

# Basic Business-Forces behind the Surviving and Sustainable Organizations: The Case of Medium Scale Contractors in South Africa

Iruka C. Anugwo, Winston M. Shakantu

**Abstract**—The objective of this study is to uncover the basic business-forces that necessitated the survival and sustainable performance of the medium scale contractors in the South African construction market. This study is essential as it set to contribute towards long-term strategic solutions for combating the incessant failure of start-ups construction organizations within South African. The study used a qualitative research methodology; as the most appropriate approach to elicit and understand, and uncover the phenomena that are basic business-forces for the active contractors in the market. The study also adopted a phenomenological study approach; and in-depth interviews were conducted with 20 medium scale contractors in Port Elizabeth, South Africa, between months of August to October 2015. This allowed for an in-depth understanding of the critical and basic business-forces that influenced their survival and performance beyond the first five years of business operation. Findings of the study showed that for potential contractors (startups), to survive in the competitive business environment such as construction industry, they must possess the basic business-forces. These forces are educational knowledge in construction and business management related disciplines, adequate industrial experiences, competencies and capabilities to delivery excellent services and products as well as embracing the spirit of entrepreneurship. Convincingly, it can be concluded that the strategic approach to minimize the endless failure of startups construction businesses; the potential construction contractors must endeavoring to access and acquire the basic educationally knowledge, training and qualification; need to acquire industrial experiences in collaboration with required competencies, capabilities and entrepreneurship acumen. Without these basic business-forces as been discovered in this study, the majority of the contractors gaining entrance in the market will find it difficult to develop and grow a competitive and sustainable construction organization in South Africa.

**Keywords**—Basic business-forces, medium scale contractors, South Africa, sustainable organisations.

## I. INTRODUCTION

THE construction industry is one of the most vital sectors in the world. It plays a huge and remarkable role towards any country's economic growth development and contributes significantly to the gross domestic product (GDP) [1, p.253], [2], [3]. The construction industry is important for the South African and global economy. The sustainability of South Africa (SA) construction industry and its players is critical to the South African economy [4]. The construction industry is

of strategic importance to the European Union (EU) countries and U.S.A, as it delivers the buildings and infrastructure needed by the rest of the economy and society; and a major generator of jobs. The construction industry represents more than 10% of EU GDP and more than 50% of fixed capital formation. In 2007, almost 11 million people, i.e. about 8% of the total U.S. workforce, worked in construction, whereas in the Europe, the sector directly employs about 20 million people. It is the largest single economic activity and it is the biggest industrial employer in Europe [5], [6]. The South African Construction accounts for 3.7 of the country GDP, and ascertaining the competitiveness of the industry is imperative [7].

The small, medium and micro-enterprises (SMMEs) form the largest ratio of companies in any country's construction industry. It is also a major source of job creation in country [1, p.253], [8]. Reference [1] further states that, the SMMEs are mainly family businesses, self-employed and owner/managed informal or formal enterprises. It was concretely stated that the small, medium and micro-enterprises (SMMEs) comprise 95% of business entities and generate 60-70% of employment, 50% of the gross domestic product (GDP); and 55% of all technical innovation and development in any economy [1, p.255].

Business is a key factor for wealth-generating and mainstay of world economies [9]. The question is what are the basic business forces influencing the survival and sustainable construction organisations from the small to medium scale contractors and how would SMMEs contribute to the economy; and what are the important factors and action plans that need to be strategically researched and managed it make the economy competitive?. The, Reference [5] added that, improving the performance of the construction sector will likely improve the performance of most other economic sectors. Reference [5] made list of the following factors that are likely to influence the future competitiveness of the construction industry and firms that operates in it, such as:

- Access to a qualified labour force;
- Access to finance and new financial models;
- Closer customer and end user relations and process innovation;
- Professionalisation of the clients;
- Access to applied R&D and tech trans such as new technologies, materials, smart and eco-efficient solutions and buildings;
- New service models to complement actual construction, retrofitting and renovation activities;

I. C. Anugwo and W. M. Shakantu are with the Construction Management Department, Nelson Mandela Metropolitan University, Port Elizabeth, 6031 South Africa (phone:+27784784636, +27415041400; e-mail: ianugwo@gmail.com, Winston.Shakantu@nmmu.ac.za).

- Modularisation and pre-assembling;
- Coordination across actors to achieve lean construction; and
- Orientation towards future growth markets outside the EU.

In addition, Reference [10], state that construction industry requires high quality services and skills, including the capacity to deliver excellent services on time and within the budgeted cost. However, due to nature of construction activities been complex, this has posed many challenges on the enterprises that engage in them [1, p.256] more especially the SMMEs. The Reference [1], further, advised that it is of utmost importance that the SMME contractors should have capacity and competences to complete their projects if they are to stay profitable. They should also remain focused on health and safety, optimizing their usage of materials and equipment and adapting methods that are environmentally friendly.

The 21st century business environment have reckoned on education as the bedrock of competitiveness for countries economy and organisation's economic sustainability [11]. However, advanced economies, innovative industries and firms, and high-growth jobs require more educated individual(s) and business owner(s) such as construction contractors. There is a stronger relationship between educational attainment and business growth in a professional field such as construction industry [12]. Reference [12], further emphasizes that educated business owners such as construction contractors and entrepreneurs are more likely to develop and grow their firms into sustainable organisations. Achieving sustainable organisation would be far fetch if an organisation lack strategic resources and competencies to manage its business activities effectively. Organisation's resources are there sacred temple in which their success anchors. Resources are means in which an organisation generates value and distinguish themselves from others. Strategic competence is the catalyse for organisation's superior performance and continuous improvement of business performance [13]. Reference [14], define organizational capabilities as a unique combination of skills, processes, technologies, and human abilities and entrepreneurship acumen that differentiate a company from others.

The modern themes in strategic management are entrepreneurship. The entrepreneurship is an important skill for the small and emerging contractors and it is imperative for them to understand the roles of entrepreneurs in business venture [15]. The entrepreneurs are important drivers of economic and social progress and change. Entrepreneurial organisations have greatly influenced our daily activities through launch of new business ideas, new products and innovative services [16].

## II. BASIC BUSINESS-FORCES FOR SURVIVING AND SUSTAINABLE CONSTRUCTION ORGANIZATIONS

### *A. Understanding the Basic Business Forces in Construction*

Many construction startups contractors in the South Africa failed to grow their business into sustainable and competitive organizations; as most of them cease to exist beyond the first five years in the marketplace [10], [17]. However, understanding the basic business forces is perquisite in laying a solid foundation; on how to traditionally and strategically a competitive and manageable construction organization is crucial. Reference [18], caution that developing countries should tackle the numerous constraints in their construction industries at basic level in order to enhance the capacity of their local contractors and improve readiness to deliver effectively on local projects. To achieve this, the contractors need to have a solid foundation of technical knowledge; as the most successful project managers in the construction industry have also developed strong management, leadership and business skills in order to execute projects profitably [19].

An in-depth understanding of the basic business forces or factors, necessitating the survival and competitiveness of an organisation would be an invaluable strategic edge for many small contracting firms in South Africa. However, a successful business is measure in terms of growth, financial performance, and continuous improvement of performance [20]. South African businesses should be equipped to deal with all types of business ramifications including intense global competition, powerful information technology, innovation, competitive business strategies, the demand for new skills, political transformation, as well as intelligent clients who are becoming more sophisticated and demanding [21, p.352]. According to Reference [22], South Africa continues to rank low in the world of competitiveness. There is a fundamental need in SA for the organisations to develop competitive business strategies or intelligence as one of the most important tools to understand and improve their competitiveness.

The framework on five stages of small business growth; and competitiveness portray in a systematic the organisation's growth patterns and related challenges. This framework consists of five stages of business growth and development such as: existence/conception; survival; success/profitability; take-off/expansion/advance; and maturity/re-invent or decline stages [23]. The size of organisation (SMMEs) can be measure through combination of internal and external factors that relates to its capacity such as sales, service delivery, total assets, and number of employees, condition of plants, management competency, industrial structure and technological changes, experience, qualifications [24]. The size of an organisation is not dealt with in absolute terms but rather as something which is unique to each business. It is the concept that is important here. In other hands, the Table I, relates this framework in South African context,

### *B. The Medium Contractors in South African Context*

In 2000, the South African government initiated and established, the Construction Industry Development Board

(CIDB) as a statutory body and custody to champion the leadership, to stimulate sustainable growth, strategic reform and improvement of the construction industry for its competitiveness and effective service delivery [25]. The CIDB has advocated that the competitiveness and sustainability of the construction industry lies in the vibrant employment of required skills and competency amongst the contractors within the industry [25]. Table I represents CIDB contractors grading [25].

TABLE I  
MEDIUM CONTRACTORS

Contractors Grading Designation	Maximum Tender Value (R)	Total Contractors (Active-currently)	Proportion (%)
1	200 000	2728	93.57
2	650 000	65	2.22
3	2 000 000	30	1.02
4	4 000 000	34	1.16
5	6 500 000	16	0.54
6	13 000 000	16	0.54
7	40 000 000	19	0.65
8	130 000 000	7	0.30
9	No Limit	-	-
Grand Total		2915	100

Due to transformational agenda by SA government, many start-ups construction contractors have gained entrance in market without requisite industrial experience and skills as been required to operate sustainable construction organisations [4]. In the South Africa context, this study categorise the contractors grades within the five stages of business growth as follows: stage I- grade 1-2; stage II- grade 3-4; stage III- grade 5-6, Stage IV- grade 7-8; and stage V- grade 9 contractors.

For any start-up and small construction organisations that strategically aimed to survive the competitive business environment in the construction industry should understand the concept of small business growth framework developed by [23], [24]. In this view, these small construction organisations are required to meet the basic requirements has been suggested in this framework. However, the following attributes were highlighted as the main business forces that are required at various stages of business growth and development. These attributes are: Stage I- educational training and knowledge (related to construction), business management skills and competence, ability to fulfil the financial demand (cash flows); and strategic management skills to expand to stage II [23], [24]. The Stage II- includes experience; professionalism, ability to exploit the organisation's accomplishments and expansion, and ability to keep the organisation stable and profitable [23], [24]. In stage III-involves effective management of organisation's resources; efficient administration; applications of project management principles, and strategic competence to monitor business expansion into stage IV [23], [24]. Whilst stage VI, consists the ability to manage business complexity, and adoption of an effective operation strategies; and ability to strategically manage growth into a large scale organisation [23], [24]. Finally, Stage V-

highlights the ability to maintain and preserve the entrepreneurship spirit, innovative skills and excellent service delivery. In nutshell, it can be logically concluded that all these attributes would make any organisation a formidable force in any given market [23], [24].

In the same view, Reference [10], highlight that the emerging contractors can achieve sustainable, successful and competitiveness through accept of new approaches to knowledge. The new knowledge must be grounded on a competitive business strategy that creates opportunities for continuous improvement of performance in their business environment.

#### *C. Impacts of Educational Knowledge and Business Skills for Successful Contractors*

The term knowledge, training, education, skill and research development are amongst the strategic approaches an organisation can utilise to improve its productivity and impact on the ability of employees to perform [26]. The lack of construction education appears to be one of the major hurdles for small enterprises. Many of the new entrants into the construction sector have little construction related education or experience [4], as result many prematurely exited the market.

According to [11], the 21st century business environment has counted on education to form the bedrock of competitiveness for both organisations and also countries. However, advanced economies, innovative industries and firms, and high-growth jobs require more educated individual(s) and business owner(s) such as emerging contractors. There is a stronger relationship between educational attainment and business growth in a professional field such as construction industry [12]. Reference [12], further emphasizes that educated business owners such as emerging contractors and entrepreneurs are more likely to develop and grow sustainable firms into sustainable organisations. Education has been regarded as a key aspect for the economic success for many organisations, because education is the fountain of knowledge [27]. It can be said that education remains a fundamental factor in the innovation and assimilation of new technologies in the construction industry.

Reference [28] state that the post-industrial eras have created a business environment where 80% of the jobs in the market requires higher-level skills, and knowledge and industrial experiences. These changes in the market have heightened the shortage of skilled workers and many potential employees lack the educational- and skills knowledge, and experience needed in the market [28]. Reference [28] further state that the organisational performance depends on how effective the business owner's knowledge and skills are prudently applied to the basic organisational concepts such as delegation, span of management, and specialisation. It has been defined that delegation as business owner means of assigning responsibility to subordinates with an authority to perform their duties, whilst the span of control (management) is a systematic process for controlling, directing and monitoring employees' performance reports within an organisation; and specialisation is work performance best

suited for an organisation to earn competitive advantage [28]. Business owners, such as emerging contractors should also have industrial experience and broad perspective of on how the industry in which they are operates functions [29, p.15]. With such understanding on how the industry operates, it would support contractors' organisational vision; strategy and business model, and enhance all their business units' functions in a professional manner [29, p.15]. Supporting this view, Reference [30] claims that the construction industry players and academia have been strategically collaborating as they yearn to improve the industry practices through skill development. In so doing, the contractors should avail themselves them to such opportunities. With these opportunities, the start-ups contractors would upskilled and gain business competency and capability to run their organisation sustainably.

#### *D.Organisational Capabilities and Competencies and - as Basic Driving Forces for Successful Contractors*

Capabilities are the skills of individuals or groups as well as the organizational routine and interactions, through which the entire firm's resources are coordinated [31]. In the context of concept analysis on RBV (resource-based view); Reference [32], denote that no two organisations could have exactly same resources assets in term of experiences, skills, and organisational culture. It was further acknowledge that, within this difference determines how efficiently and effectively an organisation could perform better than others [32]. The resource-based view (RBV) indicates organisation's distinctiveness capabilities, strategy, competitive advantage and business performance [33].

The valuable or strategic resources are organizational capability within the framework of its business routines, processes, operations, culture and structure [32]. Organisation's resource-based focused on its internal context, unique characteristics, and cultures that may contribute to specific competitive advantages and disadvantages [33]. Reference [13], add that the successful implementation of organisational strategy reflects how sufficient its resources were capable to responds to environmental business changes.

Thus, reference [33], suggest that firms such contraction organisations must continually reviewing their resource-base and strategic capabilities in order to achieve and sustain competitiveness in terms of VRIN (value, rarity, inimitable, and non-substitutability) concept. It advised that the business owners (emerging contractors) should nurture those resources (strategic resources) that have the specific characteristics which could lead into sustainable competitive advantage and guarantee them successful business growth in today ever increasing competitive environment [34]. However, [33], strategic resources are those organisation's distinctive capabilities that leads to competitive advantage and superior performance. Reference [34], viewed organizational capabilities as firm competences to utilises resources and optimally perform its task and achieve desired end. Competitive advantage and superior performance of an organisation do emanate from its competencies.

The competence could be the ways in which an organisation efficiently and effectively deployed its resources and assets [33]. Reference [35], further indicate these competencies are based on attitudes, behaviour, skills, knowledge and actual work experience. It can be said that there are three levels of competencies needed for improving the skills and abilities for professionals in construction industry, which are:

- i. Level 1- knowledge and understanding;
- ii. Level 2-application of knowledge and understanding; and
- iii. Level 3-ability to reasoned advice and acquire in-depth technical knowledge [35].

The competencies as the abilities, skills, traits, and organisational behaviours and culture that contributes to its superior performance [26]. The Reference [36], further categorise organisation competencies into three groups: (i) competencies on dealing with people(human resources); (ii) competencies dealing with business; and (iii) self-management competencie. The successful business owners and emerging contractors are mostly empowered with competencies such as; transformational leadership, motivational, integrity, self-confidence, intelligence, knowledge of the business and emotional intelligence and entrepreneurship skills [21, p.355].

#### *E.Entrepreneurship Acument- a Business Pillar for Modern Organisation*

The spirit of entrepreneurship has remained one of the key edges for successful small businesses venture in the world today. The entrepreneurship is the capacity and willingness to develop, organise and manage an organisation along with any of its risks in order to make a profit [37]. Entrepreneurship is the development of a business idea into a profitable business [38]. An entrepreneurship is as a business journey of opportunity exploration, accepting and managing risk in order to create value for profit. It is also entails recognizing the right opportunity, finding resources and tools to pursue the business opportunity and creating the right team for successful enterprising [38], [26]. Reference [27], denote that an entrepreneurial organisations have their principal objectives as to make profitability and grow sustainable businesses. The contemporary entrepreneurial organisations are characterised by employing innovative and strategic management practice in their business activities. The entrepreneurship skills could be considered as one of competitive advantage for successful organisations. According to Reference [1, p.260] the lack of entrepreneurship spirit among the small and emerging contractors have limited their ability to seek and exploit business opportunities, and to successfully innovate and grow their business into a sustainable organization. The driving forces in the construction industry have indicated that the ability to innovate through entrepreneurship skills is becoming competitive pillar for small business and emerging contractors [39], as such, [40], pinpoint that the entrepreneurship spirit assist the emerging contractors to understand the business environment in which they operating, when they relentlessly focus on identifying opportunities in both new and existing.

According to [12], the emerging contractors that have entrepreneurial skills are better able to cope with changing

market and economic challenges. As they are more flexibility and have the ability to speedily response in spotting an opportunity. As well as to focus on their resources and deliver what the market wants quickly. It has been observed that among today's most successful entrepreneurs are history's top business leaders, who have earned their success through entrepreneurship. These entrepreneurs are Henry Ford, Walt Disney, John Rockefeller, Richard Branson, Bill Gates, and Oprah Winfrey [38].

According to [12], innovation and technology is the prime tool for entrepreneurs such as emerging contractors could use to create or exploit opportunities in a given market. In addition, [41] states that entrepreneurs' willingness to adapt and create change has override traditional rules, as it is not the strongest or the most intelligent organisation that survive, but those most adaptive to change in the business environment through innovative approach.

### III. METHODOLOGY

Research involves three processes; data collection, analyses and interpretation which are aimed at proffering a better understanding of the phenomenon [42]. However, [43], claims that research study is a critical process of asking and attempting to answer questions in the real world. This can be done through a questionnaire, an interview, an experiment, and other different method. The appropriate of adopted research methodology should justify the process which the research brings about the creation of new knowledge and truth.

The study adopted qualitative research method using in-depth interviewing. However, this paper aimed to obtain a holistic understanding of business insights underpinning basic business-forces which would have necessitated the survival, competitiveness and sustainability of active medium contractors operating in the South African construction industry beyond five years. The nature of the problem suggests an in-depth study of the phenomena. The primary data for this study emanated from face-to-face interviews conducted in Port Elizabeth between the Months of August to October 2015. The interviewees were twenty (20) construction business owners and executive firms' representative under the Construction Industry Development Board (CIDB-Table I). The typical research sample size of the phenomenological study range from 5 to 25 participants, as it consists of unstructured interviews [42]. However, due to the nature of this research, the study adopted phenomenological paradigm as it is most appropriate approach for the study.

### IV. RESULTS OF DATA ANALYSIS

#### A. An in-Depth Profile of Interviewees

In total, 20 interviews were conducted amongst the medium contractors in the Construction Industry Development Board in grade 4-6. Fig. 1 shows that both grade 4 and 5 contractors' accounts of 35% respectively, whilst 30% were grade 6 contractors. This indicates that each grade was fairly

represented in the study, as it allowed of holistic understand of the phenomenon of the study.

Fig. 2 shows that 70% of the interviewees were the business owner (Director), and 10% were executive manager from family business, whilst 20% were organisations' executive representatives. The data collected was significant and insightful as most interviewees were seasoned construction practitioners, and all has demonstrated great support in providing useful information of the study.

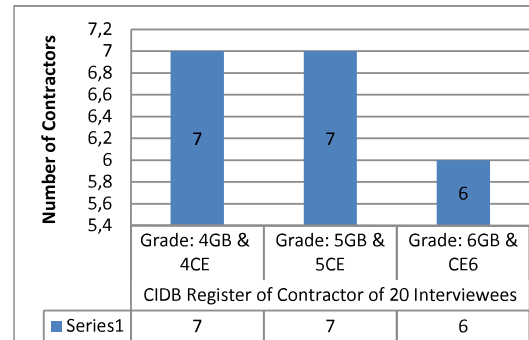


Fig. 1 Grades of Medium Contractors Interviewed

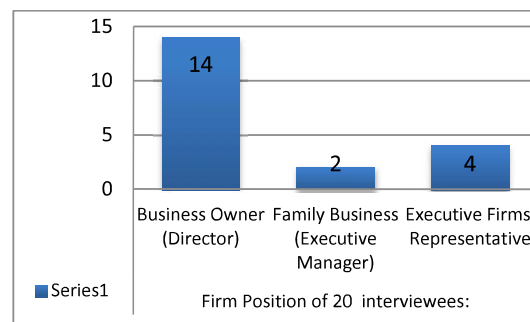


Fig. 2 Organisational Position of 20 Interviewees

In Fig. 3, has indicated that 75% of the interviewees have higher education certificate in construction and related disciplines, and only 25% have general basic education-Martic certificates.

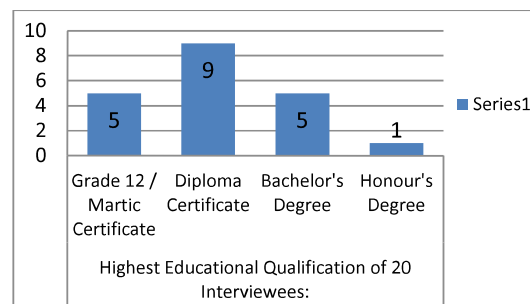


Fig. 3 Educational Qualification of 20 Interviewees

The number of years of practice that the interviewees had in the construction industry ranged from 5 to 44 years, and Fig. 4 shows that about 75% (majority) had practiced more than 14

years in the construction industry; whilst 25% has between 5 to 14 years in the industry. The outcomes ensure a decent level of credibility in the responses elicited from the interviews. The interviewees were basically involved with general building contracting and civil engineering segment of the construction industry in Port Elizabeth South Africa.

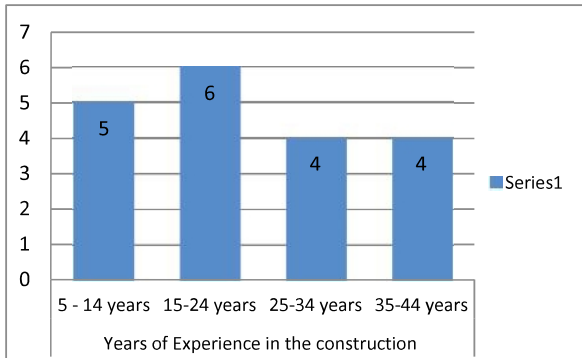


Fig. 4 Years of Experience in Construction Industry of 20 Interviewees

#### *B.Organization's Competitive and Surviving Characteristics*

The issues of construction organisation's competitive and surviving characteristic primarily indicated that about 60% of the interviewees have been practice extensively in the construction industry between 1 to 10 years and with higher education qualifications in the construction and related field before they established their own constructing firms. One of the interviewees- *"I have been in the construction industry for about 22 years, and 12 years ago a started my own company"*. However, about 24% of interviewees has successfully established and grow their business into medium contracting firms as results of their educational background relating the construction and built environment and without prior experience in the industry, whilst about 16% of interviewees had only general basic education or were trained and mentored by their family members who are extensively experience in the connection industry. Therefore, there was general consensus that prior experience, higher educational degree and advance knowledge, training and mentorship related to the construction and general business management significantly assisted them in developing and growing competitive construction businesses.

#### *C.Major Competencies and Capabilities for Surviving Contractors*

All interviewees felt that a lots of factors contributed in the strategic building of their major competeies and business capabilities in the construction businesses. Some of the basic factors were years of experience in industry, educational background in the construction disciplines and continuous improvement of the business skills throug training and employing of highley qualified personnel. Other terms emanating from the findings were; focus on supporting business mission; motivational support and fostering

teamwork amongst workers; managing performance (accountability); building collaborative relationships (partnership with others); and clients' orientation (satisfying clients'). Also, self confidence (in their skills, ideas, product/service); personal credibility (reliable and trustworthy); and flexibility (openess to new ideas); strategic management and technical expertise were the major attributies that formed the competencies and capabilities of the surviving medium contractors in Port Elizabeth, South Africa.

#### *D.Entrepreneurship Skills and Acumen As Contemporary Drivers for Construction Businesses*

It was widely acknowledged by the interviewees that entrepreneurship skills and acumen is needed in a construction industry but in a different perspective while comparing the industry with others sectors. It can be said that contemporary entrepreneurial organisations are characterised by employing innovative and strategic management practice in their business activities. The emerging findings from the majority the interviewees that entrepreneurship is strategic business approach of empowering themselves (Business owners) and entire fabric of their organization to high productive and personal success. One interviewee said – *"We consider our firm as entrepreneurial driven as we always sought to bring innovation or new dimensions in the ways will carried out our project service"*. Some interviewees regarded entrepreneurship is the key drivers of business innovation and continuous improvement of performance, and ability to successfully initiate and completed project, with clients' satisfaction and making responsible profits. However, various themes such as market leadership, networking, ability to build competent team, creating business opportunity, innovation, improvement of quality of service delivery, and profit maximization and organisations' sustainability.

#### V. CONCLUSION

It can be said that all the potential start-ups and emerging small construction organizations and contractors who aspired to incrementally grow and develop their businesses into competitive, sustainable medium and large scale organisations must endeavouring to grasps the in-depth knowledge on the significant of business insights highlighted in this study. These highlights involves the in-depth understanding of the business characteristics of competitive and surviving organization, ability to acquire and development competencies and capabilities needed in the industry; constant maintenance of entrepreneurship spirit as business expand, and adoption of best practice in business management techniques. However, this study has indicated the business insights in which the small construction organisations could systematically apply to grow and develop their businesses into medium and large scale construction entities. This emerging findings x-ray the interconnectedness in the concept of basic business forces for developing and growing a successful construction organization (Fig. 5).





Fig. 5 The Concept of Basic Business Forces for Developing and Growing Construction Business

The study has illuminated and conceptualized the basic business forces that would be required for start-ups and small construction to form a competitive and sustainable firm in South African context. Hence, the potential and small construction contractors adopting the study finding would assist to elevate the performance and competitiveness of the South African construction industry in curbing the incessant business failure amongst the emerging and small contractors. This paper focuses only the view of evaluating the basic business forces that fostered the active medium contractors in South Africa; in order to strategically contribute to long-term solution for incessant business failure amongst small construction organisations in the industry.

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