

# **Small-Medium Sized Contractors' Growth in Cape Coast Metropolis**

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## **Abstract**

The domination of Small and Medium Sized Enterprise (SME) contractors in the construction industry, has positioned them as the bedrock of economic growth all over the world. The study examines the factors that influence SME contractors' growth in Cape Coast. Structured questionnaires were administered among the constructional professionals in Cape Coast Metropolis. Findings from the study show that lack of government support has contributed to the factors that retard the growth of Small and Medium-Sized Enterprise (SME) contractors in Cape Coast Metropolis. Other contributing factors are delayed payment for work done and high staff turnover. Government support is required and upfront payment of contractors' to help shape and improve the performances of the SME contractors' for the development of Cape Coast Metropolis.

**Keywords:** Construction Industry, Economic Growth, Influential Factors, Market Challenges, Performance.

## **1. Introduction**

The construction industry is dominated by small and medium sized enterprise (SME) contractors [23]. SME contractors form the bedrock of economic growth all over the world and respond to economic shocks quickly, generate jobs and income at the time when the large firms are undergoing a rapid decline and shedding jobs. SME contractors are found lagging to reach their optimum size (growth period of five years) as indicated by [26], due to bankruptcy rate of businesses in the construction industry. [3,14,8,6] argued that this difficulty has contributed to the slow growth of SME contractors. Construction companies all over the world are classified based on their resources holding and as posited by [6] and this classification is similar to life cycle and optimum size theory of business growth. A firm 's growth can be measured in terms of its capital investment, value of assets, market capitalization, economic value added elements or outputs (sales, revenues, profit). Each of the measures illustrates some feature of growth and each is subject to limitations as a growth indicator [8]. Lack of understanding the factors that influence the growth of SME contractors in Cape Coast Metropolis has contributed to non-existence of policy guidelines [23]. [23] further cited lack of government support, unprofessional conduct of consultants, delayed payment for work done, high staff

turnover, low educational level of contractor and poor management as the major contributing factors to slow growth of SME contractors in Cape Coast Metropolis. The paper assessed factors that have influence on SME contractors' growth in Cape Coast Metropolis. The emphases of the areas of discussion in the paper followed an enterprise growth.

## **2. Literature**

The growth of enterprises has been defined differently by different authors based on what they view as indicators of growth. Growth is defined in terms of the value addition, quality of product, increase in production output, share of market, employee size, goodwill of customers, geographical spread etc. [11,20]. [12] defined business growth both as qualitatively and quantitatively. They argued that the level of revenue generated and volume of production over a given period gives a quantitative measure of growth of a firm. While qualitative measure the based improvement in quality of the product, loyalty of customers, and share of the market the firm controls. Theory suggest that for a business to overcome market challenges and grow to achieve outstanding performance, then it must aim at efficiency, profitability and good financial management [18,17]. [6] emphasized categorically on the financial classification of construction industries as a measure of growth of business. Several theories have discussed the organizational management literature on enterprise growth [11]. Three growth theories (optimum size theory, life cycle theory and resource base theory) have featured prominently in the enterprise growth literature. [7] cited change of government as one of the major problems in the slow growth of SME contractors'. [10] argued that ownership structure as an influencing factor to on the asset base of the firm, the competitive arena within which the firm operates and ultimately the direction and governance mechanism of the firm. There is also delay in payments of projects executed by contractors has taken most the limited resources [25] and this has also contributed to their slow growth. This delay in payment may be associated with government sponsored projects which has political influence and adversely hinders SME contractors' development [5,13]. [24] indicated that SME contractors' in Ghana are often established by one individual who doubles as the manager with very limited formal education, who takes all key decisions. They argued further that the owner-managers of SME contractors have limited access to information on the market and emerging technology, and their access to credit from the financial market is severely constrained.

Moreover, the registration and classification of contractors in Ghana is not mandatory on all projects, as pouted out by [6], but for government projects only. They were of the view that class assigned to a business at the time of registration depends on the resource holding capacity of the business. However, the resource holding capacity (human, financial, equipment resources of the enterprise) of contractors are considered under businesses in the construction industry classification. However, [4] and [16] have indicated that limited capital of firm has contributed to their slow growth of SME contractors. [2], [1] and [10] posited that skills and capabilities, resource base, employee size, risk tolerant level, technological edge has a direct influence on growth and performance of SME contractors in Cape Coast Metropolis. While [22,15] argued that business locations have an influence on the growth of a firm since most of the projects are often cited at rural or urban areas. Finance is a determining factor for credit management, purchasing, inventory, and much more. If finances are not properly managed, a company may not have the funding for growth or the proper systems and technology to grow successfully. Several factors should be put in place when a firm is plans to be successful for its growth. The business theory of growth which relies on five factors: the market; products or services; organization as a whole; the people in the business; and the finances must be followed [21].

### **2.1 Growth of an enterprise**

Several researchers [11,20] viewed indicators of growth of enterprises and provided different definitions. [12] defined business growth both as qualitatively and quantitatively. The level of revenue generated and volume of production over a given period gives a quantitative measure of growth of a firm. [6] argued that the financial classification of a firm in the construction industry is often used as a measure of growth of business. While [18] was of the view that growth as an enterprise over a given period has increased in its employment profile, financial class, and annual turnover or value of works executed or has jobs across a wide geographical area. [11,20] however, defined growth in terms of the value addition, quality of product, increase in production output, share of market, employee size, goodwill of customers, geographical spread etc. [18,17] have different view to the previous researchers, on the definition of growth. They defined growth in qualitative measurement, as defined by [18,17] is based improvement in quality of the product, loyalty of customers, and share of the market the firm controls. For a business to overcome market challenges and grow to achieve outstanding performance, then it must aim at efficiency, profitability and good financial management. [19] was of the view that it is not necessarily the case that a firm goes through distinct stages

of growth. They further emphasized that there exists no clear cut path for the various stages of growth and the predictors for the transition from one stage to the other are also not clear. [9] on the other hand, identified five stages that a firm goes through in the growth process, ie. Launch capacity, expansion, organizational formalization, succession, and long-term growth. He further pointed out that capacity expansion will move the business from stage two to three and then producing enough to meet market demand is important to reach the success stage. He argued further that formal organization structure is necessary to match the demand with appropriate supply and that a competent successor is the cornerstone of a well-established business.

### **3. Methodology**

The study was limited to Small and Medium-Sized Enterprise (SME) Contractors' in Cape Coast Metropolis to seek information regarding ongoing construction projects. A face-to-face administered questionnaire survey was used in the study to obtain the required information from the employees of various firms on SME contractors' growth. The employees were made up site engineers, architects, site managers, surveyors, foremen and store managers. Two weeks after the questionnaires were administered, a follow-up questionnaire was sent to each of the respondents. The survey was conducted in January 2018.

### **4. Findings and Discussion of Results**

This section presents the findings from the administered questionnaire and discussion of results. It began with demographic information and continued with information on SME contractors' growth.

#### **4.1 Demographic information**

##### **4.1.1 Years in the firm**

Table 1 shows that most of the respondents have been with the firm for a short period. This indicates that they can contribute little to what is happening in terms of the growth of the firm. This is followed by employees who have served between 6-10years and indicates the number of experienced personnel, who can also make useful contribution towards the growth of the firm.

Table 1: Year in the Firm

	Frequency	Percent (%)
2-5yrs	18	38.3
6-10yrs	15	31.9
11-15yrs	6	12.8
16-20yrs	4	8.5
21-25yrs	1	2.1
26-30yrs	1	2.1
31yrs and above	2	4.3
Total	47	100.0

#### 4.1.2 Respondents status in firm

Table 2 shows that majority of the respondents were site managers. This followed by foremen, site engineers and architects respectively. It shows that the respondents were conversant with the day to day activities of the firms.

Table 2: Position in Firm

		Frequency	Percent (%)
	Foreman	7	14.9
	Site Engineer	7	14.9
	Architect	5	10.6
	Site Manager	17	36.2
	Surveyor	5	10.6
	Store Manager	2	4.3
	Total	43	91.5
Missing	System	4	8.5
Total		47	100.0

#### 4.1.3 Number of years' firm has been in existence

Table 3 shows that majority of the firms have been in existence ranging from 15-20years. This is followed by 10 to 14 years. This indicates that almost all the firms have acquired a lot of experience that should have enabled them to perform adequately for their growth.

Table 3: Years of Firm

		Frequency	Percent (%)
	5-9yrs	8	17.0
	10-14yrs	10	21.3
	15-20yrs	15	31.9
	21-30yrs	6	12.8
	31yrs and above	6	12.8
	Total	45	95.7
Missing	System	2	4.3
Total		47	100.0

#### 4.1.4 Classification of firms

Table 4 shows that firms with D2/K2 and D1/K1 were the majority, with respect to the number of respondents. This indicates that the respective firms had the necessary organizational capacity to enable them tender and execute any available project.

Table 4: Firm's Classification

		Frequency	Percent (%)
	D1/K1	15	31.9
	D2/K2	17	36.2
	D3/K3	8	17.0
	D4/K4	5	10.6
	Total	45	95.7
Missing	System	2	4.3
Total		47	100.0

D1/K1 – Building and Civil Engineering Works Grade I

D2/K2- Building and Civil Engineering Works Grade 2

D3/K3- Building and Civil Engineering Works Grade 3

D4/K4- Building and Civil Engineering Works Grade 4

#### **4.2 Information on SME contractors' growth**

This section presents the findings and discussion of results based on the factors that impede Small and Medium-Sized Enterprise (SME) contractors' growth in Cape Coast Metropolis. Lack of government support was ranked first on the list and has the highest standard deviation of 0.900. Delayed payment for work done is second on the ranking, with 0.894 as its standard deviation. This was followed by high staff turnover has a standard deviation of 0.850. Subsequently, poor management and low educational level of contractor and the least on the ranking was unprofessional conduct of consultants.

Table 1 Factors that impede SME contractors' growth

Factors	N	Min.	Max.	Mean	Std. Deviation	Ranking
Lack of government support	46	2	5	4.30	0.840	1st
Delayed payment for work done	45	2	5	4.27	0.780	2nd
High staff turnover	46	2	5	4.30	0.756	3rd
Poor management	45	2	5	4.44	0.755	4th
Low educational level of contractor	45	2	5	4.38	0.614	5th
Unprofessional conduct of consultants	46	2	5	4.39	0.614	5th

### **5. Conclusion and Recommendations**

Almost all the firms have experienced personnel, who were site managers, engineers and architects respectively. Majority of the firms were in the classifications of D1/K1 and D2/K2 and have acquired a lot of experience due to their long years in existence. SME contractors' impediment to growth in Cape Coast Metropolis has been attributed mainly to lack of government support and delay in payment for work done. There is the need for a government support and immediate response to payment of contractors, in order to shape and improve the overall performance of SME contractors towards their growth.

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