Factors Influencing the Growth of Small, Medium and Micro Enterprises in the Zambian Construction Industry

Oguntona A. Olusegun and Aigbavboa O. Clinton
Sustainable Human Settlement and Construction Research Centre, Faculty of Engineering and the Built Environment
University of Johannesburg
Johannesburg, South Africa
architectoguntona12@gmail.com, caigbavboa@uj.ac.za

Mabasa D. Khanyisa
Sustainable Human Settlement and Construction Research Centre, Faculty of Engineering and the Built Environment
University of Johannesburg
Johannesburg, South Africa
mabasakhanyisa4@gmail.com

Abstract

The significant role played by small, medium and micro enterprises (SMMEs) in stabilizing and revamping the economy of developing nations cannot be ignored. SMMEs have been identified as one of the major contributors to the gross domestic product (GDP) of developing nations. Most of the SMMEs in the Zambian construction industry, however, operate at low capacity due to numerous challenges facing them. These difficulties range from their inability to secure contracts for mega projects, lack of support from the government, and low patronage amongst others. This paper, therefore, seeks to evaluate the influential factors for the growth of SMMEs in maximizing their potentials for enhancing the economy of Zambia. A structured questionnaire survey was conducted on construction professionals managing NCC grade 4-6 construction companies in Zambia. A quantitative approach to data analysis was employed using the mean scores of the factors studied. From the data analyzed, good financial management, personal network, ability to manage personnel are identified as the top three influential factors. To overcome the restrictions and limits in the growth of SMMEs in the Zambian construction industry, it is imperative that the identified influential factors are considered in their entirety.

Keywords
Zambia, Small Medium, and Micro Enterprises (SMMEs), Construction industry, Gross Domestic Product (GDP), Economy.

1. Introduction

The economic growth and development of developing nations is highly dependent and influenced by the output of the construction industry (Durdyev & Ismail, 2012). The construction industry in Zambia, like others around the globe, delivers and maintains infrastructures such as bridges, roads, railways, buildings and power stations. According to the United Nations in Zambia (2016), the industry is recognized as the largest and fastest growing sector with about 21.1 percent contribution to the country’s gross domestic product (GDP). The industry focuses mainly on infrastructural development by providing basic human needs thereby enabling steps towards self-sufficiency and wealth creation (Shakantu et al., 2002).

To keep the pace and the positive impact of the construction industry on the economy, the process of development and growth of construction Small, Medium and Micro enterprises (SMMEs) is imperative. Having a strong base of SMMEs in place, the country has the potential to produce high-quality infrastructure. In Zambia, the construction industry comprises of large businesses and the SMMEs. The large businesses are more productive and significantly
contribute to the total output of the sector compared with the SMMEs. Most of the SMMEs are small, home-based and individual or family owned (Beyani, 2016). Despite the nature of SMMEs in Zambia, they contribute significantly in the provision of employment, promotion of industrialization, and helps in reducing rural migration that is prevalent in developing countries (Ngoasong, 2007).

However, SMMEs in the construction industry are faced with numerous challenges in the delivery of construction projects. The Ministry of Commerce, Trade and Industry in Zambia has stated that SMMEs are stagnant due to the barriers impeding their growth (Chisala, 2008). Despite contributing to the economic growth of Zambia, SMMEs are characterized by low performance and high rate of failure in project delivery because of their lack of resources such as capital and skilled labor (Majama & Israel’Teddy’Magang, 2017). Nevertheless, a great portion of SMMEs are thriving and maximally contributing to the economic growth and development of the country while the government keeps struggling on how best to address the issues that affects their performance and growth.

This paper is a part of a recently completed research study that assesses the growth and development of SMMEs in the Zambian construction industry. It presents the results of the questionnaire survey of SMMEs construction professional’s perception on the influential factors for growth of SMMEs in the Zambian construction industry. The aim is to offer comprehensive and workable solutions to the numerous challenges affecting the growth and positive impacts of SMMEs in growing the Zambian economy. While the data is based on Zambia, a case of Lusaka which is the capital, the findings from the study have the potential of global application, especially to growing and developing countries. First presented is a review of related studies on SMMEs in the construction industry. The next section then presents the research methods adopted for the study followed by a discussion of the findings.

2. Overview of Small, Medium and Micro Enterprises

SMMEs are defined based on the country’s economic position, hence, there is no globally accepted definition for them. Other definitions are based on their role in economic development and industrialization while others are determined by the employee base of the enterprise. However, there is need for an appropriate definition that reflects the real situation of SMMEs. The European union popularized the term small and medium enterprise (SME) in 1996, describing it as any organization with at least 250 employees (April, 2005). As used in South Africa’s national white paper on small businesses, the term ‘established SMMEs’ describes businesses owned and managed by white entrepreneurs while ‘emerging SMMEs’ refers to those owned and managed by black entrepreneurs (Netshandama, 2006).

The improved competitive environment of SMMEs contribute to poverty reduction and the economic and social development of developing nations. SMMEs are referred to as job creators, foundation upon which big businesses are built and likewise the fuel of national economic growth. Over ninety percent of private businesses are in the SMMEs category while they contribute to more than fifty percent of employment and GDP of most African countries (Abor & Quartey, 2010). In Zambia, large businesses account for about seven percent of the employment rate while SMMEs account for about 88 percent since majority of the businesses are in the SMMEs sector (Beyani, 2016). This attribute of SMMEs and their overwhelming positive impact on the economy has received the attention of the government, academics, research institutions and other stakeholders to further strengthen their development and growth. The success of SMMEs in an economy have also been used to assess the effectiveness of governments policies and legislations in encouraging and nurturing entrepreneurial culture among the citizens (Nasir et al., 2017). In enhancing the growth of SMMEs, an increased amount of attention from public, private, academic/research institutions, and other stakeholder is imperative, considering their considerable support for SMMEs across various sectors (Ganyaupfu, 2013).

In 1981, the Zambian government coming to terms with the significant role of SMMEs in economic growth and development of the country established the Small Industries Development (SID) Act. This is in response to the extreme financial difficult environment the SMMEs are operating as realized by the government and other policy makers. This period also sees the Small Enterprise Development Organization (SEDO) stepping in to help improve the effectiveness and implementation of the SID Act of 1981 (Nuwagaba, 2015). With these efforts towards optimizing the benefits and impacts of SMMEs to the Zambian economy, it is believed there will be a rise in the incomes for low earners as well as the country’s tax base.

3. Classification of Small, Medium and Micro Enterprises
Literature has established various classifications of SMMEs. However, Fortuin (2004) classified SMMEs according to the South Africa’s National Small Business Act 20 of 1996 namely: survivalist enterprises, micro enterprises, small enterprises, and medium enterprises.

3.1 Survivalist enterprises

This category is characterized by poverty and determined effort for survival. The activities of this enterprises are mainly conducted by people unable to find job or access the sector of their choice. With little capital investment required and virtually no specialized skills acquired in the field, the income made from their businesses remain below the minimum income standard with limited opportunities to grow their businesses into a viable one.

3.2 Micro enterprises

These are very small businesses which usually involves the owner, some family members and at most, two paid employees. Formalities such as business licenses and permits, operating permits, accounting procedures, Value Added Tax (VAT) registration, and formal business office among others are non-existence in this category. They are characterized by limited financial base and only fundamental technical or business skills for operation, with many of them growing into practicable small businesses. However, their level of earnings differs widely depending on the sector operated in, growth phase of the business and the level of access to relevant support.

3.3 Small enterprises

This category comprises of the bulk of established businesses characterized by between five to fifty paid employees base. They are usually managed or directly controlled by the owner. Small enterprises are duly registered with the government and other agencies for tax, meets other formal registration requirements and normally operate from a business or industrial premise. A major difficulty experienced is the classification of these enterprise based on their assets and turnover, given the wide differences in various sectors such as manufacturing, retailing, professional services and construction among many others.

3.4 Medium enterprises

This category is difficult to define but generally owned, managed and controlled by the owner, with the possibility of a complex shareholding. They are however characterized by employee base of 200 and capital assets of about R5 million often seen as the upper limit when their properties are excluded.

4. Small, Medium and Micro Enterprises in the Construction Industry

SMMEs in the construction industry have a direct impact on skilled and unskilled employment. They are family-owned or solely-owned businesses characterized by few foremen and mostly casual labor employed as the need arises (Chilipunde, 2010). Most of the renowned and established companies in the South African construction industry started from the general building contracting category, hence making the sector extremely competitive and unsustainable (Thwala & Mvubu, 2009). Construction SMMEs can undertake minor projects with a competitive price at different geographical locations that might be expensive if undertaken by large companies. When functioning at maximum capacity, SMMEs can help in decentralizing the construction industry which is known to be mostly dominated by established large companies. Majority of the construction SMMEs fall within the small and medium size range and do not export their services outside their country of operation (Dlungwana & Rwelamila, 2004). Hence, their inability to compete in the global construction market which is dominated by a few construction multinationals. However, the local construction SMMEs compete at the level of small and medium-sized projects which they often have the capacity to execute. Globalization thus brings opportunities for SMMEs to subcontract work from large multinational enterprises and likewise in limited cases, form a joint venture and partnership.

5. Influential Factors for the Growth of Small, Medium and Micro Enterprises

Success has been identified as the goal of every day to day activities that takes place in a business enterprise (Arslan & Kivrak, 2008). In the construction industry, success means focusing on the ability and effectiveness in planning and
execution of projects considering the success parameters such as cost, time and quality. For an enterprise to thrive in a highly competitive environment such as the construction industry, it is imperative for them to ensure they are successful in their day to day operational activities. The continuously changing and growing nature of the construction industry with the integration of novel business methods and technologies makes it critical for SMMEs to adopt appropriate strategies to aid their competitiveness and success. As identified in literature, manager’s characteristics; enterprise’s characteristics; and application of information technology, innovation and maintenance of accurate records are influential factors for the growth of SMMEs.

5.1 Manager’s characteristics

The competence of the manager of a SMME is the ultimate determinant of the success or failure of any business (Arslan & Kivrak, 2008). Lack or incompetence of management (i.e. strategic management such human resources management) of SMMEs can result in the failure and underperformance of the business. Human resource management is important as it includes not only issues that pertains to employees, but also the management of people outside the organization, such as key customers, banks, suppliers and investors, among others, who are also critical to its success (Saleh & Ndubisi, 2006).

The characteristics of the owner-manager or entrepreneur is considered as one of the most crucial factors affecting the growth of SMMEs. Age, level of education, gender, family background, human and social capital, and behavioral/personal qualities are attributes of the SMME owner that determines the start-up, survival, growth and successful performance of the firm (Barbosa, 2016; Hampel-Milagrosa et al., 2013). Good management skill is an essential skill that a SMME manager should have, coupled with previous business experience and support from family and friends, which is believed will aid the growth and development of the business (Stefanovic et al., 2010). It is therefore important for the manager/owner of a SMME to possess a good management knowledge for such business to survive and grow (Shakantu et al., 2002). The quest for personal development of the manager/owner in acquiring the requisite skills in managing the business also has the potential in rapidly growing the business.

5.2 Firm’s characteristics

Factors such as the age of the firm/number of years the firm has been operating, size of the firm, location of the firm, capacity of the firm to upgrade and sustain its development are few of the attributes that determines the growth and development of a business (Hampel-Milagrosa et al., 2013). This is further consolidated by Ganyaupfu (2013) who highlighted human resource management of the firm, marketing strategy of the firm, and source of capital of the firm as other factors that determines the sustainability of a business in a competitive scene. The number of shareholders and the capital input into the business has the potential to aid the survival, growth and development of the business. It is also well known through literature that lack of fund could be one of the main constraints impeding the performance of SMMEs.

The organizational structure of the firm is also indicated as a major factor that determines the growth and development of the business (Al-Mahrouq, 2010). This is reflected by the efficient organizational management of the firm, bearing in mind that poor management is known to be a major cause of business failures. Also, the geographical location of a business is an important factor to consider. The environment/location at which the business operates is crucial to its growth as it affects the marketability of the firm. Marketing is one cogent factor that determines the expansion of SMMEs. The constituting variables of the factor to note include marketing research for the firm’s products/services, promotion of the products/services, and locating the firm close to the targeted market or customers/clients. To stand a good chance of surviving and thriving, it is important for SMMEs to recognize their target markets and the respective services and products demanded (Anga, 2014).

5.3 Application of information technology, innovation and maintenance of accurate records

By embracing the application of information and communication technologies, the level of competitiveness of SMMEs will be significantly increased. According to Anga (2014), SMMEs employing technological innovative solutions in the operation of their businesses have a higher survival and growth rate compared to those who are not. Shakantu et al. (2002) affirmed that the key driver of transformation for SMMEs in the Zambian construction is technological change. The developments in information technology are facilitating information flow through all aspects of the industry, including design, construction, decommission, deployment, finance, marketing and sales. Adapting to the incorporation of information and communication technology (ICT) is significantly influencing technological change in the industry. This has affected the way the industry communicates and its ability to access
information. Adaptation of technologies such as satellite communications, video links, and global telephony is one way in which SMMEs can grow and sustain the pressure in the competitive industry.

Shakantu et al. (2002) indicates that technological innovation is a key driver of growth of SMMEs in the construction industry. Technological innovation in SMMEs is the utilization of novel knowledge and techniques in the design, production, provision, marketing, sales and delivery of higher quality products/services. Innovation, flexibility and ability to promptly respond to the demands of the customers/clients is a key advantage of SMMEs and likewise a condition for long-term competitiveness of any organization. Innovation represents inventions meeting business creativeness, management, cooperation, company culture, competitors, suppliers, external conditions, natural environment, and fortuitous factors (Antlova, 2017). Process innovations could increase efficiency while products/services innovations could enhance quality and superior output. Cost reduction through application of agile and lean construction practices among others are also innovative strategies of achieving a competitive advantage by construction SMMEs.

Ability to effectively and efficiently manage personnel and maintain accounting records are also key driver of growth of SMMEs in the construction industry (Stefanovic et al., 2010). According to April (2005), SMMEs can be successful if they keep and maintain a good and simple record which entails their day-to-day business activities. This record will however provide the owners/managers or the entrepreneurs with the information on how the business is performing while revealing the areas that needs to be addressed or improved upon to ensure the success, growth and development of the business. and partnership. This study therefore examines the influential factors for the growth of SMMEs in the Zambian construction industry with the outcomes having the potential for global applicability.

6. Methodological Framework

This research paper employed a combination of secondary data (literature review) and primary data (structured questionnaire survey). This is to present an informative evidence on the owners/managers perception on the factors that influences the growth of SMMEs in the Zambian construction industry. A structured questionnaire targeted at construction SMMEs owners/managers who are construction professionals (architects, civil engineers, project managers, construction managers, quantity surveyors and construction project managers) in the Zambian construction industry was used in the study.

Structured questionnaire survey containing closed-ended questions was administered to the respondents. The first part of the questionnaire sought information about the background of the respondents (such as their level of educational qualification, professional affiliation, years of experience, age of the business, grade and category of the business, and reasons for starting the business). The second part of the questionnaire sought the respondents’ evaluation of the influential factors for the growth of SMMEs in the Zambian construction industry. The respondents were asked to indicate their level of agreement on the identified variables on a five-point Likert scale (strongly disagree-1, disagree-2, neutral-3, agree-4, strongly agree-5). Statistical Package for Social Sciences (SPSS) Version 16 software was used to analyze the data obtained. Descriptive statistics with the aid of standard deviation and mean scores was used to present the result of the analyzed data.

7. Results and Discussions

7.1 Background of respondents

The results of the study revealed 28 percent of the respondents possess a bachelor’s degree while 29 person had master’s degree, 11 percent had diploma certificate and 7 percent had matric certificate. For the professional affiliation of the respondents, 29 percent were quantity surveyors, 29 percent were also civil engineers, 18 percent were construction managers, 11 percent were project managers, 11 percent were also construction project managers while 4 percent were architects. The results also showed that 29 percent had experience that ranged between 1-5 years, 18 percent had experience that ranged between 6-10 years, 32 percent had experience that ranged between 11-15 years, 4 percent had experience that ranged between 16-20 years, 14 percent had experience that ranged between 21-25 years while 4 percent had experience from 26 years and above. As presented in Fig. 1, 39 percent of the respondent’s owned/managed construction SMMEs had been operating between 1-5 years, 25 percent had been operating between 6-10 years, 11 percent had been operating between 11-15 years, 7 percent had been operating between 16-20 years, 11 percent had been operating between 21-25 years while 7 percent had been operating from 26 years and above.
7.2 Influential factors for the growth of SMMEs in the construction industry

Assessing the level of agreement of the respondents on the influential factors for the growth of SMMEs in the construction industry, the results are presented in Table 1. The results revealed that all the 30 variables assessed have mean values above 2.5 (Field, 2013) with the minimum been a high value of 3.5. This result implies that all the variables are highly significant for influencing the growth and development of construction SMMEs. However, the respondents considered ‘good financial management’, ‘personal network’, ‘ability to manage personnel’, ‘proper cashflow management’, ‘good management skills’, and ‘proper planning’ as the top five important influential variables. Flexible labor, change in market location, and support of family and friends were identified as the least three important influential factors for growth of construction SMMEs. The results agreed with the studies of Stefanovic et al. (2010) and that of Hampel-Milagrosa et al. (2013) which good financial management, proper planning, taking calculated risks, good record keeping, source of capital, size of the firm, and support from friends and families among others are factors to consider when the growth and development of construction SMMEs is the target. The result also agreed with the study of Al-Mahrouq (2010) which identified innovation, flexible labor, and change in market location as the factors to consider for growing construction SMMEs to maximize their potential benefits to the national economy. global applicability.

Table 1. Influential factors for growth of construction SMMEs

<table>
<thead>
<tr>
<th>Influential factors</th>
<th>Mean score</th>
<th>Standard deviation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good financial management</td>
<td>4.357</td>
<td>0.826</td>
<td>1</td>
</tr>
<tr>
<td>Personal network</td>
<td>4.321</td>
<td>0.612</td>
<td>2</td>
</tr>
<tr>
<td>Ability to manage personnel</td>
<td>4.286</td>
<td>0.659</td>
<td>3</td>
</tr>
<tr>
<td>Proper cash flow management</td>
<td>4.286</td>
<td>0.659</td>
<td>3</td>
</tr>
<tr>
<td>Good management skills</td>
<td>4.286</td>
<td>0.600</td>
<td>3</td>
</tr>
<tr>
<td>Proper planning</td>
<td>4.250</td>
<td>0.585</td>
<td>4</td>
</tr>
<tr>
<td>Operational management</td>
<td>4.214</td>
<td>0.738</td>
<td>5</td>
</tr>
<tr>
<td>Structure of the firm</td>
<td>4.179</td>
<td>0.819</td>
<td>6</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>4.179</td>
<td>0.772</td>
<td>6</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>4.179</td>
<td>0.670</td>
<td>6</td>
</tr>
<tr>
<td>Taking calculated risk</td>
<td>4.143</td>
<td>0.651</td>
<td>7</td>
</tr>
<tr>
<td>Human resource management practices</td>
<td>4.143</td>
<td>0.525</td>
<td>7</td>
</tr>
<tr>
<td>Managerial competence</td>
<td>4.107</td>
<td>0.737</td>
<td>8</td>
</tr>
<tr>
<td>Good record keeping</td>
<td>4.071</td>
<td>0.663</td>
<td>9</td>
</tr>
<tr>
<td>Innovation</td>
<td>4.071</td>
<td>0.766</td>
<td>9</td>
</tr>
<tr>
<td>Business environment</td>
<td>4.071</td>
<td>0.766</td>
<td>9</td>
</tr>
<tr>
<td>Level of education for the entrepreneur</td>
<td>4.036</td>
<td>0.999</td>
<td>10</td>
</tr>
<tr>
<td>Experience on part of the owner</td>
<td>4.000</td>
<td>0.903</td>
<td>11</td>
</tr>
<tr>
<td>Abundant Resources</td>
<td>3.893</td>
<td>0.685</td>
<td>12</td>
</tr>
<tr>
<td>Staff’s skills training and development</td>
<td>3.893</td>
<td>0.629</td>
<td>12</td>
</tr>
<tr>
<td>Source of capital</td>
<td>3.893</td>
<td>0.737</td>
<td>12</td>
</tr>
<tr>
<td>Effective marketing strategies</td>
<td>3.893</td>
<td>0.994</td>
<td>12</td>
</tr>
<tr>
<td>Maintenance of accurate records</td>
<td>3.857</td>
<td>0.756</td>
<td>13</td>
</tr>
<tr>
<td>Entrepreneur personality</td>
<td>3.857</td>
<td>0.848</td>
<td>13</td>
</tr>
</tbody>
</table>
8. Conclusion and Recommendations

This research paper has shown the beneficial impact of construction SMMEs in creating jobs, stimulating innovations, and creation of novel products and services. SMMEs are also identified as driving industrial development and strengthening the infrastructure for accelerated economic expansion of many developing nations. These possibilities and potentials has therefore made the SMMEs a focal point of the government, policy makers and other stakeholders. However, there are series of difficulties facing construction SMMEs, thereby affecting their survival, growth and development. Because of these challenges, the influential factors for the growth of SMMEs should be comprehensively adopted and implemented. Owners/managers of these businesses are also implored to seek personal development to cope and, efficiently and successfully manage the business in a competitive environment such as the construction industry. Support (moral, financial etc.) from family and friends in running the businesses is also imperative as it goes a long way in determining how successful the business will perform. More importantly, support from the government and other stakeholders in form of policies, legislations, access to low interest loans and capital start-ups, patronage, and conducive market and business environment is highly recommended. With the factors and many more in place, it is believed that the potential benefits of construction SMMEs will be maximized.

References


April, W.I., Critical factors that influence the success and failure of SMEs in Namibia in the Khomas Region (Doctoral dissertation), University of Stellenbosch, South Africa. 2005.


**Biographies**

**Oguntona A. Olusegun** is a doctoral student in the Sustainable Human Settlement and Construction Research Centre, Faculty of Engineering and the Built Environment, University of Johannesburg, South Africa. He obtained his Bachelor of Technology (BTech) in Architecture from Ladoke Akintola University of Technology, Nigeria, Master of Technology (MTech) in Construction Management (with distinction) from the University of Johannesburg, South Africa. He has published over ten articles in peer-reviewed journals and conferences. His research interests include sustainable construction, green building, biomimicry, green and biomimetic materials. He is a student member of the Chartered Institute of Building (CIOB) UK.

**Mabasa D. Khanyisa** is a Masters student in the Department of Construction Management within the Sustainable Human Settlement and Construction Research Centre, Faculty of Engineering and the Built Environment, University of Johannesburg, South Africa. She obtained her Bachelor of Technology (BTech) in Construction Management from the University of Johannesburg, South Africa.

**Professor Clinton O. Aigbavboa** is currently the Vice Dean, Postgraduate Studies, Research and Innovation and Head, Sustainable Human Settlement and Construction Research Centre, Faculty of Engineering and the Built Environment, University of Johannesburg, South Africa. He is also the Editor, *Journal of Construction Project Management and Innovation* (JCPMI). His research interests include sustainable housing regeneration (urban renewal and informal housing), lifecycle assessment in the construction industry, leadership in low-income housing, post occupancy evaluation and green job creation.