



Strategic Management in Construction Firms  
with Focus on Small and Medium Enterprises: a  
Case Study eThekweni, South Africa

---

Amit Rambaruth, Jamila Khatoon Adam and  
Suresh Babu Naidu Krishna

EasyChair preprints are intended for rapid  
dissemination of research results and are  
integrated with the rest of EasyChair.

June 12, 2021

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

Amit Rambaruth<sup>1a</sup>, Jamila Khatoon Adam<sup>1b</sup>, Suresh babu Naidu Krishna<sup>1c\*</sup>

1a. Mr Amit Rambaruth, Faculty of Management Sciences, Entrepreneurial Studies & Management, Durban University of Technology, Durban-4000. Email: [amit.rambaruth@gmail.com](mailto:amit.rambaruth@gmail.com)

1b. Prof Jamila Khatoon Adam, Department of Biomedical and Clinical Technology, Durban University of Technology, Durban-4000. Email: [adamjk@dut.ac.za](mailto:adamjk@dut.ac.za)

1c. Suresh Babu Naidu Krishna, Department of Biomedical and Clinical Technology, Durban University of Technology, Durban-4000. Email:sureshk@dut.ac.za

\*Corresponding Author

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

Amit Rambaruth<sup>1a</sup>, Jamila Khatoon Adam<sup>1b</sup>, Suresh babu Naidu Krishna<sup>1c\*</sup>

### **Abstract**

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

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

## **I. Introduction**

The construction industry is well-known for its economic contribution to South Africa. The sector is regarded as a key engine of job growth and is well recognised for its contribution to infrastructure production (Anamalay, 2014). According to Ntuli (2016), the construction industry is vulnerable to the political and socioeconomic environments. South Africa acknowledges the role of small and medium-sized enterprises (SMEs) actively participating in the economy. They contribute to the growth of the economy by generating jobs and alleviating the country's social problems (Mashwama, Thwala, & Aigbavboa, 2020). Also, in South Africa, statistics published by the South African Federation of Civil Engineering Contractors (SAFCEC) in 1992 indicated that this sector's productivity was supposed to decrease overall. This was linked to the government turning its attention to housing and other associated programs, which were mostly aimed at meeting the demands of historically deprived populations. At that time, major construction firms struggled financially, and some went bankrupt. Even though these firms contribute significantly to the economy, there is still a strong failure rate.

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

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

## **2. Literature review**

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

## **2.1 The Construction Industry in South Africa**

The construction industry is known for its complex characteristics and risks associated with projects. The industry recorded a decline of 14.3% in the face value of construction projects awarded compared to 2017 and reported a decrease in tender activity following the elections period. In 2019, the infrastructure budget was cut by 12% and as result, it left the construction industry unsettled (Nkomo & Thwala, 2014). The civil construction sector relies on government spend to keep the industry afloat and their performance plays a critical role in the sector. SOEs are the big spenders of government's budget. Government anticipates spending at least 43% of the infrastructure budget in the next three years (Cokayne, 2019). The decline in infrastructure projects is of great concern to the construction industry. However, the industry remains optimistic. The industry is struggling and as a result, several construction companies are filing for business rescue. Sustainability is the key element to success for small businesses in the construction industry (Gunduz, Naji & Al-Salahi, 2020). The barriers to entry for the construction industry remains low, which encourages black entrepreneurs to enter the market, thereby, increasing competition. Many of these start-up companies are inexperienced and may experience difficulty with finances or a lack of technical or managerial expertise and as a result, many businesses fail. Therefore, government has taken initiatives, such as Broad-Based Black Economic Empowerment (B-BBEE) and the Construction Industry Development Board (CIDB) to support black owned companies (Anamalay, 2014).

## **2.2 Role of strategic Management in SME**

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

## **2.3 Environmental Scanning**

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

## **3. Materials and methods**

### **3.1 Questionnaire and data collection**

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

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

### 3.2 Validity of data

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

Table 1: Cronbach Alpha Results

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

### 3.3 Ethical considerations

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

### 3.4 Data analysis

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

## 4. Results and Discussions

A total, 145 questionnaires were emailed to samples and only 105 were returned. Therefore, the response rate was 72%.

Table 1 summarizes demographic information of the participants.

Table 1 Age composition of respondents

Age (years)		Gender		Total
		Male	Female	
18 - 24	Count	8	1	9
	% within Age	88.9%	11.1%	100.0%
	% within Gender	11.3%	2.9%	8.6%
	% of Total	7.6%	1.0%	8.6%
25 - 34	Count	23	14	37
	% within Age	62.2%	37.8%	100.0%
	% within Gender	32.4%	41.2%	35.2%
	% of Total	21.9%	13.3%	35.2%
35 - 44	Count	26	11	37
	% within Age	70.3%	29.7%	100.0%
	% within Gender	36.6%	32.4%	35.2%
	% of Total	24.8%	10.5%	35.2%
45 - 54	Count	11	6	17
	% within Age	64.7%	35.3%	100.0%
	% within Gender	15.5%	17.6%	16.2%
	% of Total	10.5%	5.7%	16.2%
55 - 64	Count	3	2	5
	% within Age	60.0%	40.0%	100.0%
	% within Gender	4.2%	5.9%	4.8%
	% of Total	2.9%	1.9%	4.8%
Total	Count	71	34	105
	% within Age	67.6%	32.4%	100.0%
	% within Gender	100.0%	100.0%	100.0%
	% of Total	67.6%	32.4%	100.0%

Overall, the ratio of males to females is approximately 2:1 (67.6%: 32.4%) ( $p < 0.001$ ). Within the age category of 35 to 44 years, 70.3% were male and 24.8% female; Within the age category of 25 to 34 years, 37.8% were female and Male 62.2%. Most of the respondents were Africans (79.6%) compared to the other race groups ( $p < 0.001$ ). Approximately 15% of the respondents were Indian while Whites accounted for 3.9% followed by Coloureds (1%). This variance could be attributed to the fact that Africans form a large portion of the population in the eThekweni Municipality (Anamalay, 2014). Also, the drive from government may have influenced the development and participation of black contractors in the construction Industry since the introduction of Black Economic Empowerment (BEE) initiatives and procurement policies.

The study response reflects that three quarters (74%) of the companies have been in existence for less than 10 years ( $p < 0.001$ ). Most of the respondents (45, 6%) disclosed that their business has been in existence for between 0-5 years. This category of 0-5 years suggest that these companies are new entrants to the construction industry. Only 28, 2% of businesses have been in existence for between 6-10 years and 16.5% of businesses have been in existence for between 11-15 years (Fig. 1). Besides, 6.8 % of businesses have been in existence for between 16-20 years followed by 2.9% which has been operational more than 20 years. The declining trend could be attributed to the fact that majority of the larger construction firms that had been existence for past 15 – 20 years are bankrupt and non-existent (Gaultier, 2019). This trend could be attributed to the fact that government is not spending enough on

infrastructure development and as a result it may lead to businesses becoming bankrupt and not reaching their milestones of existence.

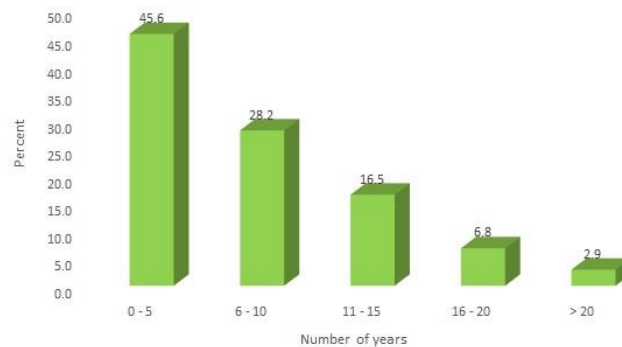


Fig. 1. Number of years a business has been operational

Fig. 1. Number of years a business has been operational

The results on operation of business specify that two-thirds of the respondents (66.3%) were private companies. Close corporation businesses accounted for 23.1% while partnership and sole trader businesses accounted for 6.7% and 3.8%, respectively. The results suggest that majority of the businesses are owned privately. This trend could be attributed to the fact that the Companies and Intellectual Property Commission (CIPC) implemented a new Companies Act (Act 71 of 2008), which states that no close cooperation (CC) can be registered and no conversions from companies to close cooperation's will be allowed. Hence, the high number of private company respondents.

### Execution of strategic plans

The study revealed that 73.1% of the respondents are familiar with procedures involved in the strategic management process and their organizations implemented strategic planning in operation of enterprise ( $p < 0.001$ ). Moreover, suggestively further respondents (53.8%) indicated that they were always involved in the strategic management process ( $p < 0.001$ ). The outcome of study also specified that 32.7% of the respondents are rarely involved in the strategic management process and 13.5% indicated they are not involved in the strategic management process. The attributing factors towards this include such as lack of time, lack of expertise or inadequate knowledge of the planning process and poor communication skills.

Factors that drove small and medium enterprises in adopting a strategic plan are summarized in Table 2.



Table 2. Summary of factors contributing to adopt strategic plan for small and medium enterprises

		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Chi Square p-value
		Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
Organisation Complexities	B 2.1	3	2.9%	8	7.7%	23	22.1%	44	42.3%	26	25.0%	< 0.001
Globalisation	B 2.2	1	1.0%	7	6.9%	22	21.8%	43	42.6%	28	27.7%	< 0.001
Scarce Firm Resources	B 2.3	2	2.0%	4	3.9%	22	21.6%	39	38.2%	35	34.3%	< 0.001
New Technology	B 2.4	0	0.0%	1	1.0%	15	15.2%	40	40.4%	43	43.4%	< 0.001
Drive from Government	B 2.5	8	8.2%	7	7.1%	17	17.3%	35	35.7%	31	31.6%	< 0.001
Competition in the Market	B 2.6	0	0.0%	0	0.0%	8	7.8%	33	32.4%	61	59.8%	< 0.001

The results indicate that higher levels of agreement while other levels of agreement are lower (Table 2) as most organisations are complex, and the structure of business vary from one business to another, and this is due to different interactions between people and the ideology they share (Daryani & Amini, 2016) In present study, it is reflected that through strategic planning one will be able to understand how to deal with complexities. In dealing with these complexities' businesses will be able to better manage their resources and deliver on what is required by customers (Mori, 2013).

#### 4.1 Factors that contribute to performance of organization

The findings suggest that approximately 92% (Table 3) of the respondents agree that strategic planning has improved the decision-making process of the business and approximately 91% of the respondents concur that having a competitive advantage improve the performance of the business.

Table 3. Strategic planning that underwrites to organisation's performance.

		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Chi Square
		Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	p-value
Improved the Decision-Making Process	B3.1	0	0.0 %	0	0.0 %	8	7.8 %	43	41.7 %	52	50.5 %	< 0.001
Competitive Advantage	B3.2	0	0.0 %	0	0.0 %	9	8.7 %	47	45.2 %	48	46.2 %	< 0.001
Increased Work Capacity	B3.3	1	1.0 %	5	4.8 %	17	16.3 %	36	34.6 %	45	43.3 %	< 0.001
Improved Customer Satisfaction	B3.4	1	1.0 %	2	1.9 %	15	14.6 %	40	38.8 %	45	43.7 %	< 0.001
Increased Market Recognition	B3.5	0	0.0 %	4	3.8 %	20	19.2 %	38	36.5 %	42	40.4 %	< 0.001
Increased Employee Morale	B3.6	1	1.0 %	2	1.9 %	26	25.0 %	33	31.7 %	42	40.4 %	< 0.001
Increased Productivity	B3.7	0	0.0 %	3	2.9 %	14	13.5 %	40	38.5 %	47	45.2 %	< 0.001
Improved Quality of Goods & Services	B3.8	0	0.0 %	4	3.9 %	15	14.7 %	40	39.2 %	43	42.2 %	< 0.001
Increased Turnover	B3.9	0	0.0 %	3	2.9 %	13	12.6 %	41	39.8 %	46	44.7 %	< 0.001

#### 4.2 Challenges in implementing strategic plan

The results in Fig. 2 indicate that approximately 81% of the respondents concur that inadequate resources had a negative influence in the implementation of a strategic plan and approximately 76% of the respondents concur that a lack of access to information had a negative influence in the implementation of a strategic plan. The finding also displayed that approximately 70% of the respondents concur that ignorance from employees had a negative influence in the implementation of a strategic plan and approximately 73% of the respondents concur that poor communication had a negative influence in the implementation of a strategic plan. The result also indicated that approximately 74% of the respondents concur that time was an issue when implementing a strategic plan while 82% of the respondents concur that a lack of expertise had a negative influence in the implementation of a strategic plan. Approximately 83% of the respondents concur that inadequate knowledge of the strategic planning process leads to an implementation barrier while approximately 65% of the respondents concur that the size of the business had a negative influence in the implementation of a strategic plan. The results also show that approximately 74% of the respondents concur that environmental uncertainty had a negative influence in the implementation of a strategic plan and approximately 76% of the respondents

concur that the organisations internal implementation barriers had a negative influence in the implementation of a strategic plan.

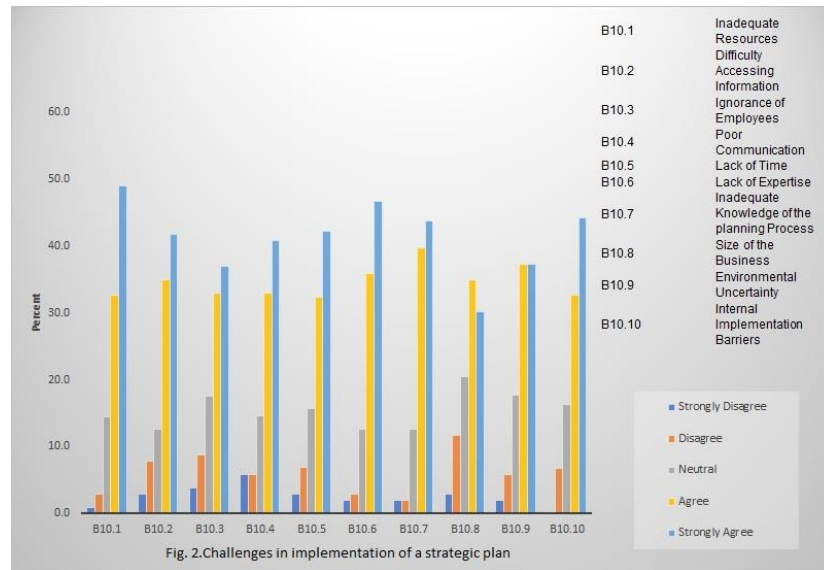


Fig. 2. Challenges in implementation of a strategic plan

## 5. Conclusion and further research

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

## 6. Limitations of the study

The main constraint of the study was that it embarks on eThekweni region of South Africa and does not represent other municipalities or provinces in the nation. Furthermore, it does not reflect the whole construction industry. Another limitation of the research is that the study centered on SMEs in the construction industry and does not fully reflect other industries in the region, such as manufacturing or agriculture.

**Conflict of Interest :** The authors declare no conflict of interest.

## References

- Anamalay, D. (2014). *Entrepreneurial orientation and business challenges: a study of eThekweni-based construction companies*.
- Barney, J. B., & Hesterly, W. S. (2010). *Strategic management and competitive advantage: Concepts*: Prentice Hall Englewood Cliffs, NJ.
- Benachio, G. L. F., Freitas, M. d. C. D., & Tavares, S. F. (2020). Circular economy in the construction industry: A systematic literature review. *Journal of Cleaner Production*, 260, 121046.
- Chikeya, R. (2019). *Effects of Capital Structure on Company Performance, A Perspective of Small Cap Companies In South Africa*. Faculty of Commerce,
- Cokayne, R. (2019, Jan 22, 2019). SA building industry facing a trio of major risks this year. *IOL*.
- Daryani, S. M., & Amini, A. (2016). Management and organizational complexity. *Procedia-Social and Behavioral Sciences*, 230, 359-366.
- David, F. R., David, F. R., & David, M. E. (2013). *Strategic management: Concepts and cases: A competitive advantage approach*: Pearson Upper Saddle River.
- Ehlers, T., & Lazenby, K. (2004). *Strategic management: Southern African concepts and cases*: JL Van Schaik.
- Gaultier, T. (2019). Struggling construction sector must develop a new talent perspective. Retrieved from <https://www.bizcommunity.com/Article/196/720/185801.html>
- Gunduz, M., Naji, K., & Al-Salahi, K. (2020). Evaluation of Critical Success Factors (CSFs) in Selecting Building Contractors through Pareto and Analytical Hierarchy Process. *Journal of Engineering Research*, 8(4).
- Gürel, E., & Tat, M. (2017). SWOT analysis: a theoretical review. *Journal of International Social Research*, 10(51).
- Hamdoun, M. (2020). The antecedents and outcomes of environmental management based on the resource-based view. *Management of Environmental Quality: An International Journal*.
- Kibuuka, P., & Tustin, D. (2019). The key triggers for the transitioning of informal SMMEs to formal SMMEs: A baseline survey of the Gauteng Province, South Africa. *Psychology Research*, 9(1), 32-44.
- Kolstad, I., & Wiig, A. (2015). Education and entrepreneurial success. *Small Business Economics*, 44(4), 783-796.
- Lombardi, R., Tiscini, R., Trequattrini, R., & Martiniello, L. (2020). Strategic entrepreneurship. *Management Decision*.
- Mashwama, N., Thwala, D., & Aigbavboa, C. (2020). Obstacles of Sustainable Construction Project Management in South Africa Construction Industry. In *Sustainable Ecological Engineering Design* (pp. 305-314): Springer.
- Mori, G. T. (2013). *Effectiveness of strategic planning on the performance of small and medium enterprises in Tanzania: a case study of selected smes in Ilala municipality*.
- Msani, T. A. (2011). *Critical success factors influencing project success in the Durban construction industry*.
- Nkomo, M., & Thwala, W. (2014). *Review of the importance of mentoring young graduates in the construction sector in South Africa*. Paper presented at the Proceedings of the 3rd Applied Research Conference in Africa (ARCA) Conference, Accra Ghana.
- Ntuli, B. N. S. (2016). *Investigating factors associated with insolvencies among civil engineering contractors in Kwazulu-Natal*.
- Parthasarthy, R. (2008). *Fundamentals Of Strategic Mangement 2008 Edition*: Dreamtech Press.
- Sitharam, S., & Hoque, M. (2016). Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and perspectives in Management*, 14(2), 277-288.
- Wenzel, M., S. Stanske and M. B. Lieberman (2020). "Strategic responses to crisis." *Strategic Management Journal*. DOI: 10.1002/smj.3161