Strategic management of construction companies.

BY

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Treatise submitted in partial fulfilment of the requirements for the degree of Magister Scientiae in the Built Environment (Project Management) in the School of the Built Environment at the Nelson Mandela Metropolitan University

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Abstract

The research emanated from an investigation of GB7, GB8 and GB9 main contractors in the Eastern Cape Province of South Africa. The study was focussed on the strident economic times in the construction industry following the FIFA Soccer World Cup from August 2010 to December 2012. The research was conducted to identify the key strategy or combination of strategies keeping construction entities in operation. The study further investigates the key elements of a successful turnaround strategy as well as the most effective methods in implementing strategies within construction organizations.

The research took the form of an empirical quantitative study where a descriptive survey was used to collect data. Structured interviews were held with the target population to collect data in the field.

The study established that geographic diversification was the most effective method utilized by main contractors for survival during the study timeframe. The study also found that lowering of profit margins and preliminary and general amounts were most effective methods in the use of turn around strategies. The study finally concluded that effective steps were taken by main contractors in the Eastern Cape to implement corporate strategies within their organizations. Step by step guidance to all employees on new processes was the key element in successful strategic implementation of a strategy within construction organizations.

The research conducted contributes to the strategic management competency within the built environment as well as the existing body of knowledge within the construction industry. All members of the construction industry in South Africa involved with strategic level planning of entities would value the study.
DECLARATION

I, the undersigned, Roelof Petrus van Rooyen, declare that the work contained in this treatise is my original work and that, to the best of my knowledge, this work has not previously been submitted in fulfilment of an equivalent qualification at any other recognized educational institution.

Roelof Petrus van Rooyen

Date
ACKNOWLEDGEMENTS

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# TABLE OF CONTENTS

## CHAPTER 1 – THE PROBLEM AND ITS SETING

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.1.1. Strategy</td>
<td>2</td>
</tr>
<tr>
<td>1.1.2. Strategic management</td>
<td>6</td>
</tr>
<tr>
<td>1.1.3 Procurement</td>
<td>6</td>
</tr>
<tr>
<td>1.2 Problem statement</td>
<td>7</td>
</tr>
<tr>
<td>1.3 Sub-problems</td>
<td>8</td>
</tr>
<tr>
<td>1.4 Hypotheses</td>
<td>8</td>
</tr>
<tr>
<td>1.5 Delimitations</td>
<td>9</td>
</tr>
<tr>
<td>1.6 Definitions</td>
<td>9</td>
</tr>
<tr>
<td>1.7 Importance of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.8 Objectives of the study</td>
<td>10</td>
</tr>
<tr>
<td>1.9 Ethical issues</td>
<td>11</td>
</tr>
<tr>
<td>1.10 Outline of the study</td>
<td>11</td>
</tr>
</tbody>
</table>

## CHAPTER 2 – LITERATURE REVIEW

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Strategic management</td>
<td>13</td>
</tr>
<tr>
<td>2.1.1 Formulation phase</td>
<td>15</td>
</tr>
<tr>
<td>2.1.1.1 Vision statement</td>
<td>17</td>
</tr>
<tr>
<td>2.1.1.2 Mission statement</td>
<td>17</td>
</tr>
<tr>
<td>2.1.1.3 Values of the organization</td>
<td>18</td>
</tr>
</tbody>
</table>
2.1.4 SWOT analysis 18
2.1.5 Formulation of strategic goals 18
2.1.6 Gap Analysis 18
2.1.7 Generic and corporate strategies 19
2.1.8 Bases of competitive strategies 19
2.1.9 Grand Strategies 22

2.1.2 Implementation phase 31
2.1.2.1 Resistance to change 32
2.1.2.2 Organizational change 33
2.1.2.3 Key elements of a Strategy 35
2.1.2.4 Organizational structures 38

2.2 Procurement 40
2.2.1 Procurement methods 44

2.3 Economic climate 45

2.4 Summary 47

CHAPTER 3 – RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction 48
3.2 Research design 49
3.3 Empirical studies 49
3.4 Quantitative research 50
3.5 Qualitative research 50
3.6 Research Methodology 51
3.7 The data 51
CHAPTER 4 – RESULTS, ANALYSIS AND INTERPRETATION

4.1 Introduction

4.2 Responses

4.2.1 Response rate

4.3 Results of the survey

4.4 Sub-problems

4.4.1 Sub-problem 1

4.4.1.1 Results for sub-problem 1

4.4.1.2 GB 7 construction organizations

4.4.1.3 GB 8 construction organizations

4.4.1.4 GB 9 construction organizations

4.4.1.5 GB 7, GB8 and GB9 construction organizations combined

4.4.1.6 Testing of hypothesis 1

4.4.2 Sub-problem 2

4.4.2.1 Results for sub-problem 2
Appendix C

LIST OF TABLES

Table 2.1 Strategic level management 16
Table 2.2 Tactical level management 16
Table 2.3 Operational level management 17
Table 4.1 Response rate 60
Table 4.2 Level of management 60
Table 4.3 Mean analysis ratings 61
Table 4.4 Results for sub-problem 1 62
Table 4.5 Testing hypothesis 1 66
Table 4.6 Results for sub-problem 2 68
Table 4.7 Testing hypothesis 2 73
Table 4.8 Results for sub-problem 3 74
Table 4.9 Testing hypothesis 3 79
LIST OF FIGURES

Figure 2.1 Grand strategy groups  22

Figure 2.2 Gaining a competitive advantage through people  36
CHAPTER 1
THE PROBLEM AND ITS SETTING

1.1 INTRODUCTION

This treatise first reports on a literature review of the historical strategies of construction organizations in general and how they can be implemented within organizations. The literature review provides information on strategic management where the importance of strategizing for construction projects as an integral part of organizational survival is explained. The review finally discusses competitive tendering and how it works in synergy with a strategy for organizational success.

A construction company is no different to any other profitable business. By definition, a company is an organization looking after its own interests in generating profits from the sale of goods or services (Company definition, (s.a.): 1). The construction industry has been labelled as being inherently uncertain due to the number of procedures for normal projects to be concluded. Amongst others, the tendering process, the economic climate, profitability and physical production determined by weather conditions have been identified as the main drivers behind the economic uncertainty (Harris & McCaffer, 2006: 2). A competitive organization’s main focus is to increase revenues and/or reduce costs in an effort to improve performance and generate higher levels of profit (Williams & Williams, 2007: 3).

During the spring of 2008 the world was hit by an economic recession caused by, amongst other factors, the housing market bubble burst in the United States of America (SAPA, 2009: 1). The construction industry in South Africa was, to a certain extent, initially protected from the recession by the 2010 FIFA Soccer World Cup, which provided a cushioning in terms of a cash injection into the country, as well as jobs for contractors. These jobs were largely due to the construction of large infrastructural projects (Construction industry research report, 2011: 1).

The South African construction industry’s activity levels were on a decline after the completion of the FIFA Soccer World Cup due to the completion of major projects and funding issues with other projects (SAPA, 2013: 1). Steyn (2011: 1) agrees that the construction industry’s economic downturn struck after the conclusion of the 2010 FIFA
Soccer World Cup in South Africa. It was announced that South Africa’s construction industry GDP was at its lowest in 11 years during April 2011 and due to the consecutive negative growth in GDP for five economic quarters, competitive tendering in the industry would be fierce.

In addition, with fewer projects put to tender by clients, the level of competition would increase between organizations because the number of construction companies remained the same, adversely affecting contracting firms in South Africa.

1.1.1 Strategy

Johnson, Scholes & Whittington (2008: 3) maintain that the strategy of an organization is the scope and direction which the organization chooses to adopt for the long term in order to achieve its predetermined goals; during the strategizing process the organization needs to configure its resources and competencies to fulfil the stakeholder expectations.

The authors also state that the strategy of an organization could involve any of the following:

- The long-term direction of the organization
- The scope of the organization’s activities
- Competitive advantage over other contenders
- Addressing changes in the business environment
- Building the organization’s resources or competencies
- The values and expectations of the organization’s stakeholders

Therefore, the choices made will most likely:

- Be complex in nature
- Be made in situations of uncertainty
- Affect decisions regarding day-to-day operations
- Approach the core business of the organization,
- Approach the organization’s environment
- Involve considerable change

(Johnson et al., 2008: 3)

Top level management of an organization needs to crystallize the mission and purpose of the organization, and develop these into tangible objectives for the organization to operate at its
maximum capability. The mission and purpose of the company can therefore be reduced to the scope, scale and structure of the organization (Harris & McCaffer, 2006: 306-307).

There are three main levels in which the strategy of an organization can be planned and implemented, namely the corporate level strategy, business level strategy and operational strategies (Johnson et al., 2008: 7).

- Corporate level strategy is primarily concerned with the overall scope of the organization as a whole and how the different business units work together. The corporate level strategy also determines the long-term goals such as geographical coverage and profitability in the future in terms of goal setting.

- Business level strategy is the level where each specific business unit assesses and plans how it must fit into its relevant market. To have the leading edge over its competitors, the strategies this level is primarily concerned with are pricing strategies, innovation and differentiation.

- Operational strategies are adopted by the operating end of an organization and revolve around the effective use of resources, processes and people to successfully reach the goals of the corporate and business level strategies. These higher level strategies are vastly dependent on the strategies set at operational level due to the physical work being carried out at this level.

The strategies that construction organizations look at in order to survive include:

- **Diversification**: Johnson et al. (2008: 257) explain through the Ansoff matrix that an organization has four directions for strategic development:
  - Corporate parenting: here the organization brings existing products into existing markets. Typically, this is the standard day-to-day operations of the organization during a ‘bull market’ where there is a demand for the organization’s products in the area where it operates.
  - Portfolio management: in this phase, the organization can release new products into a market where the organization has already established its clients.
Penetration/consolidation/development: during this phase, the organization will enter new markets with existing products and develop a new clientele in a new area foreign to the organization.

Diversification: during this process, the organization will enter new markets and advertise new products.

- Related diversification: this is a process where an organization acquires another business where the organizations can create a value network even though the two businesses have a vast difference in product (Johnson et al., 2008: 265-266). Related diversification is also known as vertical integration. This is the defining step where an organization can remain in one industry and maximize on a value network. This will increase profitability as well as increase value (Harris & McCaffer, 2006: 313).

- Unrelated diversification: in this regard, the organization will acquire another organization which does not contribute to the value network of the parent organization. The markets are completely unrelated and do not contribute to one another. This is done to create conglomerate value within an organization (Johnson et al., 2008: 267).

- Retrenchment: reduction in the number of employees due to affordability of organizations. Slabbert (2010: 1) state that the lack of work in the construction industry has led to reductions of the workforce in organizations.

- Overhead reductions: carried out within organizations and on construction sites which are considered necessary, during competitive times, for an organization to keep afloat. Profit margin reductions are considered and these decisions are made by higher level management based on experience and hunches on what is perceived to be happening in the industry in which they are competing (Brook, 2008: 285).

- Competitive advantage: there are three methods of gaining a competitive advantage. These include:
  - Overall cost leadership: this is described as being the ‘no frills strategy’ where the organization seeks to be the lowest in price whilst maintaining the same product quality as competitors. This occurs when profit margin reductions for all competitors arise due to a reduction in investors or price sensitive customers. The ability to reduce costs in a way that competitors cannot will
remain the key for a sustainable advantage (Johnson et al., 2008: 224-227). Porter (2004: 35) concurs with Johnson et al’s statement and adds that vigorous cost and overhead control needs to be implemented for the conclusion of a cost leadership strategy. There are a number of areas where costs can be reduced within a project, namely research and development, advertising, sales force and marketing. In certain instances, a cost leadership strategy can change an industry to such an extent that the industry as a whole will revolutionize to fit the parameters set by market-leading competitors.

- Broad-based differentiation strategy: this strategy is pursued by offering products at a slightly higher price than other competitors but with added benefits for the satisfaction of the client. The same phenomenon can be found in strategies where the product price remains the same as competitor prices, but added value to the quality of the product is offered. This can be done by identifying competitor systems and improving on them or by understanding what the client perceives as value and providing for those requirements (Johnson et al., 2008: 229).

- Hybrid strategies: the use of hybrid strategies incorporates broad-based differentiation, as well as competitive pricing into one strategy. The concept of having a hybrid strategy has been questioned because if an organization manages to achieve differentiation, there would be no need to have the same price as competitors (Johnson et al., 2008: 230).

- Focused differentiation: this strategy is taken by organizations where focus is only placed on a single item or section of an industry. This strategy can take many forms in terms of how the strategy is implemented but the primary concern is to target a specific section of a market and serve it to the clients’ maximum satisfaction (Porter, 2004: 38). Johnson et al. (2008: 230) agree with Porter’s statement, adding that a premium needs to be added to the price for the niche market which has been identified.

Failure strategies also discussed by Johnson et al. (2008: 231), are not discussed due to the study being aimed strictly at ‘bear’ markets where a low price is an essential component.
1.1.2. **Strategic management**

Johnson et al., (2008: 11) state that the term strategic management differs from management in the sense that managers need to keep the goals and strategies in mind on a daily basis to guide subordinates to success and not just deal with the tasks at hand. Operational managers need to use the resources, processes and people in such a way that the daily operations fall in line with the strategies set by the organization. Due to the complexity of the strategic management field, annual training for managers needs to be encouraged. This will ensure that when challenging issues arise, the manager is able to conceptualize the issue and deal with it in accordance with the organization’s strategy.

1.1.3. **Procurement**

“The role of the contractor’s estimator is vital to the success of the organization” (Brook, 2008: 1-2). The estimator is ultimately responsible for pre-determining the cost of a project in the most economical approach. Along with this, the tender price given by the construction company still needs to be the lowest of all members competing to procure the project. The estimator will have a fair understanding of the current prices in the market, but ultimately top-level management will add the overheads of the organization, assess the risks in doing the project and add the profit needed for taking the responsibility to complete such a project (Brook, 2008: 1-2).

During the procurement process a quantity surveyor and a planning engineer can be invited to participate on the contractor’s behalf. The quantity surveyor will be responsible for ironing out any challenges in the design of a building, as well as preparing method statements for the completion of certain phases of work. The planning engineer will be responsible for the preparation of the construction programme and the assessment of the time allowed for completing the project. Assessments on time-saving techniques will also be considered (Brook, 2008: 2-3).

Construction organizations also make use of competitive tendering for survival. In cases such as this, continuous studies are made of producing buildings at cheaper costs. During the course of tendering, various procurement paths can be chosen in terms of construction contracts (Brook, 2008: 13). Buy or make studies in terms of outsourcing works are also considered due to possible cost cuts by sub-contractors (Make-or-buy decision, (s.a.): 1).
1.2. **PROBLEM STATEMENT**

The essence of any profit generating organization’s survival is based on the organization’s ability to understand the environment in which it operates. Many construction companies fail in this regard and find it difficult to survive during recessions. The PESTEL framework (named after political, economic, social, technological, environmental, and legal forces) has been found to be the most effective in outlining the major factors acting on any competitive organization. These six items are also known as the global key drivers of change and are discussed below in three levels (Johnson et al., 2008: 54-57).

- **The macro environment:** After South Africa won the bid for the 2010 FIFA Soccer World Cup investing organizations targeted South Africa for investment purposes during the global credit crunch which originated during the fourth quarter of 2008. ‘Creamer media publishes Construction’ (2013: 1) adds that the gain of the 2010 FIFA Soccer World Cup kept many construction companies open for business due to the construction of infrastructure, stadiums and accommodation even though the global economic recession was at hand.

- **The industry or sector:** the construction industry was kept afloat by the 2010 FIFA Soccer World Cup investment phenomenon through the start of the global economic recession. After the conclusion of the 2010 FIFA Soccer World Cup, the industry faced an economic downturn due to the reduction in projects being procured (Rego, 2010: 1). Slabbert (2010: 1) indicates that the reduction of activity levels in the construction industry has placed the construction industry under stress and that profit margins have been pressurized due to the increase in competition. The economic conditions within the construction industry started showing improvements during 2012 and was at its highest in four years in the first quarter of 2013 (Construction confidence hits 4-year high, 2013: 1).

- **Competitor markets:** due to the reduction of projects available and the level of competition within the industry increasing, competing construction companies had to formulate and implement competitive strategies to remain lucrative during the strident economic times (SAPA, 2011: 1).
1.3 **SUB-PROBLEMS**

**Sub-problem 1**

‘Standard’ survival strategies which are used in construction organizations are not being exploited sufficiently.

**Sub-problem 2**

There is a shortage of construction work in the Eastern Cape Province of South Africa.

**Sub-problem 3**

Failure in implementing strategic management within construction organizations leads to lower profitability.

1.4 **HYPOTHESES**

**Hypothesis 1**

‘Standard’ survival strategies are effective in keeping construction companies’ doors open for business during challenging economic times.

**Hypothesis 2**

Turnaround strategies have been implemented in keeping construction companies afloat in strident economic times.

**Hypothesis 3**

Ineffective steps have been taken to implement fresh business strategies within construction organizations.
1.5 DELIMITATIONS

This study only includes construction companies in the Eastern Cape Province of South Africa.

The study has three main focal groups, namely:

- Small construction companies specializing in projects between R13 million and R40 million. These organizations are rated as GB7 construction companies by the Construction Industry Development Board (CIDB) (Construction Industry Development Regulations, 2008: 18).

- Medium-sized construction companies specializing in projects between R40 million and R130 million. These organizations are rated as GB8 construction companies (Construction Industry Development Regulations, 2008: 18).

- Large construction companies specializing in building projects of R130 million and larger. These organizations are known as GB9 construction organizations (Construction Industry Development Regulations, 2008: 18).

The main emphasis of the study is on the main contractors’ perspectives.

This study has been conducted on the building industry only and does not include the construction of roads, pipelines, bridges, etc.

1.6 DEFINITIONS

Construction industry: A sector of the national economy engaged in the preparation of land, and construction, alteration and repair of buildings, structures and any other real property (Construction industry definition, (s.a.): 1).

Organizational survival strategies: Business concepts and techniques which have been tried and tested and which have given organizations the competitive edge over a number of years. (Johnson et al., 2008: 2-3)
**Recession**: A period of general economic decline; typically defined as a decline in GDP for two or more consecutive quarters (Recession definition, (s.a.): 1)

**Strategic management**: An on-going process of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantage. It is a study of how and why certain organizations outperform others (Dess, Lumpkin & Tayler, 2005).

**Tendering**: A competitive bidding process in which qualified suppliers and contractors are invited to submit sealed bids for prospective work. These bids are for construction or the supply of specific, clearly defined goods in a given time frame (Request for tenders, (s.a.): 1).

1.7 **THE IMPORTANCE OF THE STUDY**

The construction industry always gets hit by challenging economic times and recessions. During these times many personnel lose their jobs and many organizations cease to exist. This study seeks to provide information which construction companies may want to access due to its relatedness to the industry in terms of the survival of the organization. Due to the recession which started in the fourth quarter of 2008, such information is readily available to study and create synopses. Many construction organizations will be interested in the findings of this research to see what organizations can do to remain afloat during challenging economic times and recessions.

This study also seeks to add to the construction industry’s body of knowledge and provide insightful information for individuals interested in this field of study.

1.8 **OBJECTIVES OF THE STUDY**

The main objective of the study is to identify survival strategies of construction companies, more specifically:

- To identify the effectiveness of strategic management strategies within the construction industry.
- To identify the main strategic concept or combination of strategic techniques which kept construction company doors open between 2010 and 2012.
• To identify which elements within the tendering process are the most effective in remaining competitive when the construction industry has a low level of activity.
• To identify the importance of the turnaround strategy within the timeframe of 2010 to 2012.
• To identify the key elements of an implementation strategy within a construction organization.

1.9 ETHICAL ISSUES

Research ethics can be defined as the principles in which a researcher conducts research correctly. There are numerous issues that need to be considered due to the volatility and sensitivity of the information gathered in the field which could place the researcher at risk (Ethics definition, (s.a.): 1).

For the purposes of the study, the organizations interviewed and asked for information were kept completely discreet. No information relating to the names of organizations or the cities and areas in which they operate was mentioned.

1.10 OUTLINE OF THE STUDY

The treatise contains five chapters as listed and briefly described below:

Chapter 1

The statement of the problem, sub-problems, hypotheses and the significance of the study are described.

Chapter 2

In this chapter, an in-depth review is given of previously published literature on survival strategies, competitive tendering and implementation of strategies and strategic management of organizations within the last ten years.
Chapter 3

In this chapter, the method of how the research was conducted as well as how the collected information was treated is given.

Chapter 4

This chapter describes the analysis and interpretation of information received through the methodology explained in Chapter 3.

Chapter 5

In the final chapter, conclusions drawn following the analysis and interpretation of the captured data obtained from the field study are presented. The researcher’s recommendations are also included in this chapter.
CHAPTER 2

LITERATURE REVIEW

2.1 STRATEGIC MANAGEMENT

The business environment can be defined as “the sum of variables impacting on the competitiveness, and ultimately the survival and growth of a firm” (Goldman, Maritz, Nienaber, Pretorius, Priilaid and Williams, 2010: 2). The business setting in recent years has been characterized by an increase in competition, globalization, rapid technological advancement and the changing needs of consumers. Due to the high number of business variables within an organization, the strategy of the organization is ultimately the key in keeping the corporate ship on course in terms of future business success. For success to be imminent, the organization needs to develop, implement, monitor and evaluate the strategy of the entity continuously (Temtime, 2000: 1). The key in any business is not only to be in power, but to stay in power which is why organizations need to keep reinventing themselves. Elements beyond the control of the entity such as changes in consumer needs and advances in technology play a large role in the success of a business and are the primal reasons why having a permanent competitive advantage is so challenging and even not possible (Cusumano, 2010:1).

A strategy is a co-ordinated group of decisions and commitments made by stakeholders in an organization whereby the organization can exploit their key competencies to gain a competitive advantage over the rest of the market. The strategy determines what the organization will and will not do in the short term as well as in the long term. The competitive advantage of an entity comprises the implemented strategy causing a system which competitors cannot duplicate or find too costly to implement. Even though no competitive advantage is permanent, all organizations strive to have as many competitive advantages as possible to avoid losing the competitive edge in the future. The competitive advantage allows an organization to generate above average returns which represent the ideal for any profitable entity in any competitive industry. Organizations with a below average return will invariably cease to exist if the low return rate continues due to investors and stakeholders withdrawing their investments from an organization (Hitt, Hoskisson, Ireland, Morgan, Reinmoeller & Volberda, 2011: 7-8). Various steps can be taken for the strategic
management to be effective within an organization. These steps can range from being completely formal in the principles of planned events and the use of prescribed books and models. Strategic management can also be implemented on a very informal level by the use of elements implemented in an ad hoc fashion and only when necessary. The systems and procedures required for the implementation of strategic management depends highly on the nature of the industry in which the organization is operating as well as the knowledge of higher level management of the industry (Goldman et al., 2010: 14)

Strategic management can therefore be defined as any action executed to implement the corporate strategy of an organization and any step taken in the direction of achieving one of the organization’s future goals (Groenewald, le Roux & Rossouw, 2007: 3). Strategic management can also be described as the method in which all organizational resources are aligned, implemented and co-ordinated to work with its business environment (Ehlers & Lazenby, 2010: 3).

The strategic management concept differs from other managerial areas in the sense that issues arise out of non-routine and ambiguous situations. This means that the management of specific areas with controllable variables forms a minor part of the strategic management process but the manager needs to have a more holistic view of all operational units to take part in the development of the concept within the organization (Johnson et al., 2008: 11).

The following points have been highlighted as advantages of strategic management by Groenewald et al. (2007: 3):

- Strategic management implements a direction for all members working for an entity. It highlights the route to reach organizational goals.
- Strategic management crystallises change, new opportunities and possible threats.
- Strategic management assists in the allocation of resources to elements of work.
- Strategic management helps in the decision making process to reach specific strategic goals.
- Strategic management promotes a more proactive management style in terms of clarifying items which managers need to look for to hit strategic goals.

Strategic management is a framework used to implement corporate strategies within organizations. There is no rigid structure for what needs to be done to implement a strategy as
every situation is unique as well as the team dynamic for every group of people. The strategic management process can be broken down into two phases:

- The formulation phase.
- The implementation phase.

(Groenewald et al., 2007: 3).

Goldman et al. (2010: 14) agree with the above points but add a monitoring phase at the end of the list. The monitoring phase is described as the phase where problems within the existing strategy are identified. The monitoring phase is also effective in determining the changes within the industry and when the existing strategy should be adapted to the new market conditions.

2.1.1 Formulation phase

This phase is also known as the planning phase or the strategic planning process and involves three key tasks, namely organizing, leading and control. There are three levels of management within an organization: top, middle and operational management. Each of the levels has its own responsibilities relevant to strategic management (Groenewald et al., 2007: 3-4). Ehlers and Lazenby (2010: 3) agree with Groenewald et al. (2007: 3-4) and add that the employee force also plays a role in the strategic management process.

As depicted below in Tables 2.1, 2.2 and 2.3 below by Groenewald et al. (2007: 3-4), the following tasks are involved in the formulation phase:
Table 2.1. Strategic level management

<table>
<thead>
<tr>
<th>TASK</th>
<th>LEVEL OF MANAGEMENT</th>
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<tbody>
<tr>
<td>• Develop a mission</td>
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<tr>
<td>• Develop a mission statement</td>
<td></td>
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<tr>
<td>• Determine values</td>
<td></td>
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<tr>
<td>• Do a SWOT analysis</td>
<td>STRATEGIC LEVEL</td>
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<tr>
<td>• Formulate strategic goals</td>
<td></td>
</tr>
<tr>
<td>• Do a gap analysis</td>
<td>(Top management)</td>
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<tr>
<td>• Identify generic and corporate strategies</td>
<td></td>
</tr>
<tr>
<td>• Evaluate and select corporate strategies</td>
<td></td>
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<tr>
<td>• Review structure, leadership and culture</td>
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<tr>
<td>• Formulate policies</td>
<td></td>
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<tr>
<td>• Do Strategic control</td>
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Source: Groenewald et al. (2007: 3-4)

Table 2.2. Tactical level management

<table>
<thead>
<tr>
<th>TASK</th>
<th>LEVEL OF MANAGEMENT</th>
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<tbody>
<tr>
<td>• Develop a mission statement</td>
<td>TACTICAL LEVEL</td>
</tr>
<tr>
<td>• Do a SWOT analysis</td>
<td></td>
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<tr>
<td>• Formulate tactical objectives</td>
<td></td>
</tr>
<tr>
<td>• Do a gap analysis</td>
<td>(Senior and middle management)</td>
</tr>
<tr>
<td>• Formulate tactical strategies</td>
<td></td>
</tr>
<tr>
<td>• Review structure leadership and culture</td>
<td></td>
</tr>
<tr>
<td>• Formulate policies</td>
<td></td>
</tr>
<tr>
<td>• Do tactical control</td>
<td></td>
</tr>
</tbody>
</table>

Source: Groenewald et al. (2007: 3-4)
Table 2.3. Operational level management

<table>
<thead>
<tr>
<th>TASK</th>
<th>LEVEL OF MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Formulate operational objectives</td>
<td>OPERATIONAL LEVEL</td>
</tr>
<tr>
<td>• Formulate operational strategies</td>
<td>(First line and supervisory management)</td>
</tr>
<tr>
<td>• Do operational control</td>
<td></td>
</tr>
<tr>
<td>• Lead the team</td>
<td></td>
</tr>
</tbody>
</table>

Source: Groenewald et al. (2007: 3-4)

2.1.1.1 Vision statement

The vision or strategic intent is formulated only by the executive management level of an organization. In setting the vision, the top level management chooses in which direction they would like to focus the energy of the entity and decides on the future state of the organization. This is also known as the aspired state of the organization (Johnson et al., 2008: 10). The vision of an organization can also be described as the dream of the entity and focuses on what the organization wishes to achieve in the long run (Groenewald et al., 2007: 6).

2.1.1.2 Mission statement

Mission statements are formulated by the executive management level and middle management. In creating a mission statement, the organization clearly defines its uniqueness and purpose. Mission statements usually have four common character traits described by Scott (2005: 86-87), namely:

1. They set tough but obtainable standards for the organization to adhere to.
2. They set out the groundwork for the basic beliefs, values and priorities of the organization.
3. They are measurable.
4. They clearly outline and explain what business the company is conducting.
2.1.1.3 Values of the organization

The values of the entity are determined by management within the top level. The values of the organization can be isolated and determined from the mission statements which are issued by top and middle management of an organization. From there, the culture of the organization can be derived in broad terms (Groenewald et al., 2007: 6).

2.1.1.4 SWOT analysis

The SWOT analysis is conducted by top and middle management of an entity. The acronym ‘SWOT’ comes from the words: strengths, weaknesses, opportunities and threats. This framework identifies elements within organizations which the entity can use to perform better in their business network. SWOT analyses should be done on the internal and external environment of the organization. The success of the organization has a lot to do with the internal capabilities of the organization and the strategic fit with the organization’s external business environment (Groenewald et al., 2007: 3-4). The internal analysis is particularly focused on the strengths and weaknesses of the organization whilst the external analysis of the organization is conducted on the opportunities of and threats to the organization (Ehlers & Lazenby, 2010: 111).

2.1.1.5 Formulation of strategic goals

The formulation of strategic goals is done by top level management. During this process long-term objectives are formulated by focusing on middle and operational level management to determine how these goals will be reached. Middle level management is involved with formulating tactical objectives whilst operational level management focuses on tactical strategies to reach the strategic goals set by top level management. Middle level management has been described as focusing on medium-term objectives whilst operational level management focuses on short-term goals (Groenewald et al., 2007: 7).

2.1.1.6 GAP analysis

The gap analysis is done by top and middle level management of the organization. In this process, the middle level management provides information and data to the top level management where the actual operational outcomes are measured against projected figures set out by the strategic goals. In certain instances there will be a variation between the projected and actual figures which can also be called a gap. In cases such as these, the top and
middle level management need to formulate specific strategies to close these so called ‘gaps’ in reaching strategic goals (Groenewald et al., 2007: 178). The Gap analysis should not be confused with the concept of a strategic gap where an organization identifies a market within the industry which has not been exploited by competitors. Strategic gaps are found in the business environment and can be used to increase stakeholder expectations without being planned for during the strategic planning process (Johnson et al., 2008: 81).

2.1.1.7 Generic and corporate strategies

Generic strategies:

A generic strategy guides an organization in a direction to gain a competitive advantage over its competitors. These strategies are perceived as being core ideas on which the organization will make future decisions and, in essence, select their corporate strategies (Groenewald et al., 2007: 99).

The following strategies have been identified by Groenewald et al. (2007: 8) as being generic strategies:

- Broad, low cost leadership strategy
- Focused low cost leadership strategy
- Broad differentiation strategy
- Focused differentiation strategy
- Best cost provider strategy

Porter (2004: 39) agrees with the above points by Groenewald et al. (2007: 8), but does not make any reference to the best cost provider strategy.

2.1.1.8 Bases of competitive strategies

The competitive strategy of an organization depends largely on the climate of the market in which the entity operates. There are various routes which can be followed to suit the market but the key remains having the correct set up for the current situation.

The broad low cost leadership strategy has been based on a situation where the client is interested in a higher state of functionality rather than an item having specialized features at a premium. Clients would focus more on the price of the item rather than the added benefits of items at a higher price (Johnson et al., 2008: 225-227).
The low price strategy has been based on the concept of reducing the price of an item but still retaining the value of the product relative to competitors. In reducing the price of the product/commodity, the organization would consolidate more clients. The low price strategy also creates challenges such as, should one organization drop their margins, the margins of all competitors would eventually drop creating a cut throat industry for organizations lacking prospective clients. The second issue would be that, should the industry remain in a low margin situation for an extended amount of time, no resources would be allowed to develop new services or research in increasing the value of produced goods (Johnson et al., 2008: 227).

Broad and focused low cost leadership strategies have difficulties in being sustained for extended periods of time. The key element which should be kept in mind is that the organization should focus on methods of reducing prices in such a way that competitors cannot compete. In essence, it does not mean the entity should only reduce profit margins (Johnson et al., 2008: 227).

The following situations are explained as being effective times to implement a low cost strategy according to Ehlers and Lazenby (2010: 183-184):

- When the organization has the ability to reduce the costs across the supply chain
- During times when competition in price between competitors is high
- During times when the client is price sensitive
- During times when there is a high level of product standardization
- When clients do not focus on brand loyalty
- When clients have a high level of bargaining power.

Differentiation strategies are based on differences in the products created by an organization and in effect enhancing perceived value of the products. Products are created by methods where unique competencies and competitive capabilities are required to create longer lasting and competitive edge products. In differentiation strategies, organizations focus on enhancing products to a point where rivals struggle to reproduce products to a simulate grade or standard (Ehlers & Lazenby, 2010: 185-186).
The key to the differentiation strategy depends on two major variables:

Identifying the strategic customers and understanding their market. The principles in understanding a differentiation consumer might be challenging as the concept might not be straightforward and simple to isolate (Johnson et al., 2008: 228).

Identify key competitors. The identification of key competitors remains one of the core elements for a differentiation strategy as the commodity and price need to be analysed (Johnson et al., 2008: 228).

Broad differentiation strategies:

Differentiation strategies are strategies where one or more items are altered to create added value or perceived added value by customers. In strategies such as these, the product is preferred above its competitors and is sold at a premium due to the uniqueness of the product. For a successful differentiation strategy to be implemented the product must add additional value to the client relative to competing products; the added value must be communicated to the clients and the strategy must be difficult to copy (Groenewald et al., 2007: 102-103).

A differentiation strategy can be achieved by:

- Exceptional quality of materials used
- Superior performance
- High quality
- Efficient paperwork
- Prompt answering of queries
- Delivery
- Superior packaging

(Groenewald et al., 2007: 102)

Focused differentiation strategies:

Focused differentiation strategies are strategies where a niche market is created at the very top of a market. In strategies such as these, the client is willing to pay for a premium item. In certain instances, the products created can be custom designed to the clients’ specifications for added value, creating a barrier to entry for oppositions (Groenewald et al., 2007: 104).
2.1.1.9 Grand strategies

The generic strategies referred to above have been described as being simplistic and requiring a greater level of diversity. Grand strategies have been created for an organization to implement the generic strategies within the grand or master strategies. In the selection of both grand and generic strategies, the various strategic choices will complement one another. The master strategies have been designed to give an organization basic direction in terms of strategic actions but the principle remains that the grand strategy must run in synergy with the generic strategy as well as the competitive advantage of the organization (Ehlers & Lazenby, 2010: 199-200)

Figure 2.1: Grand strategy groups
The following strategies have been identified by Groenewald et al. (2007: 8) as being corporate or grand strategies:

- **Growth level one grand strategies:**
  - **Concentrated growth strategy**

  “The concentrated growth strategy involves an organization in concentrating on doing better what it is already doing well” assert Groenewald et al. (2007: 106). This type of strategy allows the organization to focus on only one market and marketing a specific type of product by means of incorporating their key dominant technology. The strategy is specifically used by market leaders which already dominate in the market they are perusing. The primal focus of this strategy is to increase the market share of the market in which the organization is already operating. In this strategy, the organization will strive to customize their product to an extent where the users of the product will attract competitor supporting customers to change over to their product (Ehlers & Lazenby, 2010: 200-201).

  - **Market development strategy**

  The market development strategy focuses on introducing a product or service in a new geographic area. This strategy is specifically effective when there are reliable distribution channels in the new geographic area and when the organization can pass market barriers in terms of a joint venture or the use of local employees with insight into the area. Strategic partnerships can also be considered with like-minded organizations in the new area for start-up purposes (Ehlers & Lazenby, 2010: 200-201). Groenewald et al. (2007: 107) agree with Ehlers and Lazenby (2010: 200-201) and add that the market development strategy also focuses on core competencies. The strategy is however not restricted to only geographic development, but the growth can also be demographic or physiographic.

  - **Product development strategy**

  A product development strategy follows the route of either substantially modifying an existing product in an existing market or the creation of a completely new product which can be marketed to the same existing target market. Customers will be willing to buy these products due to the satisfaction received from other products within the market (Groenewald et al., 2007: 107).
Project development strategies however, have two major risks:

Developing new technologies within an organization might become challenging as the organization might be unfamiliar with the new technology.

The costs of projects within familiar territory are subject to risk of delays as well as escalated cost due to unforeseen changes (Johnson et al., 2008: 261).

- **Innovation strategy**

Innovation strategies can be identified by their distinct method of improving products which an organization sells periodically. In this strategy entities focus on improving certain of their product range to such an extent that the original product becomes obsolete and can be removed from the market. Strategies such as these seek to acquire higher initial capital gains than the original product due to the effective marketing as well as replacement of the initial product. The implementation of strategies such as these will in effect create a new life cycle for the product and ultimately for the entity as a whole. These strategies are also implemented to stay in power and keep ahead of competitors (Groenewald et al., 2007: 108-109).

- **Diversification**

A diversification strategy for an organization allows an organization to move away from existing markets and existing products. These strategies radically increase the scope of an organization in terms of what they are selling and where they are selling. Diversification means that the further an organization diversifies from its existing market and products, the greater the amount of research will be required to successfully penetrate and consolidate the new market.

Reasons for diversification:

Efficiency gains: if an organization has resources which are not used to their full capabilities, the organization can task the resources to be used within new spheres of business. These will affect an increase in income as the outflow of currency will remain the same.
Stretching corporate parenting capabilities: managers within a business develop skills to deal with a business unit as a whole. The same principles can be applied to a different type of business unit beyond the scope of the current core business. The new business units considered need not have the same resources or competencies.

Increasing market power: An organization having a number of business units can afford to cross-subsidise one unit’s surplus with another which will in return create a strategic route with which a unilateral competitor cannot compete.

Responding to market decline: Diversification strategies have a strong ability to assist organizations in times of market decline. When one business unit has the potential to be on the verge of a market decline, the resources can be allocated to a different business unit which is at a successful point in the business cycle.

Spreading risk: risk can be spread to various sectors of markets using diversification. In doing this, the organization will be able to survive in an economic downturn in one sector due to multiple other sectors still being successful (Johnson et al., 2008: 262-265).

- Related diversification

Related diversification, also known as concentric diversification, encompasses the acquisition of entities in line with the purchasing organization. The relationships may not be identical but similar products; markets, distribution channels as well as technologies can be identified within such entities (Groenewald et al., 2007: 111).

Related diversification strategies include the following:

- Horizontal integration strategy

Horizontal integration strategies involve the acquisition of other entities which compete with the organization within its own market. This is done to remove competitors from a specific market, thus creating a new market area for the organization. By acquiring a competing organization, the purchasing entity can gain new skills to improve systems as well as gain new customers. Horizontal integration strategies also include the purchase of organizations which do not compete directly with the purchasing entity, but the pooled skills which are acquired will benefit the organization (Groenewald et al., 2007: 110-111). Johnson et al. (2008: 267) agree with the above statements and add that horizontal
integration occurs when an organization further develops any activities with which the entity is currently busy. The complementary actives acquired will be defined as being horizontal integration.

- Vertical integration strategy

  Vertical integration can be defined by the extension of the hold of an organization on its market by acquiring assets in line with what is already being produced. The organization will venture further into its existing market by acquiring related firms involved with the design, production, distribution or marketing of the currently produced products or services. This will in effect create a competitive advantage over competitors. Vertical integration can be achieved in two ways:

  **Forwards vertical integration:** the organization invests in entities which are further down in the network between the producing entity and the consumer at the end of the production cycle. Forwards vertical integration has the added benefit of gaining control over elements of the market which have been beyond their initial control. The entity can then make the product available to a target group in a unique setting to increase sales or market the product to attract the target consumer using focused marketing tactics.

  **Backwards vertical integration:** the organization gains ownership of entities which are required for the production of the products or services but are involved prior to the production of the product. Backwards vertical integration deals mainly with suppliers of raw materials or parts to produce products or services. This strategy is considered when organizations struggle with the supply of goods, if suppliers become too costly or if the goods are of unsatisfactory quality.

Risks of related diversification include the following:

- Related diversification does not create synergies
- Implementation is not always successful
- Antitrust laws may prohibit a merger between two organizations
- An acquisition of a competitor may be overvalued.

(Groenewald et al., 2007: 111)
o Unrelated diversification

Unrelated or conglomerate diversification strategies can be defined by the acquisition of resources which have no relationship with the current products or services which are currently being produced by the entity. The reason for unrelated diversification is purely based on the profit opportunity which the new resources may have for the organization. Unrelated diversification strategies carry high risk due to the entity stepping into uncharted waters due to new systems, procedures and markets being entered. Further risks also include the allotment of existing resources to manage the new resources placing the existing entity and the core of the business under strain. The following are seen as reasons why entities consider conglomerate diversification:

- To balance out cash flow. Especially when an organization is in need of cash
- To improve the return of investment of the organization
- To acquire an organization at a bargain price
- To focus on an organization’s operations
- To reduce the risks of an organization in an unknown economic cycle of existing products.

(Groenewald et al., 2007: 112)

- **Strategic alliances**

A strategic alliance occurs when an entity with valuable competencies allows another firm to use the competencies as a base to generate income. Strategic alliances usually take the form of franchising but there are other methods such as firms creating value by using specialized organizations within specific projects on a continuous basis. Franchising organizations develops income from franchise payments whilst the business utilizing the franchise techniques develops income from selling the products (Groenewald et al., 2007: 113). Strategic alliances have been rising in frequency as products required by consumers increase in complexity and the business environment becomes ever more competitive. Strategic alliances are formed to acquire materials, skills, innovation, finance or access to certain markets and are highly effective when a complex niche market is identified. Types of alliances include joint ventures, consortia, and networks (Johnson et al., 2008: 360).
Joint venture: Joint ventures are temporary partnerships formed by two or more organizations for the sole purpose of pursuing a unique opportunity. The opportunity is usually based on monetary gains where all entities will exit the joint venture with financial gain and both organizations will learn from one another in terms of new systems and procedures in different markets; one organization may enter a foreign market and use the existing organization to enter the market or in certain instances, the organizations enter a joint venture to create a ground breaking development by which the future market will be influenced (Ehlers & Lazenby, 2010: 211-212).

Consortiums: these involve two or more organizations operating in the same market but which are involved with a specific major project. All organizations have a share in the risk and a clear cut scope has been agreed on for each organization at the start.

Networking: networking encompasses a less formalized approach by organizations but still utilizes the competencies of each. In networking arrangements, no cross ownership exists between organizations and entities do not focus on contractual agreements but rather the inclusion of one another’s competencies to generate higher levels of value (Johnson et al., 2008: 360)

- Turnaround strategies

Turnaround strategies are very common and popular in South Africa. This strategy is pursued when the industry an organization operates in goes into an economic downturn and the entity makes efforts to save itself. When declines in profit margins are anticipated, the organization has the following options available:

- Cost reduction:
  - Retrenchment of staff
  - Leasing, rather than purchasing equipment
  - Dropping low profit items off the production line
  - Discontinuing low profit customers
- Asset reduction
  - The sale of land, buildings and equipment that are not necessary for pursuing the organization’s core business
• Revenue generation
  o This can be done by reviewing debtor and stock turnover ratios.

  (Groenewald et al., 2007: 116)

Generic strategies are not functional strategies during times when an organization’s industry is in a decline. Porter’s matrix referred to above is described to be the standard when comparing or evaluating generic strategies. There has been more information produced within the corporate strategy field but not enough to have significant impact within the industry. During an economic decline, alternatives are considered by organizations for rapid reaction against changes in the business environment (Goldman et al., 2010: 55).

The turnaround situation can be defined as the moment when the organization realizes that they have to consider taking steps to adapt to an industry which is experiencing an economic downturn. If the organization does not accept the fact that they need to take steps in the direction of a turnaround strategy, the entity will be sure to face failure and possibly cease to exist (Goldman et al., 2010: 56).

During the event of a turnaround situation, the organization usually appoints a turnaround manager or considers rapid higher management restructuring. In attempts to identify the key steps for the turnaround strategy, the organization has to assess the two elements to define the new strategy. These are the cause and the resource munificence. The cause of the decline can be used to identify the elements which need to be adjusted to become more balanced with the environment once again. Once the problem has been identified, various routes can be assessed in how the resources should be used, changed or removed completely from the entity (Goldman et al., 2010: 56).

Three instances are explained by Goldman et al. (2010: 57-58) when a turnaround situation is imminent:

Strategic Distress: instances where the organization in question is performing well but then loses competitive advantage within the industry. The symptoms of strategic distress are the loss of sales where the market share has been stable. A sudden demand change or a high investment in inventory growth could also cause strategic distress.
Underperformance: the organization has a good demand for products but the organization as a whole is not performing as effectively as it should. The organization becomes cash strapped due to low outputs of employees and the competitive advantage is put under strain as a result of this. The use of outdated systems could also be the cause of underperformance.

Strategic crisis: the entity is facing a crisis due to the scarcity of resources to be used in the direction of outputs and a last resort strategy needs to be implemented as soon as possible.

Ehlers and Lazenby (2010: 211-212) agree with the above statements and add that organizations also start focusing on total quality management (TQM) as well as outsourcing certain activities which are not the core business of the organization. Organizations also employ new managers in financially complex times to find new perspectives on the organization’s challenges. Difficult times within entities create an opportunity for corporate restructuring.

Divestiture strategy: Divesture strategies revolve around the concept of a parent organization selling a business unit or a major section of the organization to achieve a successful turnaround in financially strident times. The sale of the business unit is done to increase the cash flow of the entity. The unbundling of conglomerate organizations creates new opportunity for corporate streamlining and the potential to develop new and enhanced business bundles on a smaller scale. The reduction in overhead costs will also assist the entity when cash flow issues are imminent (Groenewald et al., 2007: 117).

Liquidation strategy: Liquidation strategies are the last on the list when it comes to strategic decisions. Organizations choose this route when they realize defeat within the industry and the mitigation of losses comes into play. The liquidation strategy focuses on the selling off of all assets owned by the organization. The sale of assets will in turn create monetary value to pay the shareholders of the organization. Liquidation strategies can be perceived as a planned effort to change all assets of the organization into liquid assets which are shared amongst the shareholders (Ehlers & Lazenby, 2010: 211-212).

Globalization: The principles behind globalization are primarily to find markets in foreign countries to penetrate and develop returns on investments. The operations can be of various natures and can be prompted by organizations isolating a unique market where
profits beyond normal within the local country’s borders can be achieved. The globalization strategy can follow any of the above mentioned master strategies as a subsection. This means that the interests within a foreign country could be of a relative nature and the new products or services need not be the same or marketed in the same way. Globalization could also include outsourcing materials to be manufactured in other countries to a better degree of accuracy or quality and then brought in to improve the quality of the service or product locally. Unique markets can also be found locally for foreign products which could create a local business or new business unit. Improvements in communication, the internet and cost-effective travel have been identified as key drivers behind globalization and allow an organization to trade with foreign countries on a lower level of risk than in previous years (Johnson et al., 2008: 360).

2.1.2 Implementation phase:

The implementation phase needs to be developed and executed by every individual within an organization. In doing this, all employees develop a sense of belonging as well as increased levels of motivation. “Strategic management does not belong only to an elite group at the top of an organization” (Groenewald et al., 2007: 3). The best way of survival is to adapt effectively to a changing world. After the achievement of the strategy for the short term and the long term, the organization needs to implement the plans as quickly and as effectively as possible. In succeeding in this, the organization will have a better chance of leading the pack and remaining competitive (Cusumano, 2010: 10).

Even though the strategic management methods and techniques have been set out by many, it is not an exact science and requires quantitative as well as qualitative assessments of the business environment to be successful (Ehlers & Lazenby, 2010: 3).

The three levels of management have various roles to play for the successful implementation of a new strategy within an organization:

The executive management level needs to make the required changes for the new strategy to be effective. These changes may include changes within the organizational structure, leadership style, systems, staff or organizational culture.

Tactical management which includes senior and middle management must ensure that strategic goals are implemented within the tactical and operational levels of management.
Operational management needs to ensure that the tactical strategies are transformed into action plans and then implemented appropriately (Groenewald et al., 2007: 150).

Even though the corporate strategy is mainly developed by top level management, it is up to tactical and operational level management to implement the strategies and work towards the new goals which have been set. The lengthy plans and visions set by executive management do not mean anything until they have been implemented properly which is why the implementation phase and plans remain so critical. These processes need to be monitored to evaluate the efficiency of the new systems (Groenewald et al., 2007: 149).

One of the major causes of failures within an organization is the failure to implement the corporate strategy of the organization. The execution of the strategy is often overlooked by the strategic planners causing the strategy itself to receive the blame for failure rather than the strategic implementation plan (Groenewald et al., 2007: 1).

The resistance to change within an organization has been highlighted as being one of the major reasons why management within an organization struggles to implement new strategies. Resistance to change is a natural phenomenon which occurs within entities and if it is not managed properly, it could lead to a waste of money, resources and in the worst scenario, the organization not surviving. The resistance to change could occur within any level within an organization, including management (Werner, 2011: 400).

### 2.1.2.1 Resistance to change

The following have been highlighted as being the reasons for resistance to change:

- Individual resistance
  - Fear of the unknown
  - Potential job loss
  - Peer influence
  - Personality/ low self-efficiency
  - Inconvenience
  - Distrust of management
- Managerial resistance
  - Same reasons for individual resistance
  - Loss of authority
  - Loss of status
Exposure of previous inadequate approaches and behaviours
Change in territorial ownership
Added responsibility related to the change process

- Organizational resistance
  - Cost, time and effort to change
  - Deep-rooted organizational culture
  - Bureaucracy
  - Maintaining stability
  - Past agreements with suppliers, trade unions and customers
  - Previous investments in buildings, technology and equipment.
    (Werner, 2011: 400)

Organizations change their strategic plans to ensure that their corporate alignment is connected to their customer needs as well as their business environment. As corporate alignment and plans need to be implemented on a cyclical basis, the following are required for successful implementation as well as reduced levels of resistance to change:

All employees should be encouraged to participate in the strategic planning from the start of the environmental analysis.

The organization believes in its executive management and it is for this reason that the top level management needs to issue the employees with timely, relevant and accurate information.

The executive management needs to be re-assessed regarding the rewards basis during a strategic planning and implementation process and inform its employees during the implementation process of the incentives.

The implementation process should also include a strategic human resources plan of what the new strategy will require from its employees. The strategic human resources plan will include training required to fulfil new positions as well as existing positions (Werner, 2011: 400-401).

2.1.2.2 Organizational change

Johnson et al. (2008: 360) explain the four different types of organizational change below:
Adaptation: the change that is required within the organization can be implemented in segments and the culture of the organization will remain unaffected by the required movements for the new strategy. This type of change is the most commonly found change within organizations.

Reconstruction: the change which will be required in the organization will cause extensive levels of resistance by the employees of the organization. The culture of the organization will not be affected by the implementation of the changes. Reconstruction within an entity can be defined best by the implantation of a turnaround strategy when serious cost cuts need to take place as well as resource realignment. The changes which need to be made will be of a rapid nature.

Revolution: the change required within the organization in question is of a major scale where the organization needs to take drastic steps to realign the entity with its business environment. It is often the case that the organization has not responded to its business environment for a number of years when revolutionary change needs to occur. The far-reaching steps required for realignment will affect the culture of the organization and the change must be implanted rapidly.

Evolution: the change will affect the culture of the organization but the implementation of the change will be over a period of time. Evolutionary change can be the driver behind the organization where the change required occurs annually or periodically without a physical implementation process being necessary.

Groenewald et al. (2007: 170-171) agree with the above four quadrants and relate the levels of change on a scale. The scale relates the amount of critical changes which need to be made within the organization to ensure the compatibility of the change with the existing culture.

One of the key steps in a strategic plan is to measure whether the intended strategy and the realized strategy are the same. If they are not exactly as planned, the managers within the organization need to assess the areas which can be improved on. These areas can be within the strategy itself or the implementation plan. In certain instances, the implementation was done to a major extent but not monitored. In instances such as these, natural change occurs which could be positive, meaning that the strategy has been made simpler by the individuals performing tasks or it could be negative (Johnson et al., 2008: 421).
2.1.2.3 Key elements of a strategy

There are four key elements in an organisational strategy. These are personnel, information technology and finance. These four resources need to be realigned when the entity chooses to change the corporate strategy. All of the resources need to be assessed and considered prior to any changes being developed. The relationship between the elements is where the strategy lies and where management needs to focus to ensure that the new strategy is implemented properly and to expect the correct outcomes (Johnson et al., 2008: 474-475).

People as a resource: organizations are in a position to employ the necessary personnel with a certain skill set. Personnel need to be managed, motivated, trained and deployed in a direction so that they can produce what is required by the organization. The performance of each employee needs to be evaluated on a regular basis to ensure that the required standards of outputs are met. Performance assessments by superiors as well as goal setting techniques have been found to be successful in motivating staff (Johnson et al., 2008: 477-478).
As shown above, the implementation strategy through people follows two loops. The first loop is concerned with the long-term strategy of the organization whereby the trends of consumers and potential customers are identified and assessed. Within the first loop, leadership development, workforce development and organizational development are focused on during all assessments. The second loop indicates the short-term strategic cycle and
focuses on the employees of the organization. The employees are assessed and their current capabilities are evaluated to ensure that they are required for the long-term strategy of the organization. During this phase, the employees are also assessed for capabilities that they will require to remain within the entity. This cycle includes objective setting performance metrics, rewards as well as short-term training (Johnson et al., 2008: 481).

Information management: the dawn of the IT era has created a business environment which thrives on new information. Due to the systems and information being so readily available, the ability and time to imitate a product or service have become easier and shorter placing the business environment under stress. On the one hand, it is easier for organizations to market and implement their systems and procedures, but, on the other hand, the organization creates information which allows competitors to understand the operations of the business making it easier to imitate. It is for this reason that every organization needs to regularly assess their information management system and create a new and more effective system to keep ahead of competitors (Johnson et al., 2008: 482-483).

The implementation of information management has in recent years become as important as basic other business functions and can no longer be treated as a support function. Even though systems are not physical elements, the systems are wide stretching to include, marketing, sales as well as operations which is why organizations should not overlook this aspect. Training and development programmes should be considered for the effective implementation of information systems (Johnson et al., 2008: 486-487).

Groenewald et al. (2007: 152-153) have used the Mckinsey 7s framework to include more elements on which the implementation of a strategy impacts:

Strategy: the physical strategy of the organization needs to be complete on all levels for an organization to implement the system properly.

Structure: the structure of the organization will indicate which individuals within the entity will become role players within the implementation the strategy. This structure needs to be outlined prior to the implementation process.

Systems: the systems which will be used to implement the strategic plan as well as all systems which will be changed in the process of the implementation.
Style: consideration to the style in which managers carry out their day-to-day tasks will be assessed and used in the implantation of the strategy. Emphasis will be placed more on how management behaves rather than what they communicate.

Staff: the basic values of the employees within an organization are assessed to ensure that they have what is required for the future plans of the organization.

Shared values: the shared values of an organization often include the culture of the organization. This specific area however focuses more on the understanding of the objectives and goals of the organization.

Skills: skills which belong to employees which are required for the future as well as the growth of the same skills within others.

The implementation of a strategy within an organization has a high dependence on the particular type of structure of the entity. Understanding the organization’s structure has a fundamental bearing on how the strategy needs to be implemented due to the links and relationships between the various employees and the extent of what is done by various members (Groenewald et al., 2007: 152-153).

2.1.2.4 Organizational structures

The following organizational structures are explained:

Functional organization: the organization has various groups of employees working on similar work and specializes highly within a field of work. The employees in the various fields can focus on specific areas of work which allows them to specialize and have the competitive edge over competing organizations.

Geographic organization: the organization promotes its various goods within geographical areas locally or in foreign countries. This allows the organization to have a larger client base and increase turnover relative to competitors.

Divisional or strategic business unit organization: The organization has various divisions working together to supply a specific product or service. This strategy creates value by supplying in-house services to add to the value of the final product which is marketed to potential customers. Each can operate individually if required.
Matrix organization: The organization is of a large nature and has various divisions to which employees report. The employees belong to a functional group as well as a project team which is ultimately run by two different people. The matrix structure is focused on problem solving and allows more levels of expertise to be involved with lower levels of tasks.

Team organization: Organizations functioning in teams are the new type of horizontal organization with relation to management. All members of teams have various forms of expertise and are designed to solve problems without the annoyances of consulting various departments for inputs. Every employee has core abilities and by putting the various employees together, they create value. Team based organizations have the competitive edge on competitors due to the time reduction in solving problems.

Network organization: the organization creates strategic alliances with other entities to create value. This type of entity works up and down value networks in selecting the most effective materials and services by other organizations to create end products and services and in effect, being more competitive (Groenewald et al., 2007: 153-164).

It is a critical function within an organization to match the organization’s structure to its strategy. The activities which need to be changed are focused on and one of three methods can be used to exploit the change (Groenewald et al., 2007: 165), namely:

Restructure to emphasize support for strategically critical activities. There are strategically critical elements within every organization which need to be exploited. These items need to be separated from other systems and procedures during the strategy design process and must be put as core building blocks to the new strategy. When the implementation occurs, the critical activities need to be accentuated and implemented in such a way that the systems of the organization cannot function without them (Groenewald et al., 2007: 165-166).

Re-engineer strategic business processes: BPR is a systematic change of analysing the requirements of customers and re-engineering the entity’s systems to meet the client requirements. BPR is put in place to reduce the barriers between clients and the organization and in effect create value. Systems within the organization which have been seen as separate are compressed to become larger systems yet more integrated. This reduces lag time of information flow as well as well as reducing the resources to produce the requirements of the entity. The building blocks of BPR are based on taking traditional systems within an
organization which are analysed by multilevel managers within the business and redeveloped to create larger but more effective systems (Groenewald et al., 2007: 165).

Downsize, outsource, and self-manage: the reduction in employees, outsourcing and self-management tactics are all based on the principles of global economic key drivers of change. Fewer employees are required to do more work due to IT and systems control within organizations. Outsourcing is also one of the main reasons for downsizing within organizations. The mere principle of smaller entities specializing in items required by larger organizations remains the key and they are more effective at producing quality items. Smaller suppliers produce goods which larger organizations cannot compete with in terms of price which is why smaller entities are the chosen way of the 21st century. The principles of self-management have roots in organizations with flat, lean and highly responsive systems with innovation tactics. Organizations such as this are highly lucrative due to the ability of the entity to adapt quickly in the business environment as well as not being top heavy. E-commerce as well as internet technology has allowed entities to be more effective in creating value for clients (Groenewald et al., 2007: 166-167).

The following have been highlighted as challenges within the implementation of strategies in South Africa:

- Equality in the workplace
- Broad based black economic empowerment
- National development agendas
- Infrastructure and
- Shortage of managerial skills
  (Goldman et al., 2010: 25)

2.2 Procurement.

“The role of the contractor’s estimator is vital to the success of the organization” (Brook, 2008: 1-2). The estimator is ultimately responsible for pre-determining the cost of a project in the most economical approach. Along with this, the tender price given by the construction company still needs to be the lowest of all members competing to procure the project. The estimator will have a fair understanding of the current prices in the market, but ultimately top-level management will add the overheads of the organization, assess the risks in taking
the project on and add the profit needed for taking the responsibility to complete such a project (Brook, 2008: 1-2).

To be a good estimator, an individual embarking on a construction tender needs to have a fair understanding of the costs of materials, plant, equipment and the cost of labour to ensure that the job is procured at the correct values. A fair understanding of everyday site processes and the requirements of basic site operations is also required. Even though estimating is not an exact science, the tender department of a firm can get extremely close to actual costs if the necessary thought processes have been applied to the specific project (Cole, Griffin, Holm & Schaufelberger, 2005: 1).

The estimator of an entity will receive a set of information which will be required to be priced and submitted back to the principal agent of the relevant project within a specified timeframe. The first step of tendering is the analysis of the job given by the location, the soil conditions and the availability of materials and resources in the direct vicinity of the project. The project is broken up into packages of work and all these are broken down into elements and are then priced. These elemental prices are all added up in the end to develop a tender cost (Cole et al., 2005:3).

During the procurement process a quantity surveyor and a planning engineer can be invited to participate on the contractor’s behalf. The quantity surveyor will be responsible for ironing out any challenges in the design of a building, as well as preparing method statements for the completion of certain phases of work. The planning engineer will be responsible for the preparation of the construction programme and the assessment of the time allowed for completing the project. Assessments on time-saving techniques will also be considered (Brook, 2008: 2-3).

Construction organizations also make use of competitive tendering for survival. In cases such as this, continuous studies of producing buildings at cheaper costs are made. During the course of tendering, various procurement paths can be chosen in terms of construction contracts (Brook, 2008: 13). Buy or make studies in terms of outsourcing works are also considered due to possible cost cuts by sub-contractors (Make-or-buy decision (s.a.): 1).

The accuracy of a cost estimate will largely depend on the completeness of the specifications and design documents issued at the tender stage of the project. The completion of a cost estimate will include the proposed elements of the building. Elements such as concrete,
reinforcing, brickwork, services and all finishes will be considered in the estimate. Square metre rates and cubic metre rates will be developed to create unit prices of larger elements (Cole et al., 2005:5-7).

There are cases where only semi-detailed information is available where the estimator will use conceptual methods to estimate the costs. In cases such as this, provisional amounts can be measured due to uncertain circumstances such as foundations where drastic changes to costs could also occur (Cole et al., 2005:10).

In projects where detailed information is available, the following process is applied:

- The project drawings and bill are supplied by the client or the client’s representative
- The estimator divides the information up into work elements or tasks
- The tasks are then broken down into required elements to complete the tasks using the labour, plant and materials.
- The labour, plant and materials are then broken down into monetary costs and added together to develop unit costs
- All unit costs are added together to develop a project cost
- The owner of the organization allots the costs of resourcing the job with management including the amounts required for preliminaries and general costs.
- The owner finally adds the intended profit to take the risk on of concluding the projects which totals up the project price which is submitted to the client or his/her representative.
  (Cole et al., 2005:11).

There are various methods of pricing construction contracts. The clients decide on how much risk they would like to expose themselves to and then make a decision on the type of contract which will be entered into with the construction contractor. In descending order in terms of risk to the client, contracts vary from: cost plus; cost plus with guaranteed maximum price; unit price contracts; time and materials contracts and finally lump sum contracts.

- Cost plus contracts: used when the exact scope of work is unknown. The contractor and client agree on rates of works to be performed. The rates issued by the contractor will include the overhead and profit of each work element. The major risk to the client is the allotment of the scope of work to the material costs. The
contractor bears the risk of determining the required labour rates to generate money out of the issued labour rates.

- **Cost plus with guaranteed maximum price contracts:** these contracts have the same principles as time and materials contracts with the added benefit to the client that there is a limit to the cost of the project. Any cost going above the price stated when the contract was entered will be for the contractor’s account.

- **Unit price contracts:** these contracts are used when the volumes of work are not known but the basic elements of work can be defined. The actual price of the contract will only be determined when the contract is concluded.

- **Time and material contracts:** these contracts are generally agreed to in smaller projects. The client and contractor agree to rates where the material price and the cost of working the material into a final product are multiplied together. The contractor then finally adds his profit margin to the end of the bill.

- **Lump sum contracts:** contracts such as these are used when the scope of the work is known. This occurs when the client assembles a professional team to deal with various elements of a project to develop a package. This package will then be issued to contractors to price in a conventional tendering process where the lowest bidder will receive the contract. The contractor will then assume all risks to the project and hand the completed project over to a client when the building is fit for the purpose it was designed for. Elements pertaining to works beyond the scope of the tender documents will be dealt with during the project such as adverse weather claims and unplanned subsurface soil conditions (Cole et al., 2005:14-15).

Lump sum contracts can also be referred to as being the traditional method of tendering in principle. The client takes the project to an advanced level of design by selecting a professional team prior to the selection of the main contractor. Even though the designs will not be complete at the stage of tender, there will be enough information available to the contractors to enter effective bids to win the project (Brook, 2008: 19).

Brook (2008: 58) agrees with the above as mentioned by Cole et al. (2005:14-15), but reduces the methods of pricing to only three:

- **Fixed price contracts:** the contractor submits a price for the project based on tender drawings and a measured bill. The contract price can be increased under strict agreement within the contract should the scope of work change.
• Measurement contracts: the contractor will submit a schedule of rates required to complete the project. An approximate bill of quantities can also be used to enter into contract.

• Cost reimbursement contracts: the contractor will submit bills at the end of every fortnight or month which will reflect the costs that he incurred for the time period. This bill will include the materials purchased, the labour used, and the plant that was rented as well as the profit required which is agreed upfront with the contractor.

2.2.1 Procurement methods

Clients can use either a negotiated procurement process or a bid process to select a contractor for a specific project.

Negotiated contracts: the client can pre-select a contractor based on previous experience or any criteria which the client selects. Prior to the selection of a contractor, the client can short list the contractors with the highest rating elected at the pre-proposal conference. Once the contractor with the highest rating and the most effective price is selected, a contract can be administered (Cole et al., 2005:15-16).

Bid contracts: bid processes rely mainly on price. The contractors are in competition with one another to submit the lowest price on a project to win the project. The price can be a lump sum based contract, a unit price bid or a combination of the two methods. When all tenders are received by the client, the client may decide to award the contract to a specific contract or choose not to enter a contract at all (Cole et al., 2005:17-18).

Construction organizations inherently face many risks when entering into a construction project with a client. Some of these risks include:

• Adverse weather
• Labour inflation
• Material inflation
• Owners’ inability to finance the project
• Bankruptcy of subcontractors
• Incomplete design documents
• Project size
• Project location
• Labour shortage
• Labour productivity
• Project constructability and complexity  
  (Cole et al., 2005:17-18)

During the tender phase of a project, it is important for a construction contractor to assess the risks involved with the tender and procurement of a project. During the uncertain time of tender, it is important for the main contractor to allow for contingencies related to the risks of the project. The following can be used as contingencies for construction projects by contractors:

• Design contingencies: these deal specifically with the design of the building in question when the designs are not yet complete. These contingencies are reduced as the designs of a project develop.
• Escalation contingencies: these contingencies specifically deal with the potential increase in price of materials and labour during the design process of the project
• Estimation contingencies: used when the bill of a project has not been completely measured and some of the prices have not been obtained from subcontractor pricing.  
  (Cole et al., 2005:17-18)

2.3 Economic climate

Construction companies in South Africa have recently struggled under the mighty grip of a recession because, compared with other industries, it has been hit hardest by the effects (Construction firms seek growth elsewhere, 2011: 1).

There are three sectors which make up the construction industry. These are the government, corporate, and domestic spending sectors, all of which have shown negative growth within the economy in the months following the 2010 FIFA Soccer World Cup (Construction firms seek growth elsewhere in Africa, 2011: 1). The Web Article ‘Construction industry research report’ (2011: 1) agrees with the article ‘Construction firms seek growth elsewhere in Africa’ (2011: 1) stating that the FIFA Soccer World Cup, which was held in 2010, acted as a ‘cushion’ for the effects of the recession on the construction industry in South Africa due to the provision of jobs and positive stimulation. These jobs were identified as being highway
upgrades, infrastructure projects such as stadiums, the Gautrain project and accommodation projects.

Competitive tendering is used to determine tender allocations to contractors (Brook, 2008: 1-2). The number of construction projects has reduced during the past year, placing contractors under greater strain in the competitive market (Steyn, 2011: 1).

Brand-Jonker (2011: 1) stated that the construction industry in the Western Cape Province was lagging behind even though all other industries showed positive growth. The industry, which contributes 3.5% of the country’s economy, has retracted by 13% when compared with the position in 2010.

Group Five, one of the major construction organizations in South Africa, reported a 40-45% drop in share price compared to 2010 (Group Five Revises Earnings Forecasts, 2011: 1). The article, ‘AVENG Falls on SA, Overseas Challenges’ (2011: 1) concurs with this share price drop, stating that AVENG experienced a share drop of 35% when compared to 2010. The article also stated that the public infrastructure spending has declined by 30% since 2008. The article ‘WBHO hit by earnings dive’ (2011: 1) agrees with the above two reports, stating that Wilson Bailey Holmes-Ovcon also experienced a share drop during 2011, dropping 20.1% compared to 2010.

Strategic management involves the combination and interpretation of the standard survival strategies, as well as relating the organization to its direct environment. When all the information is put together, the board of directors of an organization will have a general understanding of the industry which they face and will make decisions on how they are going to combat the anticipated effects (Porter, 2004: 3).

First National Bank reported that the South African construction industry was at its highest during the first quarter of 2013 since 2009. The Bureau of Economic Research also stated that the drastic improvement from 36 base points during the fourth quarter of 2012 to 51 points in the first quarter of 2013 is an indication of improvements to come within the construction industry in future. Even though the industry has been under significant margin pressure over the past three years, there are signs of improvement with the rise of private projects as well as the increase in government spending in the construction industry (Construction confidence hits 4-year high, 2011: 1).
Allix (2013: 1) agrees with the statements made by the Bureau of Economic Research and adds that there will be stable economic growth within the South African construction industry until 2020. There will however still be some teething issues for the industry to get back into the full swing of business due to the high levels of consumer debt. Building Research Strategy Unit head, Llewellin Lewis, however stated that the construction and property industries respectively face a volatile and uncertain future. The industry is currently experiencing improved conditions and even though there are indications of stable growth up to 2020 these are just on the cards but not guaranteed.

2.4 Summary

Chapter Two of this treatise described the various strategies of organizations and the procurement of projects within the industry, also giving a brief description of the economic climate over the study period. The current economic climate within the construction industry was also indicated to prove that the 2013 situation needs to be excluded from the study.

The following chapter will deal with the research instrument and methodology of how data were captured and analysed.
CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The following chapter will cover the various schools of thought in conducting research. The research design, methodology and research instruments will be discussed, and the pertinent methods for this research will be selected to determine the successfulness of strategic management within the construction industry as well as the implementation thereof.

Research can be defined as a systematic approach of locating, collecting, analysing and interpreting data and information to find solutions to problems. In understanding the nature of the phenomenon in question, the researcher can create a better understanding of the problem which is faced by the general public on a daily basis and form improved solutions (Leedy & Ormrod, 2005: 2-3). There are various methods by which a researcher can structure his research design and there is no single way which can be proven to be correct (Leedy & Ormrod, 2005: 88). Gravett, Henning and Van Rensburg (2005: 99) agree with the statements made by Leedy and Ormrod (2005: 88), but add that the researcher needs to clearly identify the route used to complete the field research as well as why the steps were taken.

The process adopted by the researcher is explained by Leedy and Ormrod (2005: 87-94) using the following steps:

- Identify the main problem, sub-problems and hypotheses.
- Conduct a literature review to grasp a more holistic understanding of the problem at hand by what experts in the field have published.
- Conduct a research design where the planning of the research package is done.
- Introduce a research methodology of how the data will physically be captured and analysed.
- From the analysis of the data, findings are produced to test the hypotheses set up during the problem identification phase.
3.2 RESEARCH DESIGN

The research design of a treatise highlights the planning phase prior to conducting research. During this process, the researcher approaches the main problem in a manner that will isolate the required type of data which will in effect give rise to the ratification or rejection of hypotheses. It is important for the researcher not to confuse the research design with the research methodology. The research design encompasses the complete plan of what is required from the isolation of the problem up to the conclusions of the research (Leedy & Ormrod, 2005: 87).

It is of paramount importance for the researcher not to lose focus during the research design phase of a study. The researcher needs to be clear on what will be studied and what data will be required. It is common for researchers to be vague about what methods will be used to complete the research and also as common for the research covering a field too large to complete within the given timeframe (Bak, 2008: 25).

3.3 EMPIRICAL STUDIES

An empirical study can be defined as any research where the researcher enters the field to study a phenomenon and to gather data on the particular occurrence/s. Empirical studies do not encompass beliefs or theories and are used to study actual events occurring in real life settings (Cahoy, 2013: 1). Theoretical studies are considered to be the opposite of empirical studies and encompass research undertaken solely on the understanding of theories. During the study of theories, the consultation of literature is considered to be the main focus of the study and the researcher will not enter the field to study a phenomenon (Bak, 2008:25).

The most important feature to a treatise will remain the empirical data collection in the field due to the process being highly time consuming. Another reason for empirical data collection to be the main feature is that the data collection section is the most problematic. It is imperative for the researcher and the supervisor to remain flexible in the methods considered to collect data. The flexibility will be required due to the unpredictable nature of the field and because the required data are collected to test hypotheses (Bak, 2008:58).
3.4 QUANTITATIVE RESEARCH

Quantitative research encompasses studies incorporating the use of numerical analysis. All data captured in the field are reduced to numbers and will in effect be used to test hypotheses. Quantitative techniques are all bases calling for the employment of mathematical models and theories and are carefully designed prior to any data being collected. Quantitative studies focus on the use of large samples which will allow the researcher to generalize for the validation of a theory. All research can be guaranteed as being unbiased due to the researcher being completely detached from the capturing of the data (Leedy & Ormrod, 2005: 94-95).

The following steps are incorporated in the use of quantitative research:

- The researcher develops models and theories on what he expects to find within the field.
- The instrument for the measurement of data is identified and expounded
- An experimental control has to be highlighted prior to the study commencing
- The data are collected
- The data are analysed using various mathematical models
- The results are evaluated
  (Crossman, 2013: 1)

3.5 QUALITATIVE RESEARCH

Qualitative research methods differ quite drastically from one another; yet all methods have two things in common:

1. All qualitative methods are based on the study of a phenomenon occurring in a natural setting.
2. All phenomena are studied in their entire complexity and viewed from all angles. The studies are multi-layered and all dimensions of the studies are viewed as important.
  (Leedy & Ormrod, 2005: 133)

All qualitative studies rely on the researcher remaining as objective as possible due to the researcher becoming the research instrument whilst entering the field. Due to the nature of the questions being asked and the observations which are made, there are quite a number of
questions which start off as being open-ended and follow a formation process during the observation stage. Qualitative approaches are chosen in the following instances:

**Description:** when a fair amount of description is required for situations, processes, relationships, systems and people.

**Interpretation:** qualitative studies allow the researcher to describe new concepts and give new insight on perspectives of a phenomenon being studied.

**Verification:** validity of assumptions, claims and theories is easily tested.

**Evaluation:** they provide a means through which the researcher can judge the effectiveness of policies, practices and innovations.

(Leedy & Ormrod, 2005: 133-135)

### 3.6 RESEARCH METHODOLOGY

The research methodology can be defined as the process by which a researcher collects data and information for the purpose of analysis and decision making. Various methodologies such as surveys and interviews are, amongst others, available to the researcher. The methodology may include current data as well as the use of historical data (Research methodology, (s.a.): 1). Even though there is no single correct research methodology for any research, there are methodologies which will be simpler than others to use to conduct research in specific fields (Leedy & Ormrod, 2005: 88).

### 3.7 THE DATA

Mouton (2009: 99) explains four classifications of data:

1. **Observation:** participant observation in natural field settings. A systematic observation technique can also be conducted in controlled environments or laboratory settings.
2. **Self-reporting:** also known as indirect observation. In this technique personal or group interviews can be held. Mail and electronic surveys can be considered as self-reporting. Later techniques have also shown that telephone interviews can also be used.
3. Archival/documentary sources: historical documents, diaries, letters, speeches, literary texts, narratives, official memoranda, business reports, annual reports, medical records etc. can be used as data.

4. Physical sources: any tangible item can be regarded as a physical source. Examples are blood samples, tissue samples, materials etc.

3.8 PRIMARY DATA

The primary data in research terms refer to the data required to test hypotheses. These data need to be collected in the field and can be numeric or textual depending on whether the study is based on quantitative or qualitative research (Mouton, 2009: 71).

3.9 SECONDARY DATA

Secondary data refer to the information required for the researcher to gain a holistic understanding of the main problem and sub-problems prior to entering the field to collect primary data. The secondary data are not used to test hypotheses and are located in written sources (Mouton, 2009: 71).

3.10 THE RESEARCH METHOD

The research method in the present study took the form of a descriptive survey. Therefore, an empirical quantitative study had to be conducted where numeric data were used as primary data to test hypotheses. The researcher had medium control over the study as a whole. The primary data were retrieved by the use of a structured questionnaire conducted by the researcher with the study sample (Mouton, 2009: 152-153). Research was conducted on three groups of main contracting firms. These were listed as ‘small contractors’, ‘medium-sized contractors’ and ‘large contractors’. The three groups of contractors were listed as GB7, GB8 and GB9 main contracting firms which correlate with the Construction industry Development Regulations, 2004 (as amended) as at 14 November 2008 project size capability ratings (Construction industry Development Regulations, 2008: 15-18). Information was gathered in the field to determine the following:

- Do all construction companies use the same strategic management tactics and which are the most popular in recent times?
Has the number of main contracting firms using turnaround strategies reduced or increased from 2010 up to and including 2012 in terms of year-on-year figures?

Has the implementation of strategies been effective within construction organizations in the Eastern Cape Province from August 2010 up to December 2012?

3.11 THE TARGET POPULATION

The target population consisted of construction organizations within the small, medium and large-sized firm brackets in the Eastern Cape Province of South Africa. Contractors within these brackets were located by contacting the Master Builders Association (MBA) as well as the Construction Industry Development Board (CIDB). The grading of the main contracting firms was done using the GB ratings of the CIDB (Construction Industry Development Regulations, 2008: 15-18). The information was gathered from each sample individually and various sized contractors were analysed within each bracket prior to the combined analysis of all contractors together:

GB7 Main contractors: project values ranging between R13million and R40million

GB8 Main contractors: project values ranging between R40million and R130million

GB9 Main contractors: project values ranging from R130million and larger projects.

(Construction Industry Development Regulations, 2008: 15-18)

3.12 THE STUDY SAMPLE

According to Kele, Lombaard, Mouton and Van der Merwe (2012: 8), a population can be defined as a group of items or people where data can be located for analysis during a study. This population may be very large or very small but it remains challenging to have all members of a population involved in a single study. When a large population is considered, the researcher can gather enough information from a population by sampling from it. This means that the researcher does not need to have the complete population involved to draw significant conclusions the following has been used to explain why researchers employ samples:

- To complete a census is costly. The population may be very large requiring travelling over long distances and hiring of extra personnel to complete the work.
A census might take longer than whatever the allowable timeframe for the study might be.

The study will take longer than a reasonable time to complete.

It might not be possible to reach all relevant members of the population due to a section of them being inaccessible.

Due to the population sample being too big when conducting a census, the information might prove to be inaccurate due to the administrative errors which could be made. (Kele et al., 2012: 8)

A representative quantity can be defined as the threshold number of respondents which can be used as a minimum for a researcher to develop findings. A representative quantity for this study can be a response rate over 50% of the study sample due to the sample size being less than 500 in total (Leedy & Ormrod, 2005: 207).

There are two known sampling techniques to which a researcher can conform:

Probability sampling: with this method, each constituent of the population has a known chance as being selected as part of the study. This allows the researcher to have freedom from sampling bias when collecting data from the field required for the study (Kele et al., 2012: 10).

The following are listed by Kele et al. (2012: 8) as random sampling methods:

- Simple random sampling
  The process of using a subset of a large population when all members have an even possibility of being chosen.

- Stratified sampling
  The process of separating a population into homogenous sub-populations prior to sampling. All members have an even possibility to be chosen within the sub-sets.

- Systematic sampling
  The process of selecting to capture data from planned elements in an ordered sampling frame.

Non-probability sampling: the process of not selecting samples of a population at random is known as non-probability sampling (Kele et al., 2012: 17).
The following are listed by Kele et al. (2012: 17) as non-probability sampling methods:

- **Convenience sampling**
  The process of sampling the most convenient or accessible members within a target population.

- **Quota sampling**
  The process of separating a population into homogenous sub-populations prior to sampling. The researcher then uses judgement within every sub-population to select the sample group.

- **Judgement sampling**
  The process of selecting a sample using a level of bias due to expertise in a specific field of study.

- **Snowball sampling**
  The process by which the first selected population for a study recruit the future elements of a study sample.

Due to cost and time constraints, the study sample for this research was small, medium and large construction firms within the Eastern Cape Province of South Africa.

### 3.13 THE RESEARCH INSTRUMENT

A structured questionnaire was administered by the researcher to the study sample along with a covering letter. The covering letter stated the purpose of the research and guaranteed that the information given by the respondents would be treated as confidential and that no names would be mentioned in the research. A 5-point Likert scale was used to get the opinions of respondents and to analyse the results of the research.

Likert scales are effective when behaviours and characteristics are evaluated in a study. Rating scales are used when a phenomenon is quite complex where numbers can be used to quantify results (Leedy & Ormrod, 2005: 185). Wegner (2012: 11) agrees and adds that Likert scales can be used to measure a sample’s attitudes, preferences and even perceptions, it is used for the study of interval data and respondents are requested to indicate how strongly they feel regarding statements or questions.

For the purposes of this research, the following sections were included in the questionnaire:
Section 1 determined the demographic details of the organizations and the individual completing the questionnaire.

Section 2 was based on questions relating to the main problem, sub-problem and hypotheses of the study. The questions related to hypothesis one were questions 1.1 to 1.9. Similarly, the questions relating to hypothesis two were questions 2.1 to 2.8 and finally, the questions relating to sub-problem three were questions 3.1 to 3.7. The research questionnaire has been listed as appendix B.

Leedy and Ormrod (2005: 185) describe the following 12 guidelines as being effective during the preparation of questionnaires for quantitative empirical studies:

1. Keep questions short but effective.
2. Use simple and unambiguous language when preparing questions.
3. Do not use unwarranted assumptions in the preparation of your questions.
4. Insure that no questions have any clues regarding the preferred answer.
5. Ensure that the consistency of question design remains constant.
6. Determine how the responses will be coded prior to the responses being returned.
7. Structure the questionnaire to use the minimum time of the respondent.
8. Provide clear instructions of what the respondent needs to do.
9. If there is any item which is unclear, ensure that information is given regarding this.
10. Make sure that all questions are attractive and professional looking.
11. Conduct a pilot test.
12. Ensure that all questions which are sent out give the desired results.

Surveys have been described to be the most effective and most commonly used method of gathering data in the field. There are various methods of conducting surveys but the most common are personal interviews, telephone interviews and E-surveys (Wegner, 2012: 15).

The advantages of E-surveys are:

- The system of gathering data is automated mitigating the risk of data capturing errors.
- E-surveys are cheaper and faster than personal interviews.
- The ability to reach local, national and international populations for studies becomes possible.
- The data are described as current and will be of high quality.
• The researcher is removed from the equation which eliminates any element of bias.
• The anonymity of the sample population is preserved allowing the respondents to be more honest about the questions.
  (Wegner, 2012: 16)

The disadvantages of E-surveys are:

• The lack of personal communication allows the respondent to lose interest in the survey.
• There are relatively low response rates.
• The researcher cannot clarify the questions if the respondents have difficulties in understanding the questions.
• Survey questionnaires must be short and complete for them to be effective in the field.
• The opportunity to investigate a topic further is quite limited.
  (Wegner, 2012: 16)

Personal interviews with face-to-face contact allow for the following advantages:

• A higher response rate can be achieved.
• Probing for reasons behind answers is made possible.
• The data are current and generally more accurate.
• They allow the questioning to be of a more technical nature due to questions being described.
• The questions can be re-worded.
• Non-verbal responses have been made possible such as body language.
  (Wegner, 2012: 15)

The disadvantages of personal interviews are regarded as the following:

• Conducting interviews are time consuming
• The interviews are expensive, taking travelling costs and training interviewers into account.
  (Wegner, 2012: 15)
3.14 QUESTIONNAIRE ADMINISTRATION

The contact information of main contractors in the Eastern Cape Province was derived from the MBA as well as the CIDB.

A pilot test with ten members of the population was done during July 2013. Email messages were sent to various members with a request to complete the questionnaire. The researcher then requested that the questionnaires be sent back. After three weeks without any responses from the sample population, the method of sending email questionnaires to the target population was found to be ineffective. The survey method was changed to a structured interview where the researcher entered the field and put the questions to the target sample. The questions of the initial survey were not changed.

Questionnaires were analysed by calculating the means of respondents’ ratings. The mean totals for GB7, GB8 and GB9 were calculated separately during the analysis and then evaluated as a whole to understand the phenomenon in its entirety.

3.15 SUMMARY

For this study, the descriptive quantitative research approach was used. The study can be defined as an empirical study due to the researcher entering the field to observe a phenomenon and capture data. The process started with an in-depth literature review of the construction economy in South Africa. Along with the study of economics, business strategic management principles and competitive tendering were introduced to form a solid foundation for the study of the construction industry in the Eastern Cape Province of South Africa.

The study then followed into the second phase where a survey was done on the construction industry where data were collected and analysed to support or reject hypotheses. The survey was forwarded to main contractors in the Eastern Cape Province of South Africa to evaluate the construction industry.

The following chapter will deal with the analysis and the interpretation of the results found in the field study.
CHAPTER 4

RESULTS, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter describes the administration and analysis of the research instrument to produce findings. This chapter will in effect indicate the strategic management concepts which main contracting firms incorporated into their businesses in the Eastern Cape Province during the time frame between August 2010 and December 2012. These findings will be processed, analysed and tested to test the hypotheses at the conclusion of the chapter.

4.2 RESPONSES

4.2.1 Response Rate

During the pilot study, ten research questionnaires were emailed to which 0% of the population responded after two weeks. The method of data collection was altered to an interview with the population sample members independently to increase the response rate. The use of face-to-face interviews is more effective in achieving higher response rates even though they are more costly (Leedy & Ormrod, 2005: 184-185). The questionnaire which was initially sent out was used to provide a structured interview and respondents were requested to shed light on how strongly they felt regarding the questions on a Likert scale. A total number of 22 main contracting firms were interviewed out of a total of 34 main contracting firms operating in the Eastern Cape Province of South Africa. The data capturing process took a total of four weeks. The researcher focused on the East London and Nelson Mandela Bay regions respectively in the Eastern Cape Province where the majority of the GB7, GB8 and GB9 study sample contractors were located. The research instrument can be seen as Appendix A and the list of contractors can be seen in Appendix B. Table 4.1 indicates the response rates relative to the GB ratings according to the Construction Industry Development Board (CIDB):

A final response rate of 61% was achieved which is considered as being a representative response rate. The response rates for the contractors groups were GB7 contractors 61%, GB8 contractors 58% and GB9 contractors 67%. Leedy and Ormrod (2005: 193) describe a response rate of 50% to be acceptable for a study.
Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>GB Rating</th>
<th>No. of respondents</th>
<th>Population size</th>
<th>Response %</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB7</td>
<td>11</td>
<td>18</td>
<td>61</td>
</tr>
<tr>
<td>GB8</td>
<td>7</td>
<td>12</td>
<td>58</td>
</tr>
<tr>
<td>GB9</td>
<td>4</td>
<td>6</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>36</td>
<td>61</td>
</tr>
</tbody>
</table>

Further analysis showed that main contracting firms based in East London had a higher response rate, reflecting willingness to be involved in a study of the construction industry. A total of 92% of contractors located in East London participated in the study relative to 56% of contractors based in Port Elizabeth.

The average working experience of the respondents was 19 years in the construction industry. A high average experience rate indicates a high level of expertise in the construction field and proves that the information gathered will hold good for representative respondents.

Table 4.2: Level of management

<table>
<thead>
<tr>
<th>Category</th>
<th>Project manager</th>
<th>Contracts manager</th>
<th>Director</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB7</td>
<td>0</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>GB8</td>
<td>0</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>GB9</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>9</td>
<td>12</td>
<td>22</td>
</tr>
</tbody>
</table>

Table 4.2 depicts a high level of contracts managers and directors used as sources of data. Higher level management allowed the researcher to receive detailed information pertaining to the strategies of each organization as well as the methods by which the organizations implement systems within the entities.

4.3 RESULTS OF THE SURVEY

The following section will deal with the analysis of the data collected in the field for the purposes of the study. All feedback from questions was congregated relative to each sub-problem prior to the testing of hypotheses. The analysis was conducted by means of calculating the mean of each question/statement by using a Likert scale to determine how strongly the population felt regarding the question/statement.
The mean can be defined as the value found when adding all respondent values up and dividing the total by the number of respondents (Keller, 2005: 90). The mean was used to determine the general consensus of respondents relative to the questions asked during the interviews.

The following scale was used during the analysis of mean ratings:

Table 4.3: Mean analysis ratings

<table>
<thead>
<tr>
<th>Mean Analysis:</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>&gt;1.0 – ≤1.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>&gt;1.8 – ≤2.6</td>
</tr>
<tr>
<td>Neutral</td>
<td>&gt;2.6 – ≤3.4</td>
</tr>
<tr>
<td>Agree</td>
<td>&gt;3.4 – ≤4.2</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>&gt;4.2 - ≤5.0</td>
</tr>
</tbody>
</table>

4.4 SUB-PROBLEMS

4.4.1 Sub-problem 1

The following analysis related to the sub-problem ‘standard survival strategies used in the construction industry are not being exploited sufficiently’.

The hypothesis being tested states that ‘Standard survival strategies are effective in keeping construction companies’ doors open during challenging economic times’.

Respondents were requested to answer the questions relative to how strongly they felt on the use of various strategies within their organizations. The conventional strategies were highlighted in the questions in Table 4.5 below as well as the ratings from respondents.

All (100%) of the sample population responded to all the questions which were asked during the interview in section 1.

4.4.1.1. Results for sub-problem 1

Respondents were requested to indicate their opinion relative to the statements on the following scale: 1= strongly disagree (SD); 2= disagree (D); 3= neutral (N); 4= agree (A), 5= strongly agree (SA); 6= unsure (U).
Table 4.4 Results for sub-problem 1

<table>
<thead>
<tr>
<th>#</th>
<th>Strategy:</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Total</th>
<th>GB7</th>
<th>GB8</th>
<th>GB9</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SD</td>
<td>D</td>
<td>N</td>
<td>A</td>
<td>SA</td>
<td>U</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>GB7</td>
<td>GB8</td>
<td>GB9</td>
<td>All</td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Tendering in foreign/new areas to the organization has been effective in keeping doors open</td>
<td>9.09</td>
<td>40.90</td>
<td>9.09</td>
<td>19.18</td>
<td>22.72</td>
<td>0.00</td>
<td>100</td>
<td>3.29</td>
<td>2.64</td>
<td>3.75</td>
<td>3.05</td>
</tr>
<tr>
<td>1.2</td>
<td>Tendering on different types of work i.e. residential/commercial/industrial has been effective in keeping doors open</td>
<td>4.55</td>
<td>18.18</td>
<td>4.55</td>
<td>40.90</td>
<td>31.81</td>
<td>0.00</td>
<td>100</td>
<td>3.71</td>
<td>4.00</td>
<td>3.25</td>
<td>3.77</td>
</tr>
<tr>
<td>1.3</td>
<td>Entering into contract with other main contracting firms i.e. joint ventures, has been effective in keeping doors open</td>
<td>22.73</td>
<td>22.73</td>
<td>0.00</td>
<td>36.36</td>
<td>18.18</td>
<td>0.00</td>
<td>100</td>
<td>2.71</td>
<td>3.27</td>
<td>3.00</td>
<td>3.05</td>
</tr>
<tr>
<td>1.4</td>
<td>Buying into other businesses that do the same work as your organization has been effective in keeping doors open</td>
<td>22.73</td>
<td>50.00</td>
<td>13.63</td>
<td>4.55</td>
<td>4.55</td>
<td>0.00</td>
<td>100</td>
<td>2.29</td>
<td>2.27</td>
<td>1.50</td>
<td>2.14</td>
</tr>
<tr>
<td>1.5</td>
<td>Buying into firms that do work which complements your organization such as subcontractors and suppliers has been effective in keeping doors open</td>
<td>13.63</td>
<td>31.82</td>
<td>9.09</td>
<td>22.73</td>
<td>22.73</td>
<td>0.00</td>
<td>100</td>
<td>2.86</td>
<td>3.45</td>
<td>2.50</td>
<td>3.09</td>
</tr>
<tr>
<td>1.6</td>
<td>Buying into businesses that do not have any link to your core construction business has been effective in keeping doors open</td>
<td>18.18</td>
<td>50.00</td>
<td>9.09</td>
<td>13.63</td>
<td>9.09</td>
<td>0.00</td>
<td>100</td>
<td>2.29</td>
<td>2.09</td>
<td>3.75</td>
<td>2.45</td>
</tr>
<tr>
<td>1.7</td>
<td>Managing the business strategy is effective in boosting profitability within an organization</td>
<td>0.00</td>
<td>4.55</td>
<td>0.00</td>
<td>31.82</td>
<td>63.63</td>
<td>0.00</td>
<td>100</td>
<td>4.43</td>
<td>4.45</td>
<td>5.00</td>
<td>4.55</td>
</tr>
<tr>
<td>1.8</td>
<td>The reassessment of strategic goals needs to be done on an annual basis</td>
<td>0.00</td>
<td>4.55</td>
<td>0.00</td>
<td>27.27</td>
<td>68.18</td>
<td>0.00</td>
<td>100</td>
<td>4.00</td>
<td>4.45</td>
<td>5.00</td>
<td>4.59</td>
</tr>
<tr>
<td>1.9</td>
<td>The analysis of the company’s corporate strategy is not important for the organization to survive</td>
<td>50.00</td>
<td>22.73</td>
<td>4.55</td>
<td>13.63</td>
<td>9.09</td>
<td>0.00</td>
<td>100</td>
<td>2.00</td>
<td>2.18</td>
<td>2.00</td>
<td>2.09</td>
</tr>
</tbody>
</table>
4.4.1.2. GB7 Construction organizations

GB7 construction entities are organizations specializing in projects with contract values ranging from R13m to R40m according to the CIDB. Organizations with a GB7 rating responded with a mean rating of 3.29 (‘neutral’) for tendering in foreign and new markets within the construction industry. GB7 rated organizations also agreed that tendering on different types of projects such as residential, commercial and industrial projects is effective in keeping doors open (MS 3.71). This means that these entities would rather tender on projects in different industries within their target geographical area than constructing building projects which they specialize in, in new geographical areas.

Main contracting firms operating within the GB7 construction industry responded neutrally (MS 2.71) on the activity levels of joint venturing within the construction industry. This proves a fair level of activity within the industry but not enough to produce any conclusive results.

GB7 rated organizations ‘disagreed’ with the questions relating to buying into other main contracting firms. A mean score of 2.29 (‘disagree’) indicates that these organizations did not consider mergers and acquisitions of other construction organizations during the time period from August 2010 to December 2012.

The question concerning related diversification (Q1.5) received a ‘neutral’ response following the computation of results. A mean score of 2.86 (‘neutral’) was obtained for purchases from sub-contractors and suppliers which complement the construction organization. These mean ratings indicate that there is a fair level of activity between main contractors investing in sub-contractors and suppliers as well as entering into joint venture agreements to keep afloat during harsh economic times. The ratings however do not constitute any significant findings that can be proven.

GB7 organizations did not enter into contracts with organizations beyond the construction industry during the timeframe August 2010 to December 2012. MS 2.29 (‘disagree’).

A mean score of 4.43 (‘strongly agree’) was computed for the management of the business strategy (Q1.7). This means that the majority of respondents ‘strongly agreed’ that the management of the business strategy is effective in boosting the profitability of the organization. It can also be deduced from this question that the construction organization can reassess its business strategy to keep remaining competitive during challenging economic
times. A mean score of 4.00 (‘agree’) was calculated within the GB7 rated organizations relating to the annual reassessment of strategic goals (Q1.8). This means that the sample group of main contractors agreed that the strategic goals need to be assessed on an annual basis. Due to the nature of the research instrument being an unstructured interview, the respondents also added that the frequency needs to be increased to quarterly and not annually even though the population concurred with the fact that it is imperative that the reassessment of strategic goals needs to be done. Question 1.9 was included to test the consistency of the sample group. The question was in negative format and questioned the main contractors’ views on the importance of the corporate strategy of the organization. A mean of 2.00 (‘disagree’) was received and indicates that the sample population agreed with the statement that the corporate strategy was important.

4.4.1.3. GB8 construction organizations

GB8 construction organizations are construction companies that specialize in construction projects ranging from R40 million up to R130 million contract value.

A ‘neutral’ score of 2.64 was computed for the use of tendering in foreign/new areas to the organization by GB8 contractors. Tendering on different types of work within the same geographical area indicated a mean score of 4.00 (‘strongly agree’) which indicates that the sample population strongly agrees with the statement.

Question 1.3 relating to contractors entering into joint venture contracts with other main contractors indicated a mean score of 3.27 (‘neutral’). This means that there was a level of activity within the industry but not enough to create any conclusive findings.

GB8 organizations ‘disagreed’ that the use of mergers was effective between August 2010 and December 2012. This verifies that GB8 construction entities did not purchase any competitors within their industry or any other organization not linked to core construction work in any manner. The use of mergers indicated a mean score of 2.27.

From the analysis of the questionnaire it can be shown that GB8 construction entities used related diversification as a method of keeping the organization afloat. The mean value for the acquisition of sub-contractors and suppliers computed to 3.45.

GB8 contractors ‘disagreed’ with buying into other businesses that do not have any link to the organization during the study timeframe (MS 2.09).
The organizations which were interviewed within the GB8 section all ‘strongly agreed’ that the business strategy needs to be assessed on an annual basis (MS 4.45). The GB8 group also ‘strongly agreed’ with the business strategy negatively affecting profitability if not managed properly (MS4.45). The population sample also ‘disagreed’ with the statement of the business strategy being unimportant for the organization to survive (MS 2.18).

4.4.1.4 GB9 construction organizations

GB9 construction companies are entities that specialize in the construction of buildings with contract values of R130 million and larger projects. From the results indicated in Table 4.5, it is clear that GB9 construction organizations increased the geographical footprint to locate jobs large enough to conduct work. Geographic footprint enlargement yielded a mean score of 3.75 (‘agree’).

GB9 construction entities revealed ‘neutral’ scores (MS 3.25) regarding the tendering for different types of work due to the fact that they are able to produce residential, commercial and industrial projects. The only items which changed were indicated as being the percentages of the three different types of work. GB9 construction organizations also indicated a ‘neutral’ score (MS 3.00) when the use of joint venturing was questioned. This proves that there is a certain level of activity by these companies when it comes to joint venturing but it was not indicated as being effective by all entities.

GB9 organizations ‘strongly disagreed’ (MS 1.50) with the use of mergers with other main contracting firms. The use of related diversification within the construction industry was also disagreed with. The mean score for the securing of sub-contractors and suppliers totalled up to a mean of 2.50 (‘disagree’) indicating only a minor level of activity in the industry.

GB9 organizations ‘agreed’ (MS 3.75) on the use of unrelated diversification investing in organizations not linked to the construction companies’ core business to remain lucrative during challenging economic times. GB9 construction entities ‘strongly agreed’ (MS 5.00) with both statements regarding the business strategy directly affecting the profitability of the organization, as well as that the reassessment of strategic goals required assessment on an annual basis. A mean score of 5.00 proves that there were no deviations within the sample group of GB9 contractors. The study sample ‘disagreed’ with the statement regarding the corporate strategy not having an impact on the survival of the organization (MS 2.00).
4.4.1.5. GB7; GB8 and GB9 combined analysis

Main contracting firms in the Eastern Cape Province produced a spectrum of results with regard to organizational strategies in the time frame from August 2010 up to December 2012. From the results indicated in Table 4.5 it can be seen that the main strategic route taken by all contractors within the Eastern Cape Province was market diversification where a mean score of 3.77 (‘agree’) was computed. Main contracting firms would rather work on different types of projects in their own geographical area than any other strategy. The strategy of acquiring other main contracting firms also known as mergers was found to be the most uncommon of the strategies used by construction companies. (MS 2.14, ‘disagree’). The remaining questions within section one of the research instrument produced ‘neutral’ average mean scores which could not produce further findings.

4.4.1.6 Testing of Hypothesis 1

Table 4.5 Testing hypothesis 1

<table>
<thead>
<tr>
<th>Q</th>
<th>Strategy</th>
<th>Support</th>
<th>Reject</th>
<th>Inconclusive</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Tendering in foreign/new areas to the organization has been effective in keeping doors open</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>1.2</td>
<td>Tendering on different types of work i.e. residential/commercial/industrial has been effective in keeping doors open</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>Entering into contract with other main contracting firms i.e. joint ventures, has been effective in keeping doors open</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>1.4</td>
<td>Buying into other businesses that do the same work as your organization has been effective in keeping doors open</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>1.5</td>
<td>Buying into firms that do work which complements your organization such as sub-contractors and suppliers has been effective in keeping doors open</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>1.6</td>
<td>Buying into businesses that do not have any link to your core construction business has been effective in keeping doors open</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>1.7</td>
<td>Managing the business strategy is effective in boosting profitability within an organization</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>The reassessment of strategic goals needs to be done on an annual basis</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9</td>
<td>The analysis of the company’s corporate strategy is not important for the organization to survive</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Hypothesis 1 states that ‘standard survival strategies are effective in keeping construction companies’ doors open for business during challenging economic times’.
On the assessment of the questions from 1.1 to 1.6 of the research instrument, it can be shown that each construction entity did have a strategic plan due to every question relating to a specific strategic plan being answered by the complete study sample.

All the respondents ‘strongly agreed’ with statements 1.7 and 1.8. Main contractors indicated that the business strategy was effective in boosting profitability of the organization and that strategic goals needed to be assessed on an annual basis. The analysis of question 1.9 showed that all main contractors ‘agreed’ that the company’s corporate strategy was important for the survival of the organization. Four statements supported, two statements rejected and three statements were inconclusive.

Hypothesis 1 is therefore supported.

4.4.2 Sub-problem 2

The following analysis relates to the sub-problem ‘There is a shortage of construction work in the Eastern Cape Province of South Africa’.

The hypothesis being tested states that ‘Turnaround strategies have been effective in keeping construction companies’ doors open during strident economic times’.

Respondents were requested to answer the questions relative to how strongly they felt about the various methods and systems implemented when a turnaround strategy is introduced. The various aspects of turnaround strategies were highlighted in the questions in Table 4.6 below.

All the respondents answered all questions except question 2.6 which was answered by only 70% of the respondents.

4.4.2.1 Results for sub-problem 2

Respondents were requested to state their opinion on statements using the following scale:

1= strongly disagree; 2= disagree; 3= neutral; 4= agree 5= strongly agree; 6= unsure.
Table 4.6 Results for sub-problem 2

<table>
<thead>
<tr>
<th>#</th>
<th>Strategy:</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Total</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SD %</td>
<td>D %</td>
<td>N %</td>
<td>A %</td>
<td>SA %</td>
<td>U %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Building construction work decreased in the Eastern Cape following</td>
<td>4.55</td>
<td>18.18</td>
<td>0.00</td>
<td>18.18</td>
<td>50.00</td>
<td>9.09</td>
<td>100</td>
<td>3.60</td>
</tr>
<tr>
<td></td>
<td>the conclusion of the FIFA soccer world cup 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>Competition between main contracting firms has increased for building</td>
<td>0.00</td>
<td>4.44</td>
<td>4.55</td>
<td>13.63</td>
<td>77.27</td>
<td>0.00</td>
<td>100</td>
<td>4.64</td>
</tr>
<tr>
<td></td>
<td>projects since 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>Reduction of profit margins was effective in the procurement of building</td>
<td>0.00</td>
<td>9.09</td>
<td>0.00</td>
<td>22.73</td>
<td>68.18</td>
<td>0.00</td>
<td>100</td>
<td>4.36</td>
</tr>
<tr>
<td></td>
<td>projects since 2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Reduced P&amp;G amounts on projects have been effective in procuring building</td>
<td>0.00</td>
<td>9.09</td>
<td>13.63</td>
<td>36.36</td>
<td>40.90</td>
<td>0.00</td>
<td>100</td>
<td>4.36</td>
</tr>
<tr>
<td></td>
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<td>Please indicate which of the following has been implemented in your</td>
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<td>31.82</td>
<td>4.55</td>
<td>27.27</td>
<td>13.63</td>
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<td>100</td>
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<td>2.5.2</td>
<td>Profit margin lowering</td>
<td>0.00</td>
<td>13.63</td>
<td>0.00</td>
<td>45.45</td>
<td>36.36</td>
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<td>2.5.4</td>
<td>Selling plant and land not required for core work</td>
<td>9.09</td>
<td>40.90</td>
<td>9.09</td>
<td>27.27</td>
<td>9.09</td>
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<tr>
<td>2.5.5</td>
<td>Boosting turnover rather than focusing on high profits</td>
<td>4.55</td>
<td>13.63</td>
<td>18.18</td>
<td>27.27</td>
<td>40.90</td>
<td>4.55</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>4.57%</td>
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<td>2.7</td>
<td>There has been a drastic change in your organization’s strategy from 2010</td>
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<td>9.09</td>
<td>13.63</td>
<td>31.82</td>
<td>36.36</td>
<td>4.55</td>
<td>100</td>
<td>3.60</td>
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<td>to 2012</td>
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<td></td>
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<td>3.90</td>
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<tr>
<td>2.8</td>
<td>The organization is still focusing on main contracting as the core</td>
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<td>0.00</td>
<td>0.00</td>
<td>40.90</td>
<td>59.09</td>
<td>0.00</td>
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<td>4.29</td>
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<td>4.75</td>
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<td>4.59</td>
</tr>
</tbody>
</table>
4.4.2.2. GB7 Construction organizations

GB7 construction organizations ‘agreed’ with the statement that building construction work decreased following the conclusion of the FIFA Soccer World Cup in the Eastern Cape Province. The mean score of 3.60 was computed. This question was asked to reiterate the fact that there was a shortage of construction work in the Eastern Cape Province during the study timeframe. Hypothesis 2 is directly related to a period where there was a shortage of construction work and could not be tested otherwise. Turnaround strategies are methods in which entities can release resources in such a way as to keep a business afloat during challenging economic times.

All respondents within the GB7 range of contractors ‘agreed’ with the statement that competition for construction work increased between main contractors during August 2010 and December 2012 (MS 4.64). This shows that there was a reduction in the number of construction projects available to main contracting firms operating in the Eastern Cape Province.

Respondents ‘strongly agreed’ that the reductions in profit margins for projects (MS 4.36) as well as the reductions in preliminary and general (P&G) amounts were effective in the procurement of building projects (MS 4.36). The reduction in profit margins and the reduction of P&G amounts are conventional strategic methods of introducing a turnaround strategy within the organization.

Respondents within the GB7 organizations remained ‘neutral’ regarding the retrenchment of personnel as well as selling unused plant and land. On inspection of the results found within the industry, there was some activity in the retrenchment of personnel (MS 3.09). Retrenchment was found to be the least effective method of turnaround strategy within the construction industry during the timeframe between August 2010 and December 2012 in the Eastern Cape Province.

GB7 construction organizations also ‘strongly agreed’ that the strategic realignment of resources was effective when a downturn in the construction economy was at hand. Employees are used in different positions within the construction company while waiting for the industry to improve (MS 4.00). The use of the above method indicates that construction entities would rather reduce profit margins and take smaller risks during economically
questionable times. This indicates that these organizations would rather keep their employees than retrench personnel and make higher profits.

The sale of plant and land produced a mean score of 3.18 indicating that respondents were ‘neutral’ regarding the sale of land and plant within the GB7 construction industry during the study timeframe.

The study sample responded ‘neutral’ to the question of the strategy of boosting turnover rather than focusing on high profit projects being an effective method to remain open for business during challenging economic times (MS 3.19). Respondents ‘agreed’ with the statement regarding drastic changes which occurred in their strategic plans during the study timeframe (MS 3.60). The drastic changes within the industry can be reinforced by the average profit margin drop being 5% within the GB7 construction industry.

GB7 organizations also ‘strongly agreed’ with the statement that the organization is still focusing on building construction projects as their core business (MS 4.72).

4.4.2.3. GB8 construction organizations

Construction entities ‘strongly agreed’ with the following statements:

- Construction work decreased following the conclusion of the FIFA Soccer World Cup in 2010 (MS 4.67).
- The competition between construction entities increased during the timeframe between August 2010 and December 2012 (MS 4.71).
- The reduction of profit margins was effective in keeping doors open as can be shown by the strong agreement of the population (MS 4.71).
- The reduction in P&G overhead costs assisted in the successful procurement of construction projects during the timeframe between August 2010 and December 2012 (MS 4.29).

GB8 construction organizations responded ‘neutral’ to the statement that the use of retrenchment tactics was effective in keeping the organization open for business (MS 3.00). This indicates that there was a fair level of retrenchment which happened within the GB8 construction industry but not enough to draw any significant conclusions.

GB8 main contracting firms ‘agreed’ about the strategic realignment of resources (MS 4.14). This indicates that the employees of these entities play a fairly important role for their
respective organizations. These organizations would also rather take smaller risks within the industry and pricing projects which will boost turnover rather than tendering on projects with high profits. The MS for statement 2.5.5 regarding turnover of projects was 4.33 (‘strongly agree’).

The main contracting firms in the GB8 construction industry ‘disagreed’ (MS 2.50) to the selling of plant and land during the study timeframe. This indicates that these contractors kept these assets dormant during the study timeframe.

GB8 construction companies indicated that there was a drastic change in the entities’ business strategy during the timeframe between August 2010 and December 2012 (MS 4.00, ‘agree’). GB 8 organizations are also still focusing on building construction work as their core business as indicated by statement 2.8 (MS 4.29, ‘strongly agree’).

4.4.2.4. GB9 construction organizations

Construction entities adhered to the GB9 construction entity principles and ‘strongly agreed’ with the following:

- The construction industry relating to construction projects with a contract value of R130 million and larger had an economic downturn following the FIFA Soccer World Cup in 2010 (MS 4.00).
- The competition for building projects on the scale of contract values higher than R130 million has increased (MS 4.50).
- The use of profit margin lowering for the survival of the organization was implemented (MS 4.50).

Question 2.4 relating to the effectiveness of P&G reduction to procure projects received a mean score of 3.00 (‘neutral’). This indicates that there was a certain level of P&G reduction activity but not enough to constitute significant findings.

GB9 construction entities ‘disagreed’ (MS 2.00) that the retrenchment of personnel was effective during the timeframe between August 2010 and 2012. The statement regarding the retrenchment is therefore in line with the statements made about strategic realignment of resources.

Main contracting firms operating in the Eastern Cape Province of South Africa ‘agreed’ (MS4.50) to the use of strategic realignment of resources being effective during the
timeframe of August 2010 up to December 2012. Reports were that the realignment of resources allowed organizations to remain lucrative.

GB9 construction entities ‘disagreed’ (MS 2.50) with the statement that the sale of plant was effective during the study period.

A mean score of 3.25 (‘neutral’) was computed for the question relating to whether the boosting of turnover rather than focusing on high profits was an effective strategy to adhere to.

A drastic change in the construction companies’ business strategy was found during the study timeframe. A mean score of 4.50 (‘strongly agree’) was received for GB9 construction organizations making changes to their business strategies between August 2010 and December 2012.

The GB9 construction entities were found to still be focusing on building construction projects as their core business as stated by question 2.7 (MS 4.75, ‘strongly agree’).

4.4.2.5. GB7, GB8 and GB9 combined analysis

The analysis of the various sized construction companies combined produced the following results. The respondents concurred that the use of strategic realignment of resources and profit margin lowering were the most effective methods of keeping the organization’s doors open (MS 4.14 and 4.10). The most ineffective strategic route was found to be the sale of plant and land not required for core work (MS 2.86) followed by the retrenchment of staff (MS 3.09). Due to the results received from the statements pertaining to human capital within the construction industry, it can be shown that human capital is the most important asset of the construction company. The organization would rather strategically realign their employees before retrenching staff.

Within the construction industry in the Eastern Cape Province, GB7 entities indicated a 5% profit margin drop; GB8 organizations indicated a 4.3% profit margin drop and GB9 establishments indicated a 2.9% profit margin drop to procure projects during the study timeframe.

The average profit margin drop by all construction companies was 4.57%.
4.4.2.6. Testing of Hypothesis 2

Table 4.7 Testing Hypothesis 2

<table>
<thead>
<tr>
<th>Q</th>
<th>Strategy</th>
<th>Support</th>
<th>Reject</th>
<th>Inconclusive</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5</td>
<td>Strategies implemented:</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2.5.1</td>
<td>Retrenchment</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2.5.2</td>
<td>Profit margin lowering</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5.3</td>
<td>Strategic realignment of resources</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5.4</td>
<td>Selling plant and land not required for core work</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2.5.5</td>
<td>Boosting turnover rather than focusing on high profits</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.7</td>
<td>Drastic change in organization's strategy from 2010 to 2012</td>
<td>X</td>
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<td></td>
<td>TOTAL</td>
<td>4</td>
<td>0</td>
<td>2</td>
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</table>

Hypothesis 2 states that ‘Turnaround strategies have been implemented in keeping construction companies’ doors open during strident economic times’.

On the assessment of statement 2.7, it can be seen that construction companies made drastic changes to their business strategy to remain afloat.

Question 2.5 highlighted the various methods of identifying turnaround strategies within construction organizations. Based on the results in Table 4.7 it can be seen that construction entities implemented turnaround strategies between August 2010 and December 2012.

The results in Table 4.7 show that hypothesis 2 is supported.

4.4.3 Sub-problem 3

The following analysis relates to the sub-problem ‘Failure in implementing strategic management leads to lower profitability’.

The hypothesis being tested states that ‘Ineffective steps have been taken to implement fresh business strategies within construction organizations’.

Respondents were requested to state their opinion on how strongly they felt on the various methods and systems which were implemented when fresh strategies were introduced into organizations. The various aspects of strategic implementation of strategies are highlighted in the statements in Table 4.9.
All the respondents responded to all the questions.

4.4.3.1. Results for sub-problem 3

Respondents were requested to indicate their opinion on the statements on the following scale:

1= strongly disagree; 2= disagree; 3= neutral; 4= agree 5= strongly agree; 6= unsure.

Table 4.8 Results for sub-problem 3

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<th>2</th>
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<th>6</th>
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<th>Mean</th>
<th>GB7</th>
<th>GB8</th>
<th>GB9</th>
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<td>18.18</td>
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<td>13.63</td>
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<td>3.2</td>
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<td>22.73</td>
<td>13.63</td>
<td>45.45</td>
<td>4.55</td>
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<td>9.09</td>
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<tr>
<td>3.4</td>
<td>The strategy should be broken down into action plans for each role player</td>
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<td>0.00</td>
<td>9.09</td>
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<tr>
<td>3.5</td>
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<td>management is ineffectively implemented</td>
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<td>0.00</td>
<td>36.36</td>
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<td>4.75</td>
<td>4.64</td>
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</table>
4.4.3.2. GB7 construction organizations

The study sample within the GB7 bracket responded ‘neutral’ to the statement that workshops are important for an implantation process of a new strategy within an organization (MS 3.40).

The respondents felt ‘neutral’ regarding the use of incentive-based schemes when a new strategy has to be introduced into an organization (MS 3.27), indicating that there was a level of incentive-based schemes within the GB7 rated construction organizations but not enough to reach any conclusive results.

GB7 construction companies ‘agreed’ with the statement regarding the importance of employees being involved during the design process of a strategy (MS 3.82). A further note to the statement was made by all contractors that only higher level staff should be involved during the strategic design process. According to the sample population, by involving the employees within an organizational strategy, the commitment of the employees towards the new strategy will be enhanced. The respondents also added that the use of in-house expertise is important for the design process of an organization.

GB7 entities ‘agreed’ with the statements relating to the strategy being broken down into action plans (MS 4.00) and that step by step guidance should be given to all employees during the implementation process of a strategy (MS 4.09).

Construction entities graded under GB7 building contractors ‘strongly agreed’ that the profitability of the organization is affected when fresh strategies are not correctly implemented within organizations (MS 4.73). Statement 3.6 was specifically asked to test the link between the profitability and strategy within an organization. This proves that if the implementation of a strategy is effectively done within a construction entity, then higher monetary rewards can be reaped.

GB7 construction companies ‘strongly agreed’ with the statement regarding a timeframe to be set for the implementation of any strategy within the organization (MS 4.73). The timeframe for the implementation of a business strategy was shown to be important which indicates that it should be monitored. Factors regarding the resistance to change have strong links to the implementation process which needs to be taken into account prior to the implementation process.
4.4.3.3. GB8 construction organizations

Construction entities which conform to GB8 specifications responded ‘neutral’ with regard to the following statements:

“The use of workshops is effective during the implementation of a strategy within an organization” (Statement 3.1, MS 3.00, ‘neutral’).

“Incentive schemes are effective to use when implementing strategies within organizations” (Statement 3.2, MS 3.28 ‘neutral’).

“Employees should be invited to take part in the design process of a new strategy within an organization” (Statement 3.3, MS 3.28, ‘neutral’). The study sample who agreed with the statements again mentioned that the employees involved in the strategic design should be on higher levels of management. A neutral score in this research indicates that there has been a certain level of activity within a study sample. The activity levels are however not enough to make any significant findings.

The study sample agreed that the new organizational strategy must be broken down into action plans on how the strategy will be implemented across the company. A mean score of 4.00 (‘agree’) was calculated for statement 3.4. The respondents also agreed that step by step guidance should be given to all employees who will be affected by the new systems within the strategy (Statement 3.5, MS 3.85, ‘agree’).

GB8 construction companies ‘strongly agreed’ that the profitability of a company will be negatively affected when the strategic plan is ineffectively implemented (Statement 3.6, MS 4.57). The study sample also ‘strongly agreed’ (MS 4.43) to question 3.7 that a timeframe should be implemented when a new strategy is introduced within an organization.

4.4.3.4. GB9 construction organizations

GB9 rated construction organizations ‘strongly agreed’ that workshops are effective during the implementation process of a new strategy (Statement 3.1, MS 4.50).

Construction entities graded under GB9 by the Construction industry development board (CIDB) ‘strongly agreed’ with every statement regarding the implementation of a strategy within a construction company except for one statement: The use of incentive-based schemes for implementation of a strategy in question 3.2 (MS 2.00, ‘disagree’). GB9 construction
companies cannot use incentive-based schemes due to too many people being employed in the organization which will in effect be counterproductive. Due to a high number of employees within these construction companies, more systems and processes need to be implemented for the new strategic plan to reach all required members.

Construction entities conforming to GB9 standards ‘agreed’ (MS 4.00) with the inclusion of employees during the design phase of the new corporate strategy. Respondents however also stated that strictly higher levels of management should take part during the design process.

The following statements were ‘strongly agreed’ to by GB9 construction organizations:

- Question 3.4, ‘strategies should be broken down into action plans for each role player prior to the implementation of a new strategy’ (MS 4.25, ‘Strongly Agree’).
- Question 3.5, ‘step by step guidance should be given to employees during the implementation process of a new strategy’ (MS 4.75, ‘Strongly agree’).
- Question 3.6, ‘profitability of an organization is affected negatively when strategic management is ineffectively implemented’. A mean score of 5.00 was computed indicating that all respondents ‘Strongly agreed’ with the statement.
- Question 3.7, ‘timeframes should be given for the implementation of a new strategy within an organization’ (MS 4.75, ‘Strongly agree’).

4.4.3.5 GB7; GB8 and GB9 combined analysis

The use of workshops on a new strategy was ‘agreed’ to as being an effective method of implementing new strategies within an organization by all the contractors. (MS 3.48, ‘Agree’).

The main contracting firms produced a ‘neutral’ (MS 3.05) score regarding the use of incentive-based schemes within the implementation process of corporate strategies of construction entities. The neutral score indicates that there has been a degree of activity within the industry. Not enough activity has been found to prove the effectiveness of incentive-based schemes on strategic implementation within the construction industry in the Eastern Cape Province.

The statement regarding the inclusion of employees within the design process of the strategy was ‘agreed’ (MS 3.68) to by the respondents as a combined group. The complete study
sample added the comment that only the higher level management staff should be included during the design process. The inclusion of operations level staff will be counterproductive due to a lack of understanding of the long-term goals, vision and mission of the organization.

The study sample ‘agreed’ (MS 4.05) that the business strategy needs to be broken down into action plans for various role players prior to the implementation of the new strategy within the organization.

On analysis of the complete sample combined, it was also found that step by step guidance during the implementation phase of a strategy is the most effective method of getting a strategy enacted within an organization. The study sample concluded that the step by step process might be more time consuming but the results outweigh the risk of failure to implement the strategy. (MS 4.14, ‘Agree’).

During the analysis of all the respondents, it was found that the population strongly agreed with statement 3.6 that profitability is affected negatively when strategies are ineffectively implemented. (MS 4.73, ‘strongly agree’). This indicates that all members of the study sample are aware that the organization will be more lucrative if the business strategies are more efficiently implemented.

Respondents also ‘strongly agreed’ (MS 4.64) that timeframes should be given to implement strategies within the business environment. On analysis of the results found for the statement regarding timeframes and implementation, it was found that the study sample was aware that the implementation of a fresh strategy has the potential to drag if not managed properly. Respondents were therefore aware that the resistance to change is a major issue within each organization. It is clear that deadlines should be implemented along with the execution of a new business strategy within an organization.
4.4.3.6. Testing of Hypothesis 3

Table 4.9 Testing hypothesis 3

<table>
<thead>
<tr>
<th>Q</th>
<th>Strategy</th>
<th>Support</th>
<th>Reject</th>
<th>Inconclusive</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>The use of workshops is effective during the implementation process of a strategy within an organization</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3.2</td>
<td>Incentive schemes are effective to use when implementing strategies within organizations</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>3.3</td>
<td>Employees should be invited to take part during the design process of a new strategy of an organization</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3.4</td>
<td>The strategy should be broken down into action plans for each role player prior to the implementation of a new strategy</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td>Step by step guidance should be given to employees during the implementation process of a new strategy</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3.6</td>
<td>Profitability of an organization is affected negatively when strategic management is ineffectively implemented</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>3.7</td>
<td>Timeframes should be given for the implementation of a new strategy within an organization</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>0</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

Hypothesis 3 states that ‘ineffective steps have been taken to implement fresh business strategies within construction organizations’.

From the data gathered within the industry, it is clear that a direct link exists between the profitability of the respondents and the implementation of strategies within their organizations. This indicates that the study sample is aware of the fact that the implementation of the new business strategy affects the profitability of the organization and it should not be neglected. The most effective aspect for the implementation of corporate strategies within construction entities has been the use of step by step guidance of employees. Secondly, it was found that the new strategies need to be broken down into action plans for various role players to implement within the relevant organizations. Thirdly, the use of workshops was found to be effective for the implementation of strategies within construction organizations. The above three approaches to the implementation of strategies bear out the fact that strategies were implemented effectively within construction entities during August 2010 and 2012 in the construction industry in the Eastern Cape Province.

Hypothesis 3 is therefore rejected.
4.5. **ADDITIONAL FINDINGS**

Further analysis of the survey results identified a link between three construction entities which reported that there was no profit margin drop between August 2010 and December 2012. The three organizations operate within the GB7 and GB8 construction categories and specialize in the RDP residential programmes. The questionnaires concluded that there was no change in their strategies and that work commenced as normal in their target market zones. Alterations to strategies for these organizations were not required as they did not experience a change in the market.

4.6. **SUMMARY**

Chapter 4 dealt with the analysis of the survey data. Section A of the data collected dealt with the physical details of the individual being interviewed as well as the organization’s history. The analysis was concluded and the hypotheses were tested accordingly. The following results were found:

- Hypothesis one was supported
- Hypothesis two was supported
- Hypothesis three was rejected.

Chapter 5 will deal with the findings which will be included in a summary of the complete study. The recommendations for the industry involved as well as for future studies will also be included in the following chapter.
CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objectives of the study were:

- To identify the effectiveness of strategic management within the construction industry.
- To identify the main strategic concept or combination of strategic techniques which kept construction company doors open between 2010 and 2012.
- To identify which elements within the tendering process are the most effective in remaining competitive when the construction industry has a low level of activity.
- To identify the importance of the turnaround strategy within the timeframe of 2010 to 2012.
- To identify the key elements of an implementation strategy within a construction organization.

During the course of the research, the researcher conducted a literature review identifying the various types of business and the grand strategies an organization could implement when the construction industry was in a downturn. These strategies could be implemented by any profitable organization. The literature review also included a section covering the basics of a tendering process and highlighted the pertinent sections to which an organisation could conform when the competition between organizations increases within an industry. Turnaround strategies were also considered during the literature review and it was highlighted that the construction industry created ideal conditions for turnaround strategies to thrive during August 2010 up to December 2012. The implementation of strategies within an organization was expounded on and the steps to a successful strategy implementation were highlighted.

The data captured in the field were collected to test hypotheses regarding strategic management of construction companies in the Eastern Cape Province of South Africa between August 2010 and December 2012.
The conclusions reached in this chapter relate to the empirical analysis reported in Chapter 4.

### 5.2 Conclusions

It was found that all construction organizations encountered difficulties with profitability in the construction industry during the timeframe of August 2010 to December 2012. Even though three organizations reported that no changes occurred within their strategy to procure projects, profitability was still affected.

Strategic management was proven to be effective in keeping construction companies’ doors open during harsh economic times in the Eastern Cape Province. Following the analysis of the data, all three target groups indicated high activity levels within the strategic design, implementation and monitoring processes.

Geographic diversification was found to be the most effective tactic in keeping construction organizations trading when there are low levels of activity in the construction industry. Organizations that considered moving to areas where construction work was available focused on either their core customers or the type of work in which they specialized. The alternative method used by organizations was to diversify into new markets within an existing geographic region where the organization had a market share.

The lowering of profit margins and the reductions in preliminary and general (P&G) amounts were both found to be effective in the procurement of building projects in the Eastern Cape Province of South Africa during challenging economic times. These were seen as being the key elements in a successful project bid. The reductions in profit margins and P&Gs also indicated that the industry was using no frills tactics to continue trading within the construction industry.

Turnaround strategies were found to be effective during economic downturns in the Eastern Cape Province of South Africa during the study timeframe. During the study, all participants strongly agreed that they were involved in a turnaround strategy using various methods. It was found that construction organizations would consider all alternatives for remaining competitive prior to the consideration of the retrenchment of personnel.
It was shown that there is a direct link between the profitability of an organization and the implementation of new business strategies within the construction industry. Specific reference was made to the fact that step by step guidance should be used during the implementation process rather than the conventional workshop where information is shared. Action plans indicating the ‘roll out’ of new strategies were also seen as playing a large part in successful implementation of strategies within construction organizations operating in the Eastern Cape Province.

5.3 **Recommendations relating to the outcome of the study**

Firstly, the construction industry in the Eastern Cape Province of South Africa should revise its short-term strategic plans on a quarterly basis whilst the long-term vision should be assessed and adapted annually. These strategic plans are vital in ensuring that the organization understands its business surroundings and is adapting to the changes, if there are any. These steps will ensure that the organization can operate to its maximum potential during challenging economic times.

Secondly, construction entities should always be on the lookout for the critical point when the organization needs to implement a turnaround strategy. A contingency plan needs to be work-shopped by higher level management only in the event of an economic downturn within their competing industry. The turnaround strategy can also be used when the competitive advantage is lost by the construction entity. These plans need to be assessed on an annual basis. Emphasis needs to be placed on who will be managing the change of strategy at the highest level of the organization.

Thirdly, strategies need to be broken down into action plans for higher and middle management during implementation. The higher levels of management need to understand how the complete picture will be rolled out to the whole company prior to implementation. During implementation of strategies, organizations need to move away from sharing information in workshop fashion during implementation sessions. The critical stages for the implementation of strategies are the step by step guidance sessions which need to be done by all employees and the monitoring process to ensure that the new systems are fully operational and remain fully functional. These sessions need to mobilise relevant members of staff into new roles and responsibilities to fulfil the new strategy of the organization.
5.4 **Recommendations for further studies**

Firstly, the same study could be conducted in the country as a whole. The statistics should be compared from province to province to evaluate if the recession hit all provinces at the same time. There is a possibility that provinces containing no soccer stadiums were hit first by the recession.

Secondly, a further study could be done on the tendencies of clients to use various types of contracts during challenging economic times. The use of special clauses to mitigate risk in economic downturns can be assessed.

Thirdly, it was found that there was an improvement in the construction industry market after January 2013. A study could be done on the latest trends of market related business strategies within construction organizations. The move from a turnaround strategy needs to be implemented and the reassessment of the strategic implementation can be carried out.

Fourthly, findings indicated that the residential market focusing on RDP projects within the Eastern Cape Province did not experience an economic downturn. A study could be conducted on the contractors specializing in RDP projects countrywide in an attempt to find if the recession impacted on them at all.

Finally, it may be pointed out that the true value of the findings of this research will emerge as the recommendations arising from them are put into practice and worthwhile fruit is produced.
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# Appendix A

Main contractors in the Eastern Cape Province involved in study

<table>
<thead>
<tr>
<th>No.</th>
<th>Contractor</th>
<th>In Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AVENG</td>
<td>y</td>
</tr>
<tr>
<td>2</td>
<td>Group 5</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Murray &amp; Roberts</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Steffanutti stocks</td>
<td>y</td>
</tr>
<tr>
<td>5</td>
<td>WBHO</td>
<td>y</td>
</tr>
<tr>
<td>6</td>
<td>NMC Pty Ltd.</td>
<td>y</td>
</tr>
<tr>
<td>7</td>
<td>SC contractors</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Lamprecht properties</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Mpumalanga construction</td>
<td>y</td>
</tr>
<tr>
<td>10</td>
<td>GVK</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>SBT</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>MMS developments</td>
<td>y</td>
</tr>
<tr>
<td>13</td>
<td>ISG</td>
<td>y</td>
</tr>
<tr>
<td>14</td>
<td>Transtruct</td>
<td>y</td>
</tr>
<tr>
<td>15</td>
<td>Dewing construction</td>
<td>y</td>
</tr>
<tr>
<td>16</td>
<td>Basel Read</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Guiricich</td>
<td>y</td>
</tr>
<tr>
<td>18</td>
<td>WK construction</td>
<td>y</td>
</tr>
<tr>
<td>19</td>
<td>Uphahla construction</td>
<td>y</td>
</tr>
<tr>
<td>20</td>
<td>HDM construction</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Willie Greeff Trust</td>
<td>y</td>
</tr>
<tr>
<td>22</td>
<td>Semper prima Bouers</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Dekon Projects</td>
<td>y</td>
</tr>
<tr>
<td>24</td>
<td>Masterpave</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>VDZ Construction</td>
<td>y</td>
</tr>
<tr>
<td>26</td>
<td>Roberts bros construction</td>
<td>y</td>
</tr>
<tr>
<td>27</td>
<td>Express Builders</td>
<td>y</td>
</tr>
<tr>
<td>28</td>
<td>Rand Civils</td>
<td>y</td>
</tr>
<tr>
<td>29</td>
<td>New creation construction</td>
<td>y</td>
</tr>
<tr>
<td>30</td>
<td>Pro-khaya Construction</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Fitscape trading</td>
<td></td>
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<tr>
<td>32</td>
<td>Alexander maintenance</td>
<td>y</td>
</tr>
<tr>
<td>33</td>
<td>Techni construction</td>
<td>y</td>
</tr>
<tr>
<td>34</td>
<td>Spayers</td>
<td>y</td>
</tr>
<tr>
<td>35</td>
<td>Power construction</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>ALFDAV</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B

Strategic management of construction companies

Questionnaire
KRT 510
MSc Treatise

Section A
Please enter your personal details below:
(Please note that entering the information below is optional)

Name
Organization name
City
Email address
Phone number

Please select the project size your company specializes in:
R13Mn-
R40Mn
R40Mn-
R130Mn
> R130Mn

Please enter your GB rating as per CIDB if applicable:

How many years’ experience do you have in the construction industry?

Please indicate your level of management
Technician
Engineer
Foreman
Site agent
Project manager
Contracts manager
Director
Other

If "other" is selected, please specify
**Section B:**
To what extent do you agree/disagree with the below statements regarding strategies used within your organization in the time period between 2010 and 2012

1= Strongly disagree   2= Disagree   3= Neutral   4= Agree   5= strongly agree   6= Unsure

Please indicate your selection with an "X"

Question 1

1.1 Tendering in foreign/new areas to the organization has been effective in keeping doors open

1.2 Tendering on different types of work i.e. residential/commercial/industrial has been effective in keeping doors open

1.3 Entering into contracts with other main contracting firms i.e. Joint ventures, has been effective in keeping doors open

1.4 Buying into other businesses that do the same work as your organization has been effective in keeping doors open

1.5 Buying into firms that do work which complements your organization such as sub-contractors and suppliers has been effective in keeping doors open

1.6 Buying into businesses that do not have any link to your core construction business has been effective in keeping doors open

1.7 Managing the business strategy is effective in boosting profitability within an organization

1.8 The reassessment of strategic goals needs to be done on an annual basis

1.9 The analysis of the company's corporate strategy is NOT important for the organization to survive

Additional comments:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

91
Section B: To what extent do you agree/disagree with the below statements regarding strategies used within your organization?

1 = Strongly disagree   2 = Disagree   3 = Neutral   4 = Agree   5 = Strongly agree   6 = Unsure

Please indicate your answer with an "X"

Question 2

<p>| | | | | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

2.1 Building construction work decreased in the Eastern Cape following the conclusion of the FIFA soccer world cup 2010

2.2 Competition between main contracting firms has increased for building projects since 2010

2.3 Reduction of profit margins has been effective in the procurement of building projects since 2010

2.4 Reduced P&G amounts on projects have been effective in procuring building projects since 2010.

2.5 Please indicate which of the following has been implemented in your organization since 2010

2.5.1 Retrenchment

2.5.2 Profit margin lowering

2.5.3 Strategic realignment of resources

2.5.4 Selling plant and land not required for core work

2.5.5 Boosting turnover rather than focusing on high profits

2.6 Please provide a rough indication of profit margin drop since 2010

2.7 Has there been a drastic change in your organisation's strategy from 2010 to 2012?

2.8 Is your organization currently still focusing on main contracting as your core business?

Additional comments:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
### Section B:
To what extent do you agree/disagree with the below statements regarding strategies used within your organization

1= Fully disagree  2= Disagree  3= Neutral  4= Agree  5= Strongly agree  6= Unsure

**Please indicate your answer with an "X"**

**Question 3**

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

3.1 The use of workshops are effective during the implementation process of a strategy within an organization

3.2 Incentive schemes are effective to use when implementing strategies within organizations

3.3 Employees should be invited to take part during the design process of the new strategy of an organization

3.4 The strategy should be broken down into action plans for each role player prior to the implementation of a new strategy

3.5 Step by step guidance should be given to employees during the implementation process of a new strategy

3.6 Profitability of an organization is affected negatively when strategic management is ineffectively implemented

3.7 Timeframes should be given for the implementation of a new strategy within an organization

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**Additional comments:**

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Dear Sir/Madam

I am conducting research on survival strategies, competitive tendering and strategic management in the construction industry. This forms part of the requirements for the degree of Master of Science in the Built Environment (Project Management) at the Nelson Mandela Metropolitan University. My research includes a survey questionnaire to be completed by construction industry professionals. Your assistance in completing the questionnaire would be appreciated.

Your participation in this survey is completely voluntary; anonymity will be preserved at all times. Should you be interested in the research results, please provide your e-mail address where requested.

It should not take you more than 15 minutes to complete this questionnaire. Please complete the questionnaire before 20 August 2012. After completion, please scan and email the questionnaire back to the undersigned.

Should you have any queries or concerns with regard to your participation in this study, please feel free to contact me.

Thank you

Roelof van Rooyen

rpvanrooyen@live.com

Tel: 082 584 4628