

# Investigation on Sustainable Business Growth of Emerging Contractors in Africa: A Case Study for Ethekewini Municipality, South Africa

Construction industry in Africa

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*Abstract—Small and Medium Enterprises (SMEs) in the construction industry play a pivotal role in addressing worldwide chronic challenges such as unemployment, inequality and poverty. In South Africa, small to medium emerging contractors in the construction sector experience a substantial failure rate despite their notable socio-economic impacts. Thus, emerging contractors have not yielded any significant growth in the previous years. Numerous contracting businesses have closed, leading their owners to pursue opportunities in different sectors. This pattern emphasizes the ongoing difficulties that emerging contractors in not only South Africa but also other African countries like Kenya, Nigeria, and Ghana are facing. To address these challenges, the South African government has put in place different policies and programs to help small contractors thrive. Still, advancement is sluggish, as the rate of failure continues to be alarmingly high. In order to tackle these problems, this research carried out a case study in eThekweni Municipality, utilizing random quantitative method. Data was gathered by conducting a survey among forty emerging contractors' owners or managers. The data was analyzed using both descriptive and inferential statistical methods. The results revealed that the study's outcome presented various important discoveries. Initially, the majority of the emerging contractors concurred that having access to financial resources is a crucial element in the sustained expansion of a business, with connections to key suppliers playing a substantial role in determining credit accessibility. Also, it was revealed that ensuring the training of staff was deemed crucial for the sustainability of the business. In spite of these elements, there has been no increase in yearly earnings during the previous three years. As such, it was recommended that emerging contractors must enhance relationships with suppliers to enhance access to credit facilities and lessen financial limitations. Also, improving business viability and promoting long-term sustainable growth relies on investing in personnel training was found to key to their success.*

*Keywords— Sustainable business growth, emerging contractors, eThekweni municipality*

## I. Introduction

The construction sector in South Africa plays a crucial role in driving economic growth, creating employment opportunities, and promoting socio-economic advancement

(19). Due to the gradual increase in the demand of construction services, the role played by emerging contractors is becoming more and more notably. However, a few significant factors have impeded this expansion. These factors consist of inefficiencies in management, late payments from customers, a complicated bidding process, subcontracting challenges, financial access issues, strained supplier relationships, and a lack of experience, qualifications, and capability (8) (11) (6). Furthermore, (1) state that problems like bribery and corruption worsen these difficulties, causing many new contractors to either stall or fail. These challenges are not exclusive to South Africa, as they are widespread in other African nations like Kenya, Nigeria, and Ghana. The African Continental Free Trade Area (AfCFTA), created to boost trade within Africa by lowering tariffs and non-tariff obstacles, presents new opportunities and hurdles for up-and-coming contractors (23). Although AfCFTA targets to establish a unified marketplace for goods and services, it also brings about management difficulties for small contractors. Thus, emerging contractors might experience heightened competition due to the possible arrival of bigger, more established contractors from different African countries. This may overburden their already limited managerial capabilities, especially in project management, financial planning, and strategic decision-making.

In addition, the open market of AfCFTA necessitates contractors to handle intricate cross-border regulations and

standards (6). For new emerging contractors with limited resources, this can make it harder to handle contracts and obtain funding. Securing larger contracts could become more difficult as foreign contractors with stronger networks and resources take over the market. In this setting, the interactions between contractors and suppliers will face challenges due to the growing competition in the region. The difficulties faced

by new contractors, including their small project handling capabilities and lack of capital, are worsened by the requirement to compete in a bigger, more unified African market. These contractors might have difficulty taking advantage of the opportunities from AfCFTA due to lack of proper managerial training and financial backing.

The construction sector in South Africa plays a crucial role to assist government on economic growth, employment opportunities, and promoting socio-economic (1). However, although government efforts such as the National Contractor Development Programme and Expanded Public Works Programme have been implemented, progress is sluggish and rates of failure are still high (6). Moreover, the African Continental Free Trade Area (AfCFTA) brings about opportunities and competition, which pushes South African contractors to expand their presence in a larger market. To create a management structure to overcome these obstacles, with a particular focus on the eThekweni Municipality, which houses Africa's most active port, in order to promote sustainable economic expansion for nearby contractors. The research aims to find ways to improve sustainability and competitiveness in both local and regional markets over the long term.

## II. Problem statement

The issues, as emphasized in this preceding section, focuses on the ongoing difficulties that have impeded the long-term development of new contractors in South Africa. Although there are government programs like the National Contractor Development Programme and the Expanded Public Works Programme to help these contractors, the small construction businesses still have a distressingly high failure rate. Contractors still encounter various obstacles, such as ineffective management, financial limitations, restricted capital availability, and operational challenges like late payments and a complicated bidding procedure. Furthermore, systemic problems such as corruption and lack of experience worsen these difficulties, hindering contractors in achieving lasting success.

The study seeks to create a thorough management structure that tackles these challenges, promotes sustainable business expansion, and guarantees the future sustainability and competitiveness of up-and-coming contractors in the South African construction sector. This system aims to offer

effective strategies for contractors to surmount current obstacles and succeed in local and international markets.

### Aim and Objectives

**Aim:** The main goal of this research is to create a management structure that promotes sustainable expansion for upcoming contractors in eThekweni Municipality, and to identify the current situation and similar obstacles encountered by upcoming contractors in countries like Kenya, Nigeria, and Ghana.

### Primary Objectives

- i. To determine the factors that drive sustainable business growth of emerging contractors.
- ii. To evaluate the sustainable business practices implemented by emerging contractors.
- iii. To identify the sustainable business growth related challenges faced by emerging contractors.
- iv. To ascertain the best suitable approaches that can be used to address the sustainable business growth related challenges faced by emerging contractors

Over time, South Africa has implemented different measures to aid the advancement of small contractors such as the National Small Business Act of 1996, the National Contractor Development Programme, the Department of Public Works' Contractor Incubator Programme, the Vukuphile Programme, the Expanded Public Works Programme (EPWP), and the Preferential Procurement Policy Framework Act of 2017. In spite of these attempts, the results have been restricted, yielding only slight enhancements in the development and longevity of small contractors. This is worrying because the construction sector in South Africa has a significant impact on the country's economic and social progress, being a key provider of jobs and aiding in the development of national infrastructure.

The CIDB was created to enhance and encourage the construction sector's role in the economy and society, ensuring

it continues to be a key factor in driving growth. Yet, updated data shows a significant decrease in the industry's impact on South Africa's GDP, dropping from 12% in 2012 to only 3% in 2021 (21). This decline underscores the ongoing difficulties experienced by new contractors. The 2019/2020 annual report by CIDB stated that there was a total of 56,653 contractors registered across different categories such as civil engineering, general buildings, mechanical and electrical engineering, and specialist work. A large proportion of these contractors, specifically 93.5% (52,998), are classified as emerging contractors, falling within Grades 1 to 4 ((21). The prevalence of new contractors in the lower ranks highlights the industry's challenge in moving contractors to higher levels of sustainability and profitability.

Other African countries also show comparable patterns. In 2015, Kenya's construction sector, which made up 7% of the country's GDP, is advanced and overseen by the National Construction Authority (NCA) created by Act No. 41 of 2011 (17). Kenyan contractors are grouped according to their size, with major companies falling in classes 1 to 3 and smaller companies in classes 4 to 7 (8). Small and medium enterprises (SMEs), including those in the construction sector, play a crucial role in Nigeria's economy by providing employment to more than 70% of the population in various industries like trade, agriculture, and manufacturing (9). In Ghana, contractors are categorized as road contractors licensed by the Ministry of Roads and Highways, and building and civil engineering contractors licensed by the Ministry of Works and Housing. These instances show that small contractors, especially new ones, encounter significant obstacles to achieving sustainable growth despite being important economic contributors in Africa's construction industry.

Theoretical models about business expansion provide understanding of the difficulties encountered by these contractors. Multiple theories examine how firms grow, such as the neoclassical theory that prioritizes the ideal size of a firm, Penrose's (1959) 'theory of the growth of the firm', and evolutionary economics, which concentrates on the success of the strongest in competitive settings. Nonetheless, this research mainly relies on Marris' managerial approach. According to Marris' theory, the scale of a company is crucial for managers because it directly impacts their capacity to

receive rewards like profits or bonuses. When it comes to new contractors, development is not only linked to financial achievements but also to leadership drive. Managers of up-and-coming contractors are highly motivated to see their

companies expand, as it brings them financial benefits and enhances their professional status. While the South African

government has implemented several initiatives aimed at supporting emerging contractors, these efforts have yielded only modest results. Challenges such as access to finance, managerial inefficiencies, and systemic barriers continue to impede the sustainable growth of these businesses. As seen in Kenya, Nigeria, and Ghana, construction SMEs across Africa face similar issues, despite the industry's potential for significant economic contributions. By exploring the theories of firm growth, particularly Marris' managerialism, this study seeks to develop a managerial framework that will empower emerging contractors to overcome these challenges and achieve long-term growth in the South African construction sector. The following section presents the research methodology used in the study.

### iii. Methodology

In this research, a quantitative approach was used to explore the reasons for the failure of new contractors to achieve sustainable business growth, and to suggest ways to overcome these obstacles. This method was chosen because it enables a thorough investigation into the connections among different factors influencing the growth of contractors and the possible remedies for these challenges. The structured survey questionnaire was used for data collection, and it was given to the owners or managers of emerging contractors in the eThekweni Municipality. This location was selected because of its strategic significance in the construction sector of South Africa, especially in KwaZulu-Natal province, where Durban plays a crucial role in trade and construction activities. A total of forty surveys were handed out to participants and 100% response rate was attained. The participants' strong engagement is indicated by the high response rate, which also guarantees the reliability of the collected data. The survey sought the participants' views on why they were unable to achieve business growth and their thoughts on the essential factors needed for sustainable business development in the construction industry. The survey addressed various topics such as managerial difficulties, financial accessibility, the success of current government programs, interactions with suppliers, and the competitive stresses encountered by new contractors.

Both descriptive and inferential statistical methods were utilized to examine the gathered data. Descriptive statistics were employed to sum up the fundamental characteristics of the data, giving a glimpse into trends, patterns, and overall participants' responses. This involved using frequencies, percentages, means, and standard deviations to depict the demographic traits of the contractors and the type of their enterprises. On the flip side, inferential statistics were applied to make inferences from the data and examine theories about the factors impacting business growth in new contractors. Correlation analysis, regression analysis, and hypothesis testing were utilized to assess the strength and significance of relationships between variables, such as the effects of financial constraints on business performance or the impact of managerial skills on growth potential. Several important suggestions were given to tackle the issues encountered by new contractors, following the results of both descriptive and inferential statistical analyses. These suggestions center on enhancing access to financial resources, increasing managerial skills through specialized training programs, building better connections with suppliers, and revising government policies to aid the expansion of small construction businesses. The research also pointed out the importance of improving tendering procedures and decreasing systemic obstacles like corruption and late payments, which have been proven to hinder business growth. By following these suggestions, it is anticipated that up-and-coming contractors will have a stronger footing for achieving sustainable expansion and making a more significant impact on the South African construction sector.

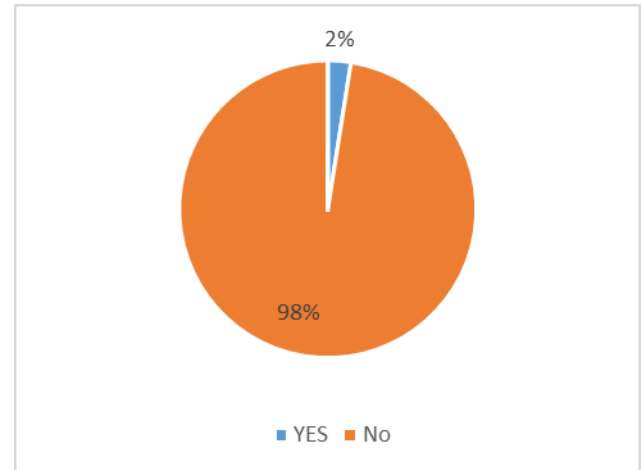
#### IV. Results

A questionnaire measured emerging contractors' characteristics or behaviours which result to lack of business growth of emerging contractors and to get understanding from emerging contractors about the future of their businesses. Results were based on six components namely personal information, factors, practices, business growth related challenges, approaches and sustainable business growth.

##### A. Personal information

As illustrated Figure 1, 98% of emerging contractors in South Africa have not worked in other African countries and only 2% have been exposed on working in other African countries.

Figure 1: Collaboration in other African Countries



In line with the results above, it stands to reason that most South African emerging contractors, 98% to be specific, have not had the opportunity to work in other African countries mainly because they lack the financial and operational capability. Numerous up-and-coming contractors encounter obstacles like limited financial access, a shortage of management skills, and inadequate government program assistance, impeding their capacity to venture into international markets (11). Expanding into international markets necessitates substantial financial investment, navigating legal and regulatory challenges, and the capacity to secure substantial contracts (6). Many new contractors find it hard to rival bigger, well-established companies in their own countries, preventing them from expanding enough to take on international projects (17). Moreover, small contractors in South Africa face challenges in exploring regional opportunities due to the intricate tendering system and a lack of cross-border networks (19).

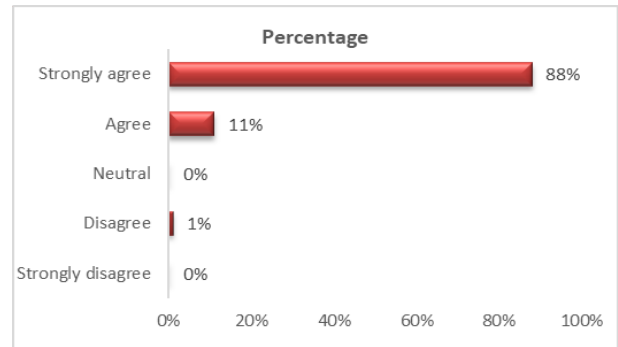
Another factor that contributes is the intense competition from contractors with established reputations in other African nations. Contractors from countries like Kenya, Nigeria, and Ghana, where the construction sector is more developed and tightly controlled, are better equipped to manage international projects (1).

These nations frequently have organizations like Kenya's National Construction Authority that assist contractors in developing and broadening their activities at home and abroad (8). South African contractors, however, might not be able to utilize these comprehensive support systems, thereby reducing their access to local opportunities (11). Moreover, the lack of international work experience in South African contractors is linked to the absence of strategic partnerships and collaborations with contractors in other African countries, which are vital for accessing international markets such as AfCFTA (23). The following section shed more light on factors impeding growth for emerging contractors.

## B. Results on factors

As illustrated on Figure 2, responses on whether access to finance is crucial for the long-term growth of emerging contractors. A large majority of survey participants, 88%, strongly believe that having access to financing is essential for continuous business expansion, with 11% in agreement. Just 1% of the participants had a different opinion, while none of them chose neutral or strongly disagreed. The findings emphasize the strong agreement among new contractors that having access to finance is crucial for ensuring the continued growth and sustainability of their businesses. This discovery aligns with existing research highlighting the importance of financial resources for the success of small and medium-sized enterprises, especially in the construction industry. Emerging contractors have difficulty obtaining the funding needed to purchase essential equipment, recruit proficient employees, or tackle more substantial ventures that could boost their business expansion and profitability (11). According to previous research, a lack of financial resources continues to be a major obstacle for contractors looking to grow their businesses at home and abroad (17). These findings emphasize the significance of enhancing financial accessibility for contractors as a component of wider policy efforts to promote sustainable expansion of businesses in the construction industry.

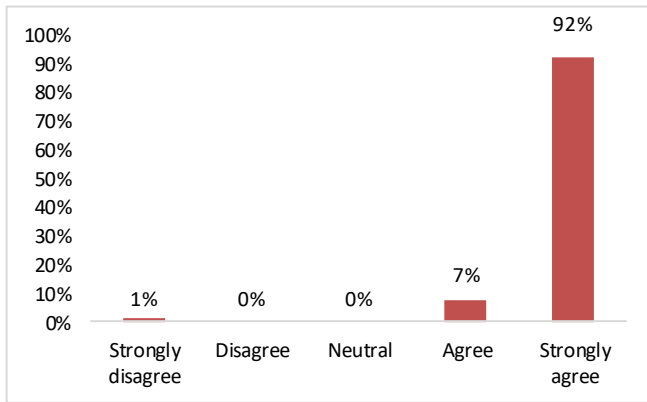
**Figure 2: Access to finance as a key factor of long-term business growth**



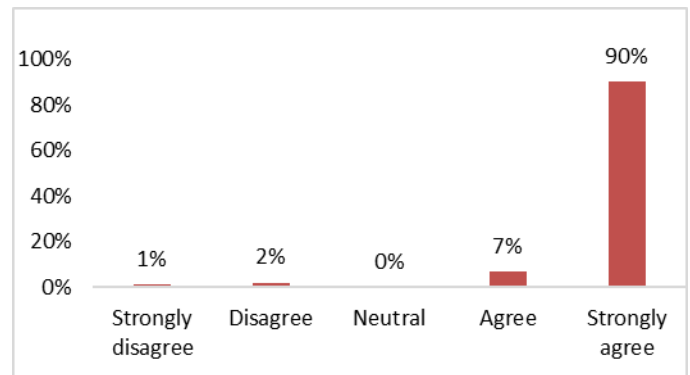
- Relationship with suppliers

The results in figure 2 show that having a good relationship with main suppliers helps new contractors get credit facilities more easily. 92% of the respondents strongly supported this statement, while 7% were in agreement. Only 1% of the participants strongly disagreed, with nobody opting for disagree or neutral. This shows almost all respondents agree on the crucial role of building strong relationships with suppliers for improving financial accessibility. This discovery supports previous studies that highlight the importance of strategic collaborations, especially with suppliers, in improving financial resource accessibility (11). Suppliers frequently offer credit arrangements or favorable payment terms to reliable contractors, helping to relieve cash flow constraints and lessen reliance on outside financial institutions. Building strong partnerships with suppliers is an essential tactic for up-and-coming contractors to navigate financial obstacles and achieve long-term growth in the fiercely competitive construction sector (17). This emphasizes the importance for contractors and policymakers to prioritize establishing and cultivating crucial business relationships to enhance sustainability in the industry.

**Figure 3: Relationship with major suppliers**



**Figure 4: Having adequate capacity as a major factor of sustainable business growth**



- Adequate Capacity for sustainable business growth

Figure 3 shows how important having sufficient capital is in driving sustainable growth for construction businesses. 90% of respondents strongly agreed with the statement, while 7% agreed. 2% of respondents disagreed, while 1% strongly disagreed. None of the participants chose the neutral option. This outcome highlights the importance of having adequate capital for maintaining business sustainability in the construction industry. Sufficient monetary fund's allow new contractors to purchase necessary items like machinery, experienced workers, and the ability to compete for bigger, more lucrative projects, all of which are crucial for sustained business expansion (9). Without enough capital, contractors have trouble meeting project needs and expanding their businesses, which hinders their ability to compete in local and regional markets (20). This discovery highlights the significance of obtaining financial resources as a basis for the sustainable growth of new contractors (10).

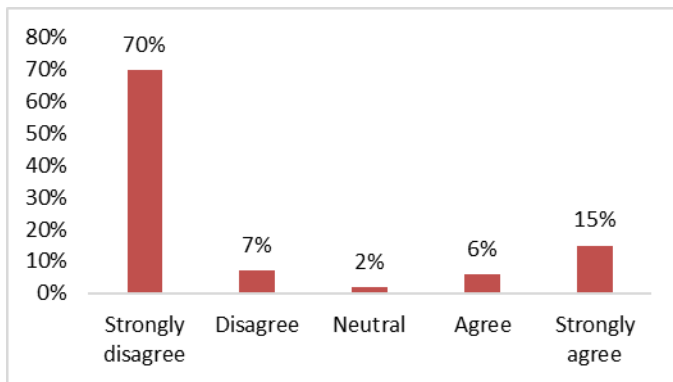
- Investing in training Personnel

The results in figure 4 depicts answers about whether allocating more resources to training employees helps improve a company's long-term sustainability. 87% of respondents strongly agreed with the statement, while 12% simply agreed. Only 1% of participants expressed disagreement, and 1% expressed strong disagreement, with no participants choosing a neutral option. This outcome highlights the significance of training and honing skills as a crucial element in enhancing sustainable business success. Adequately skilled staff improve operational effectiveness, minimize mistakes, and boost overall business outcomes, which is particularly vital for new contractors in the construction industry (Mahlangu & Banda, 2021). Failure to invest in human capital may lead to difficulties for businesses in adjusting to changing industry norms, which can hinder their ability to expand and compete successfully (Dlamini & Mokoena, 2022). This discovery emphasizes the importance of specialized training programs as a fundamental approach for new contractors seeking long-term success and competitiveness in local and regional markets (14).

- Policies and Practices

Figure 5 shows answers about if the company has a policy for recycling construction debris. 70% of participants strongly opposed the statement, with 7% expressing disagreement. 6% of participants endorsed, 15% strongly endorsed, and 2% were neutral. The findings indicate that most new contractors do not focus on or put into action measures for recycling construction waste, possibly due to insufficient knowledge or resources for embracing sustainable methods (13). The lack of these policies may restrict the firms' ability to sustain the environment, since construction waste plays a big role in causing environmental degradation. Integrating waste recycling methods is increasingly vital for contemporary construction companies, aiming to minimize environmental harm and adhere to expanding regulations (16). Promoting sustainability in the construction industry could be significantly improved by promoting the uptake of waste recycling (22).

**Figure 5: Policy to recycle any construction waste**

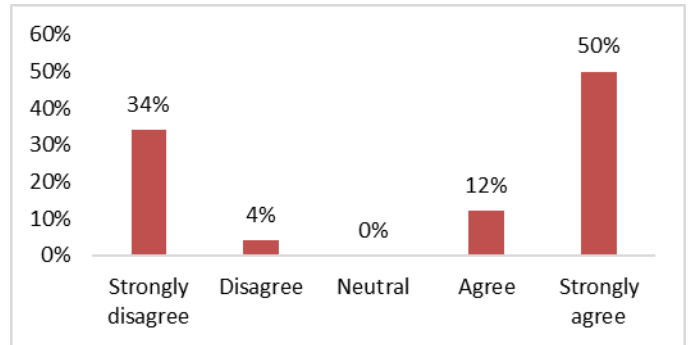


**C. Results on factors**

- Sourcing of materials

Figure 6 shows below that 50% of the respondents strongly agree that their firms are prioritizing sourcing of materials from local suppliers to minimize costs and enhance long term growth and 34% respondents indicated that they strongly disagree.

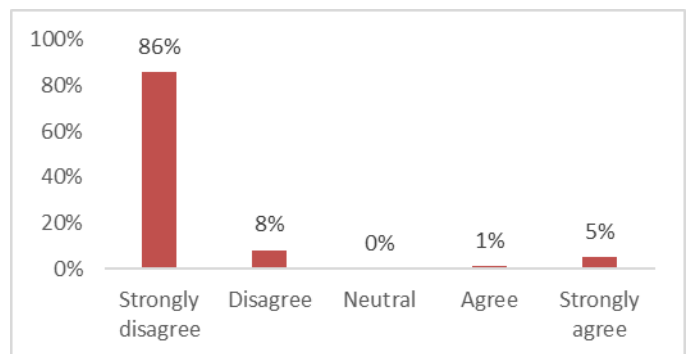
**Figure 6: Prioritizing from local suppliers**



- Growth in annual profits

Response on Figure 7 concerning that the increase in profits bring attention to a major problem within new contractors. A large majority of 86% of participants expressed strong disagreement regarding their companies' increase in annual profits in the last three years, with just 5% strongly agreeing. This indicates that the majority of companies are having difficulty increasing their profits, possibly because of financial limitations, competition in the market, or ineffective business methods. The absence of increased profits shows that, even with endeavors in working with stakeholders and sourcing locally, numerous emerging businesses are not seeing financial growth.

**Figure 7: Growth in annual profits over the past three years**



method guarantees that the contractors experience financial growth as well as embrace sustainable business practices for lasting success.

## v. Conclusion

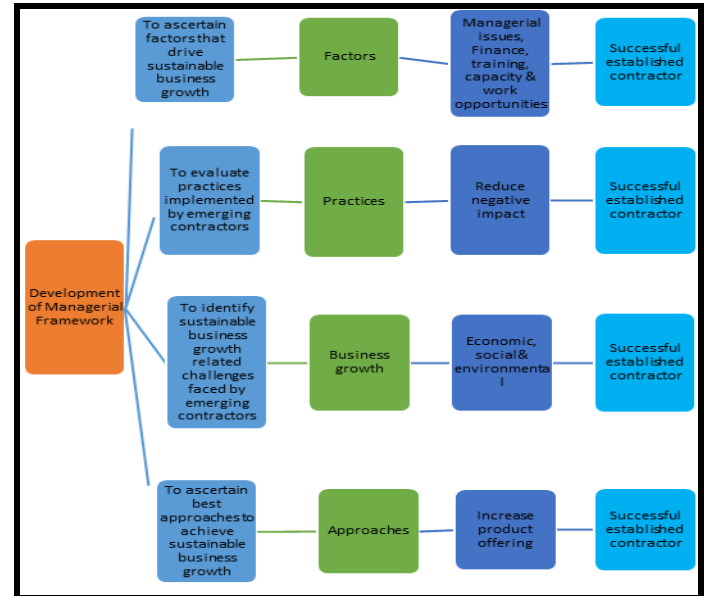
The results of this research offer crucial understanding into the difficulties experienced by up-and-coming builders in South Africa, specifically in the eThekweni Municipality. A notable finding is that 98% of contractors from South Africa stated they had never worked in other African countries, while only 2% said they had experience in those opportunities. Several reasons contribute to the lack of international experience among local contractors, such as their limited financial and managerial resources and the competition from well-established foreign companies in the area. The minimal exposure has important consequences for involvement in the African Continental Free Trade Area, which seeks to boost trade and cooperation between African countries. South African contractors may be at a disadvantage compared to contractors from Kenya, Nigeria, and Ghana due to their lack of regional experience.

In order for South African contractors to fully experience the advantages of African Continental Free Trade Area, specific actions like financial assistance, skills development, and government-supported projects are necessary to facilitate their growth in various African markets. This will enhance the contractors' capacity to compete and expand in a bigger, more consolidated market.

## vi. Recommendations

The suggested improvements play a crucial role in the management framework and growth plan designed to promote sustainable business development for up-and-coming contractors in eThekweni Municipality, South Africa, and throughout Africa. This structure for management aims to help new contractors overcome obstacles that limit their expansion, allowing them to make profits and compete successfully on a global scale. As shown in Figure 8, the framework creates clear links between important elements, corporate methods, expansion plans, and operational techniques that together promote sustainable success. The main goal for new contractors is to grow and become established contractors with sustainable economic, environmental, and social progress. By adhering to this organized management framework, contractors can improve their processes, expand their companies incrementally, and advance to greater levels of industry acknowledgement. For instance, when a contractor achieves CIDB Grade 5 or higher, it indicates their growth from a new contractor to a reputable organization that can manage bigger projects, make steady profits, and have a positive impact on the community and environment. This

Figure 8. Flow chart for managerial framework



### Acknowledgements

I want to pay a special tribute to my supervisor, Professor Sibanda for supporting me on this paper. Your constructive feedback, encouragement, and direction gave me motivation. My acknowledgements will not be complete without mentioning eThekweni municipality your support throughout this paper.

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