Contributing Elements and Issues to Strategic Management in the Construction Industry Among Small and Medium Enterprises: A Case Study in South Africa's eThekwini Region

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Abstract

Small and medium-sized enterprises (SMEs) are vital to the economy and have helped it grow, but they still have a high failure rate. Many businesses fail within the first few months of operation due to a lack of strategic planning. This study aimed to identify persuading factors that contribute to strategic management to improve performance and categorise challenges faced by SMEs in implementing a strategic plan in the eThekwini region of South Africa. The study adopted a quantitative research approach, and the population of interest for the research includes small and medium construction companies, which were sourced via the Construction Industry Development Board (cidb) registry. An online survey tool was used to distribute the questionnaire to 145 small and medium businesses. The data were analysed using descriptive and inferential statistical tools and exploratory factor analysis (EFA). The study's findings reveal that most eThekwini-based SMEs in the construction industry use strategic management practices to improve their business performance. The key factors for strategic management in SMEs, such as improving decision-making processes, increasing productivity, and gaining a competitive advantage, demonstrated high levels of agreement among participants regarding improving business performance. This study also found widespread agreement on the challenges of implementing a strategic plan in an organisation. Therefore, small and medium-sized enterprises (SMEs) must develop procedures and policies to deal with the difficulties that arise when drafting a strategic plan. This will ensure that strategic planning works in their operations. This can be accomplished by implementing strategic management into SMEs training programs offered by government and tertiary institutions that support SMEs. The government should also improve education and broaden its business skills curriculum.

Keywords: Business, Construction, Performance, Planning, Strategy, South Africa.

1. Introduction

Globally, the construction industry plays a substantial role in creating jobs and contributing to the economy. The construction industry lays the foundation for resources and trade to build infrastructure; these actions stimulate and grow the economy (Osunsanmi, Aigbavboa and Oke 2018; Odiba, Demian and Ruikar 2021). While the construction industry adds value to the economy, several threats are experienced that influence the industry's performance. For example, the laws governing the construction industry, the Preferential Procurement Policy Framework Act, 2000 which caters for Historically Disadvantaged Individuals (HDI) in South Africa and the

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not managed effectively (Nduati, Kariuki and Wanjohi 2021).

Small and medium enterprises play a vital role in the social-economic growth of the country. In South Africa, SMMEs contribute approximately 52% of the country's gross domestic product (GDP). The industry has an impact on all categories. An SME is defined as a company with fewer than 200 employees, an annual turnover of less than R64 million ($3,733,803), and a total gross asset value of less than R19 million ($1,108,473), according to the National Small Business Acts (Berisha and Pula 2015; Nieuwenhuizen 2019). Furthermore, the National Small Business Act defines an SME in the construction industry as a company with fewer than 200 employees, an annual turnover of less than R26 million ($1,516,858), and a total gross asset value of less than R5 million ($291,703) (Nieuwenhuizen 2019).

SMEs have the capacity to reduce unemployment and poverty in the country through job creation and innovations (Kibuuka and Tustin 2019; Nuseeb et al. 2021). Small businesses tend to seize opportunities in the market and provide the necessary products and services to satisfy demand (Williams Jr et al., 2018). Even though Small to Medium Enterprises have contributed to the sector, many are plagued by high failure rates and poor performance (Singh 2019). Approximately 70% of South African SMEs fail in the first four years of operations (Bruwer, Siwangaaza and Yolandé 2018). One of the contributing factors to the high failure rate is the macro environment. The failure of these businesses increases the country’s social ills, unemployment and crime (Jayasekaraa, Fernandob and Ranjani 2020).

Strategic management refers to the science of developing a competitive advantage through planning to create value for the organisation. The process involves making, applying, and reviewing decisions in the business (Abosede, Obasan and Alese 2016). Implementing a strategic management plan is necessary to manage the uncertainty in the environment. The features of strategic management, for example, strategic planning, stakeholder management and environmental analysis play a vital role in the development of an SME (Fitriasari 2020). Some organisational strategies are informal and unstructured. However, they have some direction as to where they are heading compared to an organisation with no plan (Nduati, Kariuki and Wanjohi 2021).

Notably, the use of strategic management in the various sectors supports the response to demands from the market, the change in technology and the variations in customers’ preferences (Bakar et al. 2011). Technology in the fourth industrial revolution is transforming how businesses operate, and having the necessary digital tools or skills is critical to SMEs. Having a digitalisation strategy enables a small business to be more competitive; they can set business goals that are more aligned to digital transformation, provide products and services that are more technologically advanced or set out a phased approach in transforming their operations into a digital space (Fitriasari 2020).

The global economic crisis affects small businesses negatively, however, the necessary mitigating strategies could assist companies in better managing potential risks (Fitriasari 2020). Strategic management within SMEs is frequently ignored. Every business's goal is to be a "going concern," which means that it will continue to exist for an undetermined amount of time. A plan or strategy allows an organisation to survive and advance (Ekon and Isayas 2022). Going through a strategic management process allows an organisation to identify its challenges and opportunities and develop a competitive advantage over rivals to achieve its goals (Karadag 2015). SMEs that adopt a strategic objective tend to be more focused on growth within the business; it provides a formalised company structure. For example, an informal small business may want to formally register and create a business plan to attract investments (Kibuuka and Tustin 2019).

There is a link between environmental awareness and organisation performance (Hamdoun 2020). The environment and customer demands are forever changing, and adopting a strategic approach to deal with the changing climate may result in a competitive advantage for the business (Chiloane-Tsoka and Boya, 2014). Studies have shown that economic factors such as high inflation, high taxes, uncertainty, crime, volatile markets, poor service delivery, skill shortage, delay and non-payment of service providers, and high overhead costs create loss events which threaten the existence of South African SMEs (Bruwer, Siwangaaza and Yolandé 2018). The internal controls and risk management methods are inadequate. Even though organisations customise their approach to dealing with risk, it still does not provide reasonable assurance in achieving their objective. The significance of this study is that it encompasses the identification of persuading factors that contribute to strategic management to improve performance and the classification of challenges SMEs face in implementing their strategic plans.

2. Literature review

Small and Medium Enterprises (SMEs) have contributed significantly to the growth of the economy, however, there is still a high failure rate (Anamalay 2014). The National Small Business Act of 1996 as amended in 2003 and 2004, ranks SMEs according to the number of employees employed, turnover and gross business value. In the construction sector, medium, small and micro enterprises consist of a total number between 5 to 200 full-time equivalents of a paid employee, a total turnover between R200 thousand to R26 million and a total gross asset to the value of R100 thousand ($5,835) to R5 million ($291,703) (fixed property excluded). Many of these small and medium enterprises (Kibuuka and Tustin 2019) face a threat of failure within the first few months, and the lack of strategic planning may prevent them from achieving their full potential (Lestari et al. 2020). When starting a business, success or failure is always possible (Anamalay 2014). Challenges involve the inability to hire qualified staff, lack of funds for expansion, limited or non-existence credit with suppliers and poor planning and management. Many of these disadvantages can be linked to improper planning and misuse of funds (Alshameri 2020).
3. Factors that impact the implementation of the strategic plan

3.1 Strategy management

The main characteristics of strategic management involve formulating, implementing, and monitoring strategies (Hansen 2020). A strategy is an organisation's plan to gain a competitive advantage over rivals. Furthermore, the strategic plans address several challenges an organisation may experience (Zsigmond, Machová and Zsigmondová 2021). Change in an organisation is inevitable. Therefore, strategic planning and organisational change are necessary (AlQershi et al., 2020).

Additionally, transformation within the organisation is required. The outdated procedures and plans must be replaced with new procedures to allow for unpredictable changes in the micro and macro environment. During this transition process, an organisation can deal with the challenges of organisational intricacies, globalisation, resource management, government regulations, and competitiveness.

Innovation and critical thinking are critical components in managing change (Thompson 2017). Through innovations, an organisation can improve its performance and take advantage of the opportunities presented in the markets. A lack of innovation and critical thinking leads to organisations not having new ideas to move them forward, which can also result in an organisation losing its competitive advantage.

Critical thinking and situation analysis of the organisation aid in establishing a vision/imaginary idea (AlQershi et al. 2020). A vision is a vital component of the strategic management process (Alshameri and Green, 2020). A vision statement is a shared idea by leaders; it displays the desired approach or image of the organisation (Alomian, Alsawalhah and Almarshad 2019). A vision statement is not a one-size-fits-all remedy; it may, at times, erode the organisation's credibility by not aligning with the organisation's desires, culture, and environment (Mashwama, Thwala and Aigabvobo 2020). It is a written communication of the organisation's vision. It supports the setting of objectives for employees and guides their actions (Allison 2019). Communication and implementation of this vision lie in visionary leadership, where leaders communicate the organisation's intentions and persuade the employees to contribute to the organisation's vision (Wenzel, Stanske and Lieberman 2020).

3.2 Strategy implementation

Strategy implementation is introducing a strategy to an organisation's various departments or divisions (David 2013). The traditional methods of the strategic formulation are based on planning, resourcing and ensuring that the organisation achieves its profit margin (Fuertes et al., 2020). Strategic formulation and evaluation complement each other and are equally important to an organisation (Ateş et al. 2020a). The implementation phase is applying the strategic plan; the process involves the application of budgets, policies, and programs; it is the translation of ideas into action in the hope of achieving a competitive advantage and success (Thompson 2017).

The implementation stage is considered more difficult than the formulation stage. At the formulation stage, senior management is the decision maker. The activities are controlled at the senior level compared to the implementation stage, where the strategic plans are introduced throughout the organisation (Ehlers and Lazenby 2010b). At this stage, the intention is to build and maintain a structure that delivers. Organisations tend to get the feel of staffing requirements, target markets and customer demands (Barbosa, Castañeda-Ayarza and Ferreira 2020).

Strategy implementation involves the employees' commitment to strategy and voluntary efforts in contributing to the organisation's goal (Ateş et al. 2020a). Even though strategy implementation plays a vital role in the strategic management process, there is no definitive formula for implementing these strategies. Each organisation has its way of deploying its strategy, and the context may differ from one organisation to another. However, the common thread remains; leadership and the organisation's alignment (Culture, policies, procedures, and resources) are critical for implementing strategies. Owning a good strategy necessarily means success; driving the strategy at implementation with the buy-in and contribution from employees remains a crucial aspect of strategy (Ateş et al. 2020b).

3.3 Strategic competitiveness

Strategy is a set of decisions and actions managers take to gain a competitive advantage over rivals. Strategic choice is the examination and selection of possible strategic alternatives (Parthasarthy, 2007; Orozco et al., 2014). A simple definition of competitive advantage is when an organisation develops capabilities to outperform its rivals (Alomian, Alsawalhah and Almarshad 2019). Usually, managers gain a competitive advantage by effectively managing internal resources and activities (Ateş et al. 2020a). Having a well-defined strategy aligned with the organisation's objectives enhances competitiveness (Oyewobi et al. 2019). According to Dikmen et al. (2009), a clear vision or plan must be established to achieve a competitive advantage.

A SWOT analysis provides insight into the organisation's Strengths, Weaknesses, Opportunities and Threats. From this analysis, the organisation can assess its core competencies, plan resources and identify trends in the market. Some construction companies use a hybrid method to outperform rivals compared to the traditional methods of quality, product and service innovations, time, and cost to achieve a competitive advantage. This hybrid mode offers construction companies to select one approach or have a variation of importance on modes (Oyewobi et al. 2019). A firm might adopt a differentiation strategy where the pricing power of the firm is low (Allison 2019). Formulating a strategy to gain a competitive advantage comes in various forms, for instance: 1) using innovative technology or processes. 2) The ability provides superior quality goods and services, offering faster delivery services or procuring materials of superior quality. 3) Being socially responsible by...
committing to cooperate with social responsibility policies (Lestari et al. 2020).

Strategic intelligence is the key factor in developing a competitive advantage. It provides valuable insight into technology developments, environmental changes, stakeholder management and strategies that create value. The two entrepreneurial strategy concepts that can be used to gain a competitive advantage are: 1) Knowledge acquisitions refer to the organisation's knowledge base and how a resource-based view strategy can assist the organisation in hiring competent staff and a formidable team. 2) Core competencies deal with the technical knowledge or knowledge that an entrepreneur may possess. This knowledge can improve the organisation's processes, which may result in a competitive advantage (Chiloane-Tsoka and Boya 2014).

3.4 Challenges faced by Small and Medium Enterprises

When starting a business, success or failure is possible (Anamalay 2014). However, the challenges SMEs face outweighs the benefits of managing a small business. SMEs tend to encounter challenges in all areas of the business environment, which are linked to poor planning and management (Corman and Lussier, 1996). According to Oyewobi et al. (2019), many of these businesses face challenges in recruiting skilled and qualified staff, limited excess financial resources, little or non-existence credit with suppliers and technological changes.

The South African construction industry is known to be competitive. Yet, government legislation such as Preferential Procurement Policy Framework Act (PPPFA) gives preference to designated groups, resulting in a competitive environment (Oyewobi et al. 2019). These regulations negatively impact the economy as well as foreign investment. In addition, SMEs in the South African construction industry face socio-economic challenges such as poverty, skills shortages, basic education, unemployment, crime, and racism (Nhleko, 2017). To overcome these challenges, small businesses must consider adopting a strategic approach to doing business (Oyewobi et al., 2019).

4. Research methods

4.1 Inquiry Form and Data Collection

This study adopts a quantitative research approach that employs a questionnaire for data collection. The data collection questionnaire was developed based on a previous study by Mori (2013). The questionnaire was divided into two parts. In the first section, the paper examines the demographics of the survey participants. Strategic planning questionnaires were included in the second section of the report, which inquired about the reasons behind businesses adopting a strategic plan, the contributing factors of strategic planning in improving the performance of the enterprise, and the challenges they face when implementing a strategic plan. All the questions were closed-ended, making it possible to perform statistical analyses on the data.

Furthermore, this study's Cronbach Coefficient Alpha was 0.876, which is an extremely high level of reliability (Msani 2011). The study focused on a sample population of eThekwini-based contractors registered with the Construction Industry Development Board (cidb) and actively involved in civil work. The questions were short, simple, and to the point. Data were retrieved using QuestionPro Software after an online questionnaire software was used to distribute the survey to participants. The online questionnaire was sent to 145 small and medium-sized businesses, but only 105 responses were returned. As a result, the response rate was 72%. These construction firms were also cidb-registered as active industry participants. Individuals involved in the company's strategic planning were asked to participate in the survey. After a week, three reminders were sent to ensure the responses were properly followed up.

4.2 Data Reliability

Cronbach's Alpha is a widely used method for determining reliability. For this study, the Cronbach Coefficient Alpha was 0.876, which is an acceptable level of reliability (Table 1)

<table>
<thead>
<tr>
<th>Section</th>
<th>Number of Items</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2</td>
<td>Factors that drove your business to adopt a Strategic Plan</td>
<td>6</td>
</tr>
<tr>
<td>B3</td>
<td>Contributions of strategic planning in improving the performance of your enterprise</td>
<td>9</td>
</tr>
<tr>
<td>B10</td>
<td>Challenges facing the implementation of a strategic plan in an organisation</td>
<td>10</td>
</tr>
<tr>
<td>Reliability Statistics</td>
<td>Overall</td>
<td>25</td>
</tr>
</tbody>
</table>

Table 1: Cronbach Alpha Results
Table 2: Factors that influenced the company's decision to implement a Strategic Plan

<table>
<thead>
<tr>
<th>Factors</th>
<th>Perception of Impact*</th>
<th>No.</th>
<th>Mean Item Score</th>
<th>Rank</th>
<th>Level of Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness</td>
<td>0</td>
<td>102</td>
<td>4.51</td>
<td>1</td>
<td>High</td>
</tr>
<tr>
<td>Limited firm resources</td>
<td>2</td>
<td>102</td>
<td>3.99</td>
<td>2</td>
<td>Average</td>
</tr>
<tr>
<td>Globalisation</td>
<td>1</td>
<td>101</td>
<td>3.89</td>
<td>3</td>
<td>Average</td>
</tr>
<tr>
<td>Organisation intricacies</td>
<td>3</td>
<td>104</td>
<td>3.79</td>
<td>4</td>
<td>Average</td>
</tr>
<tr>
<td>Government contribution</td>
<td>8</td>
<td>98</td>
<td>3.75</td>
<td>5</td>
<td>Average</td>
</tr>
</tbody>
</table>

*1= very low, 2 = low, 3= average, 4= high, 5= very high

4.3 Ethics Approval

The study was approved by the Durban University of Technology Ethics Committee (IREC: 18FREC). Before the study, each participant was given an informed consent form to complete, ensuring their safety and privacy.

4.4 Data analysis

The data for the study were analysed using descriptive and inferential statistics. The raw data is gathered and then transferred to a computer spreadsheet. The data for this study were analysed using descriptive and inferential statistics, including cross-tabulation, correlation, chi-square test, and Cronbach Alpha. The Cronbach alpha was used to determine the data's internal consistency within a group.

5. Results and Discussions

Only 105 of the 145 questionnaires sent to the samples were returned. As a result, 72% of participants responded to the questionnaires. Figure 1 illustrates the size of the company in terms of employees.

According to the study, 90.5% of the companies had no more than 20 employees (p< 0.001).

5.1 Execution of strategic plans

Factors that drove small and medium enterprises to adopt a strategic plan are summarised in Table 2. According to the results shown in Table 2, the major perceived contributors influencing the company's decision to implement a strategic plan are high-ranked factors such as competitiveness and leading-edge technology, which showed high levels of perception. The results for limited firm resources show average to high levels of perception, indicating that the factor impacts the decision to adopt a business strategy. This implies that businesses can effectively manage their limited resources and achieve organisational goals through strategic planning (Mori, 2013).
5.2 Factors affecting the organisation's ability to perform

The results suggest that approximately 92% (Table 3) of the respondents agree that strategic planning has improved the decision-making process of the business, and about 91% of the respondents concur that having a competitive advantage enhances the company's performance.

According to Table 3, all factors show high contribution levels that planning helped businesses make better decisions. According to the report, this factor significantly impacts the company's performance. When it comes to decision-making, strategic management uses a methodical decision-making process that is objective, systematic, and logical (Christou 2015). The organisation must make long-term decisions and plans as part of the strategic management process. Moreover, these decisions establish the organisation's vision, mission, and goals (Mori, 2013).

5.3 Challenges in implementing a strategic plan

The results in Figure 4 indicate that 33% of the respondents agree and 40.8% strongly agree that poor communication negatively influenced the implementation of a strategic plan. In comparison, 14.6% of the respondents remained neutral. The statement shows (significantly) higher levels of agreement, indicating that the factor contributes to improving the business performance. Communication and stakeholders play a vital role in creating organisational wealth. Moreover, communications are equally important in building relationships (Ehlers and Lazenby 2010a). Management needs to understand the needs or concerns of the stakeholders and have a clear communication channel when formulating strategic plans for the business. Also, the strategic plan must show employees how their roles impact the vision and success of the company (Mori 2013).
The results for lack of expertise indicate that 35.9% of the respondents agree and 46.6% strongly agree that a lack of expertise negatively influences the implementation of a strategic plan. In comparison, 12.6% of the respondents remained neutral. The construction industry is inexperienced in strategic planning procedures and lacks strategic managerial skills (Gunduz and Abdi, 2020). Managers and business owners should undertake the necessary entrepreneurial and management studies to gain an overall knowledge of strategic planning. Above and beyond, a lack of specialised expertise and inadequate knowledge of the planning process is harmful to a business (Wang, Walker and Redmond 2007). Other challenges and results are presented in Figure 5.

6. Conclusions and Recommendations

The current study focused on the factors that influenced a company's decision to adopt a strategic plan, the role of strategic planning in improving a company's performance, and the challenges associated with a strategic plan in place. According to the study's findings, eThekwini-based SMEs in the construction industry use strategic management practices in their businesses and have improved their performance because of this implementation. The study also found that strategic planning can reduce environmental uncertainty and provide a structured approach to addressing problems. Furthermore, strategic management encourages SMEs to plan and commit to short and long-term goals, which helps them grow. As a result, SMEs are more likely to achieve business success through strategic management. Small businesses should develop procedures and policies to deal with the challenges of implementing a strategic plan. Despite these findings, success is not guaranteed even when companies use strategic planning. Businesses may not achieve their objectives due to poor implementation or a lack of strategic management expertise. More research should be conducted to evaluate the need for strategic management to improve SMEs' business performance and long-term government investment in the construction industry. Furthermore, the study has three main limitations. 1) The study was conducted in the eThekwini region of South Africa and did not represent other municipalities or provinces. Furthermore, it does not represent the entire construction industry. 2) The study has focused on SMEs in the construction industry and did not fully represent other industries in the country, such as manufacturing or agriculture. 3) The study only concentrated on SMEs registered with the cidb. This study recommends SMEs management the following recommendations

1. Regardless of their position within the company, every employee should be involved in the strategic management processes, and the organisation should provide the appropriate training and opportunities for professional growth.

2. The government and educational institutions at all levels need to emphasise the importance of strategic planning in business and provide training in this area to SMEs. In addition, training programs for SMEs that aim to foster the growth of small businesses need to incorporate strategic management.

Conflicts of Interest: The authors declare no conflict of interest.

Figure 5: Challenges in the implementation of a strategic plan
References


