Strategic Management Guidelines for Construction SMEs in the Eastern Cape

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A dissertation submitted in partial fulfilment of the requirements of the Masters in Business Administration at the NMMU Business School

Promoter: Dr. C. Adendorff
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Date Submitted: 17 November 2010
Declaration

I, Gaynor Appels, hereby declare that:

- Strategic management guidelines for construction SMEs in the Eastern Cape is the result of my own independent investigation and work, except where otherwise stated.

- This dissertation is being submitted in partial fulfilment of the requirements for the degree Magister in Business Administration.

- This work has not been previously accepted in substance for any degree at any other university or institute of learning.

- All sources used or quoted have been indicated and acknowledged by means of references. A reference list is attached.

- I hereby give my consent for this dissertation, if accepted, to be available for photocopying and inter-library loans. It may be made available to any outside organisations or interested parties.

Signed: Date: 17 November 2010
Abstract

SMEs fulfil an important role in the long-term growth and development of the economy of the country. The development and growth of construction SMEs are important for all countries, as a strong SME base has the capacity to produce a high-quality infrastructure for the country. Construction SMEs also stimulate economic activity in other sectors of the economy.

Research has, however, shown that the failure rate of small businesses within the first five years is high in South Africa. Research has also indicated that the lack of any long-term planning and the lack of strategic thinking are major contributing factors to the business failure of SMEs. SMEs operating in the construction industry are faced with the same challenges as their counterparts in other sectors of the economy, but in addition to those difficulties, construction SMEs also have to deal with the unique characteristics of the industry that have adverse implications for them.

The construction industry has experienced considerable growth and success, in the past decade, particularly as a result of the government’s considerable infrastructural spending, especially in the run-up to the 2010 FIFA World Cup. The growth in the construction industry has, however, not resulted in similar results for Construction SMEs; and research has shown that most of them have not developed into more established entities. In fact, in the Eastern Cape, 91 per cent of all registered contractors fall within the lowest level of the Construction Industry Development Board’s classification system.

Many construction SMEs perform poorly, but among them there are those that have the potential to grow and develop into larger more established entities. Research has shown that contractor development programmes aimed at assisting the growth and development of construction companies have been successful in increasing participation in the industry, but not in ensuring that small enterprises grow into self-sustainable established enterprises.
In contrast, the research has shown that SMEs that practice strategic management perform better, and that there are many advantages for SMEs in applying strategic management principles. This study, therefore, investigates how strategic management can be applied to address the problems faced by construction SMEs, and to explore techniques and tools of strategic management that can make a significant contribution to their growth and development.
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Chapter 1

Overview of the Study

1.1 Introduction

The role of SMEs as important mechanisms for job creation, innovation and the long-term growth and development of economies is undisputed (Storey, 2000). Unfortunately, according to Rwigema and Venter (2004), a survey has indicated that from seventy to eighty percent of small businesses, fail within the first five years in South Africa. All the major reasons for SME failure relate to managerial causes. More specifically, the lack of any long-term planning and the lack of strategic thinking inevitably lead to the business failure of SMEs (Analoui and Karami, 2003:36).

Construction SMEs face the same difficulties as their counterparts in other sectors of the economy, but in addition to those difficulties, construction SMEs also have to deal with the unique characteristics of the industry, and these have adverse implications for them (Ofori, 2009).

The construction industry has experienced considerable growth and success, in the past decade, particularly as a result of the government’s considerable infrastructural spending. According to a report by the Department of Agriculture and Land Reform (2008:7), the construction industry managed to increase its contribution to South Africa’s GDP between the years of 2003 and 2008 by 18 per cent. During the third quarter of 2008, according to the report, the industry’s contribution to GDP stood at 3.65 per cent (Department of Agriculture and Land Reform; 2008:8).

The global recession has, as in most sectors, put a dampener on growth, but the industry was one of only a few sectors to have increased its contributions to GDP during the recession. In the 3rd quarter of 2009, it increased its contribution to GDP by 8.4% from what it was in 2008 (KPMG International, 2009).
Unfortunately, the growth in the construction industry has not translated into the same successes for construction SMEs that are registered in the lowest levels of the Construction Industry Board’s (CIDB’s) national register of contractors, as most of them have not developed into larger more successful entities (Cameron, 2007). In fact, in the Eastern Cape, 91 per cent of all registered contractors fall within the lowest level of the Construction Industry Development Board’s classification system (CIDB, 2010).

In terms of the CIDB Regulations, 2004, made by the Minister of Public Works in terms of the CIDB Act, 2000, construction SMEs in the lowest level of the CIDB’s national register of contractors are restricted in terms of the size of the projects for which they may tender. Construction SMEs registered in grade one, which is the lowest level, may only tender for projects up to a value of R200 000. Contractors in grade nine, which is the highest level, may tender for an unlimited value (CIDB Regulations, 2004). The bottom segment of the construction industry is thus overloaded, whilst the top structure contains only an elite few who have the benefit of competing for multimillion rand projects (Cameron, 2007).

1.2 Significance of the Research

The development and growth of construction SMEs are important issues for all countries, as a strong SME base has the capacity to produce high quality infrastructure for the country (Ofori, 2009). Furthermore, construction SMEs stimulate economic activity in other sectors of the economy too (Ofori, 2009). There are, however, many problems that are faced by construction SMEs when dealing with construction projects; and as a result, poor performance and poor quality of work are unfortunately prevalent amongst SMEs in the construction industry (Dlungwana, Noyana, Nxumalo, Rwelamila & Van Huysteen, 2002).

According to Smallwood (2000), who conducted a survey to investigate the client’s perspective relative to the contractor’s performance, the problems are
predominantly related to poor productivity and poor quality. Smallwood (2000) concluded that the reasons for the poor performance are poor management and low skills among the workers.

Ofori (2009) indicates that the distribution of the contracting firms - by size - is the shape of a pyramid, with SMEs forming the overwhelming majority at the base of the pyramid. Many of these firms are “fragile and transient” (Ofori, 2009). Among construction SMEs there are those that have the potential to grow and develop into bigger and technically better businesses (Ofori, 2009).

In an attempt to assist in the development and growth of construction SMEs, there are currently contractor development programmes in place which are being managed by the National and Provincial Works Departments of the Government of South Africa (CIDB, 2009). According to the CIDB (2005), these programmes have been successful in increasing participation, but not in ensuring that small enterprises grow into medium enterprises or larger more established enterprises. Ofori (2009) indicates that the results of the contractor development programmes have been largely insignificant.

According to Hunger and Wheelen (2003:4), research has revealed that firms that practice strategic management usually outperform those that do not. Analoui and Karami (2003:10) have indicated that there are many advantages for SMEs in applying strategic management. Most South African studies on the development of construction SMEs, have focused on the impact of contractor development models (e.g. Ofori, 2009; Dlungwana and Rwelamila, 2004; CIDB, 2009; Hauptfleisch, Lazarus, Knoetze and Liebenberg, 2007).

There is, therefore, an opportunity to investigate how strategic management can be applied to address the problems faced by construction SMEs, and to explore techniques and tools of strategic management that can make a significant contribution to the growth and development of construction SMEs.
1.3 Research Objectives

Research objectives describe and define the aims and the purpose of the research (Collis and Hussey: 2003: 119).

1.3.1 Primary Objective

The primary objective of this study is to develop strategic management guidelines for Construction SMEs within the Eastern Cape, by using a single case study method.

1.3.2 The Secondary Objectives

In order to address the primary objective of the study, the following secondary objectives have been pursued, to:

- Investigate the factors that lead to the failure of Construction SMEs, and that prevent them from growing into self-sustainable established entities;
- Investigate the efficacy of contractor-development programmes in stimulating the growth and development of construction SMEs;
- Investigate the impact of the application of strategic management on the business success of Construction SMEs; and
- Investigate which aspects of strategic management could best be applied to promote the sustainable growth and development of construction SMEs.

To achieve these primary and secondary objectives, the following research questions need to be answered:

- What are the reasons for the business failures of construction SMEs?
• What has been the impact of contractor-development programmes on the growth of Construction SMEs?
• What is the impact of strategic management principles on the growth and development of Construction SMEs?
• How can the principles of strategic management benefit construction SMEs, in terms of their growth and development?
• What guidelines can be developed to assist Construction SMEs in the implementation of strategic management principles?

1.4 Design Objectives

The following design objectives were pursued:

• A literature review was conducted. Literature sources covering research into SMEs, the construction industry, the role of the Construction Industry Development Board (CIDB), construction SMEs, contractor-development programmes and strategic management were consulted.

• The qualitative research approach was followed.

• The single-case study method was used for this study. A construction SME that operates in the Eastern Cape has been chosen as a subject for the case study.

• The interview method was used as the primary data-gathering method for the case study. More specifically, a focus interview was chosen where questions were carefully designed to provide adequate coverage for the purpose of the research.

• The results of the interview have been written up and analysed.
• Guidelines and recommendations were developed from the results of the literature review and the interview.

1.5 Research Methodology

The research methodology describes how the research problem was investigated, and why particular methods and research paradigms were used (Collis and Hussey, 2003: 295).

1.5.1 Paradigms

A research paradigm is a school of thought or a philosophy about how research ought to be conducted (Collis and Hussey; 2003:46). There are two main research paradigms, which according to Collis and Hussey (2003:47) can be labelled as positivistic and phenomenological. Collis and Hussey (2003:47) recognise that the terms quantitative and qualitative, instead of positivistic and phenomenological, are the most commonly used by authors.

According to Brynard and Hanekom (2006:36), there are two basic research methods or paradigms: quantitative and qualitative research paradigms. Quantitative research is objective in nature and concentrates on measuring phenomena. The reality in quantitative research is totally separate from the researcher (Collis and Hussey; 2003:13). A quantitative approach involves collecting and analysing numerical data and applying statistical tests. Quantitative research reports rely heavily on the rhetoric of validity, reliability, generalisability and predictability. It is concerned with hypothesis testing, and testing the relationships between variables.

Qualitative research, on the other hand, is more subjective in nature and involves examining and reflecting on perceptions – in order to gain an understanding of social and human activities (Collis and Hussey; 2003:13). The researcher becomes immersed in the phenomenon of interest, as he interacts with what is being researched. The emphasis is on collecting data
that will lead to dependable answers to research questions, reported in sufficient detail, so that they have meaning to the reader.

In this study, a qualitative approach has been followed, because the aim is to gain an understanding of the problem. A single-case study method was chosen for this study, as it allows for the collecting of rich data, and assists in the understanding of phenomena in their real life and context (Acar and Oney-Yazici, 2006).

1.5.2 The Case Study

The subject of the case study is an established medium-sized construction SME, namely Ibhayi Contracting CC. The information for the case study report was obtained through an interview that was held with one of the members of SME.

The SME was selected as a subject for the case study, based on the following criteria:

- The construction SME operates in the Eastern Cape Province.
- The construction SME has reached medium-sized status, as defined by the National Small Business Act, 1996 in terms of the number of employees and/or the annual turnover.
- The construction SME owners have grown and developed the SME from a very small enterprise to a medium-sized enterprise.
- The construction SME has a proven track record in the successful completion of public sector projects in excess of ten million rand.

A list of construction SMEs was obtained from the CIDB register of contractors in the categories of Grade 6 and 7, as Grade 6 and 7 contractors may tender for public sector contractors in excess of 13 million rand. From this list of contractors, a construction SME that satisfied the above criteria was randomly selected. The contact details of the selected SME were obtained from the CIDB register of contractors.
1.5.3 Data-Collection Method

The interview method was used as the primary data-gathering method for this study. More specifically, a focus interview was chosen and questions were carefully designed to provide adequate coverage for the purpose of the research. The concepts and topics in the literature review were used as a heading under each set of questions.

1.5.4 Data-Analysis Method

The main feature of the method of data analysis employed in this study is the continuous reduction of the data into concepts, categories and sub-categories. This process was done continuously throughout the data-collection stage and continued into the analysis phase. This theoretical framework of the analysis was based on a review of the literature in Chapter 3. This made it easier to reduce the raw data collected, during the interview, into categories and concepts. At various stages throughout this process the preliminary findings were summarised. During the process, the summaries were used to confront and compare existing theories of strategic management, as applied by the subject, and to develop guidelines for strategic management in construction SMEs.

1.6 Outline of Study

In Chapter One, the scope of the study will be described. This includes an introduction, the significance of the research, and a brief explanation of the research objectives and the research methodology of the study.
Chapter Two contains a literature review on small and medium-sized enterprises (SMEs), the construction industry, construction SMEs and development models promoting the growth of construction SMEs. The chapter starts off with an exposition of SMEs in general, by defining SMEs and distinguishing them from SMMEs. The importance of SMEs in the economies of countries is recognized, and the reasons behind the business failure of small businesses are explored. The chapter thereafter focuses on the construction industry and the important role the industry plays in the economy of South Africa. The reasons behind the failure of the majority of construction SMEs to grow into more established self-sustainable enterprises will be explored.

Finally, the need for developmental models and programmes, and the role of these programmes in promoting the growth of construction SMEs into self-sustainable enterprises that generate employment, will also be investigated. In this regard the current status of these programmes and their efficacy in addressing the problems faced by construction SMEs are reviewed.

Chapter Three explores how strategic management may be applied to ensure the better performance of construction SMEs. It focuses on how certain strategic management tools and techniques may provide opportunities for sustainable growth and development in construction SMEs. The concepts of strategic management, strategy and strategic formulation will be explored. Environmental analysis tools that are applied in strategic management will be discussed, and the ways in which these analytical tools may be applied to construction SMEs will also be explored.

In Chapter Four, the research methodology applied to this study will be explained in full detail. The concept of research paradigms is explored and the concepts of quantitative and qualitative research paradigms are contrasted and compared. The chapter covers the distinctive characteristics of the case-study strategy, and more specifically, the single-case study design which was chosen for this study. An explanation is provided as to why the concepts of sampling logic and sampling size are irrelevant to case study research.
Furthermore, the importance of using a case-study protocol in case-study research and the specific case-study protocol that was used in this study are discussed. Lastly, the data-collection methods and instruments, and the data analysis method applied in the study are to be discussed.

Chapter Five contains the case study report. The subject of the case study is an established medium-sized construction SME, namely Ibhayi Contracting CC that operates in the Eastern Cape Province. The information for the case study report was obtained through an interview that was held with one of the members of Ibhayi Contracting. The member with whom the interview was conducted is referred to as “the interviewee” in the case-study report.

The case study report commences with a short history of the business. A brief chronological overview is given of the business’s growth from a very small enterprise to its current size. In the discussion of the various strategic management principles and concepts, the lessons from the case study are reported under each topic – in order to show how the principles of strategic management were applied to grow the business – from a very small enterprise to an established medium-sized business. Appropriate examples are given under each topic.

In Chapter Six, guidelines and recommendations for the application of strategic management principles in construction SMEs are outlined. The principles in the literature review of Chapters 2 and 3, as well as the lessons from the case study have been combined to draw up guidelines which construction SMEs in the Eastern Cape can follow, in order to grow and develop. Finally suggestions for future research are provided.
Chapter 2

Small and Medium-Sized Enterprises in the Construction Industry

2.1 Introduction

Chapter One provided a general overview of this study, in particular, the significance of the research undertaken and the purpose of the study. This chapter contains a literature review on small and medium-sized enterprises (SMEs), the construction industry, construction SMEs and development programmes aimed at promoting the growth of construction SMEs. The chapter provides a description of SMEs in general, by defining SMEs and distinguishing them from SMMEs. The importance of SMEs in the economies of countries is recognized and the reasons behind the business failure of small businesses are explored.

This chapter focuses on the construction industry and the important role the industry plays in the economy of South Africa. The industry has experienced a boom in the last decade, but unfortunately, the growth in the construction industry has not translated into the same successes for construction SMEs (Cameron, 2007). In fact, in the Eastern Cape Province, 91% of all registered contractors fall within the lowest grade of the CIDB's classification system (CIDB, 2010).

The reasons behind the failure of the majority of construction SMEs to grow into more established self-sustainable enterprises are explored. Finally, the need for development models and programmes and the role of these programmes in promoting the growth of construction SMEs into self-sustainable enterprises that generate employment are investigated. In this regard, the current status of these programmes and their efficacy in addressing the problems faced by Construction SMEs are reviewed.
2.2 Small and Medium-Sized Enterprises (SMEs)

The important role of small businesses as important mechanisms of job creation, innovation, and in the long-term growth and development of economies is undisputed (Storey, 2000). Governments and policy makers have become very aware of the social and economic benefits of SME development (Oksoy, 1999). Small business research has therefore become more prevalent among academics, especially since the 1970s (Julien, 1998:2).

2.2.1 Defining Small and Medium-Sized Enterprises (SMEs)

In defining SMEs it is important to make a distinction between the terms small, micro and medium-sized enterprises (SMMEs) and SMEs. In South Africa, both terms are used when referring to small businesses. According to Berry, Cassim, Kesper, Rajaratnam, Van Seventer and Von Blotnitz (2002), SMMEs encompass a very broad range of firms, from established businesses employing over a hundred people (medium-sized enterprises), to the self-employed owners of informal micro-enterprises.

The upper end of the range of SMMEs, according to Berry et al (2002:1) consists of small and medium-sized enterprises (SMEs), and therefore excludes the self-employed micro-enterprise owner.

The terms “enterprise”, “firm” and “business” are used interchangeably in the literature relating to the small and medium-sized enterprises. In defining small and medium-sized enterprises, it is necessary to start by defining small businesses. According to Byrd, Megginson and Megginson (2006:8), to qualify as a small business, a business must at least have two of the following characteristics:

- Management is independent, because the manager usually owns the business;
• Capital is supplied and ownership is held by an individual or a few individuals;
• The business operates primarily in its local area; and
• The business is small in comparison with larger enterprises in its industry.

The National Small Business Act, 1996 recognises two of the above characteristics outlined by Byrd et al (2006:8) in its definition of a small business. It defines a small business as:

“...a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more, which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy, mentioned in column I of the Schedule, and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class, as mentioned, in column 2 of the Schedule.”

In other words, the characteristic which prescribes that the business should be managed by the owner or owners, and the characteristic relating to the size of the business is incorporated into the National Small Business Act’s definition of a small business. The characteristic relating to size refers to the total number of employees, the total annual turnover and the total gross assets of the enterprise.

The definition of a small business in the National Small Business Act further breaks a small business up into micro, very small, small and medium-sized enterprises. The definition in the National Small Business Act also differentiates between different sectors in the economy. In other words, the definitions of small and medium-sized enterprises may differ, according to the sector in which that specific enterprise operates. For instance, a small
business operating in the agricultural sector is regarded as a small to medium-sized enterprise if it has a total number of full-time paid employees of between fifty and one hundred; it generates an annual turnover and has a total gross asset value of between two and four million rand. In contrast to this, in the construction industry, a small to medium-sized enterprise is a small business with a total number of full-time employees of between fifty and two hundred, and an annual turnover of between five and twenty-six million rand, and gross asset value of between one and four million rand (National Small Business Act, 1996). This is depicted in Table 1 below.

<table>
<thead>
<tr>
<th>Sector or sub-sector in accordance with the Standard Industrial Classification</th>
<th>Size of class</th>
<th>The total full-time equivalent of paid employees</th>
<th>Total turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>R 5 m</td>
<td>R 5 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 3 m</td>
<td>R 3 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>R 0.50 m</td>
<td>R 0.50 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.20 m</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>Medium</td>
<td>200</td>
<td>R 39 m</td>
<td>R 23 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 10 m</td>
<td>R 6 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R 4 m</td>
<td>R 2 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.10 m</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>200</td>
<td>R 51 m</td>
<td>R 19 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 13 m</td>
<td>R 5 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R 5 m</td>
<td>R 2 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.10 m</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>Medium</td>
<td>200</td>
<td>R 51 m</td>
<td>R 19 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 13 m</td>
<td>R 5 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R 5.10 m</td>
<td>R 1.90 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.10 m</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium</td>
<td>200</td>
<td>R 26 m</td>
<td>R 5 m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R 6 m</td>
<td>R 1 m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R 3 m</td>
<td>R 0.50 m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R 0.20 m</td>
<td>R 0.10 m</td>
</tr>
</tbody>
</table>

Source: National Small Business Act, 1996

It is not uncommon for small and medium-sized enterprises to be defined in terms of the number of employees and their turnover. In practice, according to Constrinnonet (2004:10), there have been two broad approaches in defining
small and medium-sized enterprises. Firstly, they are defined in terms of the number of employees; and secondly, according to multiple criteria, such as turnover, degree of independence and number of employees. The definition that is used the most in the European Union is the employee criterion, which defines small and medium-sized enterprises as having between naught and two hundred and fifty employees (Constrinnonet, 2004: 11).

2.2.2 The Importance of SMEs

According to Storey (2000), it has been globally recognised that small enterprises are important mechanisms for job creation, innovation and the long-term growth and development of economies. In the European economy, 95% of all firms are small, and provide more than half of all jobs in Europe (Oksoy, 1999). In South Africa, SMEs are the most promising section of the economy (Berry et al, 2002).

In the South African context with its large pool of low-skilled workers, it is more desirable to have SMEs generating the major portion of employment opportunities. However, according to Berry et al (2002), in contrast to many other developing countries, the contribution of South African SMEs to employment and economic growth remains low. The SME sector, according to Berry et al (2002) holds the key as to whether South Africa will fail in confronting its employment challenge. According to Moss (2007: 223), SMEs have the potential to assist countries to emerge from poverty and unemployment and to face a more prosperous future.

The promotion of SMEs in South Africa, therefore, generates a considerable amount of interest. For instance, in its White Paper on National Strategy for the Development and Promotion of Small Business, the Department of Trade and Industry has recognised that SMEs represent an important vehicle to address the challenges of job creation and economic growth, and that as Government, it has an important role to play in the process of stimulating small, medium and micro-enterprises in South Africa (Department of Trade and Industry, 1995). The White Paper has eventually led to the enactment of
the National Small Business Act of 1996. The Government has, therefore, identified the promotion of SMEs as a policy that is imperative for addressing the challenges of unemployment and poverty (Department of Trade and Industry, 1995).

2.2.3 The Reasons behind the Failure of SMEs

According to Rwigema and Venter (2004), between seventy to eighty percent of small businesses, fail within the first five years in South Africa. Byrd et al (2006:24) indicate that the success of small business is negatively affected by factors such as inadequate management skills, lack of financial resources, government regulation and paperwork, lack of proper recordkeeping and poorly planned growth.

The lack of management skills and formal financial planning systems on the part of the small enterprise owner are, according to Julien (1998:276), the most often cited reasons for the failure of small enterprises. Financial problems affect all firms, regardless of size, but in the case of small businesses, these problems tend to be amplified by other difficulties, such as the following (Julien, 1998:276):

- The enterprise’s dependency on the owner-manager, and his inability to delegate authority;
- Limited market power, due to the tendency of small firms to operate in sectors with low entry barriers and high levels of competition;
- Higher business risk because of cash flow problems;
- The lack of financial management skills of small business owners; and
- The failure to review financial performance on a regular basis, and a lack of financial planning.

Financial problems are not the only obstacle faced by small business owners. Small business owners also experience ongoing difficulties in managing their personnel appropriately (Julien, 1998: 332). According to Julien (1998:337), small business personnel management practices are often informal, intuitive
and unplanned. Mahadea and Pillay (2008) indicate that a demand for a business’s products may necessitate the hiring of additional manpower, but because of the intricacies of the labour laws, these difficulties may prevent the small business owner from hiring any additional labour.

The skill shortage in South Africa is yet another obstacle which prevents the small business owner from successfully managing human resources (Mahadea and Pillay, 2008). The skill shortage often makes labour retention a problem for small businesses. According to Mahadea and Pillay (2008), a skilled worker often jumps from one job to another, in response to higher salaries or better benefits. The recruitment process can thus become a costly issue for the small business owner.

The lack of innovation is yet another obstacle to the success of the small business owner. According to Mahadea and Pillay (2008), the failure to innovate and adopt new ideas and practices to satisfy the changing needs of the market, often constrains the growth aspect of the small business owner, as the firm is likely to miss out on opportunities in a changing environment.

The following additional reasons for the failure of SMEs have been noted by Analoui and Karami (2003:35):

- Inadequate records;
- Expansion beyond resources;
- Lack of information on customers;
- Failure to diversify markets;
- Lack of marketing research;
- Legal problems;
- Nepotism;
- One-person management;
- Lack of technical competencies; and
- Absentee management.
All the major reasons for SME failure relate to managerial causes. More specifically, the lack of long-term planning and the lack of strategic thinking inevitably lead to the business failure of SMEs (Analoui and Karami, 2003: 36).

2.3 The Construction Industry

The South African Government views the construction industry as a national asset that should be developed, maintained and transformed (CIDB, 2004). The construction industry accounts for about 10 percent of the world economy. Approximately 70 percent of construction investment is accounted for in the United States of America, Western Europe and Japan (CIDB, 2004).

The continent of Africa accounts for only about one percent of construction investment. Per capita investment in construction in the developed world is approximately $2 500 per annum compared to $46 per annum in Africa (CIDB, 2004).

2.3.1 Defining the Construction Industry

According to Constrinnonet (2004), the construction industry consists of the firms that are executing the building and civil engineering work on site. These firms do site preparation, the building of complete constructions or parts thereof, the execution of civil engineering works, building installation and building completion. Their principal activities do not include building design, drafting and project management. This is a very narrow definition of the construction industry and a narrow definition of construction (Pearce, 2003).

According to Constrinnonet (2004), a broader definition of the industry would also include enterprises whose principal activity involves some aspect of the design and control of construction works, for instance, the consultants employed by clients in the construction industry like architects, quantity surveyors, the suppliers of building material and other services related to the construction and civil engineering.
Pearce (2003) also recognises these narrow and broad definitions of the construction industry. The narrow definition, according to Pearce (2003), confines attention to the on-site construction activity. The true extent of the industry is broader, however, and includes the quarrying of construction raw materials, the manufacture of building materials, the sale of construction products, and the various associated professional services.

Table 2 below depicts the role players in the broader definition of the construction industry. Table 2 is based on research by Osbourn (1997), and has been adapted to depict the South African construction industry.
<table>
<thead>
<tr>
<th>Principle Team</th>
<th>Activities</th>
<th>Role Players</th>
</tr>
</thead>
</table>
| Client Team   | • Owner of completed project  
• Produce building brief for advisors  
• Establish and provide finance  
• Agree design and construction phases and timetabling  
• Appoint Main Contractor  
• Nominate principal contractor | Client and owner of completed project |
| User Team     | Supply information on user requirements  
User | Client, owner or user of the completed project |
| Design Team   | • Supply design expertise  
• Cost control and financial advice  
• Negotiate with local authority to clarify legal requirements  
• Selection and implementation of suitable construction methods  
• Supervise all construction activities | • Designers  
• Architects  
• Engineers  
• Quantity surveyors |
| Research Team | • Make understanding and development of current construction methods possible  
• Discover facts by means of scientific study  
• Provide advisory service to building team  
• Supply in formation about use and specification of new and existing construction methods  
• Education and training of skilled building workers and managers | • Council for Scientific and Industrial Research  
• Faculties of Built Environment and Civil Engineering at Universities  
• Construction Education and Training Authority |
| Legislative Team | Control location, design and construction of a building | • Council for the Built Environment,  
• The Construction |
<table>
<thead>
<tr>
<th>Team</th>
<th>Responsibility</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Team</td>
<td>Supply materials, components, equipment and building systems</td>
<td>Suppliers of construction equipment or materials</td>
</tr>
<tr>
<td>Construction Team</td>
<td>• Co-ordinate erection of the building or structure</td>
<td>Main Contractors Sub-contractors</td>
</tr>
<tr>
<td></td>
<td>• Completion of the construction works</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provide specialist skilled activities, semi-skilled activities and unskilled activities</td>
<td></td>
</tr>
<tr>
<td>Maintenance Team</td>
<td>Building maintenance, repairs and replacements</td>
<td>Building owners and facilities management companies</td>
</tr>
</tbody>
</table>

Source: Adapted from Osbourn (1997)

The focus of this study is on the construction industry in terms of its narrow definition, in other words the construction industry as it relates to the on-site construction activity.

2.3.2 Global Perspective on the Construction Industry

The construction industry is a major component of the UK economy. Construction activity, according to Atkins and Weston (2005), contributes
approximately nine per cent to the UK’s Gross Domestic Product. It also has a significant effect in terms of output and employment opportunities.

Ofori (2009) notes various unique characteristics of the construction industry. These include, according to Ofori (2009), the following traits:

- The industry covers a very wide variety of projects in terms of type of work and size;
- Low barriers to entry in the small-works (grade one contractors) segment of the industry;
- The lack of economies of scale, owing to the uniqueness of each construction project;
- The bulkiness of the material inputs into the construction process; and
- The distribution of the contracting firms, by size, is in the form of a pyramid with SMEs comprising the majority at the base of the pyramid.

The CIDB (2004) has further noted that the construction industry delivers its products in a uniquely project-specific environment that continuously involves different combinations of:

- Investors, clients, contractual arrangements and consulting professions.
- Site conditions, design, materials and technologies.
- Contractors, specialist subcontractors, skills – and the workforce assembled for each project.

2.3.3 The South African Construction Industry

Dlungwana et al (2002) maintain that the South African construction industry is a very important player in the economy of South Africa. Barry and Sebone (2009) indicate that in the current South African context, with the construction of the Gautrain and the stadia for the 2010 World Cup, the industry is very vibrant.
According to Atkins and Weston (2005), the industry is uniquely characterised by being labour intensive, with easy entry into the industry, because of the lower levels of capital outlay required, and with an easy exit from the industry indicated by the high numbers of bankruptcies in the construction industry. Like all other construction industries, the South African construction industry is a project-based environment, and is, therefore, aimed at producing a defined project (Barry and Sebone, 2009).

The South African construction industry has experienced a decade of considerable growth and success, particularly as a result of the government’s considerable infrastructural spending. According to a report by the Department of Agriculture and Land Reform (2008:7), the industry managed to increase its contribution to South Africa’s GDP between the years 2003 and 2008 by 18 per cent. During the third quarter of 2008, according to the report, the industry’s contribution to GDP stood at 3.65 per cent (Department of Agriculture and Land Reform; 2008:8).

The global recession has, as in most sectors, put a dampener on growth, but the industry is one of only a few sectors to have increased its contributions to GDP during the recession. According to a Survey released by KPMG, the industry has increased its contribution to the GDP in the 3rd quarter of 2009 by 8.4% from 2008 (KPMG International, 2009).

Unfortunately, the growth in the construction industry has not translated into the same successes for construction SMEs. In fact, 89% of all registered contractors fall within the lowest level of the Construction Industry Development Board’s classification system (CIDB, 2010). The high percentage of construction SMEs (nationally) in the lowest level is depicted more clearly in Table 4 below. The bottom structure of the construction industry is thus overloaded, whilst the top structure contains only an elite few that have the benefit of competing for multimillion rand projects, as the contractors in the lower levels are restricted to tendering for small non-complex projects (Cameron: 2007).
The CIDB has expressed its concern over the high concentration of lower level contractors that fail to move up the grades (Cameron: 2007). The situation in the Eastern Cape is a cause for even greater concern, as the CIDB (2010) has noted that the number of grade-one contractors in the province is disproportionately high. In fact, 91.7 per cent of all contractors registered in the Eastern Cape fall within grade one (CIDB, 2010).

2.3.4 The Construction Industry Development Board (CIDB)

In South Africa, the Construction Industry Development Board (CIDB) is an important force driving the industry. The Construction Industry Development Act was passed in 2000, to establish a statutory body aimed at driving an integrated development strategy (CIDB Act, No. 38 of 2000). The promotion of best-practice standards constitutes a critical component of the CIDB’s industry development strategy. The Board was also established to simulate growth, improvement and sustainability in the industry.

To fulfil its objectives, the CIDB has developed four programmes (CIDB, 2007). These programmes are:

- Procurement and Delivery Management;
- Construction Registers Service;
- Construction Registers Service Industry Development; and
- Growth and Contractor Development (CIDB, 2007).

In terms of Section 5(2) of the CIDB Act, 2000, the Board is obliged to establish and maintain a national register of contractors which categorises contractors in a manner that facilitates public sector procurement and promotes contractor development (CIDB Act, No 38 of 2000).

The register of contractors, with its classification system, assists clients by enabling them to target suitable contractors more accurately (CIDB, 2007). The register provides statistical data and provides a basis for decisions on
contractor-development programmes, as well as a better understanding of demand and supply in the construction industry (CIDB, 2007).

Contractors can register in five classes of work: civil engineering, general building, mechanical engineering, electrical engineering and specialist work (CIDB, 2007). The register establishes nine grades, each covering a range of tender values, from grade one for projects with a tender value of up to R200,000 to Grade 9 for tenders with an unlimited tender value range (CIDB, 2007).

With the establishment of the register of contractors, the CIDB was able to devote more effort to the National Contractor Development Programme (CIDB, 2007). The National Contractor Development Programme is a programme developed in conjunction with the National Department of Public Works. The goal of the programme is to increase the capacity, equity ownership, sustainability, quality and performance of 10 000 registered contractors by 2010 (CIDB, 2007). The Contractor-Development Programmes are discussed in more detail later in this Chapter.

2.4 Construction SMEs

Construction SMEs perform the activities assigned to the Construction Team in the depiction of the broader construction industry in Table 1 above. In other words, they are the contractors who perform the on-site construction activities; and they are the players in the narrow definition of the industry.

2.4.1 A Global Perspective on Construction SMEs

According to Acar and Onen-Yazici (2006), in almost all countries, SMEs constitute the majority in the construction industry. According to Atkins and Weston (2005), in the United Kingdom, the construction industry is composed of a very small number of very large firms and a vast number of small firms. In the United Kingdom, the industry is made up of some 200 000 construction firms, of which only 10 000 employ more than seven people (Atkins and
Weston, 2005). The distribution of the contracting firms in the construction industry is thus in the shape of a pyramid, with the SMEs forming the majority of firms at the base (Ofori, 2009).

According to Ofori (2009), the needs of SMEs in the construction industry are similar to those of their counterparts in all sectors of the economy. These needs include access to finance and other resources, opportunities to develop technical and managerial capabilities and opportunities to form mutually beneficial networks with potential business partners within the industry and in related sectors.

According to Acar and Oney-Yazici (2006), it is to be expected that SMEs will continue to dominate the construction industry. This is attributed inter alia to the fact that small projects are often more suitable to be undertaken by small firms, the fact that the required level of technical expertise is not high to enter the construction market, and the fact that the industry has generally low barriers to entry (Acar and Oney–Yazici, 2006).

2.4.2 South African Construction SMEs

In South Africa, the CIDB registers contractors in different categories and grades. The categories are civil engineering works (CE), general building (GB), mechanical engineering works (ME), electrical engineering works (EB and EP), and special works (SW) (CIDB, 2010). The grades range from grade one to grade nine. Each grade, except grade nine which may tender for an unlimited value, has a limit on the value of public sector tenders for which contractors may compete, as depicted in Table 3. The contractor grading is determined by the financial capability of the contractors. This, in turn, is determined by factors such as annual turnover, the value of completed projects and the contractor’s available capital.

These criteria are demonstrated in Table 3 below. Table 4 depicts the CIDB’s national register of contractors in the various grades and categories in May 2010. The grade-one contractors are typically very small and they are mostly
micro-enterprises. According to Barry and Sebone (2009), the business practices of very small and micro-enterprises border on survivalist business methods. In most of these businesses, the owner is the only skilled individual; and hence, his abilities to replicate himself on more than one construction project are limited.

Tables 5 and 6 indicate the statistics for construction SMEs registered in the Eastern Cape. The disproportionately high percentage (91%) of SMEs in the Eastern Cape registered in the lowest category is depicted in Table 5.
<table>
<thead>
<tr>
<th>Grade</th>
<th>Upper limit of tender value range</th>
<th>Best Annual Turnover</th>
<th>Largest Contract</th>
<th>Available Capital</th>
<th>Available Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R 200,000.00</td>
<td>No Requirement</td>
<td>No Requirement</td>
<td>No Requirement</td>
<td>No Requirement</td>
</tr>
<tr>
<td>2</td>
<td>R 650,000.00</td>
<td>No Requirement</td>
<td>R 150,000.00</td>
<td>No Requirement</td>
<td>No Requirement</td>
</tr>
<tr>
<td>3</td>
<td>R 2,000,000.00</td>
<td>R 1,000,000.00</td>
<td>R 500,000.00</td>
<td>R 100,000.00</td>
<td>No Requirement</td>
</tr>
<tr>
<td>4</td>
<td>R 4,000,000.00</td>
<td>R 2,000,000.00</td>
<td>R 1,000,000.00</td>
<td>R 200,000.00</td>
<td>No Requirement</td>
</tr>
<tr>
<td>5</td>
<td>R 6,500,000.00</td>
<td>R 3,250,000.00</td>
<td>R 1,600,000.00</td>
<td>R 650,000.00</td>
<td>R 1,300,000.00</td>
</tr>
<tr>
<td>6</td>
<td>R 13,000,000.00</td>
<td>R 7,800,000.00</td>
<td>R 3,250,000.00</td>
<td>R 1,300,000.00</td>
<td>R 2,600,000.00</td>
</tr>
<tr>
<td>7</td>
<td>R 40,000,000.00</td>
<td>R 24,000,000.00</td>
<td>R 10,000,000.00</td>
<td>R 4,000,000.00</td>
<td>R 8,000,000.00</td>
</tr>
<tr>
<td>8</td>
<td>R 130,000,000.00</td>
<td>R 90,000,000.00</td>
<td>R 32,500,000.00</td>
<td>R 13,000,000.00</td>
<td>R 26,000,000.00</td>
</tr>
<tr>
<td>9</td>
<td>R 99,999,999,999.00</td>
<td>R 270,000,000.00</td>
<td>R 100,000,000.00</td>
<td>R 40,000,000.00</td>
<td>R 80,000,000.00</td>
</tr>
</tbody>
</table>

Source: CIDB Regulations, 2004
Table 4: CIDB National Register of Contractors: May 2010

<table>
<thead>
<tr>
<th>Grade</th>
<th>CE</th>
<th>EB</th>
<th>EP</th>
<th>GB</th>
<th>ME</th>
<th>SW</th>
<th>Total Grades</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20,200</td>
<td>1,007</td>
<td>1,836</td>
<td>57,900</td>
<td>2,525</td>
<td>10,237</td>
<td>93,705</td>
</tr>
<tr>
<td>2</td>
<td>1,532</td>
<td>172</td>
<td>84</td>
<td>2,058</td>
<td>185</td>
<td>438</td>
<td>4,469</td>
</tr>
<tr>
<td>3</td>
<td>512</td>
<td>90</td>
<td>46</td>
<td>539</td>
<td>83</td>
<td>90</td>
<td>1,360</td>
</tr>
<tr>
<td>4</td>
<td>727</td>
<td>168</td>
<td>117</td>
<td>755</td>
<td>132</td>
<td>115</td>
<td>2,014</td>
</tr>
<tr>
<td>5</td>
<td>522</td>
<td>147</td>
<td>132</td>
<td>464</td>
<td>150</td>
<td>156</td>
<td>1,571</td>
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<td>6</td>
<td>567</td>
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<td>57</td>
<td>487</td>
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<td>47</td>
<td>1,283</td>
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<td>7</td>
<td>224</td>
<td>19</td>
<td>36</td>
<td>195</td>
<td>36</td>
<td>28</td>
<td>538</td>
</tr>
<tr>
<td>8</td>
<td>72</td>
<td>2</td>
<td>9</td>
<td>60</td>
<td>16</td>
<td>7</td>
<td>166</td>
</tr>
<tr>
<td>9</td>
<td>47</td>
<td>6</td>
<td>16</td>
<td>32</td>
<td>21</td>
<td>10</td>
<td>132</td>
</tr>
<tr>
<td>Total</td>
<td>24,403</td>
<td>1,661</td>
<td>2,333</td>
<td>62,490</td>
<td>3,223</td>
<td>11,128</td>
<td>105,238</td>
</tr>
</tbody>
</table>

Source: CIDB, 2010

Table 5: CIDB’s Register of Contractors registered in the Eastern Cape: October 2010

<table>
<thead>
<tr>
<th>Grade</th>
<th>CE</th>
<th>EB</th>
<th>EP</th>
<th>GB</th>
<th>ME</th>
<th>SW</th>
<th>Total Grades</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2736</td>
<td>96</td>
<td>194</td>
<td>8228</td>
<td>175</td>
<td>1186</td>
<td>12615</td>
</tr>
<tr>
<td>2</td>
<td>128</td>
<td>12</td>
<td>7</td>
<td>210</td>
<td>9</td>
<td>58</td>
<td>424</td>
</tr>
<tr>
<td>3</td>
<td>89</td>
<td>9</td>
<td>9</td>
<td>59</td>
<td>4</td>
<td>10</td>
<td>180</td>
</tr>
<tr>
<td>4</td>
<td>101</td>
<td>11</td>
<td>5</td>
<td>81</td>
<td>9</td>
<td>11</td>
<td>218</td>
</tr>
<tr>
<td>5</td>
<td>51</td>
<td>10</td>
<td>14</td>
<td>44</td>
<td>15</td>
<td>14</td>
<td>148</td>
</tr>
<tr>
<td>6</td>
<td>49</td>
<td>4</td>
<td>1</td>
<td>45</td>
<td>2</td>
<td>1</td>
<td>102</td>
</tr>
<tr>
<td>7</td>
<td>17</td>
<td>4</td>
<td>3</td>
<td>16</td>
<td>1</td>
<td></td>
<td>41</td>
</tr>
<tr>
<td>8</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>3177</td>
<td>146</td>
<td>233</td>
<td>8690</td>
<td>215</td>
<td>1280</td>
<td>13741</td>
</tr>
</tbody>
</table>

Source: CIDB, 2010

2.4.3 Reasons for the poor performance of South African Construction SMEs

There are many problems that are faced by construction SMEs when dealing with construction projects, and as a result, poor performance and poor quality of work is prevalent amongst SMEs in the construction industry (Dlungwana et
al, 2002). According to Smallwood (2000), who conducted a survey to investigate the client’s perspective relative to the contractor’s performance, the problems are predominantly related to poor productivity and poor quality. Smallwood (2000) concluded that the reasons for the poor performance are poor management and low skills among the workers.

According to Barry and Sebone (2009), the construction industry is driven mainly by projects, and thus the success of companies is inextricably linked to the success of the projects they execute. It follows therefore, that if SMEs consistently deliver poor quality on projects, the projects will fail; and this in turn, will lead to a low success rate for SMEs. According to Barry and Sebone (2009), in order for construction companies to succeed and remain viable, they need to retain satisfied clients. Delivering poor quality of work, and not within the stipulated timeframes, means that the client’s expectations are not being met, which will lead to poor client retention and ultimately to business failure.

Smallwood (2000) concluded that the reasons for the poor performance are poor management and low skills among the workers. Sebone and Barry (2009) noted, furthermore, that the adversarial relationships between owners and contractors create a climate that puts the success of the projects at risk. Disputes and the adversarial relations between owners and contractors is, therefore, a contributing factor in the poor contractor performance, and leads ultimately, to the failure of construction projects. Mbachu and Nkado (2007) note that in South Africa, this adversarial relationship also often exists between main contractors and sub-contractors, and it undermines on-site productivity, and ultimately puts the realisation of the project objectives at risk.

According to Dangalazana and Newadi (2005), lack of funding by commercial banks is affecting SMEs in the construction industry in the same way that it is affecting SMEs in other sectors. Private lending by the banking sector is important, but the level of collateral and documentation required by banks places SMEs at a distinct disadvantage. The formal credit institutions are reluctant to give emerging contractors loans, because they do not have fixed
business addresses, and they also have unreliable income sources. Furthermore, according to Barry and Sebone (2009), unless construction SMEs have access to private funds, such as home equity, it is often difficult for them to obtain capital.

Construction SMEs lack business management skills, as they have mostly no formal training in business management. The lack of skilled manpower affects all construction businesses, irrespective of size, but, according to Barry and Sebone (2009), unlike larger businesses, SMEs are not in a position to provide training to their staff, which exacerbates this problem for SMEs.

In addition to the problems faced by all SMEs in all the sectors of the economy, Ofori (2009) identifies three unique characteristics of the industry that have adverse implications for construction SMEs. These, according to Ofori (2009) are:

- The low levels of bargaining power of the contractor in view of the tendering process;
- The project-based nature of work which implies discontinuity; and
- The way in which works are financed; in other words, the client only pays for works that have been completed.

2.5 Construction Development Programs (CDPs)

According to Dlungwana and Rwelamila (2004), a development intervention focused on small and medium-sized contractors can have a huge impact on the economic development of developing countries. The benefits, according to Dlungwana and Rwelamila (2004), include sustainable employment, increased spending in the local economy, a growing entrepreneurship pool among the country's citizens, and improved delivery of infrastructure through the use of competent contractors.

Ofori (2009) also notes that the development of construction SMEs should be a major concern of governments. The reasons why governments should
actively promote the development of construction SMEs, according to Ofori (2009) are:

- As a major client of the construction industry, the government would gain if the firms undertaking its projects had the necessary competencies to provide value for money by producing items of high quality;
- Improved infrastructure for firms in other sectors;
- The operations of construction SMEs stimulate economic activity in other sectors of the economy.

Ofori (2009) also notes that because of the high vulnerability and the adverse conditions that these firms face, they require external assistance.

### 2.5.1 The current status of CDPs: a Global Perspective

In the European Union, it has been found that European governments and their agents have generally failed to engage with the vast majority of construction SMEs in crucial areas, such as research and development and business development. The research undertaken by Constrinnonet (2004) has suggested that many Belgian SMEs are unaware of research and development support, that there is a lack of funds for business promotion in Lithuania, that UK contractors make little use of small business services, that there is little support for construction SMEs in Greece and Spain, and that there is a lack of information about measures and initiatives. This has resulted in a limitation on the part of the SMEs to undertake certain types of innovation (Constrinnonet, 2004).

According to Constrinnonet (2004), policies to improve the performances of construction SMEs need to understand and actively manage the differences between construction firms and non-construction firms, if they are to realise any significant change in the performance of construction firms. Business support organisations with a background in construction are in an ideal
position to perform this role; in other words, to address the issues that are important for construction SMEs, and to engage them in an appropriate way.

According to Constrinonnet (2004), these organisations should be encouraged to network with each other and with other organisations across Europe. These networks should be aimed at exchanging information on appropriate business support measures, and policy initiatives which could be fed back to policy makers.

2.5.2 The Current Status of Development Programmes: A South African Perspective

There are currently different contractor-development programmes which can be applied to the different grades of contractors in the construction industry. These programmes, according to the CIDB (2009), can broadly be grouped as follows:

- Expanded Public Works Programme learnership type models for Grade 1 and 2 construction workforce development;
- Emerging Contractor Development Programmes for Grades 2 to 3 emerging contractors, incorporating predominately mentorship models supported by formal business and technical training;
- Enterprise Development Programmes for contractors in Grades 3 to 6 who exhibit some potential to develop;
- Programmes focusing on performance improvement of established contractors in Grades 4 to 7.

These development programmes are managed by the National Department of Public Works and the various Provincial Works Departments. Contractors within these development programmes
receive preferential access to projects through limited bidding schemes, or similar preferential procurement systems (CIDB, 2007).

According to Ofori (2009), the results of most contractor-development programmes have been insignificant. Among the reasons which he notes for the failure of these initiatives to make an impact are:

- The nature of the interventions that need to be put in place including the resource-intensive nature of the programmes and the sheer size of the problem of developing a significant number of construction SMEs;
- The limited resource capacity of the agencies which have been administering such programmes; and
- Finally, the beneficiaries of the programmes have not shown much appreciation of, and in some cases commitment to, some of the programmes.

The CIDB (2009) has identified the following problem areas relating to the current contractor-development models:

- Because of the preferential procurement applied in most contractor development programmes, contractors often view participation in development programmes as an opportunity to gain access to work opportunities, and not as an opportunity to gain access to developmental opportunities. This is particularly prevalent where officials managing the programmes are not meticulously screening and evaluating contractors – before admitting them to the development programmes.

- Budgeting and allocation of projects to contractor-development programmes within a Works Department requires particular in-house capacity and business processes
which generally are not in line with the core functions of the department. In many cases, the in-house capacity and business processes are not adequate, and the programmes are not adequately resourced and managed. This has the effect that several contractor-development programmes do not provide the intended work opportunities to the participants in the programme. This undermines the sustainability of the participating contracts and ultimately the programmes.

- The standard of performance is a key determinant of the success of any Contractor-Development Programme, but as yet there is no uniformity in the level, relevance and quality of training provided, in the quality of mentors, or in the performance standards that contractors are expected to achieve at the time of exiting the programme.

- The absence of a risk-sharing feature in the development programmes is a concern to the CIDB. The risks of contractor development are carried almost exclusively by the Works Departments, by reducing the risk to contractors in the initial stages of development and gradually removing the support mechanisms at each stage of advancement. Some of the mechanisms being used to reduce the risk to contractors during the incubation or development phase include preferential access to projects, the waving of guarantees or sureties, sub-prime interest rates, mentorship and training. While these are all important, in the absence of risk or cost-sharing and of appropriate quality and performance standards, the Contractor-Development
programmes are regarded as low-risk opportunities to access work. This often tends to attract participants that are least able to perform, and less likely to succeed.

According to the CIDB (2005), contractor-development programmes have been successful in increasing participation, but not in ensuring that small enterprises grow into medium-sized enterprises or larger more-established enterprises. Many attempts by contractor-development programmes to create sustainable construction enterprises from a low base have, therefore, delivered mediocre results (Hauptfleisch, Lazarus, Knoetze and Liebenberg, 2007).

2.6 Chapter Summary

The role of small businesses as important mechanisms of job creation, innovation and in the long-term growth and development of economies is undisputed (Storey, 2000). Governments and policy makers have become very aware of the social and economic benefits of SME development (Oksoy, 1999). Small business research has, therefore, become more prevalent among academics, especially since the 1970s (Julien, 1998:2).

In its White Paper on National Strategy for the Development and Promotion of Small Business, the Department of Trade and Industry recognised that SMEs represent an important vehicle in addressing the challenges of job creation and economic growth (Department of Trade and Industry, 1995). It has therefore, since 1995, actively promoted SMEs. The White Paper eventually led to the enactment of the National Small Business Act of 1996.

There are many obstacles faced by SMEs which have contributed to the failure rate of SMEs. These factors include: lack of management skills of the owner-manager and lack of financial capacity (Byrd et al, 2006:24). All the major reasons for SME failure relate to managerial causes (Analoui and

There is a narrow and a broad definition of the construction industry (Pearce, 2003:10). The narrow definition confines attention to the on-site construction activity. The true extent of the industry is broader, however, and includes the quarrying of construction raw materials, the manufacture of building materials, the sale of construction products, and the various associated professional services (Pearce, 2003:10).

Construction SMEs face the same obstacles as their counterparts in other sectors of the economy (Ofori, 2009). There are, however, obstacles which are unique to the industry and which exacerbate the problems faced by construction SMEs (Ofori, 2009). These problems include the adversarial nature that often characterises the relationship between the client and the contractor, and which in some cases also extends to the relations between the main contractor and the sub-contractors (Mbachu and Nkado, 2007).

The high vulnerability and the adverse conditions with which construction SMEs are faced makes the case for governments to actively promote them even more compelling (Ofori, 2009). Government, as a major client of the construction industry, has a vested interest in the promotion of Construction SMEs (Ofori, 2009). There is, therefore, a need for developmental programmes geared at actively stimulating the growth of construction SMEs.

There are various development models currently in place, driven by the National and Provincial Public Works Departments (CIDB, 2009). The efficacy of these models has, however, been jeopardised by a series of factors. For instance, the lack of capacity and resources allocated to developmental processes in the Departments that implement the programmes is problematic. According to the CIDB (2005), contractor-
development programmes have been successful in increasing participation, but not in ensuring that small enterprises grow into medium-sized enterprises or larger more-established enterprises. Many attempts by contractor-development programmes to create sustainable construction enterprises from a low base have therefore delivered mediocre results (Hauptfleisch et al, 2007).

Chapter 3

Strategic Management in Construction SMEs

3.1 Introduction

Chapter 2 contained a literature review on small and medium-sized enterprises (SMEs), the construction industry, construction SMEs and development programmes promoting the growth of construction SMEs. The reasons behind the failure – of the majority of construction SMEs – to grow into more established self-sustainable enterprises have been explored. Finally, the need for development models and programmes, and the efficacy of these programmes in promoting the growth of construction SMEs into self-
sustainable enterprises that generate employment have been explored; and it was concluded that contractor-development programmes, in general, have been ineffective in growing and developing construction SMEs.

This chapter will now explore how strategic management may be applied to increase the performance of construction SMEs. It focuses on how certain strategic management tools and techniques may provide opportunities for sustainable growth and development for construction SMEs. The concepts of strategic management, strategy and strategic formulation will need to be explored. Environmental analysis tools that are applied in strategic management are discussed, as well as the ways in which these analytical tools may be applied to construction SMEs.

In this chapter, three types of external environmental analysis techniques are discussed, to wit PESTE analysis, industry analysis, and, in particular, Porter's five-forces model, and then lastly, competitor analysis. Resource-based analysis and value-chain analysis are discussed in this study as internal analysis tools. Finally, specific strategies that may provide construction SMEs with opportunities for growth and development are investigate and discussed.

3.2 Strategic Management

Research has revealed that businesses that practise strategic management generally outperform those that do not (Hunger and Wheelen, 2003:4). Strategic management, therefore, has a positive impact on the performance of a business (Analoui and Karami, 2003:37).

3.2.1 Definition of Strategic Management

Pearce and Robinson (2003: 3) define strategic management as a set of actions and decisions that leads to the formulation and implementation of plans to reach a company's objectives. Thompson (1996:6) defines strategic management as, "the management processes and decisions which determine
the long-term structure and activities of the organisation". According to Analoui and Karami (2003:4), this definition incorporates five key themes: management process, management decisions, timescales, and structure of the organisation and activities of the organisation.

According to Stacey (1993), strategic management is a process directed by top management to determine the aims and goals of the organisation. Wheelen and Hunger (2003:2) argue that strategic management is a set of managerial decisions and actions that determine the long-run performance of a corporation. Strategic management includes environmental scanning (both internal and external), strategy formulation, strategy implementation and evaluation and control (Wheelen and Hunger, 2003:2). Strategic management enhances the business’s ability to prevent problems and usually results in better decisions (Pearce and Robinson; 2003:10).

### 3.3 Definition of Strategy

According to Hunger and Wheelen (2003:7), "strategy is a comprehensive plan stating how the business will achieve its mission and objectives". Thompson (2001:9), described strategy as the means-to-an end whereby the end is related to the purpose and objectives of the business. Strategies are the things that businesses do, the paths they follow and the decisions they take in order to reach certain points and levels of success (Thompson, 2001:9). According to Hill and Jones (2009:33), strategy is a set of related actions which managers take in order to increase their business's performance goals.

### 3.4 Strategy Formulation

Strategy formulation is the development of long-range plans for the effective management of opportunities and threats in the light of corporate strengths
and weaknesses (Hunger and Wheelen, 2003:5). Langford and Male (2001:67) argue that strategy formulation is concerned with matching the firm's capabilities with its environment.

The strategic formulation process begins with the crafting of the mission statement, which provides the framework within which the business's strategies are formulated (Hill and Jones, 2008: 8) According to Pearce and Robinson (2003:23), the mission statement is a statement, not of measurable targets, but of attitudes, outlook and orientation. The mission statement states the purpose of the company and provides a basis for strategic objective setting and decision-making.

The mission statement reflects the purpose of the business and gives an explanation of why it is in existence (Thompson, 2001). The key purpose of a mission statement is to inform the stakeholders of what the business is, what it seeks to accomplish, and who it seeks to serve (Hitt, Hoskisson and Ireland, 2009:18).

It is important that the mission statement be communicated and made clear to all the internal and external stakeholders of the business. It should, therefore, be understandable and intelligible to all the stakeholders, in order to avoid confusing stakeholders about the purpose of the firm (Analoui and Karami, 2003: 114). Effective mission statements are therefore responsive to the stakeholders, which include customers, employees, suppliers and the owners of the business (Dess, Lumpkin and Eisner, 2010: 28).

A mission statement should differentiate the firm from its existing and potential rivals in the industry (Analoui and Karami, 2003:114). There is overwhelming consensus that the development of mission statements is fundamental for the survival and growth of any business (Analoui and Karami, 2003: 117).

Research has shown that having an effective mission has a positive impact on a business's performance in terms of its growth in profits, employment and net worth (Hitt et al, 2009: 19) Analoui and Karami (2003:117) conclude that the
benefits firms may derive from mission statements address many of the management problems that characterise SMEs. In a study done by Analoui and Karami (2002), it was found that the majority of SMEs (78 per cent) have developed formal mission statements.

The study found that in SMEs, the mission statement is used as a tool for strategic planning. The study by Analoui and Karami (2002) concluded that the main reasons why SMEs preferred to have mission statements are to:

- Develop and plan business strategies;
- Increase profits and growth;
- Promote and share expectations between the business owner and his employees; and

It is important to distinguish between the terms vision and mission. According to Hitt et al. (2009:18), the vision statement is a picture of what the firm wants to be and what it wants to ultimately achieve. The vision statement focuses on the business's resources and on the achievement of a desirable future. In other words, it describes what the company is to become in the future.

The mission statement describes what the business is now, whilst the vision describes what the business would like to become (Analoui and Karami, 2003:112). The vision represents a destination that is driven by passion (Dess et al, 2010: 26). A vision is a necessity, as no organisation can survive without understanding where it is going and what it seeks to achieve (Analoui and Karami, 2003:112). A vision is "big picture" intended to inspire passion within employees about what they should be doing in the business (Hitt et al, 2009:18).

The second step in strategy formulation is specifying achievable objectives (Analoui and Karami, 2003:122). Strategic objectives provide guidance on
how the business should fulfil and reach the goals specified in the vision and mission statements (Dess et al, 2010:29). These objectives should give the business firm direction for its future activities and investments (Analoui and Karami, 2003:123). Without setting objectives, SMEs will not know in which direction the business should be steered. According to Analoui and Karami (2003:123), SMEs face a danger that the objectives of the business are developed based on the owner-manager’s personal preferences.

This should be avoided, as the business owner’s personal goals might be highly subjective, and not necessarily in the best interests of the business (Analoui and Karami, 2003:123). According to and Hunger and Wheelen (2003:6), the objectives of a business are the end-result of planned activity and they should state clearly what is to be achieved, by when – and they should be quantified. In this regard, it is often argued that business owners should develop SMART objectives, in other words objectives that are specific, measurable, appropriate, realistic and time-bound (Dess et al, 2010:29).

According to Porter (1985), the third step in strategy formulation is developing strategies. Strategists in SMEs should develop strategies only after:

- Conducting a SWOT analysis;
- Conducting an industry analysis,
- Conducting a resource analysis; and

3.5 Levels of Strategy

According to Pearce and Robinson (2003:6), the hierarchy of strategy embodies three levels. At the top is the corporate strategy; in the middle is the business strategy; and at the bottom of the hierarchy is the functional-level strategy (Pearce and Robinson, 2003:6).
3.5.1 Corporate Strategies

The corporate strategy is concerned with deciding what type of business the organisation should be in order to maximise the long-term profitability and growth of the organisation (Hill and Jones, 2009:20). Corporate strategies in SMEs can be categorised into three main areas: diversification, internationalisation, and vertical integration and subcontracting (Analoui and Karami, 2003:136).

Diversification describes the diversity in the activities of the business (Analoui and Karami, 2003:136). When a business diversifies, it moves out of its current market and into a new market. Diversification can be in related markets or in unrelated markets (Dess et al, 2010:198).

Internationalisation is a corporate strategy that involves a firm being active in one of several foreign markets, and thus working in an international context (Analoui and Karami, 2003:137). An internationalisation strategy is mostly associated with large firms, but there is no reason why SMEs should not adopt internationalisation as a corporate level strategy (Dlungwana and Rwelamila, 2004). Vertical integration refers to the corporate strategy of acquiring control over additional links in the value chain of producing or selling products or services (Analoui and Karami, 2003:143). It is the means for a business to reduce its reliance on its suppliers (Dess et al., 2010: 206).

In other words, vertical integration is when a business directly enters those parts of the value chain that are served by their suppliers (Thompson, 2001). In subcontracting, a small business produces goods or delivers services to a larger business on a customer’s needs and specification. The larger business retains all responsibilities for the contract (often called the main contract) with the customer (Analoui and Karami, 2003:144). Another example of corporate strategy that is often used by South African construction SMEs, is joint-venture partnerships.
Joint venture partnerships in the construction context involve one or more small firms joining with one or more large firms for the purpose of executing a single construction project (CIDB, 2004). Specific corporate strategies and how they provide opportunities for the growth and development of construction SMEs will be explored in more detail later in this chapter.

3.5.2 Business Strategies

The business-level strategies determine how the business will compete in the selected market arena in which it has chosen to operate (Pearce and Robinson, 2003:6). Business-level strategy is concerned with developing bases for maintaining a competitive advantage (Analoui and Karami, 2003:54). According to Hunger and Wheelen (2003:77), business-level strategy emphasises the competitive position of a business's services and products in the specific industry or market segment in which the business operates.

The strategies that are applied at the business level are called generic strategies. Porter (1985) has developed the concept of generic strategies. A business that practises strategic management adopts one or more generic strategies. These characterise the business's orientation in the marketplace (Pearce and Robinson, 2003:13). The three generic strategies are: the cost-leadership strategy, the differentiation strategy and the focus strategy (Dess et al, 2010: 15).

These generic strategies and how they find application in Construction SMEs will be explored in more detail later in this chapter.

3.5.3 Functional-Level Strategies

The functional-level strategy is concerned with the functional areas of the business, such as operations, marketing, finance, human resources, and research and development (Analoui and Karami, 2003:54). Specific functional-level strategies for construction SMEs, such as marketing and
human-resource strategies are explored in more detail further on in this chapter.

3.6 Environmental Analysis

Before an organisation begins the process of strategy formulation, it should scan its external environment to identify threats and opportunities, and its internal environment to identify strengths and weaknesses (Hunger and Wheelen, 2003:30). Environmental analysis is, therefore, a step that goes before strategy formulation in the strategic-management process. Environmental analysis is a tool that businesses can use to avoid strategic surprise and to ensure the long-term health of the business (Hunger and Wheelen, 2003:30).

Environmental factors are divided into external and internal environmental factors (Analoui and Karami, 2003: 67). The business owner or the strategist of the business should diagnose the external and internal factors and analyse the impact of those factors on the business (Analoui and Karami, 2003:67). External analysis involves developing a better understanding of the industry, whilst internal analysis is chiefly concerned with the study of the business itself (Analoui and Karami, 2003:68).

External factors exert an influence on a firm. According to Pearce and Robinson (2003: 57), these factors in the external environment can be divided into three interrelated subcategories. These are: factors in the remote environment, factors in the industry environment and factors in the operating environment. In combination, these factors form a basis for the opportunities and threats a firm faces in its competitive environment.

External environmental analysis alerts the business to critical changes and events before these changes develop a discernible pattern and before competitors recognise them (Elenkov, 1997). These factors should be considered in the development of a strategy for the business (Analoui and Karami, 2003:67). In this study, three types of external environmental analysis
techniques are discussed, to wit PESTE analysis, industry analysis, in particular Porter's five-forces model, and lastly, competitor analysis.

Resource-based analysis and value-chain analysis are discussed in this study as internal analytical tools.

3.6.1 PESTE Analysis on the Remote Environment

According to Pearce and Robinson (2003:58), the remote environment comprises factors that are beyond the control of any single business. These factors are political, economic, social, technological and ecological factors (Pearce and Robinson; 2003:58). An analysis of these factors is referred to as a PESTE analysis (Analoui and Karami, 2003: 74). These factors in the business's external environment provide the business with opportunities, threats and constraints.

Political and legal factors define the legal and regulatory parameters with in which a business must operate (Pearce and Robinson, 2003:59). Some laws and regulations are restrictive, but some political actions are designed to benefit and protect firms (Pearce and Robinson, 2003:59). Political factors and legal factors are a major consideration for South African construction SMEs.

For instance, the Government of South Africa, a major client in the construction industry, practises preferential procurement as prescribed in the Preferential Procurement Policy Framework Act, No 5 of 2000. Businesses that are wholly or partially owned by historically disadvantaged individuals are given preference through a preferential procurement point system. Historically disadvantaged individuals (HDIs) are defined in the Preferential Procurement Policy Framework Act, No 5 of 2000, as either individuals who were not allowed to vote before the 1994 election, a woman or a disabled person.

This is an example of a restrictive law for SMEs owned by non-HDIs, but a beneficial law for SMEs owned by HDIs. Furthermore, South Africa has
passed legislation which regulates the procurement of construction services in the public sector (CIDB Regulations). In terms of the CIDB Regulations, promulgated in the CIDB Act, only construction firms that are registered with the CIDB are eligible to tender for construction projects offered by the public sector. The value of the projects for which they may tender is also dependent on the grade in which the construction business has been registered.

The South African Government also actively strives to develop and grow construction SMEs through the various Contractor-Development Programmes that are run by the National and Provincial Public Works Departments. Contractor-development programmes are an example of a political factor in the external environment that provides opportunities to construction SMEs.

Economic factors are characteristics of the economy, including national income and monetary conditions (Dess et al, 2010: 52) An example of how economic factors exert an influence on the construction industry, was in the 1970s when the economy was characterised by a large demand for infrastructure (Jacquet, 2002). It was during this time that South Africa’s major infrastructure was built and which led to high growth in the construction industry (Jacquet, 2002). With the high demand and the urgency for construction, margins in the construction industry grew to be profitable, and it was seen as a very attractive industry to enter (Jacquet, 2002).

It is important for the business owner to be aware of social environmental factors, which include customer values and demographic changes in the population of the business’s target market (Analoui and Karami; 2003:76). Social environmental factors also refer to the beliefs and lifestyle of a society. Examples of social environmental factors are: the higher percentage of women in the workforce, dual-income families, greater interest in diet and fitness, and a greater concern for the environment (Dess et al, 2010:49). In the South African context, the influence of HIV/AIDS on the workforce is an important social environmental factor for businesses to consider.
To promote innovation, a business should always be aware of technological changes that might influence its industry. According to Dess et al (2010: 51), developments in technology lead to new products and services and improve the ways in which they are produced and delivered to the end-user. Creative technological adaptations can suggest possibilities for new products, improvement of existing products, and improvements in manufacturing and marketing techniques (Pearce and Robinson, 2003:60).

According to Pearce and Robinson (2003:61), ecological factors refer to a firm's relationship with living things and the air, soil and water that support them. Specific concerns include global warming, as well as water, air and land pollution. The pressure on business to reduce its carbon footprint has provided opportunities for businesses to profit by solving problems relating to pollution and global warming (Dess et al, 2010: 51).

3.6.2 Porter’s Five-Forces Industry Analysis

In formulating strategy, it is important for the strategist in the business to analyse the industry in which the business operates (Analoui and Karami, 2003:77). In order to design strategies for the business, the business owner should understand the business’s industry and competition. According to Pearce and Robinson (2003:76), a business should define the boundaries of the industry in which it operates. It is important to define the boundaries, as this assists a business to determine clearly the arena in which it operates.

Harvard Business Professor, Michael Porter, is a pioneer in the concepts of industry-environmental analysis and industry analysis (Pearce and Robinson, 2003:67). The cornerstone of his work is the concept of the five forces that shape competition in any industry (Pearce and Robinson, 2003:67). Porter’s five-forces model is the most commonly used analytical tool for examining a business’s competitive edge (Dess et al, 2010: 56). The five-forces model presents a powerful framework for systematically considering the competitive
forces exerted on a business; and it also identifies alternative means to address the challenges presented by these competitive forces, and to outperform rivals (Acar and Oney-Yazici, 2006). Porter's five-forces model is therefore an analytical tool to conduct industry analysis.

According to Porter (1985), competition in an industry depends on five forces. The collective strength of these forces determines the ultimate profit potential of the industry. The goal of any business should be to find a position in the industry where his company can best defend itself against these forces or can influence them in its favour (Pearce and Robinson, 2003:69). The competitive forces, according to Porter (1985), are the threat of new entrants (also described as barriers to entry), powerful suppliers, powerful buyers, the threat of substitute products and rivalry.

3.6.2.1 The Threat of New Entrants / Barriers to Entry

The threat of new entrants refers to the possibility that the profits of established firms in the industry may be eroded by new competition (Dess et al, 2010:56). The entry barrier is a concept related to the ease with which a business is able to enter an industry (Langford and Male, 2001:48). Industries with low entry levels are easy to enter. The extent of the threat of new entrants into an industry depends on the presence of effective barriers to their entry (Analoui and Karami, 2003:82). According to Porter (1985), barriers to entry are the obstacles that a firm must overcome in order to enter an industry.

These barriers inhibit the entrance of additional rivals into the industry (Acar and Oney-Yazici, 2006). There are six major barriers to entry (Pearce and Robinson, 2003:71). These barriers are: economies of scale, product differentiation, capital requirements, cost disadvantages, access to distribution
channels and government policy. These barriers influence the degree of rivalry in the industry (Acar and Oney-Yazici, 2006).

In general, the construction industry has low barriers to entry, coupled with a high degree of fragmentation (Cheah and Chew, 2005). The capital investment requirements for entry are low; there is an efficient rental equipment market; and the subcontracting mechanism offers advantages to construction SMEs (Acar and Oney-Yazici, 2006). Access to distribution channels is, therefore, not problematic for construction SMEs. Entry is easy for construction SMEs at the lower end of the industry in terms of firm size (Langford and Male, 2001:52). As project size, complexity and technological requirements increase, there are fewer firms able to undertake such work (Langford and Male, 2001:52).

The South African Government actively stimulates participation of SMEs in the construction industry, through the contractor-development programmes whereby assistance is given to contractors through preferential procurement. This has led to the ever-increasing number of Grade one contractors registering with the CIDB (CIDB, 2010). These factors make it easy for SMEs at the lower end to enter the construction industry. The degree of rivalry is thus raised. However, if one scrutinises the CIDB’s national register of contractors, the competitors in the industry with regard to the project size for which they may compete, become fewer as the project size increases (CIDB, 2010). For instance, construction firms registered in Grade 7 that may compete for projects up to a value of R40 000 000 comprise less than 1% of the total number of contractors registered on the CIDB’s National Register (CIDB, 2010).

This is more clearly depicted by Table 4. Ninety-one per cent of the SMEs are registered in Grade one and may, therefore, only tender for contracts up to a value of R200 000.

In the study done by Acar and Oney-Yazici (2006) on the Turkish construction industry, none of the owner-managers of the construction SMEs that were
interviewed as part of their study, considered the new competitors coming into the market as a threat. The reasons are mainly associated with the fact that as the number of competitors in the industry grows, so the profit margins are getting smaller each day. This makes it difficult for a new entrant to survive in the market. One of the interviewees in the study by Acar and Oney-Yazici (2006) remarked that the failure of each new entrant increased the advantages of older contractors in the local market.

3.6.2.2 The Power of Suppliers

According to Acar and Oney-Yazici (2006), the five-forces model is based on the assumption that when suppliers are powerful, they can exert pressure on the producers to capture some of the industry’s profits. One of the indicators of the power of suppliers in an industry is the number of suppliers in the industry. A supplier group is powerful if the industry within which it operates is dominated by only a few companies (Hunger and Wheelen, 2003: 39). When suppliers dominate an industry, it means that the cost of switching suppliers is high, and the suppliers are said to be more powerful in an industry (Acar and Oney-Yazici, 2006).

3.6.2.3 Powerful Buyers / Clients

Buyers and clients in an industry are powerful if they are able to force prices down, bargain for higher quality or more services, and are able to play competitors off against each other (Dess et al, 2010:58). Buyer power, therefore, refers to the impact of the client on an industry (Acar and Oney-Yazici, 2006). The balance of power between a business and its clients determines the extent to which the business has the freedom to set its product price. In the construction industry, construction SMEs have a contractual relationship with their clients and the price of the product is, therefore, determined before the construction phase, as part of the original agreement.

The clients have a high bargaining power, as they specify their demands associated with the project (Acar and Oney-Yazici, 2006). The switching costs
for clients are also low, as many contractors operate in the same market (Acar and Oney-Yazici, 2006). Furthermore, because of the high concentration of construction SMEs in the South African construction industry supplying the same services, the clients are able to play one business off against another, to force down prices, and so benefit from the intense competition.

According to the results of the study performed by Acar and Oney-Yazici (2006), owner-managers of construction SMEs argue that clients often avoid using their power to switch contractors, because of the trust relationship between contractors and clients in the construction SME sector.

3.6.2.4 The Threat of Substitute Products

Substitute products can satisfy the same needs as other products and hence pose a threat to the existing service providers or producers (Analoui and Karami, 2003:83). According to Acar and Oney-Yazici (2006), substitute products are products that are produced in other industries. Acar and Oney-Yazici (2006) argue that a substitute product, as it is understood by Porter, does not exist in the construction industry, because no other product can replace, for example, a building for residential purposes.

3.6.2.5 Degree of Rivalry

Rivalry is the amount of direct competition in an industry (Hunger and Wheelen, 2003:37). If the degree of rivalry is intense, rival businesses target customers of other businesses by using attraction strategies, such as publicity and advertising (Analoui and Karami, 2003:83). A competitive move by one business could have an effect on all the other competitors (Analoui and Karami, 2003:83). For instance, the development of new technology by an existing business can increase its market share.

According to Acar and Oney-Yazici (2006), there are several factors that prevent firms from pursuing competitive advantages. Accordingly, any firm should choose from a set of strategies – in order to be successful in this
market. The high degree of rivalry is one of the typical characteristics of the construction industry (Acar and Oney-Yazici, 2006). Low switching costs of clients, and the low entry barriers, as well as the project-based nature of the industry are some of the factors that create high rivalry at the lower end of the industry (Acar and Oney-Yazici, 2006).

3.6.3 Competitor Analysis

Competitor analysis is a tool for analysing the external environment; in particular, it is a tool to analyse the industry. According to Pearce and Robinson (2003: 76), competitive analysis is a tool in terms of which a business determines which firms are its competitors and what the major determinants in the competitive arena are. It profiles the current and potential future strategies of competitors; and it also attempts to work out their possible responses to any changes in the strategy the firm may make (Langford and Male, 2001:76).

According to Pearce and Robinson (2003:80), identifying competitors is a milestone in the development of strategy. Common mistakes that are made in identifying competitors are:

- Concentrating too much on current and known competitors, whilst giving insufficient attention to potential new entrants into the market;

- Paying too much attention to large competitors, and ignoring small competitors;

- Assuming that competitors will behave in the same way that they have in the past; and

- Believing that the purpose of strategy is to outsmart the competition and not to necessarily satisfy customers (Pearce and Robinson; 2003: 80).
3.6.4 Resource Analysis

Resource analysis is an internal environment analytical tool. The main reason for analysing the resources of a business is to explore those resources that enable an organisation to compete and survive against its competitors. The resources of a business are those assets that contribute to the generation of value-added potential (Analoui and Karami, 2003:92). Resource analysis determines the extent to which the resources of a firm add value and provide the business with a competitive advantage over its rivals (Analoui and Karami, 2003:92).

The resources of a business are divided into three main categories (Dess et al, 2010: 93):

- **Tangible resources** are the physical and financial resources employed by businesses to create value for their customers. Physical resources are resources, such as land, equipment, buildings, plant and machinery, whilst financial resources comprise cash flow, accounts that are still outstanding, and the business’s ability to borrow funds.
- **Intangible resources** are the non-physical resources, such as brand names, reputation and technology.
- **Organisational capacities and capabilities** comprise the skills that a business employs.

Resources alone are not a basis for competitive advantage (Newbert, 2008). In some cases a resource or capability helps a firm to increase its revenues or to lower its costs, but this provides only a temporary advantage, because competitors can always imitate their rivals (Dess et al, 2010: 94). For a resource to provide the firm with a sustainable competitive advantage, it should have four attributes, namely: it should be rare; valuable; not be easy to imitate; and substitutes should not be readily available (Barney, 1991).
Resources that are difficult to imitate are the key to the creation of value and the creation of sustainable competitive advantages (Ethiraj and Zhu, 2008).

3.6.5 Value-Chain Analysis

Value-chain analysis views the business as a sequential process of value-creating activities (Dess et al, 2010). Porter (1985) described two different categories of activities: to wit primary activities and support activities. Primary activities are in-bound logistics, operations, out-bound logistics, marketing and sales and service, whilst support activities are procurement, technology development, human-resource management and general administration. Value-chain analysis is an internal environment analytical tool.

According to Pearce and Robinson (2003:137), value-chain analysis divides the business into sets of activities that occur within the firm, starting with the inputs that the firm receives and ending with the firm’s products and services to the customers. The next step is to allocate costs to each activity, as each activity in the value chain takes up time and assets (Pearce and Robinson, 2003: 140). This is called the activity-based value chain analytical approach. It allows the business to compare, for example, its procurement costs with those of key competitors or industry averages, and conclude that the business is equal, better or worse (Pearce and Robinson, 2003:140). In other words, it allows the business to identify which costs are advantages, disadvantages or in line with those of their competitors.

According to Pearce and Robinson (2003:141), scrutinising the firm's value chain is not only necessary to reveal cost advantages or disadvantages, but it may reveal several sources of differentiation advantage relative to the competitors. It assists a business in taking strategic decisions by strengthening resources in the chain, where the highest values are added and reducing costs where no value is added to the customer (Analoui and Karami, 2003:93).
In construction enterprises, the value activities of the tendering process are divided between pre-contract and post-contract stages (Langford and Male, 2001:70). In the pre-contract stage, two major value activities proceed in parallel, namely estimating and contract planning and management. The estimators analyse a tender, using labour and material costs and seek quotations from sub-contractors to produce a unit rate estimate. The unit rate is unlikely to differ much from those of the competitors. Contract planners and management, on the other hand, adopt a time-and-resource-based analysis that involves programming site activities, determining preliminary items to produce a preliminaries estimate.

In construction, preliminaries usually win or lose a contract, because there is an opportunity to devise a programme of work that is shorter than that of the competitors (Langford and Male, 2001:70). Competitive advantage, in the form of a cost advantage, is therefore gained in the pricing of the preliminaries.

3.6.6 SWOT Analysis

Langford and Male (2001:75) indicated that a SWOT analysis is shorthand for describing the strengths and weaknesses of a business and the opportunities and threats that it faces. The main purpose of the SWOT analysis is to identify strategies to exploit external opportunities, counter any threats, build on and protect strengths, and to eradicate weaknesses (Hill and Jones, 2009:19). A SWOT analysis, therefore, involves both an external and an internal environmental analysis.

SWOT analysis is used regularly in business to stimulate self-reflection and group discussions on how to improve the business and how to position it for success (Dess et al, 2010:81).

A strength is a key success factor and could include the skills and abilities of the firm, such as skilled and committed human resources, effective
distribution channels, financial stability and technological know-how (Analoui and Karami, 2003:95). When a business has identified its strengths, it should be further developed, and the business strategies should be based on these identified strengths (Analoui and Karami, 2003:95).

A weakness is something that the firm lacks or an area where it is not as good as its competitors (Analoui and Karami; 2003:95). The typical weaknesses of SMEs that often lead to their failure were discussed in Chapter 2. In identifying weaknesses, a business should endeavour to recover from them and strengthen the areas where the weaknesses are positioned (Analoui and Karami, 2003:96). In other words, the business should adopt an effective action plan to compensate for the weaknesses.

According to Lasher (1999), the opportunities are the situations in which the business can improve its strategic position. Small businesses usually succeed or fail, based on how accurately they can identify openings and benefit from opportunities (Analoui and Karami, 2003:98).

According to Analoui and Karami (2003:98), threats are the main obstacles in the external environment of the business. Any changes in the external environment of SMEs that could have the potential to disrupt the SMEs well-being should be considered as threats (Analoui and Karami, 2003:98). Should the business not be able to adapt to these changes, it risks failure (Analoui and Karami, 2003:98).

SWOT analysis has its limitations, as it is just a starting point for a discussion on how to develop effective strategies to deal with threats and weaknesses, and to exploit any opportunities and strengths (Dess et al, 2010: 81). In other words, SWOT is not an end in itself, but a means to the kind of action steps necessary to enact strategic change (Dess et al, 2010:81). Hunger and Wheelen (2003:72) have noted the following criticisms of SWOT:

• It generates lengthy lists;
• It does not use any weights to reflect priorities;
• It uses ambiguous words and phrases;
• The same factor can be placed in two categories (a strength may also be a weakness);
• There is no obligation to verify opinions by means of data or analysis;
• It only employs a single level of analysis; and
• There is no logical link to strategy implementation.

3.7 Strategic Behaviour in Construction SMEs

Over the last two decades, the construction industry has been profoundly affected by economic and industrial change, as a result of recession, changing markets, the impact of new technologies and increasing competition arising from greater regional and global integration (Edum-Fotwe, Mccaiffer and Majid, 1999).

Strategic management is, therefore, important to businesses operating in the construction industry, where the degree of rivalry is high, and where adverse competition is a serious threat to the success of any business (Skaik, 2009).

3.7.2 Corporate-Level Strategies

The corporate strategy is concerned with deciding what type of business the organisation should be in, and how the overall group of activities should be structured and managed (Analoui and Karami, 2003:53).

3.7.2.1 Sub-Contracting and Joint-Venture Partnerships

In the construction industry, subcontracting and joint ventures are corporate strategies that could be used by construction SMEs to grow and develop their businesses (Ofori, 2009). In construction, a contract is an agreement between a client and a contractor to construct, repair or renovate in an agreed time for an agreed price and according to agreed standards (CIDB, 2004). When an
SME employs a subcontracting strategy, it does not conclude a contract directly with a client, but rather concludes an agreement with the prime or main contractor to perform a part of the works on the building to be constructed (CIDB, 2004).

The main contractor has the right to appoint subcontractors of his choice (CIDB, 2004). Therefore, by subcontracting and dealing directly with a main contractor, an SME is able to side-step the very competitive bidding process he would normally have had to go through to contract directly with the client. The main contractor remains overall responsible to the client to finish the work in the stipulated time and to the standard agreed on in the contract, and therefore, carries all the risks of executing the work on the contract (CIDB, 2004).

The subcontractor therefore enjoys the growth and development opportunity of executing part of a large project, without carrying any of the risks associated with the project.

A construction SME may also decide to form a joint-venture partnership with a larger and more established business. The SME may decide to conclude an agreement with one or more large established firms, or another SME, to work together on a specific project (CIDB, 2004). The firms will then jointly sign a contract with a client to build or construct a building (CIDB, 2004). Normally, in other industries outside the construction industry, joint ventures are employed as a corporate strategy to enter the international market.

In the construction industry, among SMEs, it is used as an opportunity for the SME to grow and develop the company (Ofori, 2009) in the domestic market, and also to win construction contracts through the bidding process that it would not normally win through the competitive-bidding process if it were to rely on its own skills, experience and resources.

The difference between subcontracting and joint-venture partnerships is that the client has one agreement jointly with all the joint-venture partners. All the
joint-venture partners are, therefore, equally responsible towards the client for the execution of the work on the project, and they carry equally all the risk, whilst in subcontracting, only the main contractor carries the risk.

3.7.1.2 Internationalisation

According to Dlungwana and Rwelamila (2004), the majority of construction SMEs do not export their services outside their countries, and therefore do not apply an internationalisation strategy as a corporate strategy. Dlungwana and Rwelamila (2004) argue that the international construction market is dominated by a few construction multinational enterprises. It is, however, argued that the local SME sector often has the capacity to execute small and medium-sized projects and can thus compete at the international level (Dlungwana and Rwelamila, 2004).

The international market provides opportunities for SMEs to enter into subcontract work for large, multinational enterprises and even in limited cases to form joint ventures and partnerships. Construction SMEs are already engaged in practising subcontracting and joint-venture partnership as a means to execute bigger and more complex projects in the local market (CIDB, 2004). Dlungwana and Rwelamila (2004) argue that there is no reason why they should not use the same corporate strategy to access the global market.

3.7.1.3 Diversification strategies

When a business diversifies it moves out if its current market and into a new market. Diversification can be in related markets or in unrelated markets (Analoui and Karami, 2003:136). When construction firms diversify, they go into related markets, such as property development, housing development, supplying building materials, plant and equipment hiring and mechanical and electrical engineering (Langford and Male, 2001:106).
Such diversification allows the business to divert resources from within its current profile, to the diversified activities (Fellows, Langford, Newcombe and Urry, 2002: 196). In other words, it makes more sense for construction businesses to diversify into related areas, as they can then source the inputs needed for the new products from within their current capabilities, skills and resources.

In a study done on the UK construction industry, it was found that the main reasons for construction firms to diversify are to avoid dependence on the cyclical nature of the construction industry, to increase profitable growth, to increase activity, or to enhance security by controlling supplies (Cannon, Hillebrandt, and Lansley, 1995; Hillebrandt, 1996). The study found that construction firms diversified into a whole range of activities, but the most important were construction-related enterprises such as housing development property development, material production and supply, especially sand and gravel (Hillebrandt, 1996).

When the housing and property markets collapsed, they retreated to their core business. Construction firms should, therefore, accept that not only construction, but also the housing and property development are subject to wild fluctuations, because all of them are investment projects that are required irregularly (Hillebrandt, 1996).

Research has shown that construction firms also diversify into material supply and production to control supplies (Cannon, Hillebrandt and Lansley, 1995; Hillebrandt, 1996). According to Hillebrandt (1996), this strategy is very effective when an increase in activity is jeopardising supplies. Owning and operating one’s own material supply, gives a construction firm greater security (Hillebrandt, 1996).

The study by Hillebrandt (1996) also found that diversification by contractors into unrelated markets is not always successful, as contractors are simply not good at managing other businesses, unless they are operating large firms that are able to attract the best managers to handle the diversified portfolio. The
study concluded that construction firms should diversify into markets that they know well, and should always be prepared to revert to their core business if necessary (Hillebrandt, 1996).

3.7.2 Business-Level Strategies

The business level strategies determine how the business will compete in the selected market arena in which it has chosen to operate (Pearce and Robinson, 2003:6). According to Hunger and Wheelen (2003:77), business-level strategies emphasise the competitive position of a business’s services and products in the specific industry or market segment in which the business operates. The strategies that are applied at the business level are called generic strategies. Porter (1985) has developed the concept of generic strategies.

A business that practises strategic management adopts one or more generic strategies. These characterise the business’s orientation in the marketplace (Pearce and Robinson, 2003:13). The three generic strategies are: the cost of a leadership strategy, the differentiation strategy and the focus strategy (Dess et al, 2010: 15).

3.7.2.1 Cost-Leadership Strategy

Kenyon and Mathur (1997, 179) define cost leadership as having "... lower equivalent costs than competing substitutes". The low cost leader is a business that can produce at the lowest cost, and thus gain the competitive advantage in any market by being able to provide the products and services at the lowest cost (Analoui and Karami, 2003:132). The profit advantage gained from the cost leadership strategy derives from the difference between the average price of sales in the market place and the cost of sales.

Since the cost of sales of the cost leader is less than the cost of sales of its competitors, the cost leader will be able to make more profit than its
competitors (Analoui and Karami, 2003:132). Pearce and Robinson (2003; 190) argue that the cost advantage gained has to be sustainable for a business to be regarded as a true cost leader. Truly sustained low-cost advantages will push rivals into other areas, and will lessen price competition for the cost leader (Pearce and Robinson, 2003:190).

Price often trumps all opposition in construction services, depending on the pricing culture of the client. For instance, in public sector construction, the client is obliged to evaluate tenders on the basis of allocating either 80% or 90% of the points scored to the pricing element (Preferential Procurement Policy Framework Act, No. 5 of 2000). Construction firms have to provide their prices through a competitive bidding system before the product is delivered to the customer. The price tendered by the construction firm represents the cost of providing the structure, the manufacturing element and the cost of service delivery.

Construction firms believe that 90% of the tender is made up of the estimated cost of the work, while the remaining 10% comprises the preliminaries for risk, overhead costs and profit. Construction firms believe that their competitive advantage is derived from how they price the preliminaries (Langford and Male, 2001:212). Should a construction SME be able to consistently price their preliminaries lower than their competitors by devising a programme of work that is shorter than the competitors, they would gain a cost advantage over their competitors.

Lean construction practices are a way in which construction businesses may attain cost advantages over rival firms. The approach of lean construction is to attempt to manage and improve construction processes with minimum cost and maximum value to the client (Hardin, 2009: 246). The foundation of lean construction is lean manufacturing, as initially developed and practised by Toyota and it is a process of managing resources effectively in order to reduce waste and limit overheads (Hardin, 2009: 246).
3.7.2.2 Differentiation Strategy

When a business is able to differentiate its products along some attributes which customers value, and the cost of doing so is lower than the extra revenue envisaged, then a differentiation strategy is an appropriate strategy to pursue (Analoui and Karami, 2003:133). In other words, the customer feels that the cost of buying the product is well below the product's value in comparison to other available alternatives (Pearce and Robinson, 2003:193).

The purpose of the differentiation, according to Kenyon and Mathur (1997:78), is to make the business's product less price-sensitive. In other words, customers give less weight to the price in their buying decisions (Kenyon and Mathur, 1997:78). According to Analoui and Karami (2003:133), this strategy enables the business to focus on adding value that might cost more, but which allows it to charge a comparatively higher price for its product.

It is important that the business analyse the target market properly before pursuing this type of strategy – to ensure that the customer is willing to pay a higher price for the differentiation (Analoui and Karami, 2003:133). When a business differentiates its products or services, it gives the business greater freedom in pricing the products (Kenyon and Mathur, 1997:129), provided of course, that the customer is willing to pay a higher price for the differentiation.

In differentiating its products or services, a business also renders itself less vulnerable to price competition (Kenyon and Mathur, 1997:129).

Analoui and Karami (2003:135) argue that SMEs cannot sustain a differentiation strategy for very long, as competitors start to imitate their rival, and as the customers do not perceive the differentiation as adding any value. It is argued that differentiation is an attractive option for SMEs when it is combined with a focus strategy (Analoui and Karami, 2003:135).
In the construction industry, the level of conformity with governing standards and specifications, the extent to which innovative means and methods of construction are used, the quality of workmanship, the quality of human relations, the rigour involved in schedule management, and the level of professionalism in construction-management practices are usually the differentiating factors in the construction service (Arditi, Makinde and Polat, 2008).

3.7.2.3 Focus Strategy

A focus strategy is also sometimes referred to as a niche strategy when it focuses on a narrow segment of the market (Analoui and Karami, 2003:134). When a firm decides to adopt a focus strategy, the firm will typically concentrate on finding a niche in the marketplace and will develop its competitive advantages for that niche.

The construction business owner often has reservations about specialising in a serving a specific market segment, because of fear that he may lose other opportunities in the process, but according to Hernandez (2008), targeting services to specifically serve a niche within the wider market is a very effective strategy for construction companies. According to Hernandez (2008), companies that develop and exploit a particular specialty niche tend to see a greater degree of success than “those that try to be all things to all customers”.

A successful focus strategy depends on clearly defining the niche, conducting an analysis of the niche and then exploiting the niche by satisfying the niche market’s own particular needs (Hernandez, 2008). According to Hernandez (2008), by servicing a particular narrow segment, there is golden opportunity to dominate the specific niche market, as the company will benefit from decreased competition of bids.
3.7.3 Functional-Level Strategies

The functional-level strategy is concerned with the functional areas of the business, such as operations, marketing, finance, human resources and research and development (Analoui and Karami, 2003:54).

3.7.3.1 Marketing Strategy

Marketing strategy is the functional strategy most focused on by SMEs. According to Analoui and Karami (2003:237), SMEs will not be able to survive unless they adopt an effective marketing plan for their products and services. Analoui and Karami (2003:237) have also concluded that successful SMEs are committed to their marketing strategy and focus on the customers' needs. Marketing in small business has been defined as “the process of creating and delivering desired goods and services to customers and involves all of the activities associated with winning and retaining loyal customers” (Scarborough and Zimmerer, 2003: 180).

According to Langford and Male (2001:212), research has shown that construction businesses are more production-oriented, but clearly not customer-oriented. In this regard, a study conducted by Smallwood (2000), to survey the client’s perception relevant to contractor performance, it was found that the predominant problems are re-work and poor quality work. According to Mbachu and Nkhado (2007), construction SMEs must meet the expectations and requirements of their clients when delivering projects, because if the quality of the work is good and the customer is satisfied, it will provide a basis for repeat business, referrals and a network of connections that will lead to more contracts.

3.7.3.1.1 The Marketing Mix

According to Analoui and Karami (2003:247), an effective marketing strategy for SMEs should assist in creating an effective marketing mix. The marketing
mix consists of four main elements known as the four P’s: product, price, promotion and place (Analoui and Karami, 2003:247). In the construction industry, there is a modified marketing mix, in terms of which, a fifth “P” has been added, namely “people” (Arditi et al, 2008). In terms of this modified marketing mix, contractors confront marketing from five perspectives, known as the five P’s of marketing: product, price, promotion, place, and people.

The product in the marketing mix is about providing customer benefits (Langford and Male, 2001:212). From the point of view of the construction SME, the product is the constructed building and the services provided by the contractor throughout the construction period (Mochtar, 2005). The quality of a construction SME’s technical performance and the extent of the innovative customisation of the product to suit the client’s needs, will provide valuable tools in marketing the SME’s products (Arditi et al, 2008; Mochtar, 2005).

Price often trumps all other considerations in construction services, depending on the pricing culture of the client. For instance, in public sector construction, the client is obliged to evaluate tenders on the basis of allocating either 80% or 90% of the points scored for the pricing element (Preferential Procurement Policy Framework Act). Construction firms have to provide their prices through a competitive bidding system before the product is delivered to the customer. The price tendered by the construction firm represents the cost of providing the structure, the manufacturing element and the cost of service delivery.

Construction firms believe that 90% of the tender is made up of the estimated cost of the work and the remaining 10% is the preliminaries for risk, overhead costs and profit. Arditi et al (2008) are critical of the emphasis on the lowest price in construction services. The use of price as the sole means of differentiation amongst construction companies greatly undermines the profitability of construction companies, discourages construction innovation, and inhibits quality. The tradition of awarding projects based on price, normally qualified as “lowest responsible bidder”, has been largely responsible for this problem (Arditi et al, 2008).
According to Analoui and Karami (2003:250), promotion covers all phases of communication between the seller and the potential customer. The need for promotion is common to all industries, but promotional techniques that are applied in mass consumer markets may not be easily transferable to construction, due to the relatively high transaction cost, long transaction time, and the uniqueness of construction (Arditi et al, 2008). Promotion is about making the features and benefits explicit, but it is difficult in construction services, because unlike tangible goods, such as cars, construction services cannot be displayed (Langford and Male, 2001:183; 213).

An example of how construction services could be promoted is by created media – such as promotional brochures with pictures of buildings being erected or refurbished by a contracting firm. According to Langford and Male (2001:185), publicity materials such as brochures, should stress the benefits of the service to the customer.

In public sector construction procurement that is heavily regulated by the Public Management Finance Act and the Preferential Procurement Policy Framework Act, promotional activity may not succeed in getting construction firms to win a contract, because of the point-scoring system applied. It can, however, succeed in getting a construction firm on to a selected list or database of construction companies from which tenders are being invited (Langford and Male, 2001:213). Promotional activities are, therefore, more suited to private sector construction contracts or for obtaining a subcontract as part of a main contract with the public sector.

The place in the marketing mix is where the service is being performed (Langford and Male, 2001:213). Arditi et al (2008), however, have a different view. The construction SME does not have any control over the location of a construction site project, except in very unusual instances when the contractor doubles as a property developer. The place in the marketing mix, in terms of construction services, is therefore, “the geographical spread of the contractor’s resources” (Arditi et al, 2008).
Construction SMEs have the potential to save costs by situating branch offices in close proximity to a potential market, and by becoming familiar with the construction market in one's job location, especially if the project involves local specialty subcontractors (IBBS, Ling and Kumaraswamy, 2005).

The people in the marketing mix are those comprising the network making up the marketing exchange. This network includes the contractor, the subcontractors, suppliers, architects, quantity surveyors and engineers. The success of a project often depends on how these individuals, groups and organisations interact (Langford and Male, 2001:213). This is particularly true for the construction industry, because construction, unlike any other industry, relies heavily on people at each stage of the project (Arditi et al, 2008).

Relationship marketing focuses on networks and the interaction between project participants (Gummesson, 1994). Smyth (1999) defines relationship marketing as a concept for developing long-term and sustained contact with clients, so that their needs can be targeted and satisfied in return for client loyalty.

3.7.3.1.2 Market Segmentation

According to Langford and Male (2001:180), firms cannot service all the customers in a mass market, and they have to identify a segment or a target market in which to compete. A marketing strategy should be aimed at a particular target market (Analoui and Karami, 2003:245). According to Analoui and Karami (2003:245), small businesses mostly fail to pinpoint their target markets, because they regard their market as being too small. Scarborough and Zimmerer (2002), however, argue that small businesses are more suited to reaching market segments.
The construction industry may be broken down into several markets and this provides opportunities for construction companies to focus their activity or to remain flexible and remain in all sectors (Langford and Male, 2001:12). According to Turner, cited in Langford and Male (2001:182), the construction market can be segmented along five types of client categories: property development companies, investors, occupiers, government and public sector, and quasi non-governmental organisations.

When it comes to segmenting the market as regards client categories, Hernandez (2008) argues that a good place to start in segmenting the market for a construction firm is the firm’s current and recent customers. The question that should be asked is, what sort of projects does the firm excel in and which are most profitable for the firm. This will enable the firm to establish a target market towards which all the marketing efforts should be directed (Hernandez, 2008).

Each segment has different priorities and requires different approaches. The construction industry can also be segmented into different market areas. Langford and Male (2001:11) divide the market into four classification areas: building, civil engineering, repair and maintenance, and materials manufacture.

The CIDB has divided the South African Construction industry in to five different classification groups: general building, civil engineering, electrical engineering, mechanical engineering, and specialist works (CIDB, 2010). The general building classification can further be segmented into housing (residential), industrial and commercial markets (Langford and Male, 2001:11). Industrial building refers to building structures in industrial zones, such as the Coega Industrial Development Zone, whilst commercial buildings refer to commercial structures, such as shopping complexes, hotels and restaurants.

A close scrutiny of the CIDB’s national register of contractors reveals that more than 60% of construction firms are registered in the general building
classification, whilst more than 20% are registered in the civil engineering classification (CIDB, 2010). There are, therefore, opportunities for construction SMEs to target segments of the public sector market where there is a low concentration of construction SMEs, such as the mechanical engineering, electrical engineering and specialist works.

In this regard, only 1.5% of all construction SMEs in the Eastern Cape are registered in the mechanical engineering classification, whilst 63% of construction SMEs are registered in the general building category. This is more clearly depicted in Table 5. This provides opportunities for Construction SMEs, as there are fewer competitors bidding for mechanical engineering works.

3.7.3.2 Human-Resource Strategies

Functional strategies in human resource management are also important for SMEs. In SMEs, human resource strategies can be categorised into four basic functional strategies. These include recruitment and selection, training and development, retention, and finally, evaluation and control strategies (Analoui and Karami, 2003:267).

In Chapter 2, skills shortages and the lack of retention of skills have been identified as reasons for the business failure of SMEs. The construction industry, in particular, is suffering from a critical skills shortage (Haskins, 2008). Training, retention and compensation strategies are, therefore, important elements of a human resource strategy for construction SMEs. In terms of strategic human resource management, employees are a source of strategic value, and their development contributes to a firm’s performance and sustainability (Barrett and Mayson, 2006).
Training strategies are developed by, firstly, identifying the training needs of the SME (Analoui and Karami, 2003:268). In terms of strategic human resource management, employees are a source of strategic value, and their development contributes to a firm's performance and sustainability (Barrett and Mayson and, 2006). The training strategies should, therefore, be aligned to the overall strategies of the business to generate competitive advantage (Chen and Hung, 2010).

There are opportunities for construction SMEs to ensure the training of their workforce through the assistance of the Construction Education and Training Authorities (CETA). The Skills Development Act (Act 97 of 1998) put in place a fund intended to be used for the development of skills (Jacquet, 2002). Construction SMEs that contribute their skills development levy to the CETA are able to apply for support in the form of skills subsidies, where employees are provided with formal training towards a recognised learnership or qualification (Jacquet, 2002). It has, however, been found that very few firms make use of this opportunity to train their workforce (Jacquet, 2002).

The appropriate payment system is very important when it comes to retention of skilled workers in SMEs (Analoui and Karami, 2003:269). In this regard, Armstrong and Spellman (1993) argue that the areas of pay, reward, performance, commitment and team building are crucial in improving the retention of skilled workers. The following issues, according to Armstrong and Spellman (1993), are important factors in any retention and compensation strategy:

- **Pay**: SME owners should ensure that all employees, particular key people, are paid market-related wages.
- **Rewards**: SMEs should develop a reward system to increase employee productivity, commitment and the willingness to accept change.
- **Performance**: A performance-management system should be implemented to define roles and responsibilities for employees and to appraise their performance.
• Commitment: Commitment in employees is enhanced by sharing the business's mission and vision with employees and encouraging them to comment on these matters.

• Team building: Team building is a strategy for success in SMEs. It is, however, rarely applied, as small business owners mistakenly believe that a small number of employees will automatically provide the basis for teamwork (Analoui and Karami, 2003:269).

3.7.4 Innovation in Construction SMEs

Innovation is one of the key issues in sustained competitive advantage (Langford and Male, 2001:71). In fact, according to Pearce and Robinson (2003:167), it has become increasingly risky for businesses not to innovate. Only a few innovative ideas become profitable though, because the research and development costs of converting a promising idea into a profitable product are extremely high (Pearce and Robinson, 2003:168).

In construction, most definitions of innovation are ambiguous, in that they refer to both the process and the end-result of the process of innovation (Constrinnonet, 2004). Constrinnonet (2004) concluded that innovation can best be defined as, "the commercial application of existing knowledge in a new context". The creation of knowledge through research and development should be viewed as part of the process of the commercial application of existing knowledge (Constrinnonet, 2004). Innovation, therefore, refers to a broad range of activities, including research and development, project design and the execution of the works.

According to Constrinnonet (2004:11), innovation in construction has three main outcomes: technologically improved buildings, technologically improved construction processes and non-technological organisation of construction. Non-technological improvements relate to organisational innovation, which does not require technological advances, such as new types of business
organisation, new forms of contract and procurement, and the opening of new markets (Langford and Male, 2001:72).

Fleming (1980) concluded that innovation in construction is outside the control of the industry, due to its service nature and the split between production and design, manufacture and construction. Fleming (1980) argued that the forms and the methods of construction are largely in the hands of the designers. Male and Stocks (1989) suggested that designers bring in innovation by designing the built form and by providing the structural form, the specifications and the drawings.

Innovation in materials also falls outside the construction SME's control, because the innovation in materials is introduced by the manufacturer (Langford and Male, 2001:71). Similarly, innovation in the construction plant falls outside the control of the construction SME, as it rests with the equipment manufacturers (Langford and Male, 2001:71).

There are, however, areas where construction SMEs can play a direct role in innovation. According to Langford and Male (2001:72), innovation by construction companies may occur at an on-site level through the organisation of production, and by considering the timing and scheduling of inputs. Construction SMEs could also innovate through responding to clients with new services and new forms of organisational design (Langford and Male, 2001:72). These forms of innovation all relate to non-technological improvements in the organisation of construction.

According to Constrinnonet (2004:12), there are two methods of innovation in construction SMEs: the project-specific method and the general-capabilities method. The project-specific method refers to the problem-solving activities of an SME during the process of construction (Constrinnonet, 2004). They are essentially resource-based, and motivated by the short-term objective of
completing works on time and according to the budget, and to the specifications. The problem-solving activities could be cost-reducing or value enhancing.

The general-capabilities mode refers to general improvements in the technological and the organisational capabilities of an SME that can be applied to a range of projects. It refers to the SME’s core capability to transform material and information inputs into outputs, its ability to organise work, to manage a portfolio of work, to procure supplies and to seek out and exploit new business opportunities (Constrinnonet, 2004).

According to Constrinnonet (2004), there is a general aversion to innovation in Construction SMEs. The reason for this aversion to innovation is because of the limited resource base of SMEs, in respect of human capital and financial capital. This means that they tend to avoid projects that involve any radical or systematic innovation (Constrinnonet, 2004).

According to Constrinnonet (2004), the traditional contracting system is the main barrier to successful innovation in construction SMEs. It is suggested that the traditional contracting system should be replaced by systems that allow negotiation between members of the project team and their suppliers. In the traditional method, the building professional (architect, quantity surveyor or engineer), acts on behalf of his client and appoints the main contractor who, in turn, appoints the subcontractors (Constrinnonet, 2004).

3.8 Summary of Chapter

Research has revealed that businesses that practise strategic management generally outperform those that do not (Hunger and Wheelen, 2003:4). Strategic management tools and techniques may provide opportunities for sustainable growth and development for construction SMEs.

The strategic formulation process begins with a definition of the business mission (Analoui and Karami, 2003:117). According to Pearce and Robinson
(2003:23), the mission statement is a statement – not of measurable targets, but – of attitude, outlook and orientation. According to Analou and Karami (2003:112), it is important to distinguish between the terms vision and mission. According to Pearce and Robinson (2003:34), the vision statement expresses the aspirations of the business owner. The vision statement focuses the business’s resources on the achievement of a desirable future.

Environmental analysis is a step that goes before strategy formulation in the strategic management process. All businesses are influenced by environmental factors, which the business should consider in the development of strategy for the business (Analou and Karami, 2003: 67). In this Chapter, three types of external environmental analysis techniques have been discussed, to wit PESTE analysis, industry analysis, and in, particular, Porter’s five forces model; and lastly, competitor analysis.

Resource-based analysis and value-chain analysis have been discussed in this study as internal analysis tools. Langford and Male (2001:75) indicate that a SWOT analysis is shorthand for describing the strengths and weaknesses of a business, and the opportunities and threats that it faces. According to Analou and Karami (2003:94), a SWOT analysis is an analytical tool which can be used to determine the business’s strengths and weaknesses (internal environment) as well as opportunities and threats (external environment). A SWOT analysis, therefore, involves both an external and an internal environmental analysis.

According to Pearce and Robinson (2003:6), the hierarchy of strategy comprises three levels. At the top of this level is the corporate strategy; in the middle is the business strategy; and at the bottom of the hierarchy is the functional level strategy (Pearce and Robinson; 2003:6). According to Pearce and Robinson (2003:13), a business that practises strategic management
adopts one or more generic strategies which characterise the business’s orientation in the marketplace.

The three generic strategies are: the cost-leadership strategy, the differentiation strategy and the focus strategy (Porter, 1985, as cited by Analoui and Karami, 2003:131).

In the construction industry, subcontracting and joint ventures are corporate strategies that could be used by construction SMEs to grow and develop their businesses (Ofori, 2009). The international market provides opportunities for SMEs to enter into subcontract work for large, multinational enterprises, and even in limited cases, to form joint ventures and partnerships. Construction SMEs are already engaged in practising subcontracting and joint-venture partnerships, as a means of executing bigger and more complex projects in the local market (CIDB, 2004). Dlungwana and Rwelamila (2002) argue that there is no reason why they should not use the same corporate strategies to access the global market.

Should a construction SME be able to consistently price their preliminaries lower than their competitors by devising a programme of work that is shorter than their competitors, they would gain a cost advantage over their competitors. This would enable them to consistently win more projects on the basis of price, and would give them a competitive cost advantage.

When a business diversifies, it moves out if its current market and into a new market. A study by Hillebrandt (1996) found that diversification by contractors into unrelated markets had not been successful, as contractors are simply not good at managing other businesses, unless they are operating large firms that are able to attract the best managers to manage such a diversified portfolio. The study concluded that construction firms should diversify into markets that they know well, and should be prepared to revert to their core business when required to do so (Hillebrandt, 1996).
Focus strategies provide opportunities for the growth and development of construction SMEs. According to Hernandez (2008), targeting services to specifically serve a niche within the wider market is a very effective strategy for construction companies.

Marketing strategy is the functional strategy most focused on by SMEs. According to Analoui and Karami (2003:237), SMEs will not be able to survive unless they adopt an effective marketing plan for their products and services. Analoui and Karami (2003:237) have also concluded that successful SMEs are committed to their marketing strategies and these should focus on the customers’ needs.

According to Langford and Male (2001:180), firms cannot service all the customers in a mass market and have to identify a segment or a target market in which to compete. The construction industry may be broken down into several markets and these provide opportunities for construction companies to focus their activities or to remain flexible and remain in all the sectors (Langford and Male, 2001:12).

Innovation is one of the key issues in sustaining competitive advantage (Langford and Male, 2001:71). In fact, according to Pearce and Robinson (2003:167), it has becoming increasingly risky for businesses not to innovate. Only a few innovative ideas become profitable though, because the research and development costs of converting a promising idea into a profitable product are extremely high (Pearce and Robinson, 2003:168).
Chapter 4

Research Methodology

4.1 Introduction

Chapter 3 contained a literature overview of strategic management and how strategic management may be applied to ensure the growth and development of construction SMEs. It focused on how certain strategic management tools and techniques may provide opportunities for sustainable growth and development for construction SMEs. The concepts of strategic management, strategy and strategic formulation were explored. Environmental analytical tools that are applied in strategic management were discussed and the ways in which these analytical tools may be applied to construction SMEs were explained.

In this chapter the research methodology applied to this study is explained in full detail. The concept of research paradigms is explained and the concepts
of quantitative and qualitative research paradigms are contrasted and compared. The chapter covers the distinctive characteristics of the case study strategy, and more specifically the single-case study design, which was chosen for this study. An explanation is provided for why the concepts of sampling logic and sampling size are irrelevant to case-study research.

Furthermore, the importance of using a case-study protocol in case-study research and the specific case-study protocol that was used in this study are discussed. Lastly, the data collection methods and instruments, and the data analysis method applied in this study are discussed.

4.2 Research Paradigms

A research paradigm is a school of thought or a philosophy about how research ought to be conducted (Collis and Hussey; 2003:46). There are two main research paradigms. These, according to Collis and Hussey (2003:47), may be labelled as the positivistic and the phenomenological. Collis and Hussey (2003:47) recognised that the terms quantitative and qualitative, instead of positivistic and phenomenological, are most commonly used by authors. According to Brynard and Hanekom (2006:36), there are two basic research methods or paradigms: the quantitative and qualitative research paradigms.

4.2.1 The Quantitative Research Paradigm

A quantitative approach involves collecting and analysing numerical data and applying statistical tests. Quantitative research is objective in nature and concentrates on measuring phenomena (Collis and Hussey, 2003:13). According to Coldwell and Herbst (2004:15), quantitative research involves the collection of primary data from large numbers of individual units with the intention of projecting them onto a wider population. Quantitative research reports rely heavily on the concepts of validity, reliability, and predictability.
It is concerned with the testing of hypotheses, and the testing of relationships between variables. According to Leedy and Ormrod (2001:101), quantitative research answers question about relationships between variables, with the purpose of explaining, predicting and controlling phenomena.

4.2.2 The Qualitative research paradigm

Qualitative research is more subjective in nature than quantitative research; and it involves examining and reflecting on perceptions, in order to gain an understanding of social and human activities (Collis and Hussey; 2003:13). As a general rule, information is considered to be qualitative in nature if it cannot be analysed by means of mathematical techniques or expressed in numbers.

In qualitative research, the researcher becomes immersed in the phenomenon of interest, as he interacts with what is being researched. The emphasis is on collecting data that lead to dependable answers to research questions. These are then reported in sufficient detail, so that they have meaning for the reader. In contrast, the reality in quantitative research is totally separate from the researcher (Collis and Hussey; 2003:13). According to Collis and Hussey (2003:163), it may be argued that qualitative research provides a more real basis for analysis and interpretation.

In explaining qualitative research, Denzin and Lincoln (1994) state that, qualitative research implies an emphasis on processes and meanings that are not rigorously examined, measured, in terms of quantity, amount, intensity, or frequency.

4.3 The Case-Study Method

The case study represents a specific tradition within the qualitative research paradigm (Creswell, 1998). According to Leedy and Ormond (2005:108), the case study is qualitative research in which in-depth data are gathered for the purpose of learning more about an unknown or poorly understood situation. The case-study method attempts to arrive at a comprehensive understanding
of the event under study, but at the same time, it seeks to develop more general theoretical statements about regularities in the observed phenomena (Zach, 2006).

Case studies are used primarily when researchers wish to obtain an in-depth understanding of a relatively small number of individuals' problems or situations (Zach, 2006).

The case-study method involves the intense analysis of a small number of projects, rather than gathering data from a large sample of the population (Powell, 1997:49). The fact that only a small sample is analysed has drawn criticism from researchers, because of poor generalisability of the results. In other words, it is incapable of providing any general conclusions (Zach, 2006). However, according to Flyvberg (2004), one can often generalise on the basis of a single case. According to Yin (1994), a case study does not represent a sample and the investigator's goal is to expand and generalise theories (analytical generalisation) and not to enumerate frequencies (statistical generalisation).

While most case-study research focuses on a single case, the multiple-case study design allows the researcher to explore the phenomenon under study via the use of a replication strategy. Replication refers to the similar results that a researcher predicts will be found in the cases that are the subjects of the case study. According to the multiple-case study method, all or most of the cases should provide similar results. There can be substantial support for the development of a preliminary theory that describes the phenomena (Eisenhardt, 1989).

The choice between single and multiple-case study design remains within the same methodological framework (Yin, 1994: 45).

4.4 The Case-Study Protocol
According to Yin (1994:63), the case-study protocol is a major tactic in increasing the reliability of the case-study research, and is intended to guide the investigator on how to conduct the research. The case-study protocol is essential in multiple-case study designs, as it reminds the researcher what the case study is all about (Yin, 1994:65). It should contain the following sections:

- An overview of the case-study project: According to Yin (1994:66), the overview study should cover the background information about the project, the substantive issues being investigated, and the relevant readings of the issues. The overview describes the purpose of — and the setting — for the case study.

- Field procedures: Yin (1994:68) states that in conducting case-study research, the researcher should cater for the schedule and availability of the interviewees and the respondents in the research. The researcher is intruding into the world of the subjects being studied, and it is necessary to make special arrangements in order to conduct interviews with the relevant individuals. In this regard therefore, the field procedures of the case-study protocol emphasise the major tasks in gaining access to the respondents.

- Case-study questions: The case study questions are a reminder to the researcher of what needs to be collected and why. These questions serve as prompts to the researcher in asking questions during a case-study interview. Each question should be accompanied by the likely sources of evidence. These sources might include the names of interviewees or documents, and form the structure of the inquiry. They are not the actual questions that are asked in the interview.

- A guide for the case-study report: The guide for the case-study report is the basic outline of the final case-study report. This facilitates the collection of the data in the appropriate format (Yin, 1994).
4.5 Sampling is Irrelevant in Case-Study Research

A sample is defined as a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985). When dealing with people, it can be defined as a set of respondents (people) selected from a larger population. Sampling in turn, is the act, process, or technique of selecting a suitable sample, or a representative part of a population, for the purpose of determining the parameters or the characteristics of the whole population.

According to Yin (1994), in doing case-study research, the researcher should avoid referring to the cases as a “small sample size of cases”, because a single case is not the same as a single sample in a survey. According to sampling logic, the data that are collected from a sample are assumed to be representative of the entire target population. This logic is applicable to sampling where the researcher wants to determine the frequency or prevalence of a particular phenomenon. According to Yin (1994:48), any application of this sampling logic to case studies would be out of place.

When using a multiple-case study design, the question relating to the number of cases required for the study is often asked, but according to Yin (1994), a sampling logic should not be used as a typical criterion reflecting the sample size. The choice of the number of case studies for a multiple-case study design is a matter of “discretionary, judgemental choice” by the researcher (Yin 1994: 50).

4.6 Reliability, Validity and Triangulation

Reliability and validity relate to the credibility of the findings of the research (Collis and Hussey; 2003:58). Triangulation is a method often used by qualitative researchers to test the validity and the reliability of their research (Guion, 2002).

4.6.1 Reliability
The evidence and conclusions of research are reliable if they can stand up to
the closest of scrutinies (Collis and Hussey, 2003:58). Research is reliable,
when, should any other researcher repeat the research, the same findings
would be obtained. In case-study research, this means that if a later
investigator were to follow exactly the same procedures as those described by
an earlier investigator, the later investigator would arrive at the same findings
and conclusions (Yin, 1994:36). The goal of reliability is to minimise the errors
and biases in a study (Yin, 1994:36).

4.6.2 Validity

Validity refers to the extent to which the research findings accurately reflect
the real situation, in other words, whether the research findings represent the
true picture of what is being studied, and can then be generalised (Collis and
Hussey, 2003:186). Research errors, such as faulty research procedures,
poor samples and inaccurate or misleading measurements can undermine
validity (Collis and Hussey; 2003:59). In other words, validity is all about
whether the research findings are true and credible.

The criticism often levelled at case studies is that they are not capable of
being generalised beyond the immediate case study (Yin, 1994:35). According to Yin (1994: 35), this criticism of case studies is unfounded, as it
compares a single case in the research project to a single sample in the
survey. The comparison with samples in survey research is incorrect when
dealing with case studies, because survey research relies on statistical
generalisation, whereas case studies rely on analytical generalisation (Yin,
1994:36).

4.6.3 Triangulation

Triangulation is a method used by qualitative researchers to check and
establish validity in their studies. There are various types of triangulation;
these include:
• Data triangulation,
• Investigator triangulation,
• Theory triangulation,
• Methodological triangulation, and
• Environmental triangulation (Guion, 2002).

Theory triangulation involves the use of multiple professional perspectives to interpret the data (Guion, 2002). This method typically entails using professionals from different disciplines. In theory, it is believed that individuals from different disciplines or positions will bring different perspectives. Therefore, if each evaluator from the different disciplines interprets the information in the same way, then validity has been established. This can provide a check on selective perception and illuminate blind spots in any interpretive analysis (Guion, 2002). The goal is not to seek consensus, but rather to understand multiple ways of seeing the data (Guion, 2002).

4.7 The Research Methodology Applied in this Study

The nature of the research problem in this study is not suited to quantitative research, as the study is not concerned with hypothesis testing, but rather with exploring and describing the phenomena and developing guidelines for the application of strategic management tools by construction SMEs. As the aim was to gain an understanding of the strategic behaviour of construction SMEs, qualitative research was the more suitable research paradigm.

Furthermore, the exploratory nature of the research question was well suited to qualitative design and with the assumptions underlying the qualitative approach.

The case-study method was used for this study, considering that it allows for the in-depth understanding of real-life phenomena (Yin, 2009: 18). Furthermore, a single-case study design was followed, as the particular case represents an example of how the application of strategic management
principles has contributed to the growth and development of a construction SME in the Eastern Cape.

The particular SME was selected as a subject for the case study on the basis that it would show the contribution strategic management tools and techniques can make in growing and developing businesses from micro or very small enterprises to an established medium-sized enterprise. In this regard the construction SME was selected based on the fact that it met the following criteria:

- The construction SME operates on a provincial level in the Eastern Cape.
- The construction SME has reached the upper end of medium-sized status, as defined by the National Small Business Act, either in terms of its number of employees, or its annual turnover.
- The Construction SME owner has grown and developed the SME from a micro or very small enterprise to a medium-sized enterprise.
- The Construction SME has a proven track record in the successful completion of public sector projects in excess of ten million rand.

A list of contractors was obtained from the CIDB register of contractors in the categories of Grades 6 and 7. Grade 6 and 7 contractors may tender for public sector contractors in excess of 13 million rand. From this list of the contractors, one construction SME that satisfied all the above criteria was invited to be the subject for the case study.

4.8 The Case Study

The business selected for analysis was a construction SMEs operating in the Eastern Cape: namely Ibhayi Contracting CC. The business was selected for the following reasons:
• The owners successfully developed and grew the business from a micro or very small enterprise to an established medium-sized business, that is now capable of successfully completing multimillion rand projects within the time, cost and quality constraints of the project.

• The owners applied strategic management tools to grow and develop the business. The literature review undertaken in Chapters 2 and 3 provided a theoretical framework to predict how the strategic management tools should be applied in practice.

• The manner in which the owners used strategic management tools can assist in developing guidelines and recommendations for the use of strategic management tools by other construction SMEs in the Eastern Cape to grow and develop their businesses into established businesses, capable of successfully completing multimillion rand projects within the time and quality constraints of each project.

4.9 The Case-Study Protocol of this Study

The case-study protocol is essential in a case-study design, as it reminds the researcher what the case study is all about (Yin, 1994:65). The case-study protocol describes the overview of the study, the field procedures, the case study questions and the case study guide.

4.9.1 The Overview of the Case Study

This research study included a literature review on:

• SMEs and the factors that lead to the failure of SMEs;
• The construction industry and construction SMEs;
• The efficacy of contractor-development programmes to promote the growth and development of construction SMEs; and finally
• Strategic management and how construction SMEs may derive benefit from the application of strategic management tools and techniques.

A single-case study design was followed to document the strategic behaviour of a construction SME conducting business in the Eastern Cape. This company was selected because it had grown and developed from a very small enterprise into an established medium-sized business capable of performing multimillion rand projects within the time, cost and quality constraints of each particular project.

4.9.2 Field Procedures

The following field procedures were followed as part of this study:

• Selecting the subjects for the case study: A list of contractors was obtained from the CIDB register of contractors in the categories of Grades 6 and 7. The Grades 6 and 7 contractors may tender for public sector contractors in excess of 13 million rand. From this list, a construction SME that satisfied the following criteria, was selected:

  a) The construction SME should have reached the upper end of medium-sized grouping, as defined by the National Small Business Act, either in terms of its number of employees, or its annual turnover.

  b) The Construction SME owner should have grown and developed the SME from a micro or very small enterprise to a medium-sized enterprise.

  c) The Construction SME should have a proven track record in the successful completion of public sector projects in excess of ten million rand.
The information pertaining to the criteria laid down in a) to c) above were obtained from project managers that had managed projects for public sector clients where the subject had successfully completed projects.

• Obtaining contact details of subjects for the case study: Names and contact details of the subjects were obtained from the CIDB’s register of contractors.

• Drafting a letter of Introduction: A letter of introduction was drafted and sent by facsimile to the subject. The purpose of the letter was to introduce the researcher and the research, to explain the purpose of the research, and to request the co-operation of the subject in making himself available for the interview.

• Scheduling the interviews: An interview was scheduled with the subject by telephone after the letter of introduction had been sent by facsimile and after confirmation had been received that the subject was willing to participate in the study, as outlined in the letter of introduction.

4.9.3 Case-Study Questions

The following case study questions served as a reminder to the researcher of the data that needed to be collected. These questions are not the actual questions put to the interviewee; and they merely served as prompts to the researcher during the interview to ensure that all the relevant topics and fields had been covered:

• What is the historical background of the subject in terms of when – and from what size the business had started?
• How did strategy formulation benefit the subject in its growth and development?
• Which corporate, business and functional strategies does the subject pursue and how did these strategies benefit the business's growth and development?
• Does the subject practice environmental analysis and what role did environmental analysis play in the business success of the subjects?

4.9.4 Guide for the Case-Study Report

The case study report is contained in Chapter 5 of this study. It commences with a short history of the SME. A brief chronological overview is given of the business's growth from a micro or very small enterprise to its current size. The lessons from the case are reported under each topic – to show how the principles of strategic management were applied. Appropriate examples are drawn from the case study.

In other words, the answers will be reported from each topic to show how the principles of strategic management were applied.

4.10 Data Collection Methods

There are a range of data-collection methods to consider when selecting an appropriate data-collection method. The data-collection method depends on the research paradigm adopted in the research. The key difference between quantitative and qualitative methods is their flexibility. Quantitative methods are fairly inflexible and rigidly structured. With quantitative methods, such as questionnaires, researchers ask all participants the same questions in the same order (Guest, Mack, Macqueen, Namey and Woodsong, 2010). The questions are also close-ended or fixed (Guest et al., 2010).

Qualitative data-collection methods are more flexible, and also less structured. In this regard, qualitative methods ask mostly open-ended
questions which allow participants an opportunity to elaborate on their answers (Guest et al, 2010).

4.11 Interviews

Interviews are a data-collecting method where selected participants are asked questions to find out what their views are on a particular issue (Collis and Hussey; 2003: 167). Interviews may be voice-to-voice, face-to-face, or screen-on-screen. They can also be conducted with a single individual or with groups of individuals (Collis and Hussey; 2003:168).

Interviews could be used in both quantitative and qualitative research, with the difference that in quantitative research, questions are close-ended (Collis and Hussey, 2003:168). Interviewers usually have a protocol for asking and recording responses, or the interview may be audio- or videotaped. Interview questions are frequently open-ended in nature, but many interviews also include rating scales like those used in surveys.

Interviews are one of the most important sources of case-study information (Tellis, 1997). In case studies, the interview could take one of several forms: open-ended, focused, or structured (Yin, 1994:84). The most commonly used in case studies are open-ended or unstructured interviews. The respondents are asked for facts, as well as for the respondent’s opinion on events or facts. This could serve to corroborate any previously gathered data. In a focused interview, the respondent is interviewed for only a short time, and a certain set of questions are asked, even though the questions may still remain open-ended.

A major purpose of this kind of interview is to corroborate certain facts that have already been established. The interviewer prepares a list of questions on a specific topic – and on certain – themes to ask during the interview (Bell and Bryman, 2007:474). The list of questions is called an interview schedule or an interview guide. A third type of interview is a structured interview which entails more structured questions along the line of a formal survey.
The interview method was used as the primary data-gathering method for this study research. More specifically, a focus interview was chosen where questions were carefully designed to provide adequate coverage for the purpose of the research. The questions were of an open-ended nature. The participant had the opportunity to respond more elaborately and in greater detail than is typically the case with structured interviews. In turn, the researcher had the opportunity to respond immediately to what participants had to say, by tailoring subsequent questions to information the participant had already provided.

4.12 Data-Collection Instruments

The type of data-collection instrument used in research depends mainly on the research paradigm employed in the research, in other words, whether a quantitative or a qualitative approach is to be employed (Punch; 2004: 57). In contrast to quantitative research paradigms, where highly structured methods such as questionnaires, standardised measuring instruments, structured observation and ad hoc rating scales are used, the researcher in qualitative research is often viewed as the primary data-collection instrument (Punch; 2004:57).

In quantitative research, the questions asked in questionnaires are mostly close-ended questions, which may lead to a loss in the richness of the data and their contextual implications. This may lead to a narrower and less-real interpretation of the phenomena (Collis and Hussey; 2003:162). Qualitative data-collection instruments could also resemble quantitative data-collection instruments, such as questionnaires and interview schedules, with the difference that the questions asked are mostly open-ended, and the form of the interviews is semi-structured or unstructured.

In this study, the researcher used an interview schedule as a data-collection instrument. This provided the conceptual framework for the data collection. The questions were carefully designed to provide adequate coverage for the
purpose of the research. The concepts and topics in the literature review were used as headings for each set of questions.

4.13 Data Analysis

All qualitative research generates a considerable amount of data and it is important for the researcher to control and manage the collected data. The researcher is often faced with hundreds of pages of qualitative data and it is a challenge to structure and summarise these data into findings. Non-quantifying methods of data analysis were applied in order to reduce and structure the data that were collected during the research.

The data analysis employed in this study had the following two main features: a general analytical procedure and the reduction of the data into concepts. This was accomplished by relying on the theoretical framework that had been provided by the review of the literature on strategic management (see Chapter 3). Because of the large amount of data collected during qualitative research, rigorous and systematic processes were required. The general analytical procedure requires a highly structured and organised data-collection procedure that would eventually lead to a structured data-analysis procedure.

The procedure that was adopted in this study is an adaptation of the analytical procedure described by Collis and Hussey (2003:263). It involved maintaining four files for the study. These are depicted in Table 6 below.

<table>
<thead>
<tr>
<th>File No.</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The raw data from interview notes and the transcripts of the interview</td>
</tr>
<tr>
<td>2</td>
<td>A summary of the raw data contained in File no 1</td>
</tr>
<tr>
<td>3</td>
<td>The summarised data reduced into categories</td>
</tr>
<tr>
<td>4</td>
<td>The findings and recommendations of the research</td>
</tr>
</tbody>
</table>
The main feature of the method of data analysis employed in this study is the continuous reduction of the data into concepts, categories and sub-categories. This procedure was adapted from the process described by Collis and Hussey (2003:264) and (2003:272). This process was done continuously throughout the data-collection stage and continued into the analysis phase.

For instance, the interview schedule was already categorised according to concepts derived from the theoretical framework leading to the case study. This theoretical framework, in turn, was based on the reviews of the literature in Chapter 3. This made it easier to reduce the raw data collected during the interview into categories and concepts such as strategy formulation and external environmental analysis. At various stages throughout this process the preliminary findings were summarised.

During the process, the summaries were used to confront and compare with the existing theories of strategic management, as applied by construction enterprises and to develop guidelines for strategic management in construction SMEs.

9. **Summary of Chapter**

A research paradigm is a school of thought or a philosophy on how research ought to be conducted (Collis and Hussey; 2003:46). According to Brynard and Hanekom (2006:36), there are two basic research methods or paradigms: the quantitative and the qualitative research paradigms.

The case study represents a specific tradition within the qualitative research paradigm (Creswell, 1998). According to Leedy and Ormond (2005:108), the case study is qualitative research in which in-depth data are gathered for the purpose of learning more about an unknown or poorly understood situation.
The case-study method attempts to arrive at a comprehensive understanding of the event under study, while at the same time developing more general theoretical statements on the regularities in the observed phenomena (Zach, 2006).

According to Yin (1994:63), the case-study protocol is a major tactic in increasing the reliability of the case-study research, and it is intended to guide the investigator on how to conduct case-study research. The case-study protocol is essential in multiple-case study designs, as it reminds the researcher what the case study is all about (Yin, 1994:65).

In doing case-study research, the researcher should avoid referring to the case as a "small sample size of cases", because a single case is not the same as a single sample in a survey (Yin, 1994). When using a multiple-case study design, the question relating to the number of cases required for the study becomes relevant. As a sampling logic should not be used, the typical criteria reflecting the sample size become irrelevant. According to Yin (1994:50), the choice of the number of case studies for a multiple-case study design is a matter of discretionary judgemental choice by the researcher.

A single case-study design was followed to document the strategic behaviour of a construction SME that had grown and developed from a very small enterprise to an established medium-sized business capable of performing multimillion rand projects within the time, cost and quality constraints of each project.

The interview method was used as the primary data gathering method for this study. More specifically, a focus interview was chosen, where questions were carefully designed to provide adequate coverage for the purpose of the research. In this study, the researcher used an interview schedule as a data-collection instrument. This provided the conceptual framework for the data collection. Questions were carefully designed to provide adequate coverage for the purpose of the research. The concepts and topics in the literature review were used as headings above each set of questions.
The main feature of the method of data analysis employed in this study is the continuous reduction of the data into concepts, categories and sub-categories. This process was done continuously throughout the data-collection stage and continued into the analysis phase. This theoretical framework of the analysis was based on the review of the literature in Chapter 3. This made it easier to reduce the raw data collected during the interview into categories and concepts.

At various stages throughout this process, the preliminary findings were summarised. During the process, these summaries were used to confront and compare with existing theories of strategic management, as applied by construction enterprises, and to develop guidelines for strategic management in construction SMEs.

Chapter 5

The Case-Study Report

5.1 Introduction

In Chapter Four, the research methodology applied in this study was explained in full detail. The concept of research paradigms was explained and the concepts of quantitative and qualitative research paradigms were contrasted and compared. The chapter covered the distinctive characteristics of the case-study strategy, and more specifically, the case-study design chosen for this study. An explanation is provided as to why the concepts of sampling logic and sampling size are irrelevant to the case-study research.
Furthermore, the importance of using a case-study protocol in case-study research and the specific case-study protocol used in this study were discussed. Lastly, the data-collection methods and the instruments, as well as the data-analysis method applied in this study were discussed.

This chapter contains the case-study report. The subject of the case study is an established medium-sized Construction SME, namely Ibhayi Contracting CC. The information for the case-study report was obtained through an interview held with one of the members of Ibhayi Contracting. The member with whom the interview was conducted is referred to as “the interviewee” in the case-study report.

The case-study report commences with a short paragraph on the biographical details of the interviewee and a short history of the business. The short history contains a brief chronological overview of the business’s growth from a very small enterprise to its current size. In the discussion of the various strategic-management principles and concepts, the lessons from the case study were reported under the topic heading, and the questions put to the interviewee show how the principles of strategic management can be applied to grow a business from a very small enterprise to an established medium-sized business. Appropriate examples are given under each topic.

5.2 Biographical Data of the Interviewee

The interviewee is a 33-year old Sotho-speaking male, whose second language is English. He is a resident of Port Elizabeth and a qualified civil engineer. His highest educational level reached is an MSc in Civil Engineering. He is a managing member of the Ibhayi Contracting CC.

5.3 The History of the SME

*Is the SME managed by the owner or by an appointed manager?*
Ibhayi Contracting is managed by its owners. The interviewee is one of the four owners actively involved in the management of the business, and is also the business’s chief strategist.

*What is the size of the SME in terms of its number of employees and annual turnover?*

The business has now grown into an established medium-sized enterprise – both in terms of its annual turnover and in the number of its employees. It is currently employing 200 employees, and is thus at the upper end of the definition of a medium-sized enterprise in terms of the number of its employees. The business is capable of successfully completing multimillion rand projects, both in general building and civil engineering construction works. Its focus is mainly on specialist concrete rehabilitation works. This is a very narrow segment of the construction industry within the civil engineering works category.

*What type of legal entity is the SME?*

It is a closed corporation owned by five members, four of whom who are actively involved in the management of the business.

*How long has the SME been operational?*

The business started in 1996 as a very small enterprise. When the business started it only employed 20 permanent employees, who were all unskilled labourers. All the skilled labour required for a project executed by the business was initially outsourced through sub-contracting to other construction SMEs. In the beginning, the business only concentrated on small projects for general building works, such as painting, repairs, renovations and waterproofing. As the business grew and more opportunities arose, the business started recruiting more semi-skilled and skilled labourers. During
2004, Ibhayi Contracting shifted its focus away from general building works and started to focus on civil engineering construction works.

The business has now grown into an established medium-sized enterprise employing 200 employees, capable of successfully completing multimillion rand projects, both in general building and civil engineering construction works. Its focus is mainly on specialist concrete rehabilitation works. This is a very narrow segment of the construction industry within the civil engineering works category.

Has the SME ever participated in any contractor-development programme in terms of which it received mentoring, the benefits of targeted procurement or any other type of development assistance?

No.

In which geographical areas does the SME operate?

The business operates in the Eastern Cape.

5.4 Strategy Formulation

5.4.1 Mission and Vision Statements:

- Does the SME have a mission statement? Does the SME have a vision?
- Do you share your firm’s mission and vision statement with all stakeholders (employees, clients, suppliers)?

Ibhayi Contracting does not have any formal written mission statement or vision. Although the mission statement is not formally written down, the vision and mission of the business do exist in the hearts and minds of the people of
the organisation. They are informally communicated to the employees on a regular basis. The interviewee described the business’s mission as follows: “To be a specialist concrete structural rehabilitation contractor”.

The mission describes the main business operations of Ibhayi Contracting, which is the primary reason for its existence. It does not, however, describe all the business operations of the SME. The interviewee described the vision of the business as follows: “To be the best specialist concrete structural concrete structural rehabilitation contractor in South Africa”.

Why do you think it is important to have a mission and vision statement?

The interviewee noted that having a mission and a vision keeps the business focused and gives it direction. All decisions in the business are tested against the vision and mission, by asking the question whether the decision will further the mission and vision of the organisation. These decisions include decision on which staff to recruit, and what plant and equipment should be acquired.

5.4.2 Strategic Objectives

Do you set strategic objectives for the SME? If yes, give examples.

The business has set the following strategic objectives:

- To be registered as a Grade 8CE contractor in terms of the CIDB grading classification system by the year 2011.
- To be a large enterprise by the year 2013.

Are these objectives SMART (Specific, Measurable, Appropriate, Realistic, Time-bound)? If yes, please explain the metrics to determine whether they are smart or not.

These objectives are considered to be SMART in that they are specific, measurable, appropriate, realistic and time-bound. They are specific, in that it is exactly clear what it is that the business is required to achieve in order to reach its objectives. They are measurable, in that each objective has a
yardstick which measures progress against the ideal of fulfilling the objective. They are appropriate, in that the objectives are consistent with the vision and mission of the business. They are realistic in that they are on-target with the business’s current capabilities and available resources, as well as with the opportunities that currently exist in the organisation’s environment.

In this regard, the organisation is already registered as a Grade 7 contractor, which means that registration as a Grade 8 contractor is the next milestone to reach. Furthermore, the business has already reached the upper end of the description of a medium-sized enterprise in terms of the number of employees permanently employed according to the National Small Business Act, 1996.

If the business grows any further in terms of number of its employees and its annual turnover, and starts operating on a national level, it will be regarded as a large enterprise. The strategic objectives are also time-bound, in that there is a timeframe for reaching each of the objectives.

Being registered as a Grade 8CE contractor means that the business would be able to tender for projects up to R130 million rand (see Table 3). This would have a positive impact on the annual turnover of the business. The business would also benefit from decreased competition, as there are nationally only seventy-two businesses registered in Grade 8CE, as opposed to 224 businesses registered in Grade 7CE (See Table 4).

To achieve these objectives, Ibhayi Contracting has set certain action plans in motion. In this regard, the business registered as a grade 7CEPE contractor. PE stands for potentially emerging. Potentially emerging contractors are allowed to tender for certain projects falling within the maximum tender range of one grade higher than their current grade, provided that the client has earmarked the project specifically for potentially emerging contractors.

5.5 Specific Strategies

Ibhayi Contracting has developed strategies at different levels of the business.
5.5.1 Corporate Level Strategies

Which corporate level strategies, if any, does the SME apply?

Ibhayi Contracting grew from a very small enterprise to an established medium-sized enterprise by employing a variety of strategies at the corporate level, including joint-venture partnerships, acquisitions, subcontracting, vertical integration and diversification.

If the SME has internationalised: Which foreign markets have you entered and what entry strategies (e.g. export, joint ventures) have you applied to gain access to those particular markets?

Ibhayi Contracting have considered the possibility of internationalising through subcontracting on projects in neighbouring countries, but has decided that this option does not fit into the business’s current mission and objectives.

Why have you decided on the particular corporate strategy and how does the strategy contribute to the success of the SME?

a) Joint-Venture Partnerships:

Ibhayi Contracting has successfully used joint-venture partnerships as a corporate strategy to grow the business very effectively ever since 2001. In the construction industry, joint-venture partnerships involve two or more businesses entering into a contract to temporarily create an entity called the joint-venture partnership, in order to jointly tender for a contract with a client to complete his project (CIDB, 2004).

During 2001, the business was able to tender for its first multimillion rand construction project by entering into a joint-venture partnership with an established enterprise called Genrep Construction. The project involved repairs and renovations to the Port Elizabeth Prison. Ibhayi Contracting, on its own, had the human resources in terms of skilled labour required to tender...
for the project, but did not own the resources in terms of plant and equipment required to successfully complete the project.

Ibhayi Contracting was also not able at the time to put up the guarantees required for such a large project. Clients in the construction industry require contractors to provide security for the successful completion of large projects – in the form of bank or insurance guarantees to the value of 10% of the contract price. Since Ibhayi Contracting did not at that point have the financial resources necessary to obtain a bank guarantee, it pooled its resources with Genrep Construction, an established enterprise that had the necessary plant and equipment and could obtain a bank guarantee required for the large project.

The joint-venture successfully completed the project, and Ibhayi Contracting benefited from the project in that they gained the necessary experience from working on a large project, and their turnover increased for the duration of the joint-venture partnership.

In 2003, an opportunity arose once again to complete a multimillion rand project for renovations at the Nelson Mandela Metropolitan University in Port Elizabeth. Ibhayi Contracting once again pooled its resources with Genrep Construction through a joint-venture partnership in order to tender for the project. It successfully tendered for and completed the project. The project provided Ibhayi Contracting with a consistent income for a period of two years from the commencement of the project, and it enabled the business to grow to the extent where it employed 80 permanent employees when the project was completed.

The strategy of forming joint-venture partnerships worked effectively because by pooling its resources, together with a larger firm that owned the plant and equipment necessary to tender for larger projects, Ibhayi Contracting was able to provide sustainable and consistent revenue for the business. By forming joint-venture partnerships, Ibhayi Contracting took responsibility for its
own growth and development, instead of relying on initiatives from government, such as contractor-development programmes.

b) Acquisition

In 2004, Ibhayi Contracting acquired all the assets of Genrep Construction, through an acquisition, in terms of which Genrep Construction was voluntarily wound up; and its owners obtained part-ownership in Ibhayi Contracting. By acquiring Genrep Construction, Ibhayi Contracting had the necessary financial and physical resources to tender for multimillion rand projects on its own – without having to form joint-venture partnerships with other businesses.

Furthermore, it enabled Ibhayi Contracting to direct its business operations towards concrete structural civil engineering works. Before the acquisition, Ibhayi Contracting mainly focused on general building works, such as masonry, painting and waterproofing. The decision to venture into civil works was also informed by the fact that the profit margins in general building works were becoming smaller, as more construction firms entered the industry.

Having the necessary financial muscle enabled Ibhayi Contracting to actively recruit suitable qualified employees to perform supervision of civil engineering works. This enabled the business to tender on its own for its first multimillion rand civil engineering works project – to the tune of R12 million in 2004.

It was also beneficial for the owners of Genrep Construction to sell their business and obtain ownership in Ibhayi Contracting. At the time of the acquisition, Genrep Construction was 100 per cent white-owned, whilst Ibhayi Contracting was 70% black-owned. As the co-owners of a business with a majority black ownership, they benefited from the preferential points awarded to black-owned businesses in the procurement processes of public sector clients.

c) Subcontracting
The firm uses subcontracting, both as a means to conclude agreements with main contractors to execute portions of a larger project, and as a strategy to outsource certain portions of projects to which they have been appointed as the main contractor.

Outsourcing portions of a project to subcontractors enables Ibhayi Contracting to remain flexible in the type of construction projects for which it tenders. For instance, a specific construction project might have various sections over different disciplines. A project that has been classified as general building works seldom exclusively consists of only general building works. It might have an electrical works section or a mechanical engineering works section.

Should Ibhayi Contracting's workforce not have a particular skill required by a particular section of the project, it merely outsources that part of the contract to a subcontractor who specialises in that particular skill. For instance, electrical works are often outsourced to electrical subcontractors.

In the same way, Ibhayi Contracting undertakes specialist work outsourced by large construction enterprises through a subcontracting arrangement. By subcontracting and dealing directly with a main contractor, Ibhayi Contracting is able to sidestep the very competitive bidding process it would have to go through to contract directly with the client. The main contractor remains overall responsible to the client to finish the work in the prescribed time, and to the standard agreed in the contract, and therefore carries all the risks of executing the work on the contract (CIDB, 2004).

Ibhayi Contracting has subcontracted for large enterprises, such as Murray and Roberts and WBHO.

d) **Vertical Integration**

Vertical integration occurs when a firm becomes its own supplier (Dess et al., 2010: 206). Ibhayi Contracting applied vertical integration successfully when specialist imported material, supplied by only one supplier in the Eastern
Cape became very expensive. Ibhayi Contracting investigated the opportunity of importing the material directly from Germany and discovered that it was more cost effective to import the material in bulk directly from Germany. This decision entailed importing material in bulk and stocking the material, as it was not cost effective to purchase and ship material every time the business successfully tendered for a project.

When Ibhayi Contracting does not successfully compete for a project, it sells the imported material to the rival business that won the tender. This means that they started to compete directly with the local supplier of the imported material. The business benefited from vertical integration in that it was relieved of its dependency on a supplier that dominated a specific market and that became too expensive. Furthermore, it gave Ibhayi Contracting a cost advantage over its competitors, in that it was able to reduce the cost of its sales of that particular product.

*If the SME has diversified, which markets would you have diversified into? Why?*

e) **Diversification**

Ibhayi Contracting has decided to diversify into a related market, to wit property development. The idea is not to construct new developments, but rather to carefully choose old dilapidated buildings located in an area with potential, renovate them and then to sell them at a profit. The plan is still in its infancy stage and Ibhayi Contracting is currently looking for suitable property in the correct area. The reason why Ibhayi Contracting has decided to diversify is to increase its profitable growth. Ibhayi already has the necessary skills, capabilities and resources within the business needed to branch into this related area.

5.5.2 **Business Level Strategies:**

*What business level strategies does the SME follow?*
Ibhayi Contracting follows a combination of cost-leadership strategy and a focus strategy. Price often trumps all other considerations in construction services, and by consistently pricing their tenders lower than those of their competitors, Ibhayi Contracting has been able to secure tenders on a consistent basis.

According to the interviewee, the preliminaries and general section in a tender document for a construction project usually constitute about 20% of the overall tender price, and consist inter alia of costs, such as supervision and site-management costs. One of the reasons why Ibhayi Contracting is able to price lower than its rivals, is because their site management is not top-heavy. In other words, they are able to cut out any unnecessary supervisory staff and appoint only the supervisory staff necessary to supervise the project to the quality standard required by the client.

A further reason why Ibhayi Contracting has a cost advantage over their competitors is because of the advantage they have in owning all of their access equipment, as opposed to hiring the equipment. An example of access equipment is scaffolding equipment needed to gain access to a site. According to the interviewee, the costs associated with hiring access equipment could make up 25% of the overall costs of a project. Ibhayi Contracting did a cost-benefit analysis to compare the costs of purchasing their own plant and equipment to access sites, as opposed to hiring equipment for each and every project.

Although there was initially a huge capital investment required for purchasing the equipment, these costs and the maintenance costs were easily offset by the fact that they had no charge for hiring access equipment in the pricing of a tender for each project, and could therefore, consistently tender lower for projects. Furthermore, depreciation on assets and the renting out of the access equipment to other construction firms during the times when it was not required by Ibhayi Contracting, further offset the purchasing and maintenance costs of the plant and equipment.
These factors have enabled Ibhayi Contracting to consistently win more projects on the basis of price, and have given them a competitive cost advantage over their rivals.

Ibhayi Contracting has found a niche in the construction market where they are one of only ten serious competitors in the Eastern Cape in the specialist concrete rehabilitation works market. Specialist concrete rehabilitation works is a specific market within the broader civil engineering construction works market. The fact that they have found this niche market means that they have a golden opportunity to dominate the specific niche market, as the company benefits from decreased competition of bids.

The interviewee has indicated that Ibhayi Contracting is among the top three specialist concrete rehabilitators in the Eastern Cape and this ties in with their vision to dominate their niche market, not only in the Eastern Cape, but nationally as well.

5.5.3 Functional Strategies

Which of the following functional-level strategies does the SME follow?
- Marketing strategy
- Human Resource Strategies

Ibhayi Contracting developed a marketing strategy and various human-resource strategies in order to remain competitive in the industry.

a) Marketing Strategy

What strategies, if any do you have in place to make sure that you win and retain loyal customers? What strategies do you have in place to build competitive advantage?

Ibhayi Contracting realised early that in order to retain and attract loyal customers, it was important to deliver services of an exceptional quality. To this aim, they have adopted an elaborate quality-assurance plan for each and every project. The quality-assurance plan is submitted to the client with each
and every tender to show that they will execute the project to the highest standards. During the duration of the project, the plan enables the client to monitor each and every activity on the project against the quality-assurance plan.

The client signs off each and every activity only if it meets the quality standards contained in the quality-assurance plan adopted by the client at the start of the project. The plan also contains a section with comments by the clients. This is a means to measure the client's satisfaction and, therefore, doubles as a survey of clients' perceptions. The survey enables Ibhayi to improve the quality of the services it delivers to its clients, and it assists it in understanding and meeting its clients' expectations.

Promotional activities in public-sector procurement have little value, as price is the overriding factor in determining which business secures a tender. Furthermore, projects are advertised for all qualifying contractors to tender; and price will, therefore, remain the final deciding factor. Promotions do, however, play a role in whether a contractor is invited to submit a quotation for private sector clients. Ibhayi, therefore, uses a brochure that contains a profile of the company and the projects that it has successfully completed to market itself to private sector clients.

In this regard, Ibhayi has executed projects for clients such as Absa Bank.

*Explain the process, if any, that you followed in deciding which clients to target for the SME's services.*

Ibhayi Contracting segmented the market in the construction industry in terms of client categories and decided to target public sector clients, such as municipalities and provincial government for its services. They still perform work for private sector clients in the general building category, but public sector clients are their key customers. The reason why Ibhayi is focusing mainly on public sector clients is because government is a major client of the construction industry, especially in terms of civil engineering works, through its expenditure on the country's infrastructure.
Government consistently advertises tenders for construction works, even during the economic down-turn when private sector clients had to scale down.

*Explain the process, if any, that you have followed in deciding which specific market area of the construction industry to target. Did you segment the market into different market areas?*

In respect of the market area in the construction industry, Ibhayi Contracting targets civil engineering works, and more specifically, specialist concrete rehabilitation work for the business’s services. The reason why Ibhayi Contracting opted to direct its business operations mainly towards civil engineering works (CE) is because of the high degree of rivalry and the many construction SMEs that are currently fighting for survival among SMEs that only perform general building works (GB).

In this regard, there are more than double the amount of contractors registered nationally in the GB works category than there are in the CE works category (see Table 4).

**b) Human-Resource Strategies**

- *What strategies, if any, do you have in place to ensure that your workforce have the necessary skills and capabilities to enable your business to compete?*
- *What strategies, if any, do you have in place to ensure that you retain the skills in your business?*

According to the interviewee, larger enterprises often succeed in poaching skilled employees from SMEs by offering them larger remuneration packages, which most SMEs simply cannot afford to match. In the early days of the history of Ibhayi Contracting, this phenomenon of larger enterprises luring skilled employees away from Ibhayi Contracting was a huge threat to their business success. They, therefore, had to develop an effective human-resource strategy to retain their skilled staff.
According to the interviewee, this strategy started with viewing their skilled employees as an asset in the business. This also entailed viewing the wage bill and the cost of training employees as an investment in the business, and not simply as an expense. Secondly, it involved developing a training plan for each and every employee according to the skills required in the business. This training plan is tailor-made according to the training needs of each employee and synchronised with the skills required by the business.

The business finances the training of each employee, according to this training plan. Each employee's personal development is ensured and provides the employee with a stable training environment and a sense of job security. According to the interviewee, employees in the construction environment often value their personal development as more important than a higher salary. Their employees would often turn down higher salary offers, due to their commitment to their personal training plan developed by the business.

The business also has compensation and reward strategies to keep employees motivated and to ensure that productivity remains high. The business pays all employees a thirteenth salary cheque, based on the overall performance of the business at the end of each year. Each employee could earn up to 16 salary cheques, depending on their performance on a particular project. For example, for each project a certain production rate and profit is assumed. If a project reaches the assumed production rate and profit, the site manager assigned to the particular project would earn a 14th cheque; if it exceeds this by certain pre-determined margins, he could earn a 15th and a 16th cheque. This reward strategy has the added benefit of keeping employees motivated and increasing their productivity on each project.

Overall, the business's human-resource strategies are aligned to the strategic objectives of the business. For instance, when the business set the strategic objective of branching into civil engineering works, it recognised that its work force lacked the necessary skills in order to successfully branch into civil engineering works. It therefore, actively started recruiting skilled employees
capable of successfully supervising civil engineering works in order to meet the strategic objectives of the business.

5.6 Innovation

*Do you actively strive to find new and innovative ways to provide a service to your clients? Explain.*

The interviewee noted that innovation is an important strategy to Ibhayi Contracting, as it allows them to retain a competitive advantage over its rivals. In this regard, the Ibhayi Contracting is involved with continuous research and development. For instance, they visit the United States of America once a year to attend conferences in order to be continuously on the cutting edge of the latest technology in specialist concrete rehabilitation. In this regard, Ibhayi Contracting is currently using the latest technology to demolish concrete.

Concrete cutting is the fastest and most precise way of removing concrete, instead of using the old-fashioned way of manually demolishing concrete through the use of unskilled labour. The concrete cutting device used by Ibhayi Contracting is the latest technology on the market. It is a remote controlled device, which cuts concrete, and unlike the traditional method of demolishing concrete, this new technology creates no dust, no noise and is faster than the traditional method.

During 2006, Ibhayi Contracting had an opportunity to showcase their ability to innovate, through a project issued by the Department of Water and Forestry. The project involved the rehabilitation of major bridges over the spillways of two of South Africa’s largest dams, the Van der Kloof and Gariep Dams. The Gariep Dam is South Africa’s largest composite gravity concrete arch dam and the Van der Kloof Dam is the second largest composite gravity concrete arch dam in South Africa. The Gariep Dam is situated on the border between the Eastern Cape and Free State Provinces. There were physical constraints caused by the curvature of the concrete arch dam walls, occupational safety considerations in the presence of local valley wind.
systems and extended working height. All these issues made the use of conventional access systems unpractical.

The tender specification required prospective tenderers to develop innovative temporary access systems in order to access the construction site at the Van der Kloof and Gariep Dams. Ibhayi Contracting won the tender to perform the work, based on the innovative construction solutions it provided, and in particular, regarding suitable access to perform the scope of works. Apart from the access system that had to be designed, the scope of works required the application of a unique combination of concrete repair, rehabilitation and retro-fitment techniques on the bridges over the dams.

State-of-the-art vibration-based dynamic tests were utilized, together with standard structural analysis techniques – in order to correctly identify the root cause of the deterioration, and again after retro-fitment, to evaluate and quantify the benefit afforded by these remedial actions (Newmark, Ronne and Viljoen, 2009). Despite the complexity of the project, the work was completed within the approved budget (construction value R21 million) and construction programme (53 weeks).

Ibhayi Contracting received national acclaim and recognition for its work on the project. It won the Fulton Award from the Concrete Society of South Africa and was a finalist in the category of technical excellence for the SAICE (South African Institute of Civil Engineering) National 2008 Awards. Its work at the Dams was also featured in an article by Newmark et al, 2009.

5.7 Environmental Analysis

All businesses are influenced by environmental factors which the business should consider in the development of its strategy for the project (Analouii and Karami, 2003: 67). Environmental analysis is, therefore, a step that goes before strategy formulation in the strategic-management process. Ibhayi Contracting uses environmental analysis techniques, such PESTE, competitor
analysis and SWOT analysis, in order to develop appropriate strategies for the business.

5.7.1 PESTE Analysis

*Does the SME make use of PESTE analysis to analyse its external environment?*

Ibhayi Contracting continuously scan their political, economic, socio-economic technological, environmental and legal environments. In terms of the political environment, the interviewee indicated that the firm is currently closely monitoring the issue of the ruling party's stance on labour brokering. Ibhayi Contracting uses labour brokers to appoint most of its extra unskilled labour required for short periods -- for, example, for three months.

There is pressure from within the tripartite alliance, more specifically from COSATU, to ban labour brokers. Should the government give in to this pressure, it would have a major impact on the firm's business procedures; and hence, the situation is being closely monitored and the business is busy making contingency plans in the event of any changes in this regard.

In the current economic environment, Ibhayi Contracting overcame the effects of the recession, in that while there was a downturn in work from private sector clients due to the recession, government, on the other hand, increased its expenditure on construction on account of the infrastructural requirements of the 2010 FIFA World Cup. Since the public sector is its biggest client, the effects of the recession did not, in consequence, have such a great impact on the business.

Ibhayi Contracting is very aware of technological advances in their market area; and they attend annual global conferences, in order to stay at the cutting edge of the latest technology. The remote-controlled cutting of concrete applied by the business is the latest technology in concrete demolition. In a project for the Department of Water and Forestry for the concrete repair and
rehabilitation of bridges over the Gariep and Van der Kloof Dams, Ibhayi Contracting used state-of-the-art vibration-based dynamic tests in order to correctly identify the root cause of the deterioration of the bridges, and again after retro-fitment, to evaluate and quantify the benefits afforded by these remedial actions (Newmark et al, 2009).

Staying at the cutting edge of the latest technological advances in the industry has earned Ibhayi Contracting a Fulton Award from the Concrete Society of South Africa, recognition from SAICE, and their work was featured in a published collection of articles.

In the socio-economic environment, the effect of HIV and Aids has had an impact on the construction industry, and has, in the past, negatively affected the business success of Ibhayi Contracting. They have, however, implemented an HIV policy which involves offering to pay for their employees ARV treatments. In terms of the legal environment the CIDB regulations and the Occupational Health and Safety Regulations, there are now statutes which affect Ibhayi Contracting’s business operations.

5.7.2 Porter’s Five-Forces Analysis

- *Do you consider the entrance of new construction firms into the industry to be a threat to the business success of the SME?*
- *What strategies, if any, have you designed to neutralise the threat of new entrants?*

Ibhayi Contracting is very aware of the threat of new entrants, especially with regard to the niche market that the business serves. The interviewee indicated that they have noted with concern that more entrants have entered this niche market during the last three years.

In order to combat the threat of new entrants, the business analyses the techniques and resources of its competitors at an early stage, in order to assess whether it is possible that they could be edged out on price. It then
proceeds to price its tenders in such a way, that it combats any threats their competitors may pose in this regard.

- Can you easily substitute the services and products supplied by your suppliers (in other words is it easy to shop around, switch one supplier for another)?
- What effect, if any, does the power of suppliers have on the business success of the SME?
- What strategies, if any, has the SME put in place to neutralise the power of the suppliers?

According to the interviewee, there are sufficient suppliers in the industry to allow the construction SME to play suppliers off against one another, in order to obtain a better price. Suppliers, therefore, do not wield any significant power in the construction industry. It is, therefore, possible to negotiate lower prices with suppliers. In the one instance where one of the suppliers of specialist imported material did wield significant power in terms of being the only supplier in the Eastern Cape of the specific material, Ibhaya Contracting was able to neutralise the power of the supplier through vertical integration.

In other words, the SME took over a link in the chain controlled by one of their suppliers by importing the material, stocking it, and when they failed to secure a particular tender, selling it off at a mark-up to rival firms who did secure the tender. In other words, they became a supplier of the imported material and entered into competition with the existing supplier in the market.

- Can your clients easily force down prices by playing one business against the other?
- If yes, how does the power of the client affect the business success of the SME?

The clients in the construction industry wield bargaining power, as price trumps all construction procurement. Especially, in the general building class of works, there are so many competitors that the profit margins of SMEs are consistently being driven lower. Ibhaya Contracting operates in a niche market and the degree of rivalry in this particular niche is lower than in the other
classes of works. For instance, there are only ten serious competitors in the
particular niche in the Eastern Cape.

The new entrants to the market in the last three years have increased the
rivalry to some extent, but because of the cost advantage that Ibhayi has, it
has been able to withstand the threat of these new entrants.

*Are there products in other industries which can replace the product that the
SME provides to clients?*

No.

### 5.7.3 Competitor Analysis

*Do you analyse your competitors in terms of determining:*
  - *Who your competitors are?*
  - *What the major aspects of the competition they pose are?*

Competitor analysis is a significant aspect of the strategic behaviour of Ibhayi
Contracting -- even more so because of the SME's vision to become the best
specialist concrete rehabilitators in the country. It is, therefore, important for
them to keep track of their competitors and also to know exactly who the
potential new competitors are. One way in which the firm makes sure that
they neutralise the threat posed by rivals is to ensure that they maintain their
cost advantage over their rivals.

*How do you determine or predict the competitive behaviour of your
competitors?*

For each tender, public sector clients organise compulsory pre-tender site
meetings. All potential bidders are invited to attend, and no construction SME
may submit a tender for a particular project unless it has attended the pre-
tender site meeting. Ibhayi Contracting considers the pre-tender site meeting
as the ideal opportunity to get to know exactly who the competitors are for a
specific tender. Ibhayi Contracting analyses all the competitors in terms of
their human-resource capabilities. This allows them to estimate the rival's labour and supervision costs.

They also analyse their rivals' resources in terms of plant and equipment and are, thus, able to estimate what effect these resources will have on the way the preliminaries and general section of the tender document is priced.

*What strategies, if any have you devised to neutralise the threat posed by competitors?*

These analyses assist Ibhayi Contracting to ensure that they price their preliminaries and general section in a way that will allow them to maintain their cost advantages.

### 5.7.4 Resource Analysis

*Which of the following resources enables the SME to compete and survive against their competitors?*

- **Tangible resources (equipment, property, plant, machinery);**
- **Intangible resources (brand name, technology);**
- **Organisational capacities and capabilities (human-resource skills and competencies, management style)?**

Ibhayi Contracting's tangible resources in terms of their plant and equipment are a source of competitive advantage for them. For example, unlike most of their rivals they do not have to hire access equipment, such as scaffolding for each project, as the SME owns its own access equipment. In this way, they save on costs for the hiring of equipment. This, according to the interviewee in civil engineering works, could easily constitute 25% of the tender price. When the plant and equipment is not required, the SME rents the equipment to its competitors. The interest paid on the capital sum spent on purchasing the equipment and the maintenance costs of the equipment are offset against the rental earned on the equipment and the tax saving caused by the depreciation on equipment.
These resources are costly for other SMEs to imitate; and they therefore, provide Ibhayi Contracting with a distinct competitive advantage.

The SME’s human resources are also a source of competitive advantage. The SME’s elaborate training and compensation strategy (discussed under paragraph 5.5.3 [b]) ensures that they retain the skills and competencies in the organisation – in order to maintain their competitive advantage.

5.9.5 SWOT Analysis

Do you conduct a SWOT analysis to determine the SME’s strengths and weaknesses, opportunities and threats?

According to the interviewee, Ibhayi Contracting conducts SWOT analyses to keep abreast of its strengths and weaknesses and to identify any threats and opportunities in their environment. In the past, loss of skilled workers to larger firms offering higher salaries, threatened the business success of the SME; but they have been able to weather the storm by adopting the human-resource strategies (as mentioned in paragraph 5.5.3 [b]) to combat the threat.

Currently, Ibhayi Contracting regards new entrants entering their niche market as its biggest threat. They are however confident that they will be able to keep new rivals at bay by maintaining their cost advantage. New opportunities identified by Ibhayi Contracting include the opportunity to diversify into property development.

Ibhayi Contracting regards its major weakness to be the lack of standardised processes within the organisation to ensure that the SME’s operations run
smoothly, and that waste is kept to a minimum. The interviewee indicated that one of the problem areas identified is the lack of synchronisation between the pricing of the tender and the actual buying of the supplies for the tender.

The lack of synchronisation has in the past caused rework and waste on a project. They are currently working on strategies to neutralise this particular weakness.

The strengths of Ibhayi Contracting are its highly skilled workforce, its ability to innovate and be on the cutting edge of the latest technology, and its extensive resources, in the form of plant and equipment. These strengths are continuously being exploited to ensure that Ibhayi Contracting maintains its competitive advantage.

5.8 Summary of Chapter

Ibhayi Contracting commenced business in 1996, as a very small construction enterprise, focusing on general building works, such as painting, repairs, renovations and waterproofing. During 2004, Ibhayi Contracting shifted its focus away from general building works, and started to focus on civil engineering construction works. It has now found its own niche market with the civil engineering construction works, namely specialist rehabilitation works.

The business has used various strategic management principles to grow from a very small enterprise to an established medium-sized enterprise capable of successfully completing multimillion rand projects. These include corporate strategies, such as joint-venture partnerships, acquisitions, subcontracting and vertical integration. Joint-venture partnerships were used to pool its resources with those of a larger enterprise possessing the necessary resources to complete a large project.
Subcontracting was used, both as a method to outsource sections of projects and as a method for Ibhayi Contracting to work as a subcontractor on big projects for larger enterprises, such as WBHO and Murray and Roberts.

Ibhayi Contracting follows a combination of cost-leadership strategy and a focus strategy. Price often trumps all in construction services, and by consistently pricing their tenders lower than those of their competitors, Ibhayi Contracting has been able to secure tenders on a consistent basis. Ibhayi Contracting has found a niche in the construction market where they are one of only ten serious competitors in the Eastern Cape in the specialist concrete rehabilitation works market. Specialist concrete rehabilitation is a specific market within the broader civil engineering construction works market.

Ibhayi Contracting realised early, that in order to retain and attract loyal customers, it was important to deliver services of an exceptional quality. To this end, they have adopted an elaborate quality-assurance plan for each and every project. They have also developed an effective human-resource strategy to retain their skilled staff. The business also has compensation and reward strategies to keep employees motivated, and to ensure that productivity remains high.

Innovation is an important strategy to Ibhayi Contracting, and it allows them to retain a competitive advantage over their rivals. In this regard, the Ibhayi Contracting is involved with continuous research and development. It uses the latest technology and state-of-the art equipment to ensure that they add value to the services they provide to the clients. In this regard, they have received recognition for the innovative access system that they have designed for a project executed at the Van der Kloof and Gariep Dams.

All businesses are influenced by environmental factors, which the business should consider in the development of a suitable strategy for the business. Ibhayi Contracting continuously scans its environment, through PESTE, competitor, resource and SWOT analyses to keep abreast of its strengths and
weaknesses and to identify any threats and opportunities forthcoming in its environment.

Chapter 6

Guidelines and Recommendations

6.1 Introduction

Chapter 5 contained the case-study report. It commenced with a short history of the business that forms the subject of the case study. A brief chronological overview was given of the business’s growth from a very small enterprise to its current size. In the discussion of the various strategic management principles and concepts, the lessons from the case were reported under each topic, and the questions put to the interviewees to show how the principles of strategic management were applied and appropriate examples were given.

In this chapter, guidelines and recommendations for the application of strategic management principles in Construction SMEs will be outlined. The principles in the literature review of Chapters 2 and 3, as well as the lessons from the case study, have been combined to draw guidelines which
Construction SMEs can follow in order to grow and develop their businesses. A summary is provided of the whole research study; and finally, suggestions for future research are provided.

6.2 Strategic-Management Guidelines for Construction SMEs

The primary objective of this study is to develop strategic management guidelines for Construction SMEs in the Eastern Cape. From the literature review in Chapter 2 and Chapter 3, as well as the lessons from the case study report in Chapter 5, guidelines on strategic management for Construction SMEs have been developed. These guidelines are listed under the various topics below.

6.2.1 Mission and Vision Statement

It is important for every business to be clear about what its purpose and aim is, and to this end, it is imperative for Construction SMEs to have a clear mission and vision statement. The mission statement keeps the business focused and gives it direction, as it reminds the business owners of why the business exists. Construction SMEs should also have a vision statement which describes what the business should become in the future, and focuses the business’s resources on the achievement of this future.

The mission statement should be communicated to all stakeholders, but especially to employees of the firm, to the extent that it exists in the hearts and minds of the employers. This will provide an opportunity for the business owner to promote and share expectations with his employees. It will also foster loyalty in employees towards the business and keep them motivated. All decisions in the business should be tested against the vision and mission statement by asking whether the decision would further the mission and vision of the organisation.
6.2.2 Strategic Objectives

In order to meet its mission and vision, Construction SMEs should set strategic objectives that are specific, measurable, appropriate, and realistic, as well as being time-bound. They should be specific in that it is exactly clear what it is that the business is required to achieve in order to reach the objectives. They should be measurable, in that each objective has a yardstick which measures progress against attaining its objectives. It is appropriate that the objectives should be consistent with the vision and mission of the business. It should be realistic, in that it is on-target with the business’s current capabilities and available resources, as well as with the opportunities that currently exist in the business’s environment.

The strategic objectives should also be time-bound in that there should be a timeframe for reaching each of the objectives.

The case study provides examples of SMART strategic objectives. Once the strategic objectives have been set, action plans should be devised to prescribe how the SME could achieve these objectives.

6.2.3 Corporate-Level Strategies

Corporate-level strategies are tools to be used by SMEs to rapidly grow and develop the business. By engaging in corporate-level strategies to grow their businesses, construction SMEs are able to take responsibility for their own growth and development, and thereby reduce their dependency on government initiatives, such as contractor-development programmes. Joint-venture partnerships, acquisitions, subcontracting, diversification and internationalisation are corporate-level strategies, which can be used by Construction SMEs to rapidly grow and develop their businesses.

Vertical integration can be used as a strategy to take over a link in the supply chain currently dominated by the SME’s suppliers.
Joint-Venture Partnerships

The case study of Ibhayi Contracting provides an excellent example of how joint-venture partnerships were used to grow the business from a very small enterprise to an established enterprise. Lack of financial resources is a weakness in the internal environment of SMEs that often results in failure of SMEs. The SME that employs joint-venture partnerships as a corporate strategy is therefore able to undertake large or complex works by pooling his resources with another SME or a large firm or firms.

Larger firms will also have access to finance options required for large projects which are often problematic for SMEs. What is more important for SMEs is that management skills and technical expertise can be developed through their association with well-established, large and more experienced firms (CIDB, 2004). Joint-venture partnerships are not only beneficial for SMEs, but also hold benefits for the larger firm. If ownership in the construction SME is held by HDIs as defined by the Preferential Procurement Policy Framework Act, No 5 of 2000, then the Joint Venture will be more competitive in the bidding process, as it will earn preferential points.

Construction SMEs should choose their joint-venture partners carefully in order to bring the desired strength to the partnership and ensure a win-win situation. In other words, the joint-venture partnership should be beneficial to all the partners in the partnership. In the example of the case study, the strength that the joint-venture partner brought to the partnership was its financial and physical resources which assisted in creating the capacity to execute a multimillion rand project, and also provided the financial guarantees required by the client.

The strength that the construction SME contributed, was its skilled workforce, as well as the fact that it was black-owned, which allowed the joint venture to earn preference points in the scoring of the tender that the SME on its own, being white-owned, could not have achieved. It was therefore a mutually beneficial partnership.
Acquisitions

Whilst joint-venture partnerships in the construction industry only pool the resources of the business with another business for the duration of a specific project, an acquisition can be used to buy or take over another business and permanently pool the resources of the businesses together. In the case-study report, Ibhayi Contracting acquired its joint-venture partner, and by doing so also obtained access to all the plant and equipment of the joint-venture partner – and was thus able to grow and develop rapidly.

Subcontracting

An SME may use subcontracting as means to tender for projects which may require skills and resources that are not available within the SME, by outsourcing that portion of the project requiring the particular skills and resources. In doing so, the SME, as the main contractor, enters into an agreement with the client and retains all the risks of executing the work on the contract. The SME may also use subcontracting as a means of getting access to larger projects by entering into a subcontract with a main contractor to perform part of the work on the project. The subcontractor, therefore, enjoys the growth and development opportunity of executing part of a large project, without carrying any of the risks associated with the project.

Vertical Integration

The case study contains an example of how Ibhayi Contracting vertically integrated when specialist imported material, supplied by only one supplier in the Eastern Cape, became very expensive. The business investigated the opportunity to import the material directly from Germany, and discovered that it was less expensive to import the material directly from Germany than it was to buy it directly from the local supplier, provided that they bought in bulk. This decision entailed importing and stocking the material, as it was not very cost
effective to purchase and ship material every time the SME successfully won its tender for a project.

When the SME did not successfully compete for a project, they sold the imported material to their competitors. This meant that they started to compete directly with the local supplier of the imported material.

However, Construction SMEs have to consider the risks involved with vertical integration. There are obviously costs and expenses involved in being your own supplier and in supplying to clients. Furthermore, if the business is satisfied with the quality of the value that its present suppliers are providing, there is obviously no need to vertically integrate.

*Diversification and Internationalisation*

Diversification and internationalisation are strategies that increase the size of a firm's turnover. Construction SMEs should, where opportunities exist, diversify into related markets, such as property development and the supply of building material. Property development is an attractive option when economic conditions are strong and stable. Construction SMEs may also decide to use corporate strategies, such as joint ventures and subcontracting to enter into international markets in the same way that they use joint ventures and subcontracting to access larger projects in the domestic market.

Caution should however be exercised in choosing those strategies that fit in with the business’s mission, vision and strategic objectives. Both internal and external environmental analysis techniques should be employed before decisions in this regard are made.

**6.2.4 Low-Cost Strategies**

As price trumps all in construction, Construction SMEs consistently strive to offer their services at a lower price than their competitors. The preliminaries and general section of the tender is where Construction SMEs should aim to
drive their costs down in order to beat their competitors at price. Ibhayi Contracting keep their preliminaries and general sections low, by keeping their supervision costs very low. Construction SMEs should also look at employing strategies, such as lean construction, to reduce waste and devise a shorter programme of work, in order to save costs on preliminaries and general items.

6.2.5 Focus strategy

The construction industry is flooded with contractors providing general building works services. There are simply too many contractors competing for only a few contracts in this category. Targeting services to specifically serve a niche within the wider market is a very effective strategy for construction SMEs, as it provides the opportunity for the business to benefit from decreased competition of bids. In this regard, it can be noted from Table 4, that there are nationally 57900 construction SMEs registered in Grade one of the general building works category, whilst there are, for instance, nationally only 2525 contractors in the mechanical engineering works category. Ibhayi Contracting decided to move the main focus of its business operations away from general building works to civil engineering works because of the high level of competition in the general building works market. This is what has driven profit levels of SMEs lower – to a point where it is no longer an attractive market.

In the whole of the Eastern Cape, there are only 215 mechanical engineering construction works contractors, as opposed to the general building category, where there are a total of 8690 contractors competing for projects. This is more clearly depicted in Table 5. Construction SMEs in the Eastern Cape could therefore benefit from targeting a more attractive segment of the industry, such as mechanical engineering works, where there are less competitors – in order to benefit from decreased bidding and competition.

6.2.6 Marketing strategies
Construction SMEs should strive to improve the quality of work provided on a project and ensure that they meet the expectations and requirement of clients when delivering projects. Satisfying the client, and making sure the project has been completed according to specification, and within the time, cost and quality of the project, are the most important elements in successfully marketing the SME’s services to clients. Adopting a quality-assurance plan for every project and letting the client sign off on each activity in the project, is one way of ensuring that the customer's needs are satisfied in terms of the quality of work delivered.

The plan should also contain a section for clients' comments, and as such, could double as a survey. This would provide the SME with an understanding of the various clients' needs and expectations, and an indication of the areas where the SME needs to improve.

6.2.7 Training and Retention Strategies

The shortage of skills, and more particularly, the retention of skills have been identified as some of the problems that hinder the growth of SMEs. The literature review has shown, and it has been confirmed in the case study report, that skilled employees are often lured away by bigger salaries offered by large construction companies. As construction SMEs cannot afford to match or better these offers, they should find other ways to retain skills. The case study has shown that employees in the construction environment generally value their personal development, as much or even more, than a higher salary.

Personal developments provide employees with a stable training environment and a sense of job security. Construction SMEs should regard skilled employees as assets in the business. A training plan, which ties in with the mission and vision of the business, should be developed for each employee – in order to ensure that the business possesses the skills needed to achieve its
strategic objectives. A compensation strategy, which ties compensation to performance, should be implemented.

For each project, certain goals should be set in terms of the productivity on site, completion time and profit margins. Rewards in the form of bonuses or other non-remunerative methods of recognising good performance, should be used as incentives for meeting these goals.

6.2.8 PESTE Analysis

The Construction SME should be aware of factors in the external environment that have an impact on the construction industry. External environmental analysis makes the business owner aware of important changes and issues before these changes start becoming a major threat to the business success of the SME. In this regard, a PESTE analysis is a tool to be used to stay abreast of the latest developments in political, economic, socio-economic, technological, environmental and legal environment of the SME.

It is important for the SME to be aware of new developments in the PESTE environment, as these developments may provide the SME with new opportunities, or may pose certain threats, in which case, the SME should devise strategies to neutralise these threats.

6.2.9 Porter’s Five-Forces Analysis

Construction SMEs should be aware of the five forces (Porter, 1985) that influence the industry. These forces are the threat of new entrants, the power of suppliers, the power of clients, rivalry and the threat of substitute products. Substitute products do not exist in the construction industry, because no other product can replace, for example, a building for residential purposes.

Strategies should be devised to neutralise the threat of new entrants. If these strategies are no longer effective and the degree of rivalry threatens the business success of the SME, consideration should be given to target a different market area of the construction industry for the business’s services.
For example, Ibhayi Contracting started as a very small SME that focused on general building services, such as painting, repairs, renovations and waterproofing. The profit margins in general building works were becoming smaller, as more construction SMEs entered the industry, and the SME, therefore, decided to focus on civil engineering works instead.

In general, suppliers in the construction industry do not wield any significant bargaining power. It is, therefore, possible for construction SMEs to easily change suppliers and negotiate lower prices. There are, however, certain instances where suppliers of specialist products have more bargaining power than suppliers of ordinary building material. The case study provides an example of how an SME may neutralise the power of suppliers through vertical integration.

The client in the construction industry wields significant power because of the high concentration of construction SMEs, especially in the smaller projects in the general building class of works. The clients are able to play one business off against another, force down prices, and so benefit from the intense competition. The high degree of rivalry, especially in the general building class of works, means that profit margins are becoming increasingly smaller. There are, however, opportunities for construction SMEs to focus on other classes of construction work, such as mechanical engineering works, where the rivalry is not as fierce.

According to Hernandez (2008), by servicing a particular narrow segment, there is much opportunity to dominate the specific niche market.

6.2.10 Competitor Analysis

Construction SMEs should analyse their competitors, and in doing so concentrate on both existing and potential new entrants, small and large enterprises. One of the lessons from the case study is that the pre-tender site meeting provides a good indication for construction SMEs of who their potential competitors are in respect of a specific project. Once these potential
competitors are known, the construction SME will be able to analyse all the competitors in terms of their human-resource capabilities and estimate the rival's labour and supervision costs.

It would also enable them to analyse their rival's resources in terms of plant and equipment, and to estimate what effect these resources would have on the way the preliminaries and general section of the tender document are priced. These analyses may assist in ensuring that the SME price their preliminaries and general section in a way that would provide them with a cost advantage over their rivals.

6.2.11 Resource Analysis

Resource analysis is an internal environment analytical tool. The main reason for analysing the resources of a business is to explore those resources that enable an organisation to compete and survive against its competitors. In seeking to formulate a strategy in terms of joint-venture partnerships, it is useful in assisting SMEs to know what a partner would contribute to the joint-venture partnership and what benefits it requires from the joint-venture partnership.

6.2.12 Value-Chain Analysis

Construction SMEs should scrutinise the business’s value chain, in order to reveal possible cost advantages or disadvantages. In the construction industry, preliminaries and general items usually win or lose a contract, and the activities in the preliminaries section should be analysed to identify which costs are advantages or disadvantages – or which costs are in line with those of their competitors.

6.2.13 SWOT Analysis

Construction SMEs should conduct SWOT analyses to determine the business's strengths and weaknesses (internal environment), as well as the
opportunities and threats (external environment). They should, however, guard against the analysis simply being a checklist of internal and external factors – to be discarded after the analysis. Instead, they should actively seek to adopt strategies aimed at neutralising the threats and improving on their areas of weaknesses, and to exploit their strengths and opportunities.

6.3 Summary of the study

Chapter 1 of this research contained an overview of the study. Chapter 2 contained a literature review of SMEs, the Construction Industry, Construction SMEs and Contractor-Development programmes. In particular, Chapter 2 focused on the important role that SMEs play in the economy, but also the failures and the reasons behind the failures of SMEs. The importance of the construction industry and its unique project-based nature have also been highlighted. Particular focus was placed on Construction SMEs, the distinct obstacles they face which are unique to the industry, as well as on the difficulties they share with SMEs in other industries.

The problem of the pyramid-shaped industry with the vast majority of construction SMEs at the bottom, has been explored, as well as the role and failures of contractor-development programmes in the growth and development of construction SMEs.

Chapter 3 contained a literature review of strategic management, and in particular, how strategic management may be applied by construction SMEs to grow and develop their businesses. Chapter 4 contained an exposition of the research methodology applied in this study. Chapter 5 contained a case-study report of an Eastern Cape Construction SME that had successfully applied strategic management as a tool to develop and grow the business from a small enterprise to an established medium-sized SME, capable of completing multimillion rand projects.

From the literature review, and from the case study of the construction SME operating in the Eastern Cape, the guidelines and recommendations on strategic-management principles have been drawn up to be applied by
Construction SMEs in the Eastern Cape; and they have been captured in this Chapter. These guidelines and recommendations allow Construction SMEs to take responsibility for their own growth, and to reduce their dependency on government contractor-development programmes that have increased participation in the industry, but have unfortunately not been successful in growing and developing a strong base of Construction SMEs.

6.4 Recommendations for Further Research

This study has shown how strategic-management guidelines may be applied to Construction SMEs to facilitate their growth and development. The study covered a wide variety of concepts of strategies applied by construction SMEs. Price is a key-determining factor in whether an enterprise is awarded a tender, but one area which is of particular importance for construction SMEs is maintaining a cost advantage over one's rivals.

Research should be carried out to discover more detail on how construction SMEs may maintain a cost advantage, while still delivering a product that satisfies all the needs of the client. The issues that deserve particular attention are, for instance, lean construction, designing shorter works programmes and how such issues could contribute to cost advantages.
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APPENDICES
Mr. R. Maliehe
Ibhayi Contracting CC
P.O.Box 34913
Port Elizabeth
6056

Dear Sir

RE: INTERVIEW – CASE STUDY RESEARCH

I am a final year MBA student enrolled at the Nelson Mandela Metropolitan University. To fulfil the requirements of my degree, I am conducting a single case study research in order to draw guidelines and recommendations for the application of strategic management by construction SMEs.

In order to carry out this research, I require an owner of a construction SME to agree to form the subject of the case study and to be interviewed. During the interview questions will be asked about the strategic management tools and techniques applied in your business. Attached please find a copy of the interview schedule containing the questions that will be asked during the interview. The interview is expected to last no more than two hours.

Should you agree to be the subject of the case study, you are hereby requested to avail yourself for an interview to be scheduled telephonically at a mutually convenient time and place. A copy of the results of the study will be made available to you upon request.

Yours sincerely

Gaynor Appels (Ms)
Interview Schedule

BIOGRAPHICAL DATA OF INTERVIEWEE

Age:
Gender:
Educational level:
First Language:
Second Language:
Race:
City of Residence:
Position held at the SME:

A. THE SME

a) Is the SME managed by the owner or an appointed manager?

b) What is the size of the SME in terms of:
   • Number of Employees?
   • CIDB grade?
   • Annual Turnover?

c) What type of legal entity is the SME?

d) How long has the SME been operational?

e) In which geographical areas does the SME operate?

f) Has the SME ever participated in any contractor development programme in terms of which it received mentoring, the benefits of targeted procurement or any other type of development assistance? And if so, how did this benefit the growth and development of the SME?
B. STRATEGY FORMULATION

a) Does the SME have a mission statement?

b) If the answer to question 1 above is yes, why do you think it is important to have a mission statement?

c) Does the SME have a vision?

d) If the answer to question 3 above is yes, why do you think it is important to have a vision?

e) Do you share your firm’s mission and vision statement with all stakeholders (employees, clients, suppliers)?

f) Do you set strategic objectives for the SME? If yes, give examples.

g) 7. Are these objectives SMART (Specific, Measurable, Appropriate, Realistic, Time bound)?

h) If yes, please explain the metrics to determine whether they are smart or not.

C. SPECIFIC STRATEGIES

1. Corporate Strategy

a) Which of the following corporate strategies, if any, does the SME apply?
   - Sub-contracting and joint venture partnership
   - Internationalisation
   - Diversification – entering into related or unrelated markets e.g. property development,
   - Vertical integration (acquiring control over some of the links in the value chain served by suppliers example supplying materials, manufacturing materials)

b) Why have you decided on the particular corporate strategy and how does the strategy contribute to the success of the SME?

c) If the SME has internationalised:
   - Which foreign markets have you entered and what entry strategies (e.g. export, joint ventures) have you applied to gain access to those particular markets?
• Why have you decided on these specific entry strategies?

d) If the SME has diversified, which markets have you diversified into and why?

e) If the SME is not applying any of the above corporate strategies, is there any particular reason why it is not?

2. Business Level Strategies

a) Which of the following business level strategies does the SME follow?
   • Low cost
   • Differentiation
   • Focus strategies

b) If the SME is not practicing any of the above business level strategies, is there any particular reason why not?

3. Functional Level Strategies

a) Which of the following functional level strategies does the SME follow?
   • Marketing strategy
   • Human Resource Strategies

b) If the SME is not practicing any of the above functional level strategies, is there any particular reason why not?

c) What strategies, if any do you have in place to make sure that you win and retain loyal customers?

d) What strategies do you have in place to build competitive advantage?

e) Explain the process, if any, that you followed in deciding which clients to target for the SME’s services.

f) Explain the process, if any, that you have followed in deciding which specific market area of the construction industry to target (Did you segment the market into different market areas?)

g) Explain the process, if any, that you have followed in deciding which specific client category of the industry to target for your firm’s services (Did you segment the market into different client segments – why did you decided to target that specific client category)

h) What strategies, if any do you have in place to ensure that your workforce have the necessary skills and capabilities to enable your business to compete?

i) What strategies, if any, do you have in place to ensure that you retain the skills in your business?
j) Do you actively strive to find new and innovative ways to provide a service to your clients? Explain?

D. EXTERNAL ENVIRONMENTAL ANALYSIS

1. PESTE Analysis

Does the SME make use of PESTEL analysis to analyse its external environment?

2. Porter's Five Forces Analysis

The Threat of New entrants

a) Do you consider the entrants of new construction firms into the industry to be a threat to the business success of the SME?

b) If no: Why not?

c) If yes:
   • What strategies, if any, have you designed to neutralise the threat of new entrants?
   • Are these strategies effective in dealing with the threat of new entrants?

The Power of Suppliers

a) Can you easily substitute the services and products supplied by your suppliers (in other words is it easy to shop around, switch one supplier for another)?

b) If no:
   • What effect, if any, does the power of suppliers have on the business success of the SME? Tell me more about the power of suppliers.
   • What strategies, if any, has the SME put in place to neutralise the power of the suppliers? In other words how do you cope with the power of suppliers?

The Power of the Clients

a) Can your clients easily force down prices by playing one business against each other?

b) If yes, how does the power of the client affect the business success of
the SME?

The Threat of Substitute Products

a) Are there products in other industries which can substitute the product that the SME provides to clients? no

b) If yes, explain?

Degree of Rivalry

a) Can you easily foresee the behaviour of your competitors in the industry?

b) Do the competitive moves by other construction businesses affect the SME negatively?

c) If so, what strategies if any have you devised to neutralise these negative effects?

d) Do you consider these strategies to be effective? Explain?

2. Competitor Analysis

a) Do you analyse your competitors in terms of determining:
   • Who your competitors are?
   • What the major aspects of the competition they pose are?

b) Who do you regard as the SME’s competitors?

c) How do you determine or predict the competitive behaviour of your competitors?

d) What strategies, if any have you devised to neutralise the threat posed by competitors?

E. INTERNAL ENVIRONMENTAL ANALYSIS

1. Resource Analysis

a) Which of the following resources enable the SME to compete and survive against your competitors?
   • Tangible resources (equipment, property, plant, machinery);
   • Intangible resources (brand name, technology);
- Organisational capacities and capabilities (human resource skills and competencies, management style)?

b) Explain how these resources enable your business to gain competitive advantage over your competitors?

2. Value Chain Analysis

a) Do you analyse the SME’s activities (e.g. estimating and contract planning and management) in the pre-contract stage to determine if they provide the SME with a cost advantage over your competitors?

b) Which of the activities in the pre-contract stage provide you with a cost advantage?

E. SWOT ANALYSIS

a) Do you conduct SWOT analysis to determine the SME’s strengths and weakness, and opportunities and threats?

b) Have you devised any strategies to combat weakness and threats?

c) What type of strategies have you devised and do you consider them to be effective?

d) Have you devised any strategies to take advantage of strengths and opportunities?