

Full Length Research Paper

An exploratory study of problems facing small contractors in the North West province of South Africa

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The main objective of this study was to examine the problems that are facing small contractors in the North West Province of South Africa. In undertaking the study a comprehensive literature review was conducted and it was supplemented by primary data gathering. A questionnaire was sent to over 100 contractors in the North West Province and 57 questionnaires were returned. The major findings of the research were that the problems facing small contractors were the following; Government not paying on time, lack of capital and difficulty in arranging guarantees, lack of technical skills, lack of business management skills. The importance of small contractors in South Africa has been recognised by many researchers and policy makers. The contribution of small contractors to the creation of jobs and to the alleviation of poverty has been recognised by many Governments in the Developing Countries including the South African Government. The aim of the study was to examine the problems facing contractors in South Africa focusing on the North West Province. The study made recommendations for a success small contractor development programme.

Key words: Small contractors, small contractor development programme, construction, finance, skills.

INTRODUCTION

The National Small Business Act of 1996 classifies small businesses into four categories: micro, which includes survivalist enterprises; very small; small; and medium. Ntsika (1997) estimates that in 1995 the overall contribution to the total GDP was 20.8% for small enterprises, 11.9% for medium enterprises, and 67.3% for large enterprises. As regards contribution to formal employment it was estimated at 29.5% for small enterprises, 15.3% for medium enterprises, and 55.2% for large enterprises. Micro and small enterprises are a major feature of the economic landscape in all developing countries today (Liedholm and Mead, 1999). The South African government has committed to ensuring that black-owned companies have access to the construction sector. The South African Government is committed to economic growth and transformation. Historically Disadvantaged Individuals (HDIs) and small and medium sized contractors are being encouraged to participate in the main stream economy as the construc-

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tion industry is seen as a vehicle for social change and economic empowerment (Construction Industry Development Board, 2004). Under its black economic empowerment (BEE) programme, the South African government has set targets for the percentage of each industry to be controlled by black-owned businesses. Large, predominately white-owned corporations have sold assets to achieve this objective, with the first sale occurring in late 2000. From 1995 the democratic government through its various departments has initiated some contractors' development programmes by which it awards certain levels of its construction projects to the historically disadvantaged black contractors in order to enable development of competent skills, build viable construction companies, create jobs and redistribute wealth (Department of Public Works, 1996).

A construction company's decision to expand into international markets must be based on a good understanding of the opportunities and threats associated with international business, as well as the development of company strengths relative to international activities (Luger, 1997).

based contractors. The findings indicate that track record, specialist expertise and project management capability are the most important company strengths; loss of key personnel, shortage of financial resources, and inflation and currency fluctuations are the most important threats relative to international markets; and increased long term profitability, the ability to maintain shareholders' returns, and the globalisation and openness of the markets are the most important opportunities available in international works (Luger, 1997). The vast majority of construction firms are small enterprises that rely on outsourcing personnel as required. Many construction firms have suffered financial ruin and bankruptcy because of delays in payment, which are common with government contracts (Crowell and McCutcheon, 2001).

Research objectives

The main objective of this study was to establish the problems facing small contractors in the North West Province that leads to high failure rate.

RESEARCH METHODOLOGY

One hundred (100) small and medium sized contractors were randomly selected from the database of the National Department of Public Works (NDPW), Mmabatho Regional Office: Emerging Contractors Development Programme; Local Municipalities: Contractors Development Programmes (CIP), and Construction Industry Development Board (CIDB) contractors register/database. The probability sampling method using simple random sampling was found to be the most appropriate for the study. The selection criteria adopted to form the target population included the following:

- Contractors from Grade 1 and 4 of the Construction Industry Development Board (CIDB) grading; and
- Small contractors located in North West province.

A total number of 100 questionnaires were distributed among small and medium sized contractors and 57 questionnaires were returned. The response rate was good as it was more than 50%. The research methodology for the study provided both primary and secondary data. The primary data collected formed the investigation using a structured questionnaire. The primary data was collected between June 2008 and September 2008. The scope of the study was delimited to small and medium size contractors operating in the North West province of South Africa. The Microsoft Word and Excel programmes were used to present the graphics. The statistical programme used for analyses and presentation of data in this paper is the Statistical Package for the Social Sciences (SPSS). This section consists of descriptive statistics which uses frequency tables to provide information on key demographic variables in the study.

REVIEW OF SA LITERATURE

The necessity for the contractor development

programmes in South Africa

Internationally, there is a general agreement that small

enterprises contribute immensely to economic development (International Labour Organisation, 2001). Crowell and McCutcheon (2001) argue that small contractors can be economically useful if projects are designed to suit their capacity. The Department of Public Works (1997) states that contractor development in South Africa is needed for the following reasons:

- The relatively low skills and resources required at this scale can easily lower the entry point for the historically disadvantaged people to begin to participate in the industry.
- Large numbers of functional small and medium-scale black contractors can help to decentralise the construction industry dominated by established white contractors.
- A large number of functional black contractors can develop a platform for growth and the redistribution of wealth in South Africa.
- Small contractors can be powerful instrument on job creation within the construction industry depend on the government policies.
- Small contractors can perform small projects at different and remote geographical locations that might be unattractive to big firms.
- Low overheads enable small contractors to work at more competitive prices.

Integrated emerging contractor development model (IECDM)

The Integrated Emerging Contractor Development Model is based on the Emerging Contractor Development Model (ECDM) developed by the CSIR, (Dlungwana et al., 2004). The ECDM is a best-practice tool aimed at assisting implementing agents to facilitate the implementation of an emerging contractor development programme. The ECDM helps focus on the quality and effectiveness of development programmes by ensuring more effective and comprehensive development of contractors' capability and capacity. Central to the ECDM is the implementation of a business plan with clear contractor development outcomes. The IECDM therefore embraces the concepts of the ECDM with the added elements of project management and Total Quality Management (TQM). Emerging Contractors on the IECDM programme participate in a Construction Education Training Authority (CETA) NQF level 2 learnership programmes which are combined with the services of a nationally accredited construction mentor.

It has been widely accepted that the success of the past and current contractor development initiatives has been quite modest. However, significant lessons can be

drawn from those initiatives. The lessons have shown the need to:

- Inform the policies and research agenda by promoting

the participation of emerging contractors.

- Advocate the interest of emerging contractors and ensure that policies and procedures in the construction industry create an environment conducive to the development and promotion of emerging contractors.

- Inform policies on the peculiarities of the construction industry's problems.

Increase the participation of emerging contractors in mainstream construction activities.

- Substantially increase the emerging construction enterprises share of work opportunities within the public sector.

- Stimulate economic activity in the most depressed areas.

- Promote the participation of women in construction.

- Support emerging contractor's access to business training, finance, tendering information and work opportunities.

- Support the establishment and strengthening of the organisational capacity of emerging contractors.

- Persuade, through intermittent interaction, financiers to provide the necessary support to emerging contractors.

- Pilot models for contractor development programmes.

The South African Construction Excellence Model (SACEM) and the Emerging Contractor Development Model (ECDM) are good examples of this.

Competition and limited new opportunities

There are a large numbers of small contractors entering at the lower end; this sector has become extremely competitive, thereby making it difficult for new entrants to keep a sustainable workflow. This inability to sustain workflow impacts on their ability to achieve sustainable employment and economic empowerment (Construction Industry Development Board, 2006).

Challenges faced by small and medium sized contractors in South Africa

The challenges faced by small and medium contractors can be distinguished between those that affect small-scale contractors and those that affect medium-sized contractors. Small and medium contractors are facing increased competition due to the long-term real decline in demand, and many contractors have responded by shedding labour. The larger contractors have responded by moving into the international market. Small local contractors, in particular, are furthermore subject to volatilities due to the geographic distribution of construction and the peak workloads that characterise construction projects, which has further reduced their ability to build

capacity. Emerging contractors are subject to the same market forces described above for small contractors. However, while emerging contractor development policies were intended for black economic empowerment,

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small government contracts have in fact been used as job creation opportunities.

Lack of effective management during their early stages is a major cause of business failure for small and medium sized contractors. Owners tend to manage their businesses themselves as a measure of reducing operational costs. Poor record keeping is also a cause for start-up business failure. In most cases, this is not only due to the low priority attached by new and fresh entrepreneurs, but also a lack of basic business management skills. Most business people, therefore, end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month. During the early stages of some business start ups, owners were unable to separate their business and family/domestic situations. Business funds were put to personal use and thus used in settling domestic issues. This has a negative impact on profitability and sustainability. Some owners/managers employ family members simply because of kinship relations. In some cases, these have turned out to be undisciplined and ineffectual, a factor that has led to eventual and sometimes rapid failure of businesses (Rwelamila, 2002; Croswell and McCutchen, 2001; Mphahlele, 2001; Ofori, 1991); Wijewardena and Tibbis, 1999). The relative lack of success facing small contractors in South Africa was a result of: inadequate finance and inability to get credit from suppliers; inability to employ competent workers; poor pricing, tendering, and contract documentation skills; poor mentoring; fronting for established contractors; lack of entrepreneurial skills; lack of proper training; lack of resources for either large or complex construction work; lack of technical, financial, contractual, and managerial skills; and late payment for the work done.

Skills problems

South Africa is characterised by a systematic under-investment in human capital. This has resulted in a labour force with a skewed distribution of craft skills, career opportunities and work-place experience. While the promulgation of the Skills Development Act of 1997 is commendable, micro-enterprises already express concern about the administration costs of recovering levies in the form of grants for training undertaken, the costs of designing a workplace training programme as an alternative to using external training institutions and the relatively high charges by private training institutions after the closure of the former industrial training boards which had been subsidised through levies from industries (Kesper, 2000).

Financial problems

Efforts to promote SMMEs access to finance might have more impact on development and growth but access is 536 Afr. J. Bus. Manage.

limited and the cost of capital is high. While the government has made some efforts to increase accessibility to finances, the targeted programmes have had limited success because the awareness and usage of existing promotional programmes is very low. In addition to insufficient access, high interest rates also pose a constraint to micro enterprise growth. Moreover, (Gounden 2000) reports that there are core difficulties seen in terms of discrimination by financial institutions against micro-enterprises with little collateral, difficulties in accessing information and a lack of market exposure. The inadequacy of external finance at the critical growth and transformation stages of micro-enterprises deters the enterprises with growth potential from expanding (Nissanke, 2001).

Review of literature of problems facing small and medium Size contractors in Swaziland

This section of the paper will focus on the review of literature on the problems facing Small and Medium Size Contractors in Swaziland. The Government of the Kingdom of Swaziland has identified the construction sector as a priority area for improving the social and economic development of the country (Ministry of Public Works and Roads, 2007). However, to maximize the impact of the construction sector as part of the National Development Strategy (NDS), it was necessary to develop a sound national policy framework for the Industry to improve its overall effectiveness and efficiency. Fundamental to the Swaziland National Construction policy and in line with the Development Strategy (NDS), was the empowerment of local Swazis within the industry to maximize their participation and subsequent impact on the local economy.

A recent study conducted by Mvubu (2009) has identified the following as the major problems facing Small and Medium Size Contractors in Swaziland:

Delays in payment

Delays with interim and final payments, as well as onerous contract conditions faced by construction firms, can also impose huge constraints on the industry. Many construction firms have suffered financial ruin and bankruptcy because of delays in payment, which are common with government contracts. Contemporary research that was conducted in 2007 by the authors revealed the current reasons for the failure of small and medium size contractors in Swaziland. 87 owners of the small and medium size contractors were interviewed.

68% of the contractors are less than four years; 20% are between 5 and 9 years; and 12% had operated for more than 10 years. There was no contractor that had operated more than 15 years.

Lack of access to credit facilities

63% of the respondents believe that the four major banks in Swaziland have proper systems in place to support small and medium size contractors once they have secured work. On the other hand 37% of the respondents do not believe that the four major banks in Swaziland have proper systems in place to support small and medium size contractors.

Lack of access to work opportunities

33.4% of the respondents think that the current environment within the construction industry in Swaziland is favourable for small and medium size contractors to be successful. On the other hand 66.6% of the respondents believe that the construction industry environment is not favourable for the success of small and medium size contractors. From the research conducted it can be concluded that the relative lack of success among the small and medium size contractors is a result of the following problems which must be addressed in order to facilitate the success of the small and medium size contractors: a lack of resources for either large or complex construction work; An inability to provide securities, raise insurance and obtain professional indemnity; the contracts were inevitably packaged in such a way as to exclude small and medium size contractors (the client ministries expect the MOPW&T to implement project without fail and are always inconsiderate of the development aspect in the implementation of government contracts. As a result the MOPW&T combines project located closer to each other to make one contract in order to improve their implementation rate and the result is that such contracts become too high for the small and medium size contractors, hence they are left without work).

Lack of technical and managerial skills

Inadequacy in technical and managerial skills required in project implementation; Lack of continuity in relation to type, scale and location of work; An inadequate approach and insufficient knowledge, time and experience required for the whole process of finding work, once found, insufficient understanding of the contract documentation and the preparation and submission of tenders; Slow and non-payment by government after completing a government project (the government payment process is too long).

DISCUSSION OF CASE STUDY FINDINGS: NORTH WEST PROVINCE

The North West Province is bounded on the north by Botswana, on the south by the provinces of the Free State and the Northern Cape, and on the northeast and east

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Figure 1. Map of North West province.

by Limpopo and Gauteng province. Covering 118,797 km (45, 869 sq miles), the North West province was created in 1994 by a merger of Bophuthatswana, one of the former Bantustans (or black homelands), and the western part of Transvaal, one of the four former South African provinces (Figure 1).

The study findings shows that the small and medium size industry in South Africa is still male dominated with 78% male and 22% female owned. The age of the people interviewed ranges from 20 to 59 years old. 98.3% of the people interviewed were Black and 1.7% percent was Coloured people. Small contractors in the North West Province are dominated by black people. 71.2 % of the people interviewed were managing directors; 6.8% were managing partners; 8.5% were construction project managers and 10.2% were construction managers.

Table 1 above shows that 18% of the owners of the contractors had a grade 11 or lower qualification; 30% had grade 12 qualifications; 30% had a post-matric diploma or certificate; 10% had a Bachelor's degree and 12% had a post graduate degree. The results also show that 45.7% of the owners had a qualification that is up to Grade 12.

Table 2 shows that 75% of the contractors manage between 0-2 projects; 19% of the contractors manage between 3 - 19 projects; 4% of the contractors manage between 11 - 15 projects and 2% of the contractors manage above 20 projects at a time. Most of the

contractors at the lower grading lack the capacity to manage many projects at one time.

Table 3 shows that contractors lack basic construction skills with only 15% construction management; 20% **Table 1.** A survey of contractors' qualifications, north west province, 2008.

Qualification	Frequency	%
Grade 11 or lower	10	18
Grade 12	17	30
Post matric diploma/certificate	17	30
Bachelor's degree	6	10
Post-graduate degree	7	12
Total	57	100

Table 2. Contractors' track record in north west province as at 2008.

No. of projects managed	Frequency	%
0 - 2 projects	43	75
3 - 19 projects	11	19
11 - 15 projects	2	4
Above 20 projects	1	2
Total	57	100

business management; 20% project management; 10% health safety; 20% tendering and 15% site management. It is also clear that the majority of the contractors in the North West Province lack important skills that will enable their contractors to be successful. The results show that scarce skills in the construction industry is a main challenge, as most of the small and medium sized contractors cannot afford to hire qualified artisans and

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Table 3. Basic construction skills lacking.

Type of construction skills	Frequency	%
Construction Management	9	15
Business Management	11	20
Project Management	11	20
Health and Safety	6	10
Tendering	11	20
Site Management	9	15
Total	57	100

construction professionals due to the high demand of built environment professionals. And it leaves small and medium sized contractors with no option but to outsource their work to the well-established contractors.

In Table 4 it was found that 37% of the owners of the contractors have less than three years experience; 33.9% of the owners have between 3 and 5 years experience; 18.6 % of the owners have between 11 and 15 years and 10.5% have above 15 years experience in the construction sector.

Table 5 shows the problems facing small contractors when running a construction business. The table below illustrates the mean value of and ranking of the problems of running a small and medium sized contractor business. Respondents were asked to rank the following problems; Government not paying on time, lack of capital, difficult to arrange guarantees, lack of commitment in implementing policies geared to assist small and medium size contractors by government officials, suppliers not willing to offer credit to small and medium size contractors with no track record, and lastly depending on bank loans and paying high interest. The ranking was based on the problem which the respondents viewed as the most severe one and ending with the least severe. The mean was calculated by adding the number of responses and dividing by the number of respondents per category. It can be seen from Table 5 that Government not paying on time, lack of capital and difficulty in arranging guarantees are the top ranked problems facing contractors when running their business.

Conclusion and Recommendations

This paper has shown that from 1994 since the dawn of the new democratic South Africa, the state of small

contractors continues to be unsustainable, even with existence of supportive programmes (that is, contractor development programme and emerging contractor development programme). The South African construction industry will continue to provide jobs for Historically Disadvantaged Individuals (HDI) but without such an intervention, small and medium sized contractors will remain unsustainable and their performance unsatisfac-

Table 4. Contractors' years of experience, north west province, 2008.

Years of experience	Frequency	%
less than 3 years	21	37
3 - 5 years	19	33.9
11 - 15 years	11	18.6
Over 15 years	6	10.5
Total	57	100

tory. The study finds that lack of effective management during their early stages is a major cause of business failure for small and medium sized contractors. Owners tend to manage their businesses themselves as a measure of reducing operational costs. Poor record keeping is also a cause for start-up business failure. Lack of financial management; lack of entrepreneurial skills; lack of proper training; lack of resources; lack of technical skills, lack of contractual and managerial skills; late payment for work done which are common with government contracts; inability to get credit from suppliers and fronting for established contractors are also contributing factors for the failure of small contractors in the North West Province.

In order to address problems and challenges faced by emerging contractors in South Africa, it is critical for the government to review policies with regard to Contractor Development Programmes (CDP) to ensure that the government contributes to the success of small contractors in South Africa. The research had established that there is not one critical success factor that can make small contractors to be successful but a combination of factors. In the North West Province case study it was found that some factors were critical and some were less critical. The authors recommend that the following factors to be considered as key to the success of small contractors in the North West Province.

Business skills

Location of business premises is very important. Set specific targets for your business, carry out market research, employ qualified personnel and put them in position according to their skills. Know and understand existing skills needed and attend refresher courses on business management skills.

Management skills

Financial management should be emphasized as well as networking with other people with similar businesses and keeping records of workers to help in evaluation of the performance.

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Table 5. Means and rank of problems of running a small and medium size contractor business.

Causes	Mean	Rank
Government do not pay on time	4.22	1
Lack of capital	4.13	2
Difficult to arrange guarantees	4.01	3
Lack of commitment in implementing policies geared to assist small and medium sized contractors by government officials	3.75	4
Suppliers not willing to offer credit to small and medium sized contractors with no track record	3.28	5
Depending on bank loans and paying high interest	3.12	6

Access to capital

Merge with others that have similar businesses, negotiate favourable credit purchases from the supplier, source affordable loans from financial institutions and negotiate advance payments from the clients.

Good record keeping

Financial records should be prioritised and a record of books of accounts on a daily, weekly, monthly and annual basis should be established.

Well managed cash flow

Prepare cash flow forecasts and budgets and prepare a cost-benefit analysis. Lease equipment and other financial assets to improve your cash flow, negotiate outstanding loans through payment procedures and scale down operational costs.

Family/domestic situation

Separate business activities and family obligations and look for alternatives sources of income to cater for the family's basic needs.

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