This prevents them gaining experience in the following:

- how to compile a rate of payment for labour;
- what standards for quality are required in the product to be constructed;
- the components making up the project to be built;
- the required resources to construct and install the product;
- the time required to ensure that production is achieved; and,
- how all these factors are assimilated to ensure efficiency.

It should be noted that only one out of the five SMME Business Owners had previous construction experience. It was evident that they obtained their construction packages from a ward list. This procedure is detrimental not only to their sustainability, but to the project in its entirety. The revelation that Construction Contractors pursue construction as an easy opportunity does not help to sustain SMMEs. They do not plan to become career contractors, but take on SMMEs merely to meet procurement requirement. They are required to apportion 30 per cent of the construction value to SMMEs. The problem with this requirement is that the CIDB has no entry criteria for either building or civil construction SMMEs. This is a critical cause of influx into the industry, leading to an environment that is plagued with intimidation and site closures when SMME needs are not met.

Construction Contractors are supposed to train and educate SMME owners and employees. Only two of the three contractors catered for this in their SMME package. Construction Contractor 1 took them on just for compliance. Only one Construction

Consultant planned for SMME inclusion in cost and quality considerations. However, none of the consultants catered for SMME inclusion on time considerations, as any delays incurred by SMMEs would be borne by the client. Consultants thus neglected their responsibility to identify risk when it came to time management of a project.



## Chapter 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The core mandate of the Mandela Bay Development Agency (MBDA) is to implement Local Economic Development (LED) initiatives through urban renewal projects. The LED initiatives comprise local government, the private sector, and not for profit sectors. This ensures that communities work together for improved competitiveness, economic growth, job creation and retention of skills. Furthermore, it ensures inclusiveness in the local economy, as demonstrated in developed countries for over four decades. Through the LED initiative, the MBDA seeks to address such issues, especially those resulting from the colonial displacement of society (Ofori, 1980). It seeks to do so through the Reconstruction and Development Programme (RDP) adopted by the ANC in 1994, using it as a catalytic mechanism for locally led social and economic development. Shakantu (2012) explained the significant role that SMMEs could play in activating growth within the economy. It is, therefore, believed that the MBDA could be the appropriate driver to achieve the development and sustainability of SMMEs, and through that, to activate growth in the economy. With the MBDA being seen as such a catalytic vehicle, it becomes even more important that SMME initiatives within the MBDA are prioritised.

Ofori (2012) points out that the MBDA seeks to address situations where projects and the financial management ability of the contractors are sustainable. In order to achieve this, it is critical for them to demonstrate the following factors considered necessary for success:

- Contractors should be able to network their services among the industry role players (Kotler, 2002; CIDB, 2010; Ofori 2012);
- Owners must develop their experience and management expertise (UNCHS, 1996; CIDB, 2010; Ofori, 2012);

- SMME owners must maintain a good relationship with clients, suppliers and other relevant role players (Day, 1997; Kale, 1999; Winter and Preece, 2000; CIDB, 2010; Ofori, 2012);
- SMME owners must have knowledge of project management, marketing and supply chain relationships (Jaafer and Abdul-Aziz, 2005; Ofori, 2012);
- SMME owners should show understanding of contractual requirements, progressive estimating, scheduling, purchasing, knowing what must be done and be flexible enough to adjust to changing situations (UNCHS, 1996; CIDB, 2010; Ofori, 2012); and,
- SMME owners must have competence and skill, sufficient resources, time management skills in activity planning and performance, teamwork, effective communication, positive people skills, honesty and integrity (Holroyd, 2003; Shakantu, 2006; Ofori, 2012).

In addition to the above, consultants should encapsulate the vision and objectives of the MBDA within their established brief, feasibility studies and master plan development. These conceptual documents should inculcate the LED initiatives from the start of the project, and right through its development, up until its closure. They should not merely be conformance documents, as exposed in this research study.

This chapter carries on from the analysis conducted in Chapter 4. The case study was conducted in order to understand the reasons for the non-sustainability of SMMEs even though initiatives established by the CIDB, DTI and SEDA were put in place to ensure SMME development and continued sustainability. The chapter depicts these initiatives are working as the key drivers, with other stakeholders (SEDA, CIDB and DTI). It reiterates how sustainability should be planned and how larger construction companies should maybe instead address the issue through government infrastructure projects.

The following objectives were established for this study:

Objective 1: To identify the factors that affect the sustainability of SMMEs within this study area.

Objective 2: To investigate the skillsets of SMME employees and the effects that these skills have on the quality of their work.

Objective 3: To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.

Objective 5: To identify the factors that influence SMMEs development after they have received training through development programmes.

The summary that follows correlates each objective with the analysis conducted in order to affirm logical conclusions and recommendations.

## **5.2 Factors that affect the sustainability of SMMEs**

**Objective One:** To identify the factors that affect the sustainability of SMMEs within this study area.

The conclusion reached was that in order for SMMEs to remain sustainable, they needed relevant construction experience and understanding of the construction industry.

Based on the analysis conducted, it was affirmed that SMMEs did not possess the relevant organisational competencies, neither were they knowledgeable about the construction industry. This was confirmed by four out of the five SMME Business Owners interviewed, with only one SMME Business Owner having prior construction experience. This was further confirmed by both the Construction Contractors and Professional Consultants, who emphasised that SMMEs were unsustainable because they lacked understanding of construction and they lacked experience in the industry. SMMEs are non-sustainable because their owners and employees lack the necessary organisational competencies.

Supporting the above conclusion is that any person can start a construction company and register on the CIDB, whether they have prior knowledge or not. They do not understand construction, and do not have necessary knowledge to enter the sector. Coupled with this is the level of intimidation , and the forceful nature of ring-fencing

SMME packages to only those SMMEs residing in a respective ward where the construction work is to be implemented. Construction Contractors have to select SMMEs from a rotational list, without the SMME actually tendering for work. These are the core problems making an SMME non-sustainable.

### **5.3 Effects of SMME Skills on Quality of Work**

**Objective Two:** To investigate the skillsets of SMME employees and the effects that these skills have on the quality of their work.

The conclusion that can be reached is that SMME Business Owners do not know how to employ qualified people because they do not have the relevant skills, nor the relevant understanding of the construction industry.

From the analysis conducted, it was clear that SMME owners were unable to employ competent staff and relied on the main contractor for skilled labour. Consultant 2 was emphatic: "...they have absolutely no experience."

Owing to their lack of experience and understanding of construction, SMME owners do not have the prerequisite skills to identify suitable labour unless guided by the contractor. They appoint skilled labourers based on their reputation within the community. It was also noted that owing to the high salary demands from skilled labourers, SMME owners were reluctant to employ them. Therefore, quality was not really an issue as the main construction contractor was seen to be responsible for quality. The skilled labourers that did the work were appointed by the main construction contractor on behalf of the SMMEs.

### **5.4 SMME Time Management**

**Objective Three:** To identify how SMME business owners manage their employees' production time in terms of priorities, monitoring progress and keeping to deadlines.

The conclusions that can be deduced are that SMME owners do not manage time, as the main contractor is responsible for time management. Another conclusion is that Professional Consultants do not plan for time with SMME attachment into a project.

The SMME Business Owner's inability to manage time was due to their lack of understanding and experience within the construction industry. Because the main Construction Contractor controls and guides the SMME's time and schedule, time was not highlighted as an issue. Nonetheless, it was clearly established that SMME owners do not know how to manage time. All three Construction Contractors, all three Professional Consultants and SMME Business Owner 5 indicated that most delays from SMMEs were due to labourers not being paid, political influences or levels of intimidation when SMMEs demands were not met. SMME owner's inability to manage time was not raised as an issue when it came to production time being a priority.

## **5.5 SMME Budget Management**

**Objective Four:** To investigate how SMMEs are funded, and how budgets per project are managed.

The conclusion reached is that SMMEs contribute much to their own demise, to their inability to remain sustainable. All three Professional Consultants and all three Construction Contractors emphasised that SMME Business Owners were not able to manage their finances and not able to undertake costing of their tasks – because of their lack of experience and understanding of the construction industry.

SMMEs do not have the essential funding facilities available to provide them with cash flow to start a project. This is because they lack creditability and the relevant conditions to apply, and they do not possess the required ability to grow their business financially. They operate their businesses as Survivalists and Micro Entreprises, with contributing factors being their lack of competencies and understanding.

All five SMME Business Owners indicated that acquiring start-up capital from the banks was difficult. This was due to the fact that were just starting up a construction company without the necessary prior competencies, or when funding was available, the interest rates were too high for them. Only one out of the five SMME Business Owners understood how to generate cash flow and apportion capital for the next project. However, he was handicapped by the roster system, which placed him last in line to be appointed for a next project. The rotation system was not very helpful to SMMEs.

It was evident that all five SMME Business Owners wanted continuity, but could not attain it owing to the ring-fencing of works in wards within the Metro for resident SMME owners.

It can be affirmed that none of the SMME owners had the required cash flow to conduct work and approached the main construction contractor for assistance in procuring labourers and materials on site. It was evident from the analysis that none of the SMME owners were able to control their direct capital or cost of resources. Since all of these items were managed by the main construction contractor, this prevented SMME owners from learning and understanding the costs associated with their work. The SMMEs were paid only for their attendance on site, without them doing any administrative duties. It is imperative to note that the SMME owner's inability to manage cost did not affect the project, as the main construction contractor controlled all the procurement and payments on behalf of the SMMEs.

It was further noted that two of the three consultants did not plan for the inclusion of SMMEs. They also did not see themselves as being responsible for SMME inclusion, because any delay caused by SMMEs on site would be borne by the client.

## **5.6 SMME Progress after working on an MBDA Project**

**Objective Five** aimed to identify the factors that made SMMEs non-sustainable even though they have received training through the MBDA Projects to develop their companies. It envisaged a qualitative narrative highlighting the factors that lead to SMMEs being non-sustainable in the Mandela Bay Development Agency's implemented projects. It investigated the inability of SMMEs to sustain themselves, and how this affects project implementation and operation.

The conclusion reached is that after the completion of one project, SMME owners and employees still do not have the relevant competencies and understanding of construction. It is evident that SMMEs do not sustain themselves after projects owing to the roster list that they have to follow. Construction Contractor 2 stated that they cannot be sustainable if work is ring-fenced to the specific wards, and other SMMEs are prevented from working in these wards. It is also noted that SMME owners were not allowed to tender for works. In addition, they do not know how to manage cost, and they do not have the capacity to provide quality. Their inability to manage time is

a result of their lack of experience and understanding. All of these factors are critical for an SMME to remain sustainable.

According to the CIDB Register, only two of the five SMME Business Owners had active CIDB accounts. This proves that as SMMEs, they were not actively seeking work or continuity. The factors identified through each objective clarify that because of an SMME owner's lack of understanding of construction, lack of experience in construction, and their inability to tender for jobs... they will inevitably remain non-sustainable.

## **5.7 Conclusion**

The construction industry serves as the ideal vehicle to stimulate the required transitional growth required within South African society. This is the MBDA's functional purpose. It seeks to stimulate a societal shift through the reintegration of previously disadvantaged persons into the development of Nelson Mandela Bay, by allocating 30% of the project scope of works cost to SMMEs for inclusion and development.

However, it is evident that the lack of prior knowledge has contributed to the non-sustainability of SMMEs. It is therefore important that additional accredited facilitation be established to capacitate individuals with skills training, beside the initiative established by the CIDB. Additional facilities should be established to ensure that incumbents equip themselves with a trade and be guided through a mentorship programme to become experienced masons, carpenters and plumbers who can be trained by contractors.

Political and institutional organs should endorse the skills capacitation from accredited facilities and ensure that the contractor arrangement be formalised, thereby ensuring that all foremen, supervisors and skilled labourers have accredited qualifications. This would prevent bias or discriminative precedent being set when requiring a competent staff contingent.

This mentorship programme would seek to provide a skilled workforce which will be able to pursue opportunities independently after acquiring the relevant experience, and to develop pricing knowledge of works to tender for projects. These individuals

should be the SMME Business Owners we strive to develop so as to shift our current circumstance from a developing country into a progressive and inclusive one.

## **5.8 Recommendations**

From research conducted, it was found that SMMEs employed in MBDA projects were non-sustainable even though they successfully completed a project. This problem should be addressed when projects are first identified. Moreover, clear objectives should be outlined institutionally to ensure better SMME involvement. The LED objectives outlined by Oranje and Voges (2014) will then be achieved.

The life cycle of a project should be discussed with the sustainability of SMMEs as a priority. They should be included at every relevant phase to ensure that such prioritisation is institutionally established. This will ensure that the needs of SMMEs are addressed, and their sustainability improved. It is therefore recommended that each phase identified below has a clearly identified purpose on how to prioritise SMMEs.

### **5.8.1 Phase 1 – Identification of a Project's Needs**

SMMEs should feature right at the start of a project, when the internal identification of needs is being analysed. The LED objectives should be broken down and prioritised as per the respective governmental objectives outlined institutionally. This should ensure that a sufficient budget allocation is set aside to address SMME needs. However, there should be a mechanism stipulating that if SMMEs want to be involved in MBDA projects, they must tender for their respective work packages.

The external identification can be that SMMEs should be sourced from either CIDB incubators or from SMMEs that have already been on a development programme. These SMMEs should be those from Grade Two to Three. Professional Contractors can be utilised to train attached Grade One SMMEs. This process should be accepted at all institutional levels, as well as at the political level where the necessary policies prioritising SMMEs can be formulated. This would make implementation easier. Shakantu (2012) outlined the procurement strategy that can be followed to achieve this desired attachment of SMMEs.



### **5.8.2 Phase 2 – Initiation of the Project**

Once the relevant policy addressing SMME attachment has been approved for implementation, the objectives of the project can be scrutinised during the initiation phase and adapted to fit within the policy. The objectives of a project, with SMME incorporation, can be clearly outlined and milestones attached as to how the relevant work breakdown structures can be apportioned, especially those for SMMEs. Suitable contractor expertise that could assist SMMEs can also be identified during this phase. This process should form part of a public stakeholder engagement, highlighting what needs were identified and how SMMEs can play a role in developing themselves as businesses, and also developing their communities. Once a general buy-in is obtained, it must be emphasised that SMME Business Owners must tender for works if they want to play a part in the project being conceptualised. A monitoring mechanism for further development of the SMME must be put in place, ensuring that SMME Business Owners take responsibility for development of their company and adhering to its requirements.

### **5.8.3 Phase 3 – Planning the Progress of the Project**

As noted in the analysis, consultants do not plan for SMMEs, even though it is possible to provide work packages within a project that would not affect the main construction contractor. On this premise, consultants should use the lessons learnt from previous construction projects. They should identify which items of works, skills and jobs were suitable to be allocated to SMMEs, and then develop smaller tenders for them within the contract. Further efforts of collaboration with the ward councillor must be established with the Main Contractor so as to identify the items of works that should be sublet to suitable SMMEs from Grades One to Three. Optimal package sizes should be agreed on and facilitating processes between respective councillors or stakeholders should be conducted regularly. This would ensure that the planning process includes opportunities for SMMEs and that they have the necessary buy-in of the project. Owing to the variance in cost that might arise among SMMEs, it is advised that clients should ensure that variance in cost items be incorporated into the contract. This would indicate inclusion of an SMME's cost and time considerations.

#### **5.8.4 Phase 4 – Implementing the Project Plan**

Once all the planning has been completed, SMME attachment and the apportioning of works can be allocated to the SMME Business Owner who won the tender application. When SMMEs tender, they should ensure that they have the relevant CIDB category registration i.e. CE for Civil Works and GB for General Building to mitigate against the attachment of an SMME that is not skilled for the required project. Additionally, there should be motivations from respective SMMEs, especially those who won tenders, as to why they qualify for funding. The MBDA would then encourage suppliers to provide credit facilities to such SMMEs. This could be either by way of bank financing, or by the MBDA signing a session agreement on behalf of qualifying SMMEs.

#### **5.8.5 Phase 5 – Monitoring the Progress of the Project**

In ensuring that SMMEs are capacitated and developed, the baseline for Professional Consultant and Construction Contractor performance should have milestones that can be monitored institutionally, especially by attaining the objectives set during Phase 2 – Initiation of the Project. This can serve as a market mechanism within the MBDA, confirming that LED objectives were attained with the number of SMMEs employed and revealing the opportunities created. This would also assist the MBDA in ensuring that the catalytic objective of creating an inclusive society through project implementation was aligned with creating more economically viable opportunities for SMMEs.

The Nelson Mandela Bay Metropole, the parent institution, should ensure that SMME development and incubator programmes are established to identify and separate the opportunistic SMMEs from the career orientated SMMEs. These programmes should have strict application conformance, supported by SMME motivations as to why the CIDB should review their entry criteria for registration as construction companies. They should consider setting prerequisite entry criteria for SMMEs, ensuring that they have prior knowledge and understanding. SMME Business Owners must have relevant qualifications from accredited institutions confirming their competencies, similar to electrical contractors requiring to be registered and licenced artisans.

## 5.9 Future research endeavours

There is a need for further research regarding understanding the non-sustainability of SMMEs. The research conducted was specifically focused on the MBDA projects, but in the broader context, the non-sustainability of SMMEs could be attributed to the entry criteria set by the CIDB for SMMEs, especially for General Building and Civil Works registered SMMEs. Similar research could be pursued to further investigate how SMMEs impact on the construction industry if the CIDB does not regulate the entry criteria for GB and CE industries.

The research endeavour would need to focus on the following areas:

- Is the entry criteria set by the CIDB for CE and GB causing SMMEs to be unsustainable?
- How does the CIDB's inability to regulate Grade 1 GB and CE companies affect the macro-environment of the construction industry?
- How does the CIDB's inability to regulate Grade 1 GB and CE companies influence project budgets within the public sector?
- Is the prevalence of factors and constraints attributed to project cost and completion overruns caused by SMMEs?
- How does the CIDB's inability to regulate Grade 1 GB and CE companies limit project implementation and planning?
- How many competent SMMEs were able to remain sustainable in this context?

It is believed that the CIDB's inability to regulate the entry criteria for CE and GB registered SMME affects and constrains public sector-implemented projects negatively. The projected research study would confirm the validity of this belief.

### **5.10 Caution:**

The recommendation in this study should be adopted with caution, as the findings offered at this stage are based on a small sample frame in the context of the Nelson Mandela Bay Metropole, SMME Sector and cannot be universally generalised.

## Annexure A Questionnaires

### **An investigation into the sustainability of Small, Medium and Micro Enterprises within the Nelson Mandela Bay Metropole**

#### **Research Questions:**

- Research Question One: Are SMMEs within the MBDA Projects sustainable?
- Research Question Two: Is the quality of work completed by SMME owners acceptable?
- Research Question Three: How do SMME owners manage their production time?
- Research Question Four: How do SMME owners manage their budgets?
- Research Question Five: Are SMME owners able to sustain their companies after being granted training experience on projects?

#### **To achieve the above purposes, the following objectives were formulated for this study:**

- Objective 1: To identify the factors that affect the sustainability of SMMEs.
- Objective 2: To investigate the skill sets of SMME owners and the effects that these skills have on the quality of their work.
- Objective 3: To identify how SMME owners manage their production time in terms of priorities, monitoring progress and keeping to deadlines.
- Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.
- Objective 5: To identify the factors that make SMMEs non-sustainable even though they have received training through the MBDA Projects to develop their companies.

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## Appendices A

## **A. Questionnaire for Owners of SMMEs**

### **Objective 1: To identify the factors that affect the sustainability of SMMEs.**

SMMEs are non-sustainable owing to the lack of relevant organisational competencies.

1. Can you briefly describe the previous construction experience you had before you started your company?
2. Why did you choose to start your own construction company?
3. Describe how you conduct your daily activities?
4. How do you procure work within the construction environment?
5. What measures do you take to ensure that your company is sustainable?

### **Objective 2: To investigate the skill sets of SMME owners and the effects that these skills have on the quality of their work.**

SMMEs' quality of work is poor because they are unskilled, and lack required competencies.

1. How do you ensure that a good quality product is built?
2. What level of skill sets do you have within your company to ensure that you prioritise quality?
3. How do select your semi-skilled and skilled labourers for employment?
4. How do you prioritise quality workmanship when conducting works on a construction site?

### **Objective 3: To identify how SMME owners manage their production time in terms of priorities, monitoring progress and keeping to deadlines.**

The inability of SMME owners to manage time leads to project delays.

1. Explain clearly how you prioritise time when conducting a construction activity on site?
2. What are the main factors that cause delays when conducting construction activity on site?
3. How does a delay on site affect you?
4. What is your understanding of the implications of delays and usage of time when conducting a construction activity?

**Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.**

The inability of SMME owners to manage cost affects the project budget.

1. How do you finance your construction activity?
2. Explain how you manage your cash flow, and what it comprises?
3. How do you manage your monthly finances?
4. How do you procure materials when on site?
5. How do you manage labourer and supplier payments?
6. Describe the factors that affect your cash flow and finances?

**Objective 5: To identify the factors that make SMMEs non-sustainable even though they have received training through the MBDA Projects to develop their companies.**

The inability of SMME owners to sustain their business themselves affects project implementation and operation.

1. What does being sustainable mean to you?
2. How do you ensure that you can remain being sustainable?
3. Why is it important for you to remain sustainable?
4. What are the factors restricting SMMEs from being and remaining sustainable?



## Appendices B

## **Questionnaire for MBDA Appointed Construction Contractors**

### **Objective 1: To identify the factors that affect the sustainability of SMMEs.**

SMMEs are non-sustainable owing to the lack of relevant organisational competencies.

1. What mechanism of identification do you utilise to identify suitable SMMEs for a specific project?
2. How does the competency level of an SMME affect your production and operations on site?
3. Why are SMMEs unable to run a sustainable construction company?

### **Objective 2: To investigate the skill sets of SMME owners and the effects that these skills have on the quality of their work.**

SMMEs' quality of work is poor because they are unskilled, and lack required competencies.

1. When employing SMMEs, do you explore how their labourers (unskilled, semi-skilled and skilled) are acquired? Explain further.
2. What level of internal competencies do SMMEs need to ensure that high quality output is achieved?
3. What restricts the SMMEs' ability to achieve high quality output during construction?

### **Objective 3: To identify how SMME owners manage their production time in terms of priorities, monitoring progress and keeping to deadlines.**

The inability of SMME owners to manage time leads to project delays.

1. How do you ensure that SMMEs do not affect your project duration?
2. What are the causes of delays blamed on SMMEs?
3. Do SMMEs understand the implications of delays on a project?

### **Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.**

The inability of SMME owners to manage cost affects the project budget.

1. Why are SMMEs unable to manage their costs? Explain further.
2. What mechanism of evaluation do you use to ensure that SMMEs have sufficient cash flow to conduct a project?
3. What are the implications of the SMMEs' inability to manage the cost of a project?

**Objective 5: To identify the factors that make SMMEs non-sustainable even though they have received training through the MBDA Projects to develop their companies.**

The inability of SMME owners to sustain their business themselves affects project implementation and operation.

1. What are the indicators that a SMME should have to sustain themselves after a project's completion?
2. Suggest reasons for SMMEs not being able to sustain themselves after successfully completing a project?
3. What measures or assistance do you put in place to ensure that SMMEs are able to sustain themselves once a project has been completed?
4. How would sustainable SMMES assist in your construction activity?

## Appendices C

## **C. Questionnaire for MBDA Appointed Professional Consultants**

### **Objective 1: To identify the factors that affect the sustainability of SMMEs.**

SMMEs are non-sustainable owing to the lack of relevant organisational competencies.

1. What are the major factors that constrain SMME incorporation within the project development brief?
2. Explain what problems confront SMME owners in the running of their business, exposing how these problems affect the progress of the building project.
3. During the design and tender document development stage, how do you match the suitability of a project and the nature of its work with an SMME?

### **Objective 2: To investigate the skill sets of SMME owners and the effects that these skills have on the quality of their work.**

SMMEs' quality of work is poor because they are unskilled, and lack required competencies.

1. What determines the level of effectiveness of an SMME on a construction site?
2. What skill set, and labour, should SMMEs have to ensure that they have a high-quality output of work?

### **Objective 3: To identify how SMME owners manage their production time in terms of priorities, monitoring progress and keeping to deadlines.**

The inability of SMME owners to manage time leads to project delays.

1. How do you ensure that time management is addressed by the SMMEs?
2. With SMME owners being included in the project planning, did you note any significant impact that this has on the project duration?
3. What are the implications of SMMEs delaying the time schedule of projects?

### **Objective 4: To investigate how SMMEs are funded, and how budgets per project are managed.**

The inability of SMME owners to manage cost affects the project budget.

1. When developing the project, how are the budgets aligned to cater for the inclusion of an SMME?
2. What impact do SMMEs have on the cost of the completed project?

3. Describe the factors that contribute to an SMME not being able to manage the cost of a project?

**Objective 5: To identify the factors that make SMMEs non-sustainable even though they have received training through the MBDA Projects to develop their companies.**

The inability of SMME owners to sustain their business themselves affects project implementation and operation.

1. What measures are put in place to ensure that an SMME can remain sustainable once projects have been completed?
2. What are the factors preventing an SMME from sustaining itself after a project is completed?

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