An investigation into the financial challenges faced by SMMEs in the construction industry in Gauteng

Submitted in partial fulfilment of the Master's Degree in Business Administration

Junithan Moodley

Student number: 79029795

Supervisor:

Dr Mark J Peters

University of South Africa

School of Business Leadership

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DECLARATION

Name of Student: Junithan Moodley

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ABSTRACT

SMMEs in the South African construction industry make a significant contribution to the industry, but face several challenges, including access to sufficient finance. Government financial support for the industry has been found to be limited. This study, therefore, seeks to examine the financial challenges confronting SMMEs in the Gauteng construction industry. This study is significant in the sense that the construction industry makes a major contribution to the economy. The success of the industry is, therefore, essential in the interest of the country.

This study was quantitative, descriptive and cross-sectional in nature and the target population was all SMMEs in the Gauteng construction industry, estimated to be 10 480. Using a sampling frame, systematic sampling was employed and a sample size of 533 was employed. A questionnaire formed the basis for the empirical study, comprising six themes, viz., demographic characteristics, financial assistance and support, financial management skills, financial resources, access to finance, and financial bootstrapping. The data was analysed using SPSS (Version 27).

It emerged that the industry was dominated by male contractors, with the vast majority of businesses being relatively young, and having under ten employees. Most contractors faced challenges in obtaining finance and many resorted to bootstrap financing. Contractors believed that they had the necessary financial knowledge levels to run their businesses. Most respondents were of the view that government has not provided direct financial and financial related support. The study introduces a path diagram for the modified Structural Equation Model that emerged from the findings. Based on the findings, several recommendations have been made for contractors themselves, the private sector, government, policy makers and other stakeholders, with a view to supporting the industry.

These include the encouragement of woman established and owned businesses who can be put through a government and private sector funded incubation program to develop and support their growth until they have the capacity to operate independently. The establishment of a construction bank has also been proposed, which could aid the financial challenges faced by SMMEs in the construction industry.

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INTRODUCTION

1.1 Introduction

This chapter commences by presenting a background to the study, and proceeds to discuss the problem statement. This is followed by a presentation of the intention of the study, indicated by way of the aim, research questions and objectives of the study. Thereafter, the rationale for the study is presented, and the chapter concludes by briefly outlining the contents of the remaining chapters.

1.2 Background to the study

SMMEs are regarded as being vital for advancing inclusive economic growth and development in South Africa. The National Development Plan emphasises the importance of SMMEs in job creation, innovation and competitiveness, with the expectation that 90 percent of new jobs will be created by SMMEs by 2030 (Bhorat, Asmal, Lilenstein & Van Der Zee, 2018, 2).

SMMEs are a critical element of all economies and are key drivers of economic growth, dynamism and adaptability in both developed and developing countries (Woodward, 2009, 34). In the South African construction industry, these SMMEs are not only a basis of local support to construction companies, but are also a source of local employment, both in the short-term and in the long-term. These small, medium and micro contractors also play a prominent role in aiding construction companies in meeting the requirements of a Government gazetted minimum local expenditure from the Preferential Procurement Policy Framework Act (PPPFA, 2017, 11).

The definition of what constitutes SMMEs varies among countries across the world. In South Africa, the latest categorisation, as pronounced by the Minister of Small Business Development, with specific reference to the construction industry, is as follows: a “small enterprise” employs between 11 and 50 people and has a turnover of

less than R 75 million per annum; a “medium enterprise” employs between 51 and 250 people with a turnover of less than R 170 million, and a “micro enterprise” employs between one and 10 people and has an annual turnover of less than R 10 million (Businesstech, 2019).

Despite the significant contribution made by SMMEs to the South African economy they face numerous challenges. According to Nyide & Zunkel, (2019, 123), access to adequate finance is the greatest challenge faced by SMMEs, resulting in them relying on informal sources of funds rather than formal sources to finance their establishment and operational costs.

Access to finance has been identified by many observers as a key barrier to the performance of emerging contractors (ECs). The financial performance of construction firms that have access to bank finances has been found to be better than those who do not have access to such facilities. Studies have also indicated that SMMEs that do not have a successful track record have a very limited chance of accessing finance (Hove & Banjo, 2018).

Nyide & Zunkel, (2019, 124) believe that access to finance is a major hurdle for SMMEs, as a lack of security and exorbitant lending rates, with no leeway for restructuring loan repayments with private banks is a significant problem. The private banking sector has been viewed as being a less than adequate source of finance. Recently formed SMMEs have constrained financial resources, and due to this constraint, have no choice, but to depend more heavily on internal sources of funds such as retained income and equity.

1.3 Problem statement

Financial institutions within South Africa offer limited support to SMMEs, especially within the South African construction industry, which limits and hinders their growth. The main sources of funding for these SMMEs are retained income, savings and possible informal providers of capital, which are considered to be volatile and challenging, and pose a major risk to these developing businesses (Fox & Skitmore, 2007, 183). Access to finance facilities from major financial institutions are minimal or

non-existent due to their high-risk profiles and possible previous defaults, as these small and medium sized businesses can barely meet their commitments to financial institutions.

Njiro, Mazwai and Urban (2010) specifically point to the Gauteng province, where they found that banks are not serving the needs of SMMEs. It was found that most of the capital requirements of SMMEs: 56.5% originate from the owners themselves; 14% by friends or relatives, and only 20.5% of the funding was provided by bank loans. Government assistance was found to be restricted. This raises questions as to how SMMEs can develop, given the limited funding opportunities they have access to. Research has found that that access to finance was a major obstacle faced by the SMMEs in the construction sector (CIDB, 2018).

In consideration of the above, this study seeks to investigate the financial challenges faced by SMMEs in the construction industry in the Gauteng province in South Africa.

1.4 Key research question

The key research question is: What are the financial challenges confronting SMMEs in the construction industry in Gauteng?

1.5 Aim of the study

The aim of this study is to examine the financial challenges confronting SMMEs in the construction industry in Gauteng.

1.6 Research objectives

Based on the aim of the study, the objectives of this study are as follows:

1.6.1 To analyse the current status of SMMEs in the construction industry in Gauteng, South Africa;

1.6.2 To ascertain the financial challenges faced by SMMEs in the construction industry in Gauteng, South Africa;

1.6.3 To determine the financial management skills possessed by SMMEs in the

construction industry in Gauteng, South Africa, and

1.6.4 To assess contractor's perceptions of government financial support for SMMEs in the construction industry in Gauteng, South Africa.

1.7 Research questions

The research questions are:

1.7.1 What is the current status of SMMEs in the construction industry in Gauteng, South Africa?

1.7.2 What are the financial challenges faced by SMMEs in the construction industry in Gauteng, South Africa;

1.7.3 What financial management skills do SMMEs in the construction industry in Gauteng, South Africa possess?

1.7.4 What are contractor's perceptions of government financial support for SMMEs in the construction industry in Gauteng, South Africa?

1.8 Rationale for the study

The construction industry plays a key role in the South African economy and is a major contributor to economic growth (Windapo & Cattell, 2013, 69). The construction sector can be seen as a significant contributor towards employment within the country, so it is, therefore, important to understand the factors surrounding the success of the South African construction industry. The main obstacles faced by SMMEs that are seen to be negatively impacting on their performance, development and growth include, *inter alia,* the rising costs of building materials, access to capital and exorbitant lending rates. The high failure rate that occurs among SMMEs can largely be attributed to a lack of education, training and funding, and can be reduced with training and development of these SMMEs (Mokasha, Aigbavboa & Oke, 2016, 55).

According to Maritz & Ogwueleka (2013, 84), the construction industry is a major contributor to the South African economy by creating employment opportunities, particularly for the least skilled members of society. Construction also plays an active role in technology development and transfer, while creating many opportunities for other enterprises.

1.9 Structure of the mini-dissertation

Chapter 1: Introduction

Chapter 1 provides a brief overview of the study.

Chapter 2: Literature Review

This chapter reviews the relevant literature aligned to the title. The specific issues that are discussed include the definition of what constitutes an SMME, the importance of SMMEs, the growth constraints facing SMMEs, the South African construction industry, SMMEs in the construction industry, and access to finance for SMMEs.

Chapter 3: Research Methodology

This chapter will discuss, *inter alia*, the research design, sampling strategy, measurement, data collection, data preparation and analysis and ethical considerations.

Chapter 4: Research Findings

This chapter will present, analyse and discuss he findings of the empirical study by means of descriptive and inferential statistics.

Chapter 5: Conclusions and Recommendations

This chapter will present the main findings from the empirical study; offer recommendations, and suggest areas for future research.

1.10 Conclusion

This chapter has presented an introduction to the study. More specifically, the background to the study, the problem statement, as well as the aim and objectives of the study were outlined. In the next chapter, the literature pertaining to *inter alia*, SMMEs, the construction industry and the challenges faced by SMMEs will be discussed.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The preceding chapter presented an introduction to this study. This chapter reviews the literature pertaining to SMMEs in general, as well as SMMES in the construction sector. It provides a definition of an SMME, given the classification criteria for an SMME from an international perspective. The chapter then highlights the economic importance of SMMEs and proceeds to discuss the growth constraints facing SMMEs, followed by key success factors for SMMEs. It then focuses on finance as a success factor for SMMEs, and thereafter discusses government initiatives in promoting SMMEs in South Africa. It finally provides a context to the construction industry in South Africa.

2.2 Definition of "SMME"

There is no one universal consensus on what constitutes an SMME. Various defining categorisations have been adopted in different contexts. Beck, Levine and Demirguc-Kunt (2005, 200) attribute this to several factors related to a particular country's socio-economic profiling. These definitions are either quantitative or qualitative in nature. Quantitative criteria include market share, turnover figures, the number of staff employed, amount of equity invested, net worth, value added, and production volume. Qualitative definitions take into consideration aspects such as managerial structure of the organisation, autonomy of ownership, financial practices, and trading style.

Besides varying from country to country, the definition of what constitutes an SMME can, at times, vary across industries, e.g., in the United States of America (USA), a manufacturing organisation is considered to be a small business if it employs less than 1 500 staff, whilst, in order to be categorized as being a small business in the retail sector, organizations need to have less than 500 employees, and in the wholesale sector, the threshold is 250 employees (Verma, 2021).

An examination of the classification of SMMEs, based on the staff complement, reflects variations across countries, and is reflected in Table 2.1.

Table 2.1: Classification of Small, Medium and Micro Enterprises (No. of employees)

Country/Region	Small business	Medium business	Micro business	Source
European Union	50	250	10	European Investment Bank (2013)
US		500		US International Trade Commission, 2010
Canada		500		Ward (2020)
Russia	100	250	15	European Investment Bank (2013)
Lesotho	20	50	5	Refiloe, Khoase, McArthur & Ndayizigamiye (2020, 139
Nigeria		300		Zondi (2017)

As can be seen from Table 2.1 above, the categorization of enterprises as small, medium and micro varies across regions or countries across the world. Some countries have elected to use turnover to categorize SMMEs. According to Smits, Sagoenie & Cuppen, 2018), Brazilian SMEs are classified solely by revenue, at a threshold of € 1,1m (equal to approximately R 18.8 million). India also uses turnover as a criterion to classify SMEs.

Regarding South Africa, in 2019 the Minister of Small Business Development revised the definitions of small, medium and micro enterprises in South Africa in order to adjust for inflation since the last classification in 2003. The previous classification of SMMEs with reference to the construction industry in South Africa is reflected in Table 2.2. The revised categorisation of SMMEs considers two criteria, viz., total full-time equivalent of paid employees and total annual turnover, removing the previous third criterion of “total gross asset value” which was considered when establishing the size of South African businesses in the construction industry.

Table 2.2: Criteria for the classification of SMMEs in the construction industry in South Africa

Classification	Full time staff	Turnover	Asset value
Medium	200	R26m	R5m
Small	50	R6m	R1m
Very Small	20	R3m	R0.5m
Micro	5	R0.2m	R0.1m

Source: Banking Association of South Africa (2017)

The last amendment was the collapsing of "very small enterprise" into the "micro enterprise" category, owing to the fact that many stakeholders considered this classification being of no use and was inconsistent with international benchmarking (Businesstech, 2019). The revised classification is reflected in Table 2.3.

Table 2.3: Revised criteria for the classification of SMMEs in the South African Construction Industry

Classification	Full time staff	Turnover
Medium	51-250	≤R170m
Small	11-50	≤R75m
Micro	0-10	≤R10m

Source: Department of Small Business Development (2019)

Botha, Smulders, Combrink & Meiring (2020) believe that turnover is an effective criterion to classify a business, as turnover is the simplest and most common way to segment businesses and taxpayers. Turnover is a more accurate indicator of business size than other criteria, as many provisions in the various Tax Acts refer to turnover rather than the number of employees.

Having defined an SMME, the next section examines the economic importance of SMMEs.

2.3 The economic importance of SMMEs

SMMEs make up the largest proportion of businesses in the majority of countries across the world. According to the Small Business Administration in the USA, in 2018, 99.9% of businesses in the USA, and in 2014 they accounted for approximately 44% of the GDP. While this may actually constitute a decrease in GDP share since the 1990s, SMMEs remain a key driver of innovation, diversity and economic growth. In 2017, 99.8% of all businesses in Canada were classified as SMMEs; i.e., they had under 500 staff (Ward, 2020).

According to Nieuwenhuizen (2019, 666), the contribution of SMMEs to national GDP differs across economies, varying from 16% in lower income countries to 51% in higher income countries. Over 95% of businesses globally are SMMEs, employing around 60% of the workforce. In addition, Labuschagne (2015, 24) highlights that SMMEs are an enabler for private business establishment and entrepreneurial activity; are agile, and have the potential to make quick adjustments to volatile market conditions and supply changes. SMMEs also play a prominent role in employment generation and help in creating a more diversified economy and increasing trade as well as exports. Bamata, Govender & Fields (2019, 244) add that SMMEs play an important role in employing people who may have been retrenched in other sectors.

It has been argued that SMMEs are the key drivers of economic growth in the developed world. To illustrate, under one per cent of the companies within the European Union (EU) are categorised as large enterprises, against the remaining 99 per cent, which are categorised as SMMEs, employing over 66 per cent of the workforce and accounting for around 58 per cent of industry value added in the EU. On a similar note, SMMEs in Australia contribute in excess of 30 per cent of industry value added (Massaro, Handley, Bagnoli & Dumay, 2016). Bongini, Ferrando, Rossi, & Rossolin (2017) add that small businesses have also played a significant part in the development of many emerging economies.

To illustrate the importance of SMMEs in non-first world countries, Labuschagne (2015, 49) provides statistics for. two countries; viz., Bangladesh and Thailand. There are approximately six million SMMEs in Bangladesh, which constitutes approximately 90% of all the industrial enterprises and generate approximately 25% of the country's GDP, employ more than 31 million people and accounts for over 75% of household earnings. In Thailand, there are approximately 2.74 million SMEs. This comprises around 98.5 percent of all businesses in Thailand, and creates employment for more than 11 million people.

The Durban Chamber of Commerce and Industry (2019) estimates that SMMEs in South Africa comprise up to 90% of formally registered business entities and employ approximately 60% of the workforce. Despite this, SMMEs only contribute about 34% to the country's GDP. This statistic is cause for concern when compared to more developed countries, where small businesses comprise up to 90% of the business population, employ up to 80% of the total workforce and make a greater contribution to economic growth. Nieuwenhuizen (2019, 666) adds that the contribution of the formal SMME sector to the Gross Value Added (GVA) in South Africa increased from 18% in 2010 to 22% in 2015. The GVA constitutes GDP before taxes and subsidies. In contrast, in the 27 European Union countries, the GVA of SMMEs was around 58%.

Machirori and Fatoki (2013, 115) add that large businesses as well as the public sector are unable to address the major economic challenges facing South Africa - recognising the strategic importance of SMMEs in resolving the economic problems faced by the country. Rungani & Potgieter (2018, 2) believe that the capability of SMMEs in creating employment is an important motivator for investors. In addition, Botha, Smulders, Combrink &_Meiring (2020) point out that SMMEs also act as turnover generators; hence, a source of taxation, resulting in more revenue for the fiscus. According to the Bureau for Economic Research (2016, 1), in 2015, only 667 433 out of 2 251 821 SMMEs in South Africa were registered businesses, thereby implying that the majority were informal SMMEs. Ayandibu & Houghton (2017, 136) add that SMMEs in South Africa have the potential to play a critical role in creating jobs, a more equitable income distribution, and growing the economy.

As far as the location of enterprises is concerned, Table 2.4 provides a percentage breakdown of the various enterprise categories, per province.

Table 2.4: Provincial profile by firm size

PROVINCE	MICRO	SMALL	MEDIUM	LARGE	SMME Overall	Ratio of SMME to large
Western Cape	12.7	17.3	15.6	15.9	14.2	0.9
Eastern Cape	12.0	10.1	8.9	6.3	9.9	1.6
Northern Cape	2.1	2.9	2.5	1.9	2.2	1.2
Free State	5.5	6.7	5.6	4.0	5.6	1.4
KwaZulu-Natal	16.6	16.2	17.1	17.5	16.8	1.0
North West	5.0	5.4	5.4	7.3	5.2	0.7
Gauteng	26.5	27.7	32.7	33.9	30.6	0.9
Mpumalanga	7.3	6.7	6.0	6.7	7.0	1.0
Limpopo	12.3	7.1	6.3	6.5	8.6	1.3
Total	**100**	**100**	**100**	**100**	**100**	

Source: Bhorat, *et al*. (2018, 8)

As evident in Table 2.4, the largest concentration of businesses, across all sizes are in Gauteng, with over 30% of SMMEs located in Gauteng, followed by KwaZulu-Natal at under 17%. The Western Cape also has a significant proportion of SMMEs. This can be explained by the fact that Gauteng is the economic hub of the country, compared to other provinces. Gauteng, Kwazulu-Natal and Western Cape are known to incorporate large metropolitan areas with sizeable economic activity (Bhorat, *et al*., 2018, 7). It is also evident that the SMME: large enterprise ratio ranked second lowest, together with the Western Cape. The Eastern Cape has the highest SMME: large enterprise ratio at 1.6:1.

The South African SMME sector has witnessed a relatively low growth rate of 3% from 2.18 million in the first quarter of 2008, to 2.25 million in the fourth quarter of 2015, over a seven-year period. This growth rate is significantly lower than the 14% growth rate in GDP over the same seven-year period. From a provincial perspective, Limpopo recorded the highest growth rate in the number of newly registered SMMEs at 34%.

This was followed by Gauteng at 14%. Although the growth rate of new SMMEs has reduced, when compared to economic growth, the contribution of SMMEs to total GDP has risen (Statistics South Africa, 2015). Odendaal (2017) estimates that 90% of new jobs are expected to be created by small businesses.

Enterprises in the formal business sector in South African generated a total turnover of R10.5 trillion in 2019. Of this, small businesses generated R 2.3 trillion (22%); medium sized businesses contributed 10%, while large businesses accounted for 68% of total turnover. Between 2013 and 2019, turnover in South African formal business sector increased from R7.0 trillion to R10.5 trillion, constituting an average annualised growth of 7.0%. The turnover, as far as large and medium sized businesses were concerned, increased by 8.4% and 5.4% per annum, respectively. It is evident that small business played a prominent role, recording an increase of 12.3% per annum during this period (Stats SA, 2020).

According to Rungani & Potgieter (2018, 2), the two most successful African economies, as far as entrepreneurship is concerned, are Botswana and Senegal, with a total entrepreneurship activity (TEA) of 33% and 38.6%, respectively. The South African TEA rate remains relatively low, at 9.2%. It is estimated, given the level of economic development of South Africa, that a TEA rate of around 13% should be more realisable. This, therefore, casts a negative shadow over the ability of the South African SMME sector to significantly contribute to job creation, economic growth and reducing income inequality.

The Global Entrepreneurship Monitor (2016) has made a regional comparison of economically active individuals who are engaged in entrepreneurial activity. This is reflected in Table 2.5. Africa was marginally behind Latin America in terms of the nascent entrepreneurship rate, and was the leading region for new business ownership rate, but lagged marginally behind Asia and Oceania when it came to established business ownership rate.

Table 2.5: Percent of 18-64 Year Olds Engaged in Entrepreneurial Activity by Region

Region	Nascent* Entrepreneurship Rate	New Business Ownership Rate	Established Business Ownership Rate
Africa	12.5	7.9	10.1
Asia & Oceania	6.0	7.4	10.4
Latin America & Caribbean	12.9	7.5	8.5
Europe	4.8	3.1	6.6
North America	9.0	4.8	8.1
South Africa	5.5	4.3	5.0
South Africa: Rank/60 Countries	**35/60**	**32/60**	**53/60**

*Notes: A nascent entrepreneur is someone setting up a business. A "new business" is a business no more than 3.5 years old. An "established" business is a business which is more than 3.5 years old.

Source: Global Entrepreneurship Monitor (2016).

The situation as far as South Africa is concerned, is significantly different, showing rates of between 4.3% and 5.5% across the three categories. Furthermore, out of a 60-country ranking, South Africa was around the middle-ranked in respect of the nascent entrepreneurship rate and new business ownership rate. Interestingly, South Africa was ranked fairly highly in the established business ownership rate. Overall, on a regional comparative basis, South Africa fared poorly.

According to Bhorat, *et al.* (2018, 9), this can be attributed to the obstacles to entry and growth constraints that the South African SMME sector is faced with. Access to credit, for example, is a barrier owing to the risk profiles of SMMEs. For SMMEs to create employment for the large proportion of unemployed South Africans and new job seekers, it is essential that the barriers to growth for SMMEs are urgently addressed. In the context of the diversity of SMMEs in South Africa, the authors propose that policy interventions must be tailored to suit the customised needs of enterprises. Despite this seemingly gloomy situation, there appears to be an increased

confidence and positive sentiment around the establishment of new SMMEs and the development of current SMMEs into established businesses.

Having discussed the economic importance of SMMEs, the next section examines the growth constraints confronting SMMEs.

2.4 Growth constraints facing SMMES

According to Nieuwenhuizen (2019, 668), the following factors constrain the growth and development of SMMEs in South Africa

- The very slow pace of economic growth. An average growth rate of 2.87% per annum from 1994 to 2017 has been recorded, with the highest at 7.10% in the fourth quarter of 2006 and the lowest at 0.3% in 2016;
- An increase in the unemployment rate, at 27.7% for the second quarter of 2017, with "unemployment" including persons who have given up hope in looking for work, at 36.4%;
- The low level of total early stage entrepreneurial activity (TEA) at 6.9%, with South Africa being rated 52nd of 65 countries;
- The country's lowered rating on the "ease of doing business" (ranked 74 of 109 countries), and
- South Africa being ranked 47th out of 138 countries in the Global Competitiveness Report owing to inefficiency at government level, which was cited as the most significant hurdle when it came to doing business in the country.

Studies have found that government support notwithstanding, SMMEs continue to experience several challenges, which result in a high failure rate (Botha, Smulders, Combrink & Meiring, 2021). Maduku & Kaseeram (2021) point out that eight percent of adults have a business that is under three and a half years old. In other developing countries, this ranges from 14 to 16 years. A very small proportion (2.3%) of South Africans have a business that is older than three and a half years. These clearly indicate that the small business failure rate is of serious concern in South Africa. To further illustrate the low success rate of small businesses in South Africa, especially

among starts-ups, South Africa is ranked number 41out of 43 countries in the ability of small businesses to grow into established businesses.

According to Matthyse (2018, 20), the South African SMME sector is presented with several challenges, including:

- Poor planning
- Lack of small business management education and training
- Lack of employee satisfaction
- Lack of budget management
- Lack of inventory management
- Lack of financial support
- Access to finance
- Poor cash flows and financial planning

Other challenges indicated included documentation challenges, such as obtaining BEE certificates and duplication in registering with Government Departments (Zondi, 2017). According to Bamata, *et. al.* (2019, 243), most SMMEs in South Africa fail to make it past the 'start-up' phase, with the recorded failure rate of around 75% being among the highest in the world.

Botha, *et. al.* (2020) identify an array of additional challenges facing SMEs, including the stringent regulatory framework pertaining to SMMEs, accessibility to markets, access to affordable land and buildings, acquisition of requisite skills, managerial capability, access to IT, the quality of the business infrastructure, geographical location, price challenges, perceptions of the legislative framework, access to funding, and crime patterns. The influence of these challenges varies from one SMME to the next, and is determined by, *inter alia,* SMME size, industry, geographic location and the gender of the entrepreneur. Rungani & Potgieter (2018, 2) identify access to finance, a lack of business acumen, insufficient information on available products and relatively low financial education levels as factors inhibiting the growth of SMMEs.

The constraints to SMME growth discussed above are not peculiar to South Africa, but are also experienced globally. For example, SMMEs in the Indian construction industry

face increased challenges in an environment of substantial performance shortfalls (Loganathan, Srinath, Kumaraswamy, Kalidindi, & Varghese, 2017, 123). The majority of these obstacles faced can be attributed to a lack of personal finance and government initiatives to assist these enterprises. There is an expectation that these SMMEs support the economy and create employment, although there is limited governmental support for the development of these SMMEs.

From an international perspective, Bamata, *et al.* (2019, 243) clarify that in the recent past, there has been improved access to finance for start-up SMMEs, albeit with substantial variations among countries in Europe. Thirty one percent of enterprises in Greece indicated that access to finance continued to be the major concern, whilst 13% of SMMEs in Italy and 12% in both Ireland and the Netherlands identified access to finance as the most important challenge they encountered. This must be viewed against the figures of around 8% of SMMEs in Finland and 6% of SMMEs in both Austria and Germany. It was found that in Latvia, the challenges faced by SMMEs, from highest to lowest were: finding customers (20%), availability of skilled labour (15%); threats posed by competitors (13%); rising production costs; high salary costs (12%), and access to loans (10%).

The challenges facing SMMEs in South Africa can be categorized as external and internal in nature. External challenges are those challenges that could be difficult for the small business enterprise to solve within a relatively short space of time because these are out of the control of management. On the other hand, internal challenges are those challenges that can be solved more easily, on a micro-level, within the enterprise itself (Zondi, 2017).

This section has discussed the growth challenges faced by SMMEs. The next section identifies some of the key success factors for SMMEs.

2.5 Key success factors for SMMEs

This section presents a general overview of key success factors for SMMEs and proceeds to discuss finance as a success factor for SMMEs.

2.5.1 An overview of key success factors for SMMEs

Apart from the other important contributions to the economy, the SMME sector serves as an incubator for innovation and entrepreneurship. It is therefore important to acknowledge the underpinning factors for the success of SMMEs and to make the association with the enhancement of the success of SMMEs in South Africa (Statistics South Africa, 2015).

According to Chittithaworn, Islam, Keawchana & Yusuf (2011, 180), there is an absence of a universally accepted definition of business success. Business success has been viewed from several perspectives, and the authors identify two key components of success, viz., financial related success versus non-financial related success, and short-term versus long-term success. Therefore, success can manifest itself in different forms such as sustainability, profitability, rate of return, turnover growth, staff size and business image. Success, therefore, can be viewed from different perspectives.

Given the absence of a universal theory on SMME success, there is are many significant studies which indicate that the three primary antecedents for the success of small business can be categorised as: individual-based factors, organisation-based factors and external business environment factors (Lampadairos, *et al.*, 2017, 194). Chittithaworn, *et al.* (2011, 182) concur, and specify that the marketplace, the way of conducting business, resources and access to finance as being additional success factors for SMMEs.

As far as the business environment is concerned, Lampadairos, *et.al.* (2017, 195) state that the political, economic, socio-cultural, technological, environmental and legal and regulatory factors are the key elements influencing SME success. The South African government has taken some initiative in this regard, particularly in the political, legal and regulatory aspects. As an illustration, Botha *et al.*, (2021) refer to the Department of Small Business Development (DSBD) which was formed in 2014. The objective was to create an enabling environment for the upliftment of SMMEs. The DSBD has been mandated with creating employment opportunities in the SMME sector and addressing growth in South Africa. Its main responsibility is to facilitate a

more conducive and user-friendly environment with regards to the regulatory and legislative environment, access to the marketplace, access to finance, to address the national skills shortage and enable improved access to information for SMMEs, and a greater involvement of support institutions to develop SMMEs.

Dockel & Ligthelm (2005) identified the following factors as being critical for small business success: the number of years that the business has been in existence; the size of the business - based on the staff complement; the business experience that the owner/manager possesses, and access to loans.

This section has discussed the key success factors for SMMEs. The next section examines finance as a success factor for SMMEs.

2.5.2 Finance as a success factor for SMMEs

Many SMMEs are not in a position to achieve their business goals on their own. What is required, is support and resources from external sources; e.g., public and private institutions, and also from associates who might be relatives or friends. In a developing economy like South Africa, diverting resources towards the SMME sector will ultimately benefit the entire South African population (Rungani & Potgieter, 2018, 4).

Bamata, *et al*. (2019, 246) categorise the financing requirements of SMMEs under three phases, viz., start-up, expansion and rehabilitation. Bigger firms are in a favourable position by virtue of having access to the capital markets and getting quicker financing at more favourable lending rates. This, however, is not the case with SMMEs in South Africa. There is a restricted number of sources of finance for SMMEs, which leaves owners with little choice, but to rely on finance through the government, bank loans and private sources of finance. The criteria laid down by lending institutions do not match the ability of SMMEs to obtain finance at an affordable cost.

Rogerson (2008, 66) found that banks tend to concentrate mainly on servicing the higher end of the SMME sector with a variety of product offerings, whereas the lower end of the sector tends to be using only savings products. As far as formal private sector financing was concerned, commercial banks have been found to play a very

limited role in addressing the credit needs of the SMME sector, and this is cause for concern.

According to Osano & Languitone (2016, 5) several underlying factors can be attributed to the difficulties of accessing outside finance by new SMMEs. In the UK, it appears that access to finance by SMMEs is closely determined by the preferences of commercial banks or the policies and practices pertaining to the supply side of finance. It is believed that many of the commercial banks in the UK are biased in their relationship with the business owner, leading to inconsistent lending practices.

Given the significance of SMMEs in the South African economy, it becomes important to examine the type of support and development SMMEs receive, with a view to realising their success and potential (PPPFA, 2017). Crampton (2016) believes that the Banking Association of South Africa and its member banks need to show a stronger commitment to SMME development and support, through initiatives such as stakeholder engagement and the involvement or business owners.

Khoase, Derera, McArthur, & Ndayizigamiye (2019) believe that there is a sufficient funding available in South Africa. However, the services being offered are not aligned with the requirements of the SMME sector. South African business owner-managers consider access to finance as being a major hurdle, although there are various public and private sector facilities available. The financial institutions are accessible, but the degree of utilisation of these institutions is rather low, possibly due to the processes to be followed in accessing funds. Rungani & Potgieter (2018, 10) found that the restrictions faced by SMMEs in accessing financial support from formal sources in South Africa is no different to that faced by SMMEs in other emerging economies. It was also found that only 27% of potential small business owners believed that they would be granted loans by the mainstream financial sector.

According to Nguyen & Nguyen (2020), for most SMMEs, their perceived inferior position in the business environment and the absence of a long-term track record significantly lessens their chances of obtaining credit from the formal financial sector. Furthermore, financing through equity partners is not a preferred source of finance for most entrepreneurs in developing economies. Given this scenario, informal loans

become one of the more favoured sources of finance. The non-formal micro-lending sector has thus become a key role player in making finance available to SMMEs (Rogerson 2008, 68).

Botha, *et. al.* (2021) believe that the South African government has acknowledged the significance of SMMEs and has introduced a number of interventions to support this sector, but is of the opinion that these programmes generally place emphasis on the larger SMMEs, to the exclusion of smaller SMMEs. Although the Government has initiated frameworks and forums to assist SMMEs, the channels through which this form of assistance can be accessed is not well publicised, and, therefore, not known by many SMMEs (Fatoki & Odeyemi, 2013, 2764). This results in many SMMEs still being disadvantaged within the industry that they operate in. Bhorat *et. al*. (2018, 21) believe that the availability of affordable credit is central to the promotion of SMMEs; however, the reality is that accessing such credit is frequently cited as a major hurdle for SMME owners.

Angela Motsa & Associates (2004) in Rogerson (2008, 63) believe that local banks are not sufficiently orientated to addressing the financing needs of entrepreneurs, owing to the fact that they mainly have experience dealing with large businesses and therefore "do not have the skills set for assessing start-ups and small enterprises." Zondi (2017) points to some instances where SMEs that have been awarded Government tenders are handicapped by, *inter alia*, the banks' excessively long turn-around time for evaluating applications for financial assistance.

The Department of Trade and Industry (2015) states that the SMME financial market in South Africa has several financing schemes and funding programmes that are facilitated by both the private and public sector funding bodies. Although there is a range of funding opportunities, the awareness levels of these programmes and participation rates have been low, especially when it came to government-supported schemes. In addition, as far as private sector funding was concerned, the rejection rate for SMMEs applying for finance has been high, especially for bank-sponsored schemes. Zondi (2017) believes that no matter how good a SMME's business plan is, chances are that there will always be some form of collateral security needed by the

financial institution. This is a stumbling block which prevents SMMEs from accessing finance.

Rungani & Potgieter (2018, 2) concur, and believe that this can be attributed to two additional factors, viz., a misalignment between the offerings by the provider and the requirements of SMMEs, and a discrepancy between minimum requirements for business finance and the standing of an SMME. This implies that a large percentage of SMMEs face exclusion from the formal financial market. Zondi (2017) identifies other government-based agencies that can be accessed for funds by SMMEs; viz., the Industrial Development Corporation and the National Youth Development Fund, but argues that these institutions also work along similar lines as the mainstream South African financial institutions.

According to E-Propertynews (2020), late payments have had an impact on SMMEs for many years. This has been exacerbated by not being able to work during the national lockdown, owing to the Covid 19 pandemic; hence, having an adverse effect on cash flows. Slow or irregular payments to SMMEs in the construction environment poses as a threat to an industry that already operates on tight profit margins. Zondi (2017) found that many SMMEs doing business with Government departments are prevented from accessing their own finance because of a failure by these Government departments to make timeous payment for work performed.

Botha, *et. al.* (2021) found that the smaller the SMME, the more difficult it was to access finance. Access to funding has the potential to assist these SMMEs to develop and grow their business which will lead to their employment capacity increasing and therefore contributing to the reduction in unemployment. Access to funding will also assist these SMMEs to grow their CIDB rating, thus allowing them to tender for larger scale projects in the construction industry. This initial growth can escalate until such a point where SMMEs grow into large organisations with improved revenue growths and cash flows, which will ultimately reduce their inherent risk ratings with financial institutions, thus allowing them further opportunity for growth.

While banks are often regarded as the guilty party in their failure to support SMMEs, Zondi (2017) asserts that the real reason behind this perception is that SMMEs

themselves do not try hard enough, by citing one business community that has proved that negotiating the price and even credit terms with a supplier is one of the most effective ways of accessing stock. SMMEs need to take advantage of this, as a source of finance, although the cost may often be high, compared to bank interest rates. The supplier may charge a slight price premium, but this is a better initiative than failed attempts at applying for finance.

Many SMMEs have resorted to bootstrap financing as a source of funding. This technique is defined by Tomory (2010) as an innovative way of obtaining finance without the use of formal loans raising equity financing from traditional institutions. Schofield (2015, 85) believes that bootstrap financing enables SMMEs to identify new sources of finance without using formal loans, venture capital, or other external means to source required capital. Zwane & Nyide (2017,352) identify the use of personal credit cards, withholding one's own salary, withholding profits earned and loans from friends or family members as sources of bootstrap financing.

This section has discussed finance as a success factor for SMMEs. The next section examines government support for SMMEs in South Africa.

2.6. Government support for SMMEs in South Africa

The South African Government News Agency (2018), has announced that government continues to remain committed to providing support to the country's SMMEs as t they form an important component of South Africa's industrialisation initiatives. However, in the 2015–2016 Global Entrepreneurship Monitor (GEM) report, South Africa was ranked 3.1 out of 9 in the category of "supportive government policies, taxes and bureaucracy". This is indicative of the perceived ineffectiveness on the part of the South African government in supporting SMMEs (Herrington, Kew & Mwanga, 2016).

Nieuwenhuizen (2019, 667) identifies numerous initiatives by the South African government that are aimed at stimulating growth among SMMEs, such as the Small Business Act (1996), the Small Business Amendment Act (2003), the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) (2006), the National Development

Plan (NDP) (2012) and the establishment of a Small Business Ministry including the Department of Small Business Development in 2014.

Economic transformation and inclusive growth are on the top of the agenda of the South African government. The combination of little, or no growth and rising unemployment levels means that South Africa is not moving along a favourable economic trajectory. The government needs to introduce growth reforms that enhance economic transformation, support labour intensive growth and create an internationally competitive economy. Several priority areas have been outlined, including making network industries more modern, lowering the barriers to entry and addressing the distorted patterns of business ownership. To this end, small businesses play a key role, and should therefore be supported (Cape Argus, 2019, 8).

Finmerge (2015) identifies the following government policies that are aimed at supporting entrepreneurship and small business development. These include, *inter alia*:

- The Regional Industrial Development Strategy, which introduces the formation of special economic zones and support for industrial clustering of businesses to foster regional economic development;
- The Micro-economic Reform Strategy ,which address transformation through broad-based black economic empowerment (B-BBEE) and gender initiatives;
- The Accelerated and Shared Growth Initiative South Africa, which places emphasis on access to procurement opportunities, easing of regulatory burdens, access to venture capital, and assistance in easing cash flow challenges;
- The B-BBEE strategy, which aims to increase the number of previously disadvantaged people who own new businesses, especially in the priority sectors;
- The National Strategy for the Development and Promotion of Franchising in South Africa, which aims to raise the participation levels of historically disadvantaged individuals in the franchising industry, create a culture of franchising and growing this sector and provide a link between big and small-businesses;

- A Strategic framework on gender and women's economic empowerment through the provision of business information, education and training, finance and rural women with economic literacy, and
- The National Youth Enterprise Strategy, which creates an enabling environment whereby young men and women can actively participate in the South African economy and have access to financial and non-financial resources.

According to the Cape Argus (2019, 8), labour intensive growth is the solution to a reduction in South Africa's very high unemployment levels. The South African economy has not been able to create jobs at a pace that absorbs the increasing labour force entering the market. The country is currently witnessing levels of unemployment similar to that in 2003, and unemployment rates continue to be the highest among the youth in the country at 54.3% for those between the ages of 15 to 24 years. Government should, therefore, consider exemptions for SMMEs, including labour regulations. It has often been said that governments do not create jobs, people do. The function of government should be to create an enabling environment that allows small businesses owners to nurture and grow their businesses and be successful.

Clearly, there has been very little growth in the SMME sector in South Africa. Nieuwenhuizen (2019, 670) believes that the main reasons for this are the regulatory environment and restrictive legislation. Nyamwanza, Paketh, Makaza & Moyo (2016, 305) are of the opinion that regulations and legislation present themselves as the most significant barriers to SMME growth in many developing countries. In a study conducted by Cant & Wiid (2013, 714), regulations and policies by government were cited as a major inhibiting factor to entrepreneurial activity by 80% of respondents. Muriithi (2017, 38) is of the firm belief that "red tape" is one of the main causes of failure among SMMEs.

According to the Small Business Project, 78% of the participating SMMEs in a research study were of the opinion that burdensome government regulations resulted in an environment that was not conducive for business (SBP, 2015). This was mainly caused by unfair regulations, lack of skills, difficult local economic conditions and the high cost of labour. A major concern is that the burden created by regulations has

become one of the biggest obstacles to business growth. It emerged that this challenge is become greater, year by year, and that domestic factors, and not global factors, are having a negative impact on SMME growth and development. Consequently, the growth rate of the SMME sector, as well as growth within SMMEs are diminishing. In fact, many fail to survive, resulting in a significant increase in unemployment in the SMME sector. Although it is clear that the aim of the South African government is to support SMEs, it does not seem to be able to curb the legislation that hampers the establishment and growth of SMMEs (Cant & Wiid, 2013, 710).

According to SME Africa (2017), research indicates that small business owners identified the following five priority areas that the South African government needs to address in order to create a conducive environment for SMEs to succeed:

- **More funding opportunities:** Over 80% of start-up small businesses are self-funded. Many small business owners use personal savings, borrowings from family and friends, or use their homes as collateral. This capital is often inadequate to support the business in the long term in order for it to reach its full potential. Other individuals, who may have great ideas do not have sufficient savings or collateral, which means that they cannot start a business without external funding. The recommendation is for government to increase its funding base.

- **Reduce bureaucracy:** The perceived strict South African regulatory environment creates a significant challenge to for many small business owners. Many potential entrepreneurs are discouraged in this regard. Complex legislation and compliance requirements are a challenge, combined with the lack of assistance by officials. It is recommended that bureaucratic processes be streamlined, or eliminated, if possible.

- **Offer tax relief:** Small business owners believe that they require tax relief. Entrepreneurs believe that tax rates are rather high, and this could jeopardise their success.

- **Improve access to finance:** banks are generally hesitant to lend money to small businesses. Business owners therefore struggle to access the finance they need. Government needs to expand its range of available financial solutions and also communicate the available options to SMMEs.

- **Improved skills levels**: Without the appropriate skills, small businesses will not be able to achieve their growth objectives. This is compounded when the required skills are in short supply and business owners cannot find the people they require. The South African government needs to play a more active role through greater investment in education, e.g., through schools, FETs and universities, to produce more competent workers.

This section has examined government support for SMMEs in South Africa. The next section focuses on the construction industry in South Africa.

2.7 The South African Construction Industry

Similar to other industries, the construction industry plays a key role in South Africa's economy and is a significant contributor to economic growth, (CIDB, 2018). The construction industry is viewed as a critical element of the economy that produces building and civil engineering structures and determines the extent to which investment efforts in a resource-rich country translate into investment outcomes. (Windapo & Cattell, 2013, 65), observe that the construction industry is not a single industry but rather a cluster of industries that include construction banking, materials and equipment manufacturers and contracting organisations.

Table 2.6 provides context for the South African construction industry, relative to other sectors, in so far as the profile of organisations operating in the industry and their relative size are concerned. It is clear that the construction industry, overall, is the fourth largest in South Africa, after wholesale and retail, community and social services, and the financial sector. In terms of micro enterprises, the construction industry is the third largest industry. In the small business sector, it ranks as the fourth

largest industry, whereas in the medium business sector, it ranks fifth (Bhorat *et al*., 2018, 6).

Table 2.6: Industry profile and firm size

INDUSTRY	MICRO	SMALL	MEDIUM	LARGE	SMME Overall	Ratio of SMME: large
Agriculture	5.7	6.1	6.1	6.2	5.2	0.8
Mining	0.2	0.9	0.5	7.5	0.4	0.1
Manufacturing	7.1	7.5	10.8	19.3	9.5	0.5
Utilities	0.3	0.7	0.7	1.6	0.5	0.3
Construction	**16.3**	**11.7**	**9.1**	**4.8**	**10.6**	**2.2**
Wholesale & Retail	29.1	27.9	24.6	10.4	30.4	2.9
Transport	11.5	6.8	4.2	7.0	6.4	0.9
Financial	10.0	14.6	16.3	15.7	13.7	0.9
CSS	19.4	23.9	27.7	27.7	23.3	0.8
Other	0.0	0.0	0.0	0.0	0.0	0.7
Total	100	100	100	100	100	

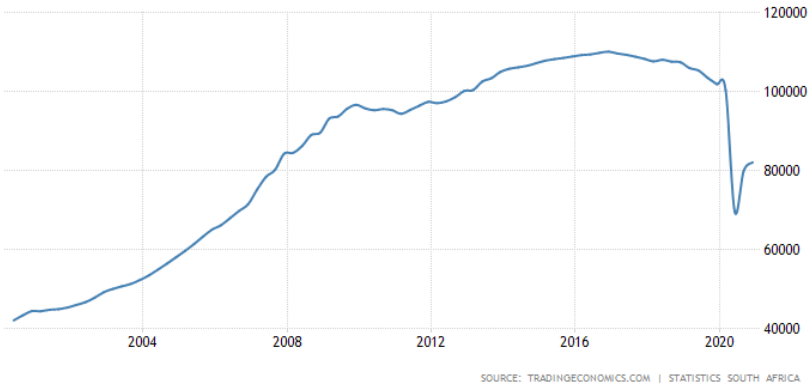
Source: Bhorat *et al.* (2018, 6)

Large construction businesses form a relatively small proportion, at 4.8%. The construction industry has the second largest ratio of SMMEs to large businesses, at 2.2:1, after wholesale and retail. The aforementioned illustrates the prominent role played by the construction industry in the South African SMME sector.

Dlamini (2011, 10) found evidence of a very strong correlation between construction activity and economic growth. As an investment sector, construction impacts positively on short-term and long-term growth, and can therefore be regarded as a significant component of investment programmes, particularly for emerging economies like South Africa.

As can be seen from Figure 2.1 below, the South African construction experienced growth, especially in the past since 2008, peaking in 2017 at around R 110 billion. The industry saw a significant decline since the beginning of 2020, with a contribution of around R 70 billion to South Africa's GDP, a contraction by over 36% in around three years.

Figure 2.1: Growth trends in the South African construction industry



Source: Trading Economics (2021)

In the run-up to the 2010 Soccer World Cup, South Africa saw a significant increase in infrastructure development. However, after this period there has been a major decline in the number of major construction projects in the country, resulting in a slowdown in the sector (Mail & Guardian, 2020). The South African construction industry continues to face difficult times amid lower investment in infrastructure by government, low business confidence and lower foreign direct investment, (CIDB, 2018). Considering the difficult domestic conditions, many firms continue to or have begun venturing outside of South Africa to pursue growth opportunities in the rest of Africa and other select markets.

Even prior to the COVID-19 pandemic, the South African construction industry was facing significant challenges. In the first quarter of 2020, the industry registered its seventh consecutive quarter of economic decline. This was against the backdrop of lower infrastructural investment, weak economic growth, and rising costs. This has resulted in several large construction companies filing for business rescue. Given a climate of fewer large players generating turnover, small businesses have filled the void created by the absence of large players. In 2013, small companies accounted for 17% of total turnover in the construction industry. This rose to 34% in 2019. Large companies contributed almost two-thirds to total construction turnover in 2013, declining to just over 40% in 2019 (Stats SA, 2020).

When the national lockdown commenced in March 2020, most new construction projects were shelved. Attention was given to the repair and maintenance of essential infrastructure. This contributed to a significant decline of the sector, which was already faced with low demand, due to curtailed government expenditure on infrastructure development (Mail & Guardian, 2020).

In terms of growth, small construction companies have trebled turnover, from R53 billion in 2013 to over R163 billion in 2019. In contrast, large construction companies increased turnover by only R17 billion over the same period, from R187 billion to R203 billion. This implies that small businesses' contribution to total turnover in the industry increased from 29% to 42% over this six-year period, reducing the dominance of large companies in the construction industry (Stats SA, 2020).

The impact of the economic downturn is evident in the reduced employment in the construction industry and it will take a long time to restore the skills that have been lost in the construction industry (Windapo & Cattell, 2013, 67).

The construction sector employs approximately 1.3million people, which has remained relatively constant between 2019 and 2020. The South African construction sector's contribution to GDP has ranged between 3 and 4 percent for the first two quarters of 2020, in the face of declining demand for construction in the country (Mail & Guardian, 2020).

Similar to SMMEs in other industries, SMMEs in the South African construction industry has witnessed a high failure rate. The high failure rate can be reduced through training and development of these SMMEs (Mokasha, Aigbavboa & Oke, 2016, 64). The Department of Public Works has introduced contractor development programmes targeted at CIDB grades 1 to 7, whereby grades 1 to 3 will receive mentorships, given that these organisations are considered to be emerging contractor start-ups. As these organisations grow, they will receive structured developmental support, targeted at grade 2 and 3 enterprises. As these identified businesses grow and exhibit best practice in *inter alia*, health and safety, environmental management, supply chain development and quality management, they will receive support with a view to performance improvement (CIBD, 2011, 9).

2.8 Conclusion

This chapter commenced by providing a definition of an SMME, given the varied classification criteria for an SMME from an international perspective. The chapter then highlighted the economic importance of SMMEs and proceeded to discuss the growth constraints facing SMMEs, followed by key success factors for SMMEs, including finance. Thereafter, government support for SMMEs in South Africa was discussed, and the chapter concluded by providing an overview of the South African construction industry.

The next chapter will discuss the research methodology employed in this study, particularly for the empirical component.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter constituted the literature review that has given context to the construction industry, more specifically, companies that operate in the SMME sector of the industry. This chapter presents the research methodology employed in this study against the background of the research problem and research questions that formed the basis of this research. The research methodology is presented in relation to the research design, identification of the population, sampling and instrument design. The data collection procedure, data analysis, validity and reliability techniques employed in this study are also presented. The delimitations of the study are presented, followed by ethical considerations.

The research problem identified in this study was that the financial challenges faced by SMMEs in the construction industry in Gauteng are not clearly known.

The key research question was formulated as follows: what are the financial challenges confronting SMMEs in the construction industry in Gauteng, South Africa?

The research objectives were formulated as:

- To analyse the current status of SMMEs in the construction industry in Gauteng, South Africa;
- To ascertain the financial challenges faced by SMMEs in the construction industry in Gauteng, South Africa;
- To determine the financial management skills possessed by SMMEs in the construction industry In Gauteng, South Africa, and
- To assess contractor's perceptions of government financial support for SMMEs in the construction industry In Gauteng, South Africa

3.2 Research design

A research design constitutes the framework which spells out the processes and procedures for conducting and executing research activities, with the goal of obtaining relevant scientific findings required to address a research problem (Malhotra 2010, 104), implying that the research design is the lifeline of a research project (Morgan 2014, 227). The choice of research design is also informed by the depth of information needed and how much information is already available to the researcher (Bryman 2012, 182).

This study was quantitative, descriptive and cross-sectional in nature. Quantitative research is considered to be objective as it employs analytical tools which are independent of human emotions and opinions. Quantitative research is concerned with the study of observable phenomena and aims to reveal universal relationships with the use of mathematical tools to analyse data (Welman, Kruger and Mitchell, 2005, 78). Quantitative research is based on a logical sequence of steps and puts emphasis on measurement, causality, generalisation of findings and replication (Bryman 2012, 181).

Descriptive research is numerical in nature, which enables statistical and mathematical relationships to be analysed. Descriptive research involves the gathering of data to describe characteristics of people and situations. Descriptive studies play a key role in explaining attributes of a particular scenario, and also provides insights for further scrutiny (Sekaran and Bougie, 2016, 97).

Survey research can either be cross-sectional or longitudinal in nature. Cross-sectional studies give a snapshot of the problem under investigation as these are conducted at a given point in time. Longitudinal studies, on the other hand, record the ongoing trends of a particular phenomenon as they are conducted repeatedly on a periodic basis. A longitudinal study is generally more expensive than a cross-sectional study given the increased resources required. A cross-sectional study, on the other hand, is relatively more economical and convenient than a longitudinal study and is commonly used in business research (Clow and James 2014, 163). The design adopted for the purpose of this study was cross-sectional in nature.

The most commonly used methodologies insofar as quantitative research is concerned include survey research, correlational research, developmental designs and observation studies (Leedy and Ormrod 2010, 182). For the purpose of this study, the survey research methodology was adopted. The survey method is easy to administer in understanding the sample behaviour using a valid structured questionnaire (Lazar, Feng and Hochheiser 2017, 105). The survey methodology enables the researcher to deal with larger sample sizes and generalise findings to the general population that the study is aimed at. It also enables anonymity and confidentiality, caters for a comparative analysis and produces empirical datasets that are standardised and measurable. (O'Leary 2014, 204). Clow and James (2014, 163) add that survey research is primarily quantitative in nature as it plays a key role in answering five key questions, viz., “who, what, when, where and why

3.3 Population

Creswell and Creswell (2018,150) define the population as individuals or objects that are targeted for a study. In this study, SMMEs in the construction industry in Gauteng, more specifically, CIDB grades 1 to 7, constituted the population. As explained in Section 2.8, it is this category of enterprises that are targeted for growth and development. The population size was indicated as 10 480 (CIDB, 2021).

3.4 Sampling

The sample, in a study, refers to a representative group that constitutes a fraction of the target population (Sekaran and Bougie 2013, 241). According to Saunders, Lewis and Thornhill (2019, 294), sampling is a viable alternative to going to all members of the population, because it may be impractical to survey the whole population; budget limitations may preclude going to the entire population, and time constraints place a restriction on surveying the entire population. It is, therefore, appropriate to select a sample.

There are primarily two sampling techniques, viz. probability and non-probability sampling. Non-probability sampling relies on the discretion of the researcher rather than on known chance to select elements of a sample. The typical non-probability

sampling techniques are convenience, quota, snowball and purposive sampling (Maree, 2020, 219-220). Probability sampling, on the other hand, means that the elements of a sample have an equal chance of being selected (Malhotra, 2010, 376). The four types of probability sampling are simple random, stratified, systematic and cluster sampling. What is essential for probability sampling to take place is the availability of a sampling frame, i.e. a listing of all elements of the population under investigation (May, 2011, 99). In this instance, a CIDB listing of all members of the population, which constituted the sampling frame, was made available to the researcher.

The population, for this study, constituted SMMEs in the construction industry in the Gauteng province, CIDB grades 1 to 7, totalling 10 480. Systematic sampling, which Saunders *et. al*. (2019, 309) refer as to as the selection of the sample at regular intervals from the sampling frame, was employed. Every 4th member on the sampling frame was selected; hence, 2 620 respondents were chosen as the sample.

It must be noted, at this stage, that for a population size of 10 480, the appropriate sample size for drawing meaningful inferences, at the 95% level of confidence, is estimated to be 364 (Sekaran & Bougie, 2016, 364).

3.5 The measuring instrument

According to Ventre and Kolbe (2020, 6), a structured questionnaire is the most appropriate measuring instrument for obtaining the data required to fulfil a study's empirical objective in a quantitative study. Close-ended structured questions were used in order to generate precise responses that were convenient to code and analyse (Dawson 2017, 4). In this study, nominal, ratio and interval scales were used.

The questionnaire consisted of two components, viz., Demographic variables and items related to financial issues applicable to respondents. The questionnaire was informed by the literature, and its derivation is detailed in Table 3.1.

Table 3.1: Construction of the questionnaire

VARIABLE	SOURCE
DEMOGRAPHIC VARIABLES	
Age	Lampadairos, Kyriakidou & Smith, 2017
Gender	Botha, et, al, 2020; Nguyen, & Nguyen, 2020; Lampadairos, Kyriakidou & Smith, 2017
Ethnic background	Nguyen, & Nguyen, 2020
Education level	Lampadairos, Kyriakidou & Smith, 2017; Abdsamed & Wahab, 2012
Age of enterprise	Lampadairos, Kyriakidou & Smith, 2017 Dockel & Ligthelm, 2005
Turnover	Botha, et, al, 2020
Size of enterprise (no of employees)	Lampadairos, Kyriakidou & Smith, 2017; Abdsamed & Wahab, 2012, Dockel & Ligthelm, 2005
VARIABLES PERTAINING TO FINANCE	
Having a business plan	Abdsamed & Wahab, 2012
Business experience	Lampadairos, Kyriakidou & Smith, 2017; Abdsamed & Wahab, 2012;
Collateral	Abdsamed & Wahab, 2012
Bank-firm relationship	Abdsamed & Wahab, 2012
Business networks	Lampadairos, Kyriakidou & Smith, 2017
Management skills	Lampadairos, Kyriakidou & Smith, 2017
Financial resources	Lampadairos, Kyriakidou & Smith, 2017
Managing cash flow	Botha, et, al, 2020
Awareness of funding sources DSBD	Fatoki & Odeyemi, 2013 Botha, et, al, 2020
Access to credit	Rungani & Potgieter, 2018
Financial literacy levels	Rungani & Potgieter, 2018
Working capital management practices	Kilonzo, & Ouma, 2015
Investment practices	Kilonzo, & Ouma, 2015
Financial planning practices	Kilonzo, & Ouma, 2015
Informal suppliers of finance	Nguyen & Nguyen, 2020
Access to unsecured loans from banks	Zondi, 2017
Overall access to funding	Botha, et, al, 2020
Refused funding and reasons	Thulo, 2019

3.6 Data collection

Data can be obtained from both primary and secondary sources. Primary data are acquired first-hand by the researcher while secondary data are gathered from existing sources. Primary sources of data include interview and focus groups; data obtained from questionnaires and observations (Sekaran and Bougie, 2016, 113). For this study, the questionnaire served as the primary data collection instrument.
With the prevalence of COVID-19, data was collected by communicating with respondents through the use of a specialist survey administration agency, viz, SurveyMonkey.

3.7 Data analysis

After collecting quantitative data, descriptive and inferential statistics were applied using the latest IBM Statistical Package for Social Sciences (SPSS) computer software, Version 27, for all the relevant statistical tests.

Descriptive statistics serve to summarise trends in the responses of subjects in a sample and are analysed and presented in three general forms, viz., tabulation, graphical and statistical. Tabulation involves the use of tables to present the results of findings, whereas graphical analysis constitutes a presentation of the results of analysis using graphs. Statistical analysis refers to the presentation of results using numbers and does not contain as much information as graphs and tables, but can provide a snapshot for easy comprehension of a set of cases (De Vaus, 2014, 207).

Inferential statistics deal with the process of arriving at conclusions about a population, based on the sample that was selected. It allows for the calculation of the probability of the result, based on sample size and the extent to which the results could have been obtained by chance (Saunders, Lewis & Thornhill, 2019, 300).

3.8 Validity and Reliability

Validity and reliability are considered to be central to evaluating the quality of research in quantitative research in the social sciences (Saunders, et. al, 2019, 213). In the

discussion below these two aspects are explained, as well as how they are addressed in this study.

3.8.1 Validity

According to Sekaran and Bougie (2016, 225), validity testing in quantitative research examines the extent to which a survey instrument measures what it is supposed to measure, i.e., validity testing refers to the authenticity of a survey instrument. Validity tests include content validity, construct validity and face validity. These tests all address the extent of the validity of survey instruments.

The content validity of the measuring instrument used was addressed by ensuring that the question content was consistent with the literature and objectives of this study. Face validity was addressed by having the questionnaire assessed by an academic (the study supervisor), a statistician and by means of a pilot test.

A pilot study plays an important role in refining the research instrument and increasing the quality of data. A pilot study entails administering the questionnaire to be used in a study to a smaller sample prior to the data collection for the main study (Creswell, 2016, 165). A pilot study was conducted to ensure the clarity of the survey instrument of this study. The pilot study was also useful in reducing potential bias and readjusting the measuring instrument prior to the data collection for the main study.

3.8.2 Reliability

Reliability is associated with the consistency and error-free repeatability of measure that applies to the measuring instrument (Creswell and Creswell, 2018, 154). The most frequent assessment for reliability is to test for internal consistency. In this regard, the most popular measurement is Cronbach's alpha coefficient, which is based on inter-item correlations between the responses in the questionnaire. The value can range from 0 to 1 (Maree, 2020, 261). In this study, Cronbach's alpha was used to assess the reliability of the measuring instrument.

3.9 Delimitation of the study

The study was limited to SMMEs in the construction industry in the Gauteng province of South Africa. This means firstly, that the study was confined to one province out of nine provinces in the country. Of significance, is the fact that Gauteng is the economic hub of South Africa, contributing to 34.9% of South Africa's GDP, followed by Kwa Zulu-Natal at 16% (South African Market Insights, 2020).

Secondly, the study was limited to construction businesses that fall within CIDB grades 1 to 7. As explained in Section 2.8, it is this category of enterprises that are targeted for growth and development. Furthermore, a delimitation of a study is necessary owing to constraints on time and resources (Tight, 2017, 153).

3.10 Ethical considerations

Research participants are more comfortable with participation in studies which ensure anonymity and confidentiality. The perceived trustworthiness of a research study depends on the ability of the researcher to establish a favourable relationship with, and gain the trust and confidence of respondents (Sekaran and Bougie, 2016, 321). Participants' identities and contact details were not recorded during the data collection process, in order to ensure anonymity and confidentiality. The questionnaire was designed in such a manner so that it was not possible for responses to be linked to specific respondents.

3.11 Conclusion

This chapter presented the research methodology employed in this study by providing a reminder of the background of the research problem and research questions that formed the basis of this research. This was followed by a discussion of the research methodology, more specifically, the research design, identification of the population, sampling and instrument design. The data collection procedure, data analysis, validity and reliability techniques employed in this study were then presented. The delimitations of the study were discussed, followed by ethical considerations.

The next chapter presents, analyses and discusses the findings of the empirical component of the study.

CHAPTER 4

RESEARCH FINDINGS

4.1 Introduction

This chapter presents the results and discusses the findings obtained from the empirical component of the study. The questionnaire was the primary data collection tool. The data collected was analysed using SPSS version 27.0. The results will present the descriptive and inferential statistics in the form of graphs and tables. The inferential statistics include an assessment of reliability and validity, analysis of correlations and chi square test values, which are interpreted using statistical significance levels (p values) as a basis.

4.2 The research instrument

The research instrument consisted of 31 items, with a level of measurement at a nominal or an ordinal level. The questionnaire was divided into six sections which measured the themes indicated below:

- Demographic data
- Financial assistance and support
- Financial management skills
- Financial resources
- Access to finance
- Financial bootstrapping

4.3 The response rate

In total, 2 620 questionnaires were despatched to SMMEs in Gauteng and 533 were returned, constituting a response rate of 20.3%. This can be considered to be a statistically sound resultant sample size, based on the recommendation of Sekaran &

Bougie (2016, 364) who believe that, for a population size of 10 000, the appropriate sample size should be at least 370 in order to draw meaningful inferences.

The next section presents the reliability statistics.

4.4 Reliability statistics

Table 4.1 reflects the Cronbach's alpha score for all the items that constituted the questionnaire.

Table 4.1: Reliability statistics

	N of Items	Cronbach Alpha
Financial assistance and support	2	0.852
Financial management skills	3	0.724
Financial resources	2	0.412
Access to finance	8	0.640
Financial bootstrapping	4	0.678

The reliability scores for four out of the five sections exceeded the recommended Cronbach's alpha value of 0.6. This indicates a degree of acceptable and consistent scoring for these sections of the research. The section on Financial Resources had a lower Cronbach alpha score, which could be attributed to the small number of items pertaining to this section.

The next section presents the findings for the factor analysis.

4.5 Factor analysis

The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test values, as reflected in Table 4.5 indicate the suitability of the data for structure detection. KMO values of 0.500 and above generally indicate that a factor analysis may be useful with the data. With Bartlett's test of sphericity, small significance level values (less than 0.05) indicate that a factor analysis may be performed on the data.

Table 4.2: KMO and Bartlett's Test

	KMO Measure of Sampling Adequacy.	Bartlett's Test of Sphericity		
		Approx. Chi-Square	df	Sig.
Financial assistance/support	0.500	421.349	1	0.000
Financial management skills	0.645	354.677	3	0.000
Financial resources	0.500	36.855	1	0.000
Access to finance	0.764	601.405	28	0.000
Financial bootstrapping	0.658	441.596	6	0.000

The results suggest that all of the conditions were satisfied for factor analysis. Factor analysis is a statistical technique with the main goal of data reduction. A typical use of factor analysis is in survey research, where the researcher intends to represent a number of questions with a small number of hypothetical factors. The principle component analysis was used as the extraction method, and the rotation method was Varimax with Kaiser Normalization. This is an orthogonal rotation method that reduces to a minimum, the number of variables that have high loadings on each factor. It is intended to simplify the interpretation of the factors. Items that loaded similarly imply measurement along a similar factor.

Rotated Component Matrix

Table 4.3: Financial assistance and support component matrix

Financial assistance and support	Component
	1
Government has provided my sector with sufficient financial support	0.933
Government has provided my sector with sufficient financial related support, example, training in financial management	0.933

Extraction Method: Principal Component Analysis.

Table 4.4: Financial management skills component matrix

Financial management skills	Component
	1
I am able to manage my working capital	0.723
I have the necessary financial management skills to operate my business	0.828
I am able to manage the cash flow in my business	0.858

Extraction Method: Principal Component Analysis.

Table 4.5: Financial resources component matrix

Financial resources	Component
	1
I have sufficient collateral (security) to attain finance	0.794
I always have sufficient financial resources to run my business	0.794

Extraction Method: Principal Component Analysis.

Table 4.6: Access to finance component matrix

Access to finance	Component	
	1	2
I have a good relationship with my bank	0.644	-0.175
It is easy to obtain finance from banks	0.717	-0.191
I have sufficient business experience to secure outside finance	0.580	0.363
I have sufficient access to short term credit facilities	0.779	0.090
I have access to unsecured loans from Banks	0.687	0.137
I make use of informal suppliers of finance	0.038	0.766
I am fully aware of the various government sources of funding, example, DSBD, IDC, and the Youth Development Fund	0.000	0.697
It is easy to obtain finance from the government	0.420	0.091

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Table 4.7: Financial bootstrapping component matrix

Financial bootstrapping	Component
	1
I have relied on family and friends for loans to run my business	0.547
I have used my personal credit card to finance my business	0.671
I have withheld my own salary in order to finance my business	0.854
I have withheld profits in order to finance my business	0.794

Extraction Method: Principal Component Analysis.

As depicted in Tables 4.3 to 4.7, factor analysis measured the underlying constructs of the five themes viz., financial assistance and support, financial management skills, financial resources, access to finance, and financial bootstrapping.

The items in respect of four of the five themes loaded perfectly along a single component. This implies that the statements that constituted these sections perfectly measured what they set out to measure. The variables that constituted the theme "Access to finance" loaded along two components (sub-themes). This means that respondents exhibited different trends within this particular theme. As indicated in Table 4.9, the two items, viz., "I make use of informal suppliers of finance" and "I am fully aware of the various government sources of funding, e.g., DSBD, IDC, and the Youth Development Fund" constituted the "splits" in this theme.

The next section presents the findings pertaining to respondent demographics, which constituted Theme one.

4.6 Theme one: Demographic profile of respondents

Table 4.8 illustrates the demographic characteristics of respondents. It emerged that the majority of respondents (72.4%) were male. Approximately 28% of the respondents were female, constituting a ratio of 2.6: 1, a statistically significant difference ($p < 0.001$). This suggests that the industry does not reflect the South African gender distribution profile.

As far as the age distribution was concerned, the largest concentration of respondents fell into the 35 to 44-year category (42.1%), followed by the 45 to 54 age group at 28.1%, meaning that 70.2 % of respondents were between 35 and 54 years old. The statistical analysis further revealed that there was a significant difference in the age composition of respondents ($p < 0.001$).

It further emerged, as depicted in Table 4.1, that the vast majority of respondents were African (91.5%), followed by Colored at 3.8%, and Indian, at 3.0%. Only 1.1% of the respondents were White. The proportion of African respondents was statistically significant ($p < 0.001$). The largest group of respondents (37%) were in possession of a grade 12/matric qualification, followed by a three-year diploma qualification (21.5%). Approximately 17% of the respondents held a postgraduate qualification. The results

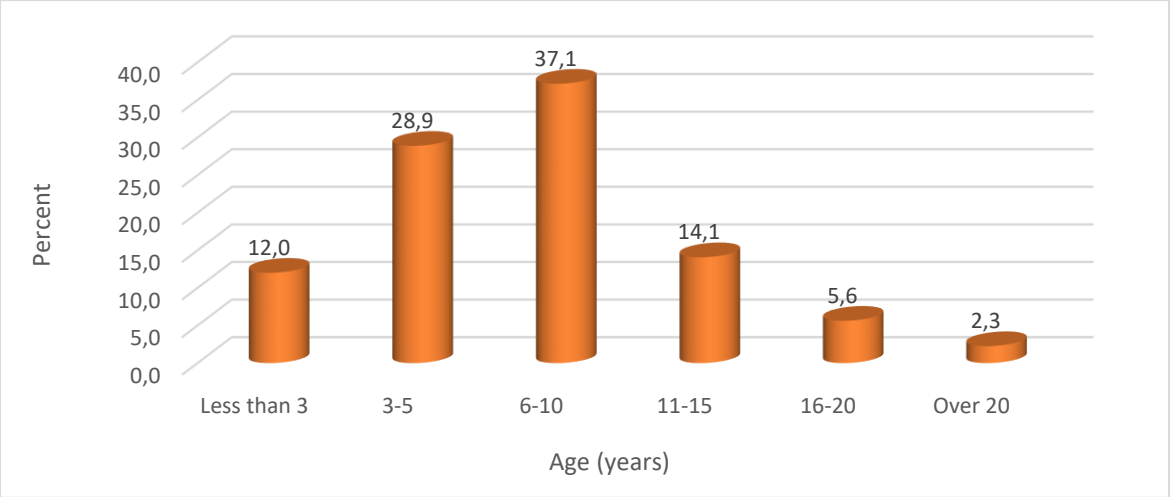
suggest that a large proportion of the respondents have a higher qualification. This would suggest that the responses gathered would have been from an informed source.

Table 4.8: Demographic profile of respondents (n= 533)

Gender	
Male	72.4%
Female	27.6%
	100%
Age of respondent (in years)	
<18	0 %
18-24	2.1%
25-34	17.8%
35-44	42.1%
45-54	28.1%
55-64	9.7%
>65	0.2%
	100%
Ethnic group	
African	91.5%
Colored	3.8%
Indian	3.0%
White	1.1%
Other	0.6%
	100%
Highest education level	
Below grade 12/matric	12.6%
Grade 12/matric	37.0%
3-year Diploma	21.5%
4-year Degree	12.3%
Postgraduate	16.6%
	100%

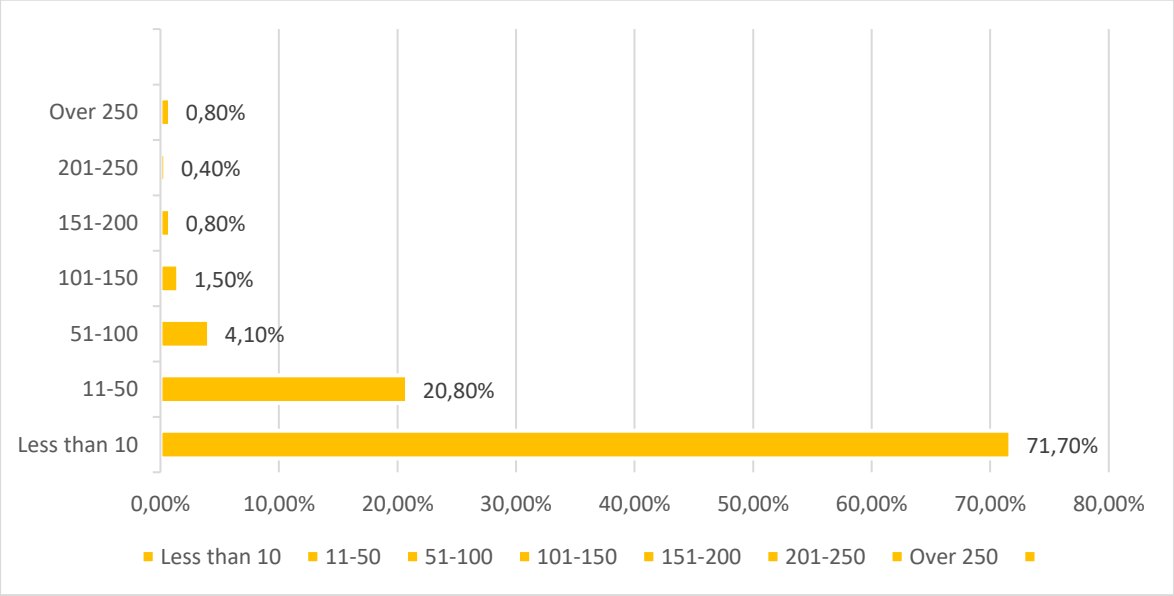
As indicated in Figure 4.1, the largest proportion of businesses (37.1%) were between 6 to 10 years old, followed by 28.9% that were 3 to 5 years old. Twelve percent of businesses were in existence for less than three years. Overall, more than three quarters of the respondents (78.0%) indicated that their businesses had been in existence for less than 10 years, a statistically significant observation ($p < 0.001$). This has implications, considering that the focus on the development of SMMEs in the construction industry dates back far longer than this period.

Figure 4.1: Age of business



The total staff complement of businesses is reflected in Figure 4.2. It became evident that the vast majority of enterprises (71.5%) had less than 10 staff members (contract and full-time), followed by 21% of enterprises employing between 11 and 50 staff members. A very small number of enterprises had a large number of employees. It emerged that only 3.5% of organisations employed more than 100 staff members, and that 92.5% of respondents had an employee count of under 50.

Figure 4.2: Total staff complement



This section presented the findings to Theme 1, viz., demographic characteristics. The next section addresses Theme two, viz., financial assistance and support.

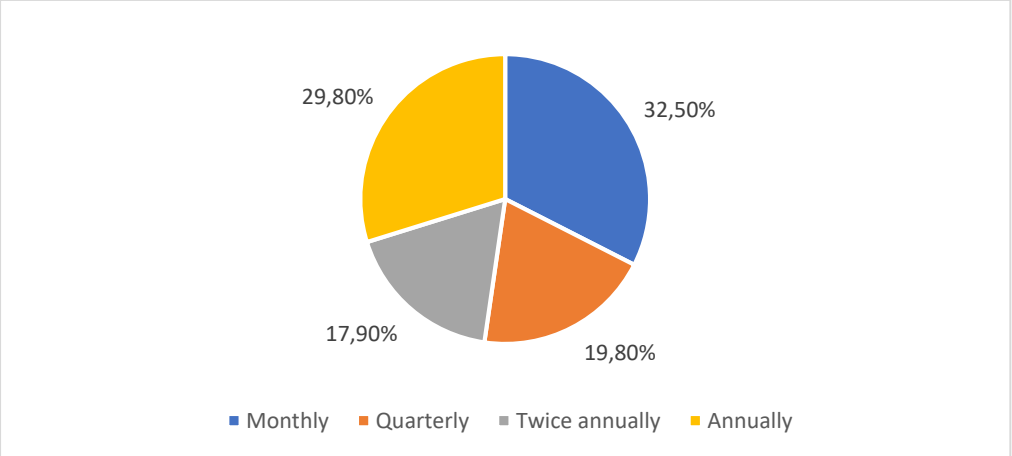
4.7 Theme two: Financial assistance and support

Theme two deals with the issues pertaining to financial assistance and support. The key variables are presented, viz., frequency of required financial assistance, refusal of financial assistance by financial institutions or government organisations, perceived reasons for the refusal of financial assistance by financial institutions or governmental agencies, government providing the sector with sufficient direct financial support, government providing the sector with sufficient financial-related support, and government providing resources to assist and grow businesses.

4.7.1 Frequency of required financial assistance

As presented in Figure 4.3, the largest group of respondents (32.5%) indicated that they required financial assistance on a monthly basis. 19.8% of respondents indicated a need for financial assistance on a quarterly basis, suggesting that the majority of respondents (52.3%) required financial assistance in less than a three- month cycle.

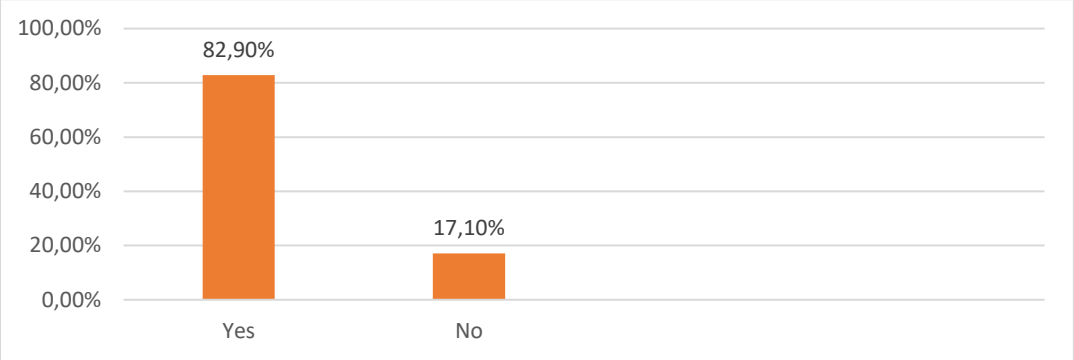
Figure 4.3: Frequency of required financial assistance



4.7.2 Refusal of financial assistance by financial institution or government organisation

As illustrated in Figure 4.4, 82.9% of respondents were refused financial assistance when they approached a financial institution or governmental organization. Only 17.1% of respondents were successful in their request. Section 4.7.3 gives some insight into the perceived reasons for refusal for financial assistance.

Figure 4.4: Refusal of financial assistance by financial institution or government organisation



4.7.3 Perceived reasons for the refusal of financial assistance by financial institutions or governmental agencies

The perceived reasons for the refusal of financial assistance by financial institutions or governmental agencies are identified in Table 4.9.

Table 4.9: Perceived reasons for the refusal of credit

	%
Poor credit rating	28.1%
Not credit worthy	15.4%
Insufficient surety	20.6%
History of defaults	4.3%
Over committed financially	3.6%
No financial statements submitted	28.6%
	100%

As indicated in Table 4.9, the largest proportion of respondents (28.6%) cited the non-submission of financial statements for being refused financial assistance. This was followed by 28.1% of respondents who indicated a poor credit rating for being refused financial assistance. 20.6% of respondents had insufficient surety, and 15.4% of the respondents were not credit worthy. The remaining reasons for being refused finance were having a history of defaults (4.3%) and being financially over committed (3.6%).

4.7.4 Government providing the sector with sufficient direct and indirect financial support

Table 4.10 summarises the scoring patterns with regard to the two statements in this regard. 54.2% of the respondents strongly disagreed and 37.2% disagreed that government had provided the sector with direct sufficient financial support, leading to

Table 4.10: Government direct financial and financial-related support

	Strongly Disagree		**Disagree**		**Agree**		**Strongly Agree**		**Chi Square p-value**
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
Government has provided my sector with sufficient direct financial support	287	54.2%	197	37.2%	32	6.0%	14	2.6%	< 0.001
Government has provided my sector with sufficient financial related support, example, training in financial management	272	51.3%	198	37.4%	45	8.5%	15	2.8%	< 0.001

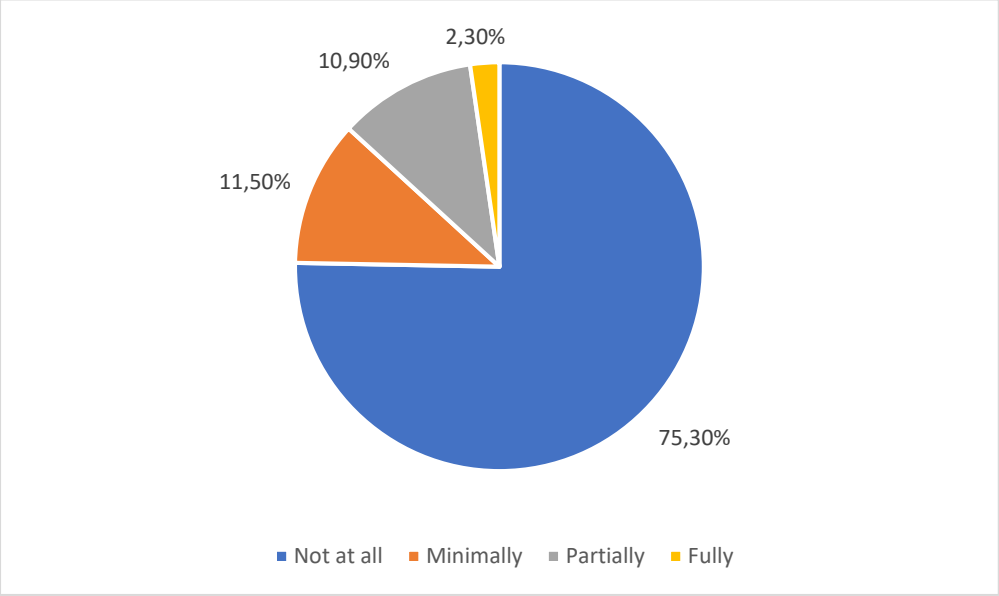
51.3% of respondents strongly disagreed, and 37.4% disagreed, implying that that 88.7% of the respondents believed that government did not provide the sector with sufficient financial-related support. Both statements showed significantly higher levels

of disagreement ($p < 0.001$) regarding government direct financial and financial-related support.

4.7.5 Government providing resources to assist and grow businesses

Respondents were asked about the extent to which government provided resources to assist and grow their businesses. As depicted in Figure 4.5, 75.3% of the respondents indicated that this did not happen at all, 11.5% indicated that this was minimal, 10.9% and 2.3% indicating that this happened partially and fully, respectively. Clearly the widely held belief is that government has not provided resources to assist and grow their businesses.

Figure 4.5: Government providing resources to assist and grow businesses

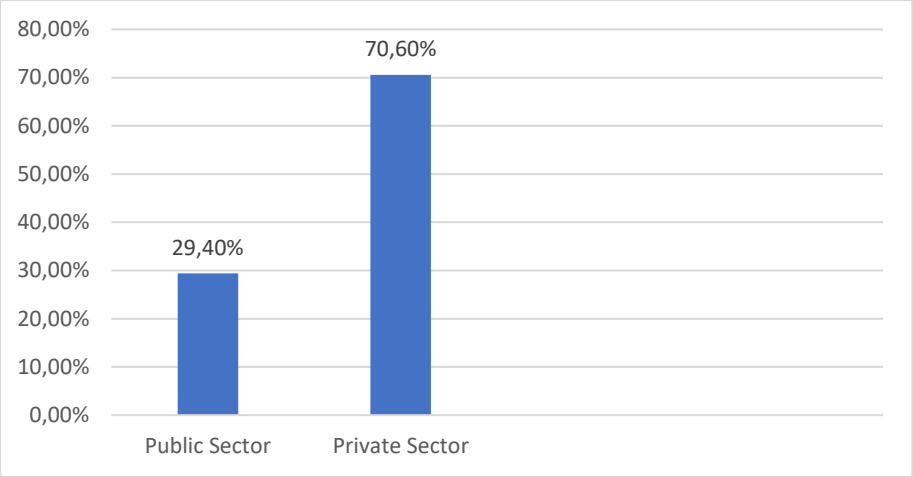


4.7.6 Sector providing more support and assistance

This section aimed to ascertain respondents' opinions on support and assistance provided by the public sector versus the private sector. The findings, as illustrated by Figure 4.6, indicates that 70.6% of the respondents believed that the private sector provided more support and assistance, compared to 29.4% of the respondents who

believed that the public sector provided more support and assistance to the SMMEs in the construction sector.

Figure 4.6: Sector providing more support and assistance



This section addressed Theme two, viz., financial assistance and support. The next section deals with financial management skills.

4.8 Theme three: Financial management skills

This theme attempts to assess the financial management skills of respondents by looking at their ability to manage working capital, having the necessary financial management skills and the ability to manage cash flow. The results are presented in Table 4.11.

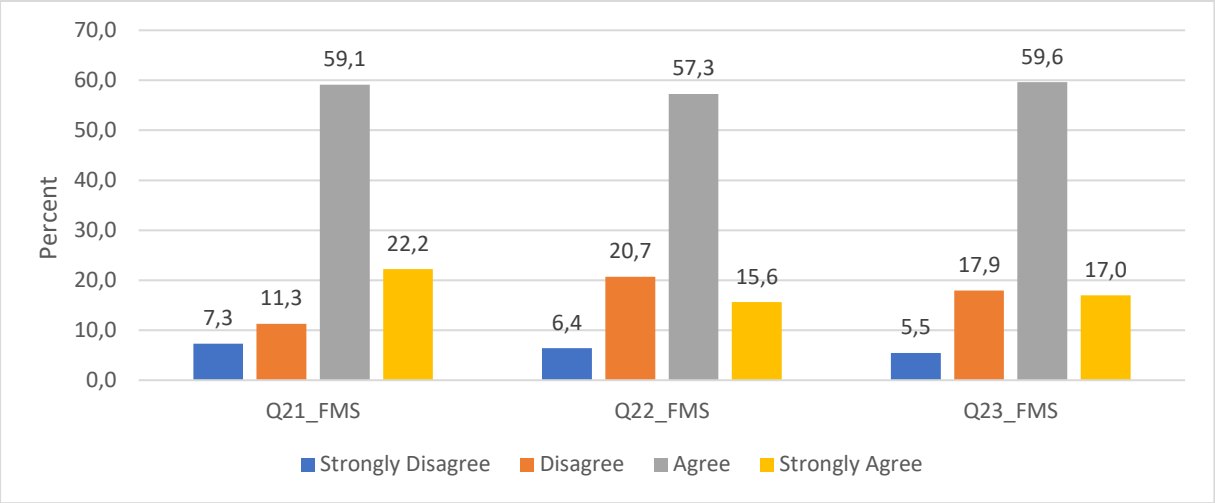
Table 4.11: Financial management skills

	Strongly Disagree		Disagree		Agree		Strongly Agree		Chi Square p-value
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
I am able to manage my working capital	39	7.3%	60	11.3%	314	59.1%	118	22.2%	< 0.001
I have the necessary financial management skills to run my business	34	6.4%	110	20.7%	304	57.3%	83	15.6%	< 0.001
I am able to manage the cash flow in my business	29	5.5%	95	17.9%	316	59.6%	90	17.0%	< 0.001

It emerged that 81.3% of respondents were in agreement, with 59.1% agreeing and 22.2% strongly agreeing that they were able to manage their working capital. 72.9% of the respondents believed that they had the necessary financial management skills to run their businesses, with 57.3% of the respondents agreeing and 15.6% strongly agreeing with this statement. Approximately three out of every five respondents agreed, and 17% strongly agreed that they had the ability to manage their cash flow, suggesting that 76.6% of respondents felt that they were capable of managing the cash flow in their businesses. A relatively small proportion of respondents were in disagreement with all three statements.

All three statements showed significantly higher levels of agreement ($p < 0.001$) for the theme financial management skills. The findings are further highlighted in Figure 4.7.

Figure 4.7: Financial management skills



This theme addressed financial management skills. The next theme deals with financial resources.

4.9 Theme four: Financial resources

This section attempts to ascertain whether respondents had sufficient collateral to obtain finance and the adequacy of financial resources to run their businesses, and the results are presented in Table 4.12.

Table 4.12: Financial resources

	Strongly Disagree		**Disagree**		**Agree**		**Strongly Agree**		**Chi Square p-value**
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
I have sufficient collateral (security) to obtain finance (Q20)	107	20.2%	186	35.0%	197	37.1%	41	7.7%	< 0.001
I always have sufficient financial resources to run my business (Q21)	97	18.3%	257	48.5%	146	27.5%	30	5.7%	< 0.001

As reflected in Table 4.12, 35% of the respondents disagreed, and 20.2% strongly disagreed with the statement that they had sufficient collateral to obtain finance, implying that 55.2% of respondents believed that they did not have sufficient collateral to obtain finance for their businesses. A total of 44.8% of the respondents believed that they had sufficient collateral to obtain finance (37.1% agreeing and 7.7% strongly agreeing).

The results also indicate that 48.5% of respondents disagreed, and 18.3% strongly disagreed that they had sufficient financial resources to run their business, while approximately 28% (27.5%) agreed and 5.7% disagreed that they had sufficient financial resources to run their business.

Even though there was a fair proportion of respondents who agreed, a significantly larger proportion of respondents disagreed that they always had access to financial resources ($p < 0.001$).This theme dealt with financial resources. Access to finance constitutes Theme five.

4.10 Theme five: Access to finance

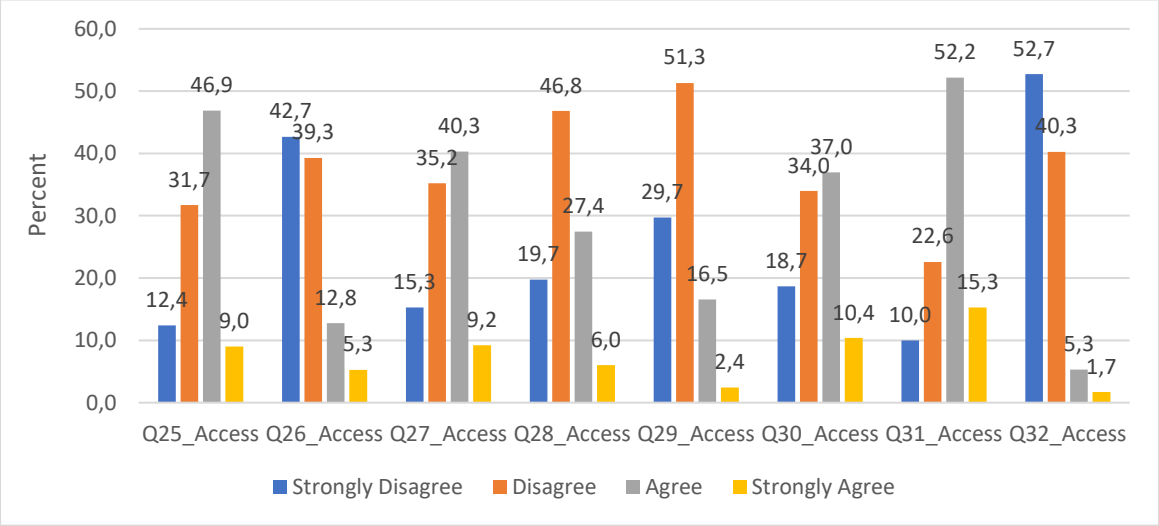
This section constitutes an assessment of respondent viewpoints on access to finance and examines, *inter alia,* relationship with bank, securing external finance, access to short term credit, use of informal suppliers of finance, and access to government funding. The findings, as applicable to the theme of access to finance, as presented in Table 4.13.

Table 4.13: Access to finance

	Strongly Disagree		Disagree		Agree		Strongly Agree		Chi Square p-value
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
I have a good relationship with my bank (Q25)	66	12.4%	169	31.7%	250	46.9%	48	9.0%	< 0.001
It is easy to obtain finance from banks (Q26)	227	42.7%	209	39.3%	68	12.8%	28	5.3%	< 0.001
I have sufficient business experience to secure outside finance (Q27)	81	15.3%	187	35.2%	214	40.3%	49	9.2%	< 0.001
I have sufficient access to short term credit facilities (Q28)	105	19.7%	249	46.8%	146	27.4%	32	6.0%	< 0.001
I have access to unsecured loans from Banks (Q29)	158	29.7%	273	51.3%	88	16.5%	13	2.4%	< 0.001
I make use of informal suppliers of finance (Q30)	99	18.7%	180	34.0%	196	37.0%	55	10.4%	< 0.001
I am fully aware of the various government sources of funding, e.g., DSBD, IDC, and the Youth Development Fund (Q31)	53	10.0%	120	22.6%	277	52.2%	81	15.3%	< 0.001
It is easy to obtain finance from the government (Q32)	279	52.7%	213	40.3%	28	5.3%	9	1.7%	< 0.001

It emerged that a large proportion of respondents (55.9%) indicated that they had a good relationship with their bank (46.9% agreeing and 9% strongly agreeing). What was very clear was the difficulty experienced in obtaining finance from banks, with 82% of respondents disagreeing that it was easy to obtain finance from banks. In addition, it became evident that access to unsecured loans from banks proved to be a challenge, with 81.1% of respondents disagreeing (51.3% disagreeing and 29.7% strongly disagreeing) with the statement that they had access to unsecured loans from banks. A graphical illustration of the findings is displayed in the form of Figure 4.8.

Figure 4.8: Access to finance



When asked about having sufficient business experience to secure external finance, 49.5% of the respondents agreed with this statement and 50.5% disagreed. The statement pertaining to having sufficient access to short-term facilities revealed that 66.6% of the respondents disagreed that they had sufficient access to short-term credit facilities.

The results also indicate a moderate reliance on informal suppliers of finance, with 52.6% of the respondents disagreeing, and 47.4% agreeing that they made use of informal suppliers of finance. As far as awareness of government sources of funding was concerned, the vast majority of respondents (67.5%) indicated agreement in this regard. It became evident that 93% of the respondents (40.3% agreeing and 52.7% strongly agreeing) believed that it was not easy to obtain finance from the government. All items under this construct were statistically significant ($p < 0.001$). It must be noted that the factor analysis revealed that the following two statements formed a sub-theme:

- "I make use of informal suppliers of finance" and
- "I am fully aware of the various government sources of funding, e.g., DSBD, IDC, and the Youth Development Fund".

This theme covered access to finance. The next theme addresses financial bootstrapping.

4.11 Theme six: Financial bootstrapping

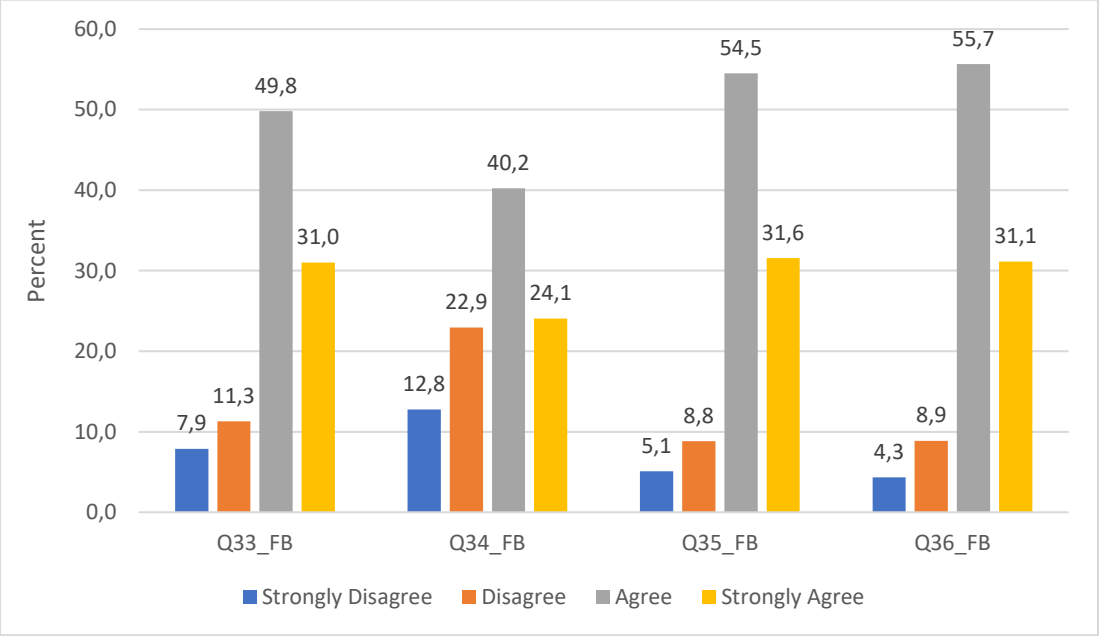
Financial bootstrapping or bootstrap finance refers to the use of personal means by respondents in order to source funds to run their business, viz., relying on family, friends and other personal sources of finance, such as the use of personal credit cards, withholding of own salary and withholding of profits. The findings to this theme are presented in Table 4.14.

Table 4.14: Financial bootstrapping

	Strongly Disagree		**Disagree**		**Agree**		**Strongly Agree**		**Chi Square p-value**
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	
I have relied on family and friends for loans to run my business (Q33)	42	7.9%	60	11.3%	265	49.8%	165	31.0%	< 0.001
I have used my personal credit card to finance my business (Q34)	68	12.8%	122	22.9%	214	40.2%	128	24.1%	< 0.001
I have withheld my own salary in order to finance my business (Q35)	27	5.1%	47	8.8%	290	54.5%	168	31.6%	< 0.001
I have withheld profits in order to finance my business (Q36)	23	4.3%	47	8.9%	295	55.7%	165	31.1%	< 0.001

It is evident that 80.8% of respondents relied on family and friends for loans to run their business, with 49.8% agreeing and 31% strongly agreeing to the statement. The findings at presented graphically in Figure 4.9. The results indicate that 64.3% of respondents made use of their personal credit card to finance the business, with 40.2% agreeing and 24.1% of respondents strongly agreeing in this regard.

Figure 4.9: Financial bootstrapping



It emerged that 86.1% of respondents made a personal sacrifice by withholding their personal salary in order to finance their business, with 54.5% agreeing and 31.6% of the respondents strongly agreeing in this regard. 13.9% of respondents indicated that they did not withhold their own salary to finance their business.

The findings to the item “I have withheld profits in order to finance my business” are consistent with those of the previous item. It emerged that 86.8% of respondents withheld profits in order to finance their business, with 55.7% agreeing and 31.1% of respondents strongly agreeing in this regard. 13.2% of the respondents did not withhold profits in order to finance their business.

There were similar and significantly higher levels of agreement across all of the statements for the theme “Financial bootstrapping” ($p < 0.001$).

This section addressed Theme six, viz. financial bootstrapping. The next section presents the key correlations.

4.12 Correlations

Bivariate correlation was performed on the ordinal data. The full results are contained in Appendix B. Positive values indicate a directly proportional relationship between the variables and a negative value indicates an inverse relationship. Some of the significant correlations that were evident are presented below.

- The statement “Government has provided my sector with sufficient direct financial support” correlated positively with the statement “Government has provided my sector with sufficient financial-related support” ($r = 0.759$, $p < 0.01$). Although it was clear that the vast majority of respondents believed that government support for the sector was very limited, those who believed that government provided the sector with sufficient support were equally inclined to believe that government financial-related support was sufficient.

- The statement “I have the necessary financial management skills to run my business” correlated positively with the statements “I am able to manage my working capital” ($r = 0.403$, $p < 0.01$) and “I am able to manage the cash flow in my business” ($r = 0.601$, $p < 0.01$), suggesting a positive relationship between financial management skills and the ability to manage working capital and cash flow.

- The statement “I have a good relationship with my bank” correlated positively with the statements “I always have sufficient financial resources to run my business” ($r = 0.255$, $p < 0.01$) and “I am able to manage the cash flow in my business” ($r = 0.320$, $p < 0.01$) suggesting that the better the relationship with the bank, the more inclined for a business to have sufficient financial resources, including cash flow.
- The statement “I have sufficient business experience to secure outside finance” correlated positively with the statement “I have access to unsecured loans from banks” ($r = 0.295$, $p <0.01$), implying that the more business experience one had, the greater the likelihood of securing unsecured loans from banks.

- The statement “I have relied on family and friends for loans to run my business” correlated negatively with the statements: “Government has provided my sector with sufficient direct financial support” ($r = -0.167$, $p < 0.01$) “ I have sufficient collateral to obtain finance” ($r = -0.172$, $p < 0.01$), “I always have sufficient financial resources to run my business” ($r = -0.193$, $p < 0.01$) and “It is easy to obtain finance from banks” ($r = -0.223$, $p < 0.01$). This would suggest an inverse relationship between the variables, i.e., there was a greater reliance on family and friends for finance owing to diminished government funding opportunities; inadequate collateral; reduced financial resources, and the likelihood of obtaining bank finance.

- The statement “I have withheld profits in order to finance my business” correlated positively with the statements: “I have withheld my own salary in order to finance my business” ($r = 0.685$, $p < 0.01$), and “I have used my personal credit card to finance my business” ($r = 0.347$, $p < 0.01$). This direct positive relationship corroborates the personal financial commitments made by respondents in financing their businesses.

- Aligned to the above observation is the negative correlation between the statement “I have withheld profits in order to finance my business” with the statements “Government has provided my sector with sufficient financial support” ($r = -0.170$, $p < 0.01$), “I have sufficient collateral to obtain finance ($r = -0.88$, $p < 0.01$) and “It is easy to obtain finance from banks” ($r = -0.134$, $p < 0.01$). This would indicate that the more respondents felt that government did not provide sufficient finance, that they had insufficient collateral and that it was not easy to obtain finance from banks, the more they withheld profits to finance their businesses.

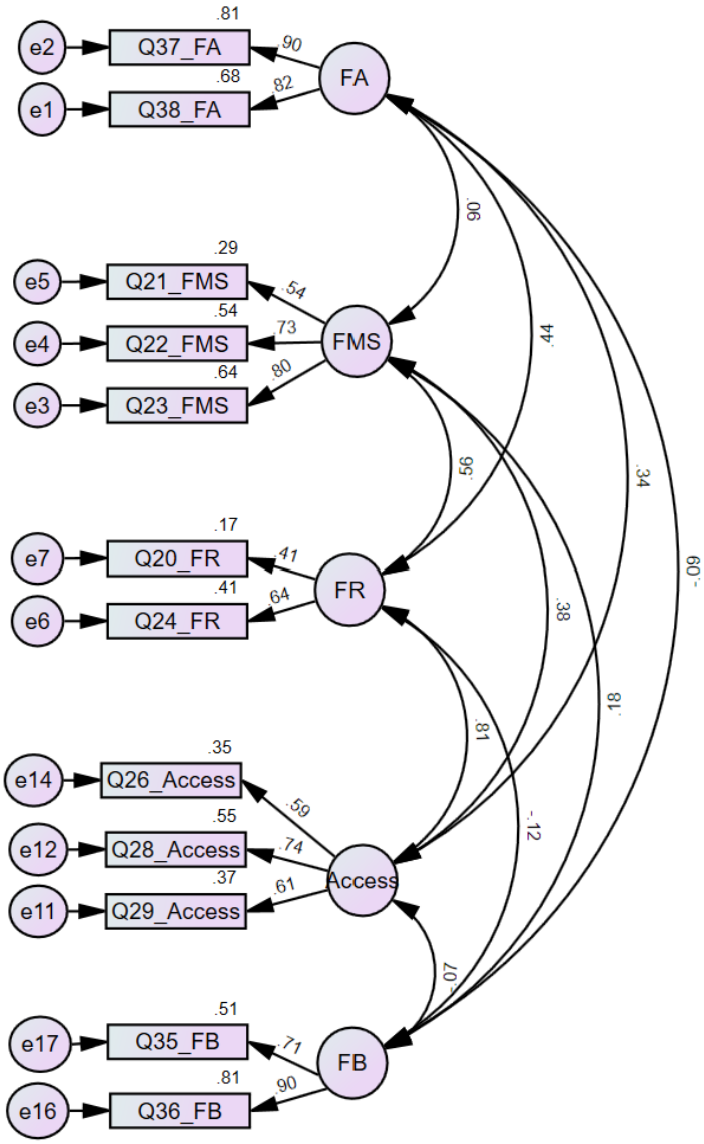
This section presented the key correlations that emerged from the study. The next section presents the Structural Equation Model.

4.13 Structural Equation Model

Figure 4.10 reflects the path diagram for the modified Structural Equation Model that emerged from the study. The model is a multivariate statistical result that was obtained

using structural relationships, applying a combination of factor analysis and multiple regression analysis techniques. It is used to analyse the structural relationship between measured variables and latent constructs. There are five latent variables in the model viz., Financial assistance and support (FA), Financial management skills (FMS), Financial resources (FR), Access to finance (Access) and Financial bootstrapping (FB).

Figure 4.10: Path diagram for modified Structural Equation Model



This Chi-square tests the null hypothesis that the over-identified (reduced) model fits the data as well as does a just-identified (full, saturated) model. In a just-identified model there is a direct path (not through an intervening variable) from each variable

to each other variable. In such a model the Chi-square will always have a value of zero, since the fit will always be perfect. The probability should **not** be significant. As indicated in Table 4.15, this condition is met in this model (p = 0.089).

Table 4.15: Result (Default model)

Chi-square	57.082
Degrees of freedom	44
Probability level	0.089

The variables loaded strongly along their various factors (significant p-values indicated by "***": p < 0.001), as reflected in Table 4.16. These verify the EFA obtained under factor analysis.

Table 4.16: Maximum Likelihood Estimates

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Q38_FA	<---	FA	1.000				
Q37_FA	<---	FA	1.047	.109	9.612	***	par_1
Q23_FMS	<---	FMS	1.000				
Q22_FMS	<---	FMS	.941	.077	12.303	***	par_2
Q21_FMS	<---	FMS	.713	.069	10.400	***	par_3
Q24_FR	<---	FR	1.000				
Q20_FR	<---	FR	.694	.096	7.191	***	par_4
Q29_Access	<---	Access	.748	.070	10.664	***	par_5
Q28_Access	<---	Access	1.000				
Q26_Access	<---	Access	.830	.079	10.454	***	par_6
Q36_FB	<---	FB	1.000				
Q35_FB	<---	FB	.818	.172	4.760	***	par_7

The parameters are estimated by maximum likelihood (ML) methods, which (is an iterative procedure that) attempts to maximize the likelihood that obtained values of the criterion variable will be correctly predicted. As indicated in Table 4.17, all the coefficients were above the suggested value of 0.600, except for the variables "I have

sufficient collateral to obtain finance" (Q20), "I am able to manage my own working capital" (Q21) and "It is easy to obtain finance from banks" (Q26). These, however, were retained, as they did not impact the fit indices described below.

Table 4.17: Standardized Regression Weights
(Group number 1 - Default model)

			Estimate
Q38_FA	<---	FA	.823
Q37_FA	<---	FA	.901
Q23_FMS	<---	FMS	.801
Q22_FMS	<---	FMS	.733
Q21_FMS	<---	FMS	.537
Q24_FR	<---	FR	.644
Q20_FR	<---	FR	.406
Q29_Access	<---	Access	.611
Q28_Access	<---	Access	.741
Q26_Access	<---	Access	.592
Q36_FB	<---	FB	.898
Q35_FB	<---	FB	.711

Correlation Analysis

The level of significance relates to the strength of the relationships. The correlation analysis is presented in Tables 4.18 and 4.19.

Table 4.18: Co-variances

(Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
FA	<-->	FMS	.023	.020	1.163	.245	par_8
FA	<-->	FR	.141	.025	5.620	***	par_9
FA	<-->	Access	.128	.024	5.299	***	par_10
FB	<-->	FA	-.036	.022	-1.658	.097	par_11
FMS	<-->	FR	.172	.025	6.967	***	par_12
FMS	<-->	Access	.136	.023	5.840	***	par_13
FB	<-->	FMS	.074	.022	3.319	***	par_14
FR	<-->	Access	.254	.029	8.784	***	par_15
FB	<-->	FR	-.043	.024	-1.785	.074	par_16
FB	<-->	Access	-.027	.023	-1.149	.251	par_17

Significant p-values indicated by "***": $p < 0.001$)

Table 4.19: Correlations

(Group number 1 - Default model)

			Estimate
FA	<-->	FMS	.062
FA	<-->	FR	**.439**
FA	<-->	Access	**.337**
FB	<-->	FA	-.086
FMS	<-->	FR	**.558**
FMS	<-->	Access	**.375**
FB	<-->	FMS	**.185**
FR	<-->	Access	**.808**
FB	<-->	FR	-.124
FB	<-->	Access	-.065

In all except for four instances, the correlations are significant ($p < 0.01$). There is a directly proportional relationship between the variables for the highlighted correlations. This implies that an increase in one variable results in an increase in the other, and vice versa; e.g., there is a strong positive correlation between FR and Access ($r = 0.808$, $p < 0.001$).

Model Fit Summary

The suggested acceptable value for relative chi-square, CMIN/DF should not be greater than 5, which is used to reduce dependency on sample size. CMIN is a Chi-square statistic comparing the tested model and the independence model to the saturated model. The ratio, CMIN/DF, the relative chi-square, is an index of how much the fit of data to model has been reduced by dropping one or more paths. As illustrated in Table 4.20, The CMIN/DF is less than the acceptable value of 5 (1.297). This meets the CMIN condition.

Table 4.20: CMIN

Model	NPAR	CMIN	DF	p	CMIN/DF
Default model	46	57.082	44	.089	1.297
Saturated model	90	.000	0		
Independence model	12	1690.851	78	.000	21.678

The goodness of fit indices compare the model to the independence model rather than to the saturated model. The Normed Fit Index (NFI) is the difference between the two models' chi-squares divided by the chi-square for the independence model. As indicated in Table 4.21, the NFI is 0.966, which is greater than the recommended value of 0.90 for a good fit. The Comparative Fit Index (CFI) uses a similar approach (with a non-central chi-square) and is said to be a good index for use even with small samples. It ranges from 0 to 1, like the NFI, and 0.90 indicates good fit. The CFI value is 0.992, implying a good fit.

Table 4.21: Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.966	.940	.992	.986	.992
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

The Root Mean Square Error of Approximation (RMSEA) estimates lack of fit compared to the saturated model. An RMSEA of .05 or less indicates good fit, and between .05 and .08 an adequate fit. LO 90 and HI 90 are the lower and upper ends of a 90% confidence interval on this estimate. The data, as presented in Table 4.22 below, indicates that the model is a very good fit (RMSEA = 0.024) and meets the condition that the PCLOSE value should not be significant. This condition is met (p = 0.998).

Table 4.22: RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.024	.000	.040	.998
Independence model	.197	.189	.205	.000

Concluding remarks on the SEM

It is noted that the statements that constituted the latent variables generated a model that was a very good fit. An inspection of the coefficients for each latent variable

indicated high factor loadings. Even though this was a newly developed construct, the model is a very good fit of the interactions displayed.

4.14 Conclusion

This chapter presented, analysed and discussed the findings emanating from the empirical study. The measuring instrument was briefly described, followed by the response rate, which was considered to be favourable. The discussion proceeded with an assessment of the reliability of the measuring instrument and thereafter, a discussion of factor analysis which assessed the validity of the measuring instrument. The chapter then presented the findings pertaining to the key variables viz. demographic factors, financial assistance and support, financial management skills, financial resources, access to finance and financial bootstrapping, which are presented as themes. The key correlations that emerged from the study were discussed. The chapter concluded by providing an analysis of the path diagram for the modified Structural Equation Model that emerged from the study.

The next, and final chapter, provides a conclusion to the study and makes recommendations.

CHAPTER 5

RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

The previous chapter presented, analysed and discussed the findings that emerged from the empirical study. This chapter concludes the study by providing an overview of the study background, the literature review, the research methodology and the literature and empirical findings based on each of the four objectives. This is followed by the contributions of the study. Recommendations are made, based on the findings from the study, and the limitations of the study are acknowledged. The chapter concludes by providing directions for future studies.

5.2 Overview of the study

This section provides an overview of the study, with respect to the study background, the literature review, the research methodology and the study objectives.

5.2.1 Overview of the study background

SMMEs have been regarded as being a vital component in advancing inclusive economic growth and development in South Africa. In the construction sector, SMMEs, generally referred to as Emerging Sector Contractors, are the backbone of all economies, both in emerging and developing countries. Despite the significant contribution by SMMEs to the South African economy, it is challenging for these firms to succeed, owing to several obstacles. Access to sufficient finance for SMMEs has been found to be one of the greatest challenges.

5.2.2 Overview of the literature review

The literature review provided the official definition of an SMME in terms of the number of staff and turnover. It has emerged that SMMEs make up the vast majority of businesses in most countries. SMMEs stimulate private business ownership and

entrepreneurial skills, are agile and can react relatively quickly to changing market conditions and supply situations. They also play a prominent role in employment generation. Large firms as well as the public sector alone have not been able to solve the major economic problems facing South Africa; hence, the strategic importance of the SMME sector as a contributor to resolving the economic crisis faced by the country. It became evident that the construction industry, overall, is the fourth largest in South Africa, after wholesale and retail, community and social services, and the financial sector.

Despite the targeted interventions by the government, SMMEs continue to experience several challenges, which result in a high failure rate. One of the key challenges pertains to finance. Large firms have the advantage of having access to the capital market and getting quick financing at an affordable price. This, however is not the case with SMMEs in South Africa. Even before the COVID-19 pandemic, the South African construction industry was facing significant challenges.

5.2.3 Overview of the research methodology

The study was quantitative, descriptive and cross-sectional in nature. SMMEs in the construction industry in Gauteng, specifically CIDB grades 1 to 7 constituted the population, totalling 10 480 on the CIDB database. Systematic sampling was employed, whereby the identified construction enterprises were invited to participate in the survey. The survey took the form of a questionnaire, comprising six themes, viz., demographic data, financial assistance and support, financial management skills, financial resources, access to finance and financial bootstrapping. The data was analysed at a descriptive and inferential level, including validity and reliability testing.

5.2.4 Overview of the findings: Objective 1

The first objective of the study was to analyse the current status of SMMEs in the Gauteng construction industry of South Africa. The literature highlighted the fact that the construction industry was not a single industry, but a complex cluster of industries that played a prominent role in the economy. It emerged that there was a very strong

relationship between construction activity and economic growth. It also became clear that the South African construction industry has witnessed a high failure rate.

The empirical study found that the industry is significantly dominated by male contractors (2.6:1); that the majority of respondents fell into the age group of 22 to 45 years; the vast majority of respondents were African, and that over half the total number of respondents possessed a post-matric qualification. More than three quarters of businesses have been in existence for less than 10 years, indicating that the industry is dominated by relatively young businesses. The vast majority of businesses had a staff compliment of under ten.

The discussion points to the conclusion that objective one has been achieved.

5.2.5 Overview of the findings: Objective 2

The second objective of the study was to ascertain the funding challenges faced by SMMEs in the Gauteng construction industry. The literature indicated that many SMMEs are unable to achieve their business goals by themselves, and need support and resources from both internal and external stakeholders, such as government and private institutions, and also from close associates such as friends and relatives. Large firms have the advantage of having access to the capital market and getting quick financing at an affordable price. This, however, is not the case with SMMEs in the construction sector. Given the significant potential SMMEs hold for the construction sector, it is essential to provide the necessary finance and finance-related support in order for them to be successful.

The empirical findings indicate that that the majority of respondents required financial assistance in three- month cycles. The vast majority were refused financial assistance when they approached a financial institution or governmental organization. The major reasons provided were lack of financial statements, poor credit rating, insufficient surety and not being credit worthy. Just over half of the respondents believed that they did not have sufficient collateral to obtain finance for their businesses, whilst the vast majority felt that they did not have sufficient financial resources to run their business. This suggests that access to financial resources posed a bigger challenge

than having sufficient collateral to raise finance. A large proportion of respondents had a good relationship with their bank, despite the majority view being that it was difficult to obtain finance from banks. Access to unsecured loans from banks proved to be a major challenge. Most of the respondents did not have sufficient access to short-term credit facilities. There was a moderate reliance on informal suppliers of finance.

It emerged that bootstrap financing was prevalent among respondents. The majority of contractors relied on family and friends for finance, as well as resorted to other personal means of finance to run their businesses, viz., the use of personal credit cards, withholding of their own salary and withholding profits. This was corroborated by a strong, significant correlation among these variables.

The above suggests that objective two has been achieved.

5.2.6 Overview of the findings: Objective 3

The third objective of the study was to determine the financial knowledge levels of managers within SMMEs in the Gauteng construction industry. The literature indicated that the key areas pertaining to financial knowledge include the ability to manage working capital, having the necessary financial management skills and the ability to manage cash flow.

It emerged that the vast majority of contractors were of the view that they were in a position to manage working capital, that they possessed the necessary financial management skills as well as the ability to manage the cash flow in their businesses. Clearly, contractors held the belief that they had the necessary financial knowledge levels to run their businesses. The aforementioned suggests that objective three was met.

5.2.7 Overview of the findings: Objective 4

The fourth objective of the study was to assess contractor's perceptions of government financial support for SMMEs in the Gauteng construction industry. The literature

indicated that the South African government has indicated its' commitment to providing support to the country's SMMEs. However, the Global Entrepreneurship Monitor ranked South Africa in the bottom one-third of countries that effectively supported SMMEs. This is an indicator of the perceived ineffectiveness on the part of the South African government in this regard, despite the various initiatives, including legislation, development plans and institutions established by the government to promote the development of SMMEs.

Although a large proportion of contractors were aware of government sources of funding, the vast majority believed that it was not easy to obtain finance from the government. Most respondents believed that government has not provided direct financial and financial related support. The few that did support the view that government has provided direct financial assistance agreed that government has also provided financial related support, as evident in the strong and significant correlation between these two variables. The widely held view was that the private sector provided more support and assistance compared to the public sector.

The above discussion leads to the conclusion that objective four has been met.

5.3 Contributions of the study

The study has contributed to the body of knowledge pertaining to financial challenges faced by contractors in the SMME sector, with specific reference to Gauteng, South Africa. This research further introduces a path diagram for the modified Structural Equation Model that emerged from the study. Even though this was a newly developed construct, the model is a very good fit of the interactions displayed.

5.4 Recommendations

Based on the findings, the study proposes the following recommendations:

- As far as the gender profile was concerned, it was noted that there was a significant dominance of males in the industry. Government and policymakers need to take steps in narrowing this gender inequality to ensure that more

females contractors are involved in the construction industry. Whilst there may be measures in place to address greater female representation, there should be a closer monitoring of contracts and more concerted efforts in attracting female contractors into the industry. This could be achieved by dedicating a certain criteria of construction activities to women only and by the engagement of women owned companies under the strength of larger construction companies who assist and support their growth and stability.

- The majority of business were relatively young. This points to the relatively short lifespan of construction firms, and can be attributed to funding challenges. Role players in the industry need to provide support to the industry to ensure the long-term existence of construction firms. This could be achieved through the establishment and role of incubation programs that can develop small businesses to the extent where they are self-reliant and have the capacity to succeed on their own strength.

- It emerged that the private sector provides the majority of support and assistance to contractors. Clearly, there is greater scope for government to be involved in nurturing and developing the industry. Government needs to create an enabling environment by making available the necessary resources, drafting legislation that does not over-regulate the industry, granting tax relief to emerging contractors, and displaying a clear and visible commitment to contributing to the success of the sector. This can be achieved if adequate government infrastructure projects are rolled out where the scope of works will be separated for large contractors as well as for SMMEs. Larger contractors can also be tasked with ensuring that they tender each State-Owned Enterprise project with a certain percentage of the scope allocated to SMMEs.

- The private sector needs to be more accommodating, and possibly, more flexible, in providing financial and finance-related support to the sector. Consideration should be given to concessions such as a lack of collateral as a display of social responsibility to the sector. This can be achieved through

providing tax incentives to companies who contribute significantly to the growth and development of SMMEs.

- Many businesses were refused finance owing to the absence of financial statements. Contractors need to be sensitized to the need for having proper financial statements. They should receive training on how to prepare financial statements, and where necessary, should enlist the services of an accountant. Government can support an initiative through the construction industry development board and CIPC, where newly registered companies are provided basic and in-depth financial management training within 3 months of registering anew business.

- Consideration should be given to the establishment of a Construction Bank. The ultimate aim of establishing a Construction Bank in South Africa will be to support the development, growth and success of SMMEs in the construction industry and in assisting them to grow from small enterprises to large scale businesses. The financial support will allow SMMEs to tender for projects where they can afford to buy and supply the raw materials as opposed to conventionally being labour-only contractors. This will improve their revenue generation and cash flow capacity, ultimately improving their credit ratings with commercial banks. The role of the Construction Bank will be to give developing SMMEs a “kick-start” towards the growth and success of their business. An initiative of this nature has proven to be successful in China.

5.5 Limitations of the study

It is acknowledged that this study had certain limitations. Firstly, the study was confined to the Gauteng province of South Africa, and the findings may not necessarily be generalizable to other provinces. Secondly, this study pertained to SMMEs in the construction industry. This means that the findings may not be generalized to the broader SMME sector.

Finally, this study was confined to financial challenges faced by the sector, to the exclusion of other key success factors such as strategic focus, people, operations and marketing.

5.6 Directions for future studies

The following are proposed as possible areas for future studies:

- A similar study could be extended to other provinces in South Africa, or even a national study of SMMEs in the construction industry.

- A study on the perceptions of other stakeholders on financial challenges in the SMME construction industry such as banks, policymakers, government agencies and private sector lenders could be conducted, with a view to gleaning a broader perspective on financial challenges faced by the industry.

- A broader study that covers more aspects pertaining to key success factors could be conducted to gain a holistic view on the issue of business success.

5.7 Conclusion

This study examined the financial challenges confronting SMMEs in the Gauteng construction industry. It looked into the criteria that qualified small businesses into this criterion by assessing the size of their organisational structure, financial capacity, etc. The study considers both internal and external forces that act against and in favour of SMMEs in the Gauteng construction industry and considers how external forces like access to funding is a major stumbling block in the growth and development of the SMMEs in the construction industry.

Financial challenges of these SMMEs in the Gauteng construction industry is evident in the high turnover rate of small SMMEs, as these small businesses just cannot afford to remain open without adequate and proper access to funding. Inadequate access to basic and informed financial training has also proven to negatively impacting growth.

The lower business age of a substantial amount of SMMEs in the Gauteng construction industry shows that although the barriers of entry into the industry may be low, the opportunity to succeed, develop and grow as an SMME is low and that can be largely due to the reduced access to or the complete lack of funding.

It became evident that organisations in this sector face significant challenges in many respects. The key themes under consideration were demographic data, financial assistance and support, financial management skills, financial resources, access to finance and financial bootstrapping.

The results suggest a need for improvement in most areas, however this improvement needs to be driven from a Governmental perspective where laws and criteria are set and agreed within industry on how small SMMEs needs to be developed and mentored into larger businesses. There needs to be incentivised programs to also support the commitment from the private sector towards the growth and development of these SMMEs.

A path diagram for the modified Structural Equation Model emerged from the study. As a newly developed construct, the model is a very good fit of the interactions displayed.

An overview of the study has been presented, followed by the contributions of the study, and thereafter recommendations have been made in light of the findings. The finding and recommendations must be openly communicated within government and industry, especially the private sector and commitment to the support of SMMEs should become mandatory within the construction industry.

The limitations of the study were then identified, and finally, direction was provided regarding potential areas for research arising out of this study. The further expansion of this research could help identify whether these challenges persist within the construction industry outside of Gauteng and whether SMMEs in other sectors have similar limitations in their growth and development.

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ANNEXURES

Annexure 1: Supervisor Letter of Consent

The Programme Administrator: MBL 3
Graduate School of Business Leadership
P O Box 392
UNISA
0003

CONSENT TO SUBMIT RESEARCH REPORT 2021

Consent is hereby given to:

Student name Junithan Moodley

Student number 79029795 to submit his/her research report in its final form.

Study Leader Mark Joseph Peters Date: 14/12/2021

Supervisor signature Mark J Peters

The student acknowledges that sufficient feedback was provided by the study leader and that s/he took the responsibility to attend to the feedback in a way that satisfies the requirements for a research dissertation on the MBL level.

Student signature Moodley Date: 2021-12-14

Students must obtain consent from their Study Leaders before submission of a final report.
Research reports should be submitted on the EDS as required.

Mr John Mouton.
Unisa SBL
ROOM 02-18, MIDRAND, 1685.
tmoutoj@unisa.ac.za
011 652 0206

mjp

Annexure 2: Ethical Clearance Certificate

Graduate School of Business Leadership, University of South Africa, PO Box 392, Unisa, 0003, South Africa
Cnr Janadel and Alexandra Avenues, Midrand, 1685, Tel: +27 11 652 0000, Fax: +27 11 652 0299
E-mail: sbl@unisa.ac.za Website: www.unisa.ac.za/sbl

SCHOOL OF BUSINESS LEADERSHIP

RESEARCH ETHICS REVIEW COMMITTEE (GSBL CRERC)

14 October 2021

Ref #: 2021_SBL_MBA_020_FA
Name of applicant: Mr J Moodley
Student #: 79029795

Dear Mr Moodley

Decision: Ethics Approval

Student: Mr J Moodley, (junithanmoodley@gmail.com , 083 656 9213)

Supervisor: Mr MJ Peters, (mark@markjpeters.co.za , 082 311 9118)

Project Title: An Investigation into the Financial Challenges Faced by SMME's in the Construction Industry in Gauteng

Qualification: Master in Business Administration (MBA)

Expiry Date: December 2022

Thank you for applying for research ethics clearance, SBL Research Ethics Review Committee reviewed your application in compliance with the Unisa Policy on Research Ethics.

Outcome of the SBL Research Committee: Approval is granted for the duration of the Project

The application was reviewed in compliance with the Unisa Policy on Research Ethics by the SBL Research Ethics Review Committee on the 12/10/2021.

The proposed research may now commence with the proviso that:

1) The researcher will ensure that the research project adheres to the relevant guidelines set out in the Unisa Covid-19 position statement on research ethics attached
2) The researcher/s will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
3) Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology, should be communicated in writing to the SBL Research Ethics Review Committee.
4) An amended application could be requested if there are substantial changes from the existing proposal, especially if those changes affect any of the study-related risks for the research participants.
5) The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study.

45 Building leaders who go beyond

SBL GRADUATE SCHOOL OF BUSINESS LEADERSHIP UNISA

Graduate School of Business Leadership, University of South Africa, PO Box 392, Unisa, 0003, South Africa
Cnr Janadel and Alexandra Avenues, Midrand, 1685, Tel: +27 11 652 0000, Fax: +27 11 652 0299
E-mail: sbl@unisa.ac.za Website: www.unisa.ac.za/sbl

Kind regards,

NBWMLitwa

Prof N Mlitwa

Chairperson: SBL Research Ethics Committee

011 - 652 0000/ wiltonb@unisa.ac.za

Prof P Msweli

Executive Dean: Graduate School of Business Leadership

011- 652 0256/mswelp@unisa.ac.za

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UNISA

Annexure 3: Statistician Declaration

GRADUATE SCHOOL OF BUSINESS LEADERSHIP (SBL)

Confidentiality Agreement Template: Statistician

This is to certify that I, Jeevarathnam P Govender, the statistician of the research project: An Investigation into the financial Challenges Faced by SMMEs in the Construction Industry in Gauteng, agree to the responsibilities of the statistical analysis of the data obtained from participants (and additional tasks the researcher(s) may require in my capacity as statistician).

I acknowledge that the research project is conducted by Junithan Moodley of the Graduate School of Business Leadership (SBL), University of South Africa.

I understand that any information (written, verbal or any other form) obtained during the performance of my duties must remain confidential and in line with the UNISA Policy on Research Ethics.

This includes all information about participants, their employees/their employers/their organisation, as well as any other information.

I understand that any unauthorised release or carelessness in the handling of this confidential information is considered a breach of the duty to maintain confidentiality.

I further understand that any breach of the duty to maintain confidentiality could be grounds for immediate dismissal and/or possible liability in any legal action arising from such breach.

Full Name of Statistician: JEEVARATHNAM PARTHASARATHY GOVENDER

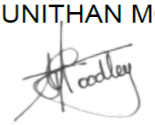
Signature of Statistician:  Date: 23.07.2021

Address of statistician: 13 GOLF COURSE AVENUE, MAIDSTONE VILLAGE, TONGAAT.

Statistical Company: N/A

Any Job/reference number: N/A

Full Name of Primary Researcher: JUNITHAN MOODLEY

Signature of Primary Researcher:  Date: 2021-07-28

Annexure 4: Questionnaire

Please place a tick (√) or cross (X) over your response to each question.

1.Please indicate your gender:

Male	Female

2.Please indicate your age (in years):

Under 25	25-30	31-40	41-50	Over 50

3.Which category below would best describe the racial category you fall into?

Black	Coloured	Indian	White	Other

4.What is your highest education level?

Below Grade 12/Matric	Grade 12/Matric	Diploma	Degree	Postgraduate

5.Please indicate the age of your business:

Less than 3 years	3-5 years	6-10 years	11-15 years	16-20 years	Over 20 years

6.How many contract and permanent staff do you have?

Less than 10	11-50	51-100	101-150	151-200	201-250

7. How often do you require financial assistance to run and manage your business?

Monthly	Quarterly	Twice annually	Annually

8. Have you ever been refused financial assistance when approaching a financial institution or governmental organisations?

Yes	No

9. if your answer to the above is YES, please select the most appropriate reason given for the refusal:

Poor credit rating	
Not credit worthy	
Insufficient surety	
History of defaults	
Over committed financially	
No financial statements available	

Please indicate your opinion with regard to the following statements, ranging from Strongly disagree (SD), Disagree (D), Neutral (N), Agree (A) and Strongly agree (SA)

Statement	**SD**	**D**	**N**	**A**	**SA**
10. I have sufficient collateral (security) to obtain outside finance					
11. I have a good relationship with my bank					
12. I have sufficient access to short term credit facilities					
13. I have the necessary financial management skills to operate my business					
14. I believe I have sufficient business experience to secure outside finance					
15. I always have sufficient financial resources to run my business					
16. I am able to manage the cash flow in my business					
17. I am fully aware of the various government sources of funding e.g. DSBD, IDC and the Youth Development Fund					
18. I have sufficient financial knowledge to run my business					
19. I am able to manage my working capital					
20. I make use of informal suppliers of finance					
21. I have access to unsecured loans from banks					
22. It is easy to obtain finance from banks					
23. It is easy to obtain finance from the government					
24. I have relied on family and friends for loans to run my business					
25. I have used my personal credit card to finance my business					
26. I have withheld my own salary in order to finance my business					
27. I have withheld profits to fund my business					
28. Government has provided my sector with sufficient financial support					
29. Government has provided my sector with sufficient finance created support e.g. training in financial management					

30. To what extent has government provided you with the resources to assist in developing and growing your business?

Fully	Partially	Minimally	Not at all

31. Which of the following sectors provides your business with more support and assistance?

Public sector	Private sector

Annexure 5: Correlation Matrix

Correlations

			Government has provided my sector with sufficient financial support	Government has provided my sector with sufficient financial related support, example, training in financial management	I am able to manage my working capital	I have the necessary financial management skills to operate my business	I am able to manage the cash flow in my business	I have sufficient collateral (security) to attain finance	I always have sufficient financial resources to run my business	I have a good relationship with my bank	It is easy to obtain finance from banks	I have sufficient business experience to secure outside finance	I have sufficient access to short term credit facilities	I have access to unsecured loans from Banks	I make use of informal suppliers of finance	I am fully aware of the various government sources of funding, example, DSBD, IDC, and the Youth Development Fund	It is easy to obtain finance from the government	I have relied on family and friends for loans to run my business	I have used my personal credit card to finance my business	I have withheld my own salary in order to finance my business	I have withheld profits in order to finance my business
Spearman's	Government has provided my sector with sufficient financial	Correlation C	1,000																			
		Sig. (2-tailed)																				
		N	530																			
	Government has provided my sector with sufficient financial	Correlation C	.759**	1,000																		
		Sig. (2-tailed)	0,000																			
		N	529	530																		
	I am able to manage my working capital	Correlation C	-0,017	-0,002	1,000																	
		Sig. (2-tailed)	0,703	0,967																		
		N	528	528	531																	
	I have the necessary financial management skills to	Correlation C	0,027	0,019	.403**	1,000																
		Sig. (2-tailed)	0,533	0,666	0,000																	
		N	528	528	530	531																
	I am able to manage the cash flow in my business	Correlation C	-0,021	0,000	.455**	.601**	1,000															
		Sig. (2-tailed)	0,625	0,991	0,000	0,000																
		N	527	527	528	528	530															
	I have sufficient collateral (security) to attain finance	Correlation C	.165**	.149**	.188**	.161**	.155**	1,000														
		Sig. (2-tailed)	0,000	0,001	0,000	0,000	0,000															
		N	528	528	529	529	528	531														
	I always have sufficient financial resources to run my	Correlation C	.263**	.238**	.200**	.226**	.269**	.260**	1,000													
		Sig. (2-tailed)	0,000	0,000	0,000	0,000	0,000	0,000														
		N	527	527	529	528	527	528	530													
	I have a good relationship with my bank	Correlation C	0,071	.086*	.156**	.195**	.320**	.123**	.255**	1,000												
		Sig. (2-tailed)	0,101	0,048	0,000	0,000	0,000	0,004	0,000													
		N	530	530	531	531	530	531	530	533												
	It is easy to obtain finance from banks	Correlation C	.280**	.252**	0,059	.095*	.127**	.196**	.379**	.395**	1,000											
		Sig. (2-tailed)	0,000	0,000	0,177	0,029	0,003	0,000	0,000	0,000												
		N	529	529	531	531	529	530	529	532	532											
	I have sufficient business experience to secure	Correlation C	.199**	.189**	.168**	.296**	.275**	.201**	.259**	.248**	.247**	1,000										
		Sig. (2-tailed)	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000											
		N	529	529	529	529	528	529	528	531	530	531										
	I have sufficient access to short term credit facilities	Correlation C	.203**	.188**	.141**	.228**	.243**	.226**	.369**	.375**	.401**	.423**	1,000									
		Sig. (2-tailed)	0,000	0,000	0,001	0,000	0,000	0,000	0,000	0,000	0,000	0,000										
		N	530	530	530	530	529	530	529	532	531	531	532									
	I have access to unsecured loans from Banks	Correlation C	.202**	.153**	0,070	.101*	.117**	.163**	.270**	.258**	.417**	.295**	.481**	1,000								
		Sig. (2-tailed)	0,000	0,000	0,108	0,019	0,007	0,000	0,000	0,000	0,000	0,000	0,000									
		N	530	530	530	530	529	530	529	532	531	531	532	532								
	I make use of informal suppliers of finance	Correlation C	0,042	0,035	-0,007	0,018	0,012	-0,066	-0,014	-0,056	-0,041	.168**	0,063	.125**	1,000							
		Sig. (2-tailed)	0,341	0,426	0,871	0,686	0,789	0,130	0,752	0,195	0,346	0,000	0,145	0,004								
		N	528	529	528	528	527	528	527	530	529	529	530	530	530							
	I am fully aware of the various government sources of	Correlation C	0,012	.086*	0,045	.184**	0,061	-0,054	-0,011	0,013	-.094*	.123**	0,009	-0,008	.189**	1,000						
		Sig. (2-tailed)	0,779	0,049	0,299	0,000	0,163	0,214	0,810	0,762	0,031	0,005	0,839	0,857	0,000							
		N	529	529	529	529	528	529	528	531	530	530	531	531	529	531						
	It is easy to obtain finance from the government	Correlation C	.530**	.475**	0,065	0,031	0,020	.097*	.222**	.096*	.295**	.151**	.238**	.254**	0,033	0,010	1,000					
		Sig. (2-tailed)	0,000	0,000	0,136	0,472	0,643	0,026	0,000	0,027	0,000	0,000	0,000	0,000	0,448	0,819						
		N	527	527	527	527	526	527	526	529	528	528	529	529	527	529	529					
	I have relied on family and friends for loans to run my business	Correlation C	-.167**	-.112**	-0,020	0,024	0,036	-.172**	-.193**	-.132**	-.223**	-0,003	-.216**	-.171**	.227**	.142**	-.208**	1,000				
		Sig. (2-tailed)	0,000	0,010	0,646	0,584	0,410	0,000	0,000	0,002	0,000	0,945	0,000	0,000	0,000	0,001	0,000					
		N	530	530	530	530	529	530	529	532	531	531	532	532	530	531	529	532				
	I have used my personal credit card to finance my business	Correlation C	-.088*	-.121**	0,021	.114**	0,040	-0,060	-.099*	-0,028	-0,063	0,044	-0,059	0,005	.095*	.136**	-.135**	.273**	1,000			
		Sig. (2-tailed)	0,042	0,005	0,622	0,009	0,359	0,171	0,023	0,519	0,145	0,316	0,178	0,900	0,029	0,002	0,002	0,000				
		N	530	530	530	530	529	530	529	532	531	531	532	532	530	531	529	532	532			
	I have withheld my own salary in order to finance my business	Correlation C	-.165**	-.181**	.124**	.136**	.088*	-0,049	-.091*	-0,044	-.095*	0,055	-0,046	-0,019	.193**	.107*	-.222**	.323**	.447**	1,000		
		Sig. (2-tailed)	0,000	0,000	0,004	0,002	0,043	0,260	0,037	0,313	0,028	0,202	0,291	0,667	0,000	0,013	0,000	0,000	0,000			
		N	530	530	530	530	529	530	529	532	531	531	532	532	530	531	529	532	532	532		
	I have withheld profits in order to finance my business	Correlation C	-.170**	-.160**	.122**	.182**	.103*	-.088*	-0,076	0,003	-.134**	.124**	-0,051	-0,039	.152**	.222**	-.193**	.271**	.347**	.685**	1,000	
		Sig. (2-tailed)	0,000	0,000	0,005	0,000	0,017	0,043	0,080	0,941	0,002	0,004	0,242	0,365	0,000	0,000	0,000	0,000	0,000	0,000		
		N	528	528	528	528	527	528	527	530	529	529	530	530	528	529	527	530	530	530	530	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).