

THE INFLUENCE OF GOVERNMENT TARGETED PROCUREMENT STRATEGIES ON THE GROWTH PERFORMANCE OF CONSTRUCTION SMALL AND MEDIUM-SIZED CONTRACTORS (SMCs) IN SOUTH AFRICA

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ABSTRACT

This paper examines government targeted procurement (TP) strategies in South Africa and whether these strategies have an influence on the growth performance of Small and medium-sized contractors (SMCs) in the construction industry. The rationale for this study stems from reports that while TP has been widely used as an instrument to improve the position of SMCs in the South African construction industry, three out of five SMCs do not become established firms. In addition, the nature of the influence of TP strategies on the growth performance of SMCs is not known. Following a review of existing literature, the study mainly adopted a quantitative research approach. Questionnaire surveys were administered to Construction Industry Development Board (cidb) Grades 3 to 6 contractors that have executed TP projects within the last 5 years. The collected data was subjected to descriptive and inferential statistical analyses – Spearman’s rank order correlation was used as an index of association between the study variables. The study found that tendering equity is the most frequently used TP strategy, closely followed by preferencing and mandatory subcontracting. The study also found that positive significant associations exist among preferencing and turnover; third-party management and company assets; tendering equity, turnover and number of employees; as well as accelerated rotations, turnover and number of employees. The study concluded that government intervention through targeted procurement has the potential to achieve its intended results of improving the position of historically disadvantaged SMCs in the construction industry in South Africa if selected and implemented appropriately.

KEYWORDS: Construction industry, Growth performance, SMEs, Targeted procurement.

INTRODUCTION

Interacting with almost all spheres of human endeavour and having strong links with other sectors of the economy, the construction sector and its activities occupy a critical position that influences national strategic socio-economic development and improvement in the quality of life (Rwelamila, 2012; UNCHS, 1996). Government’s understanding of the construction industry’s significant role in the economy is well-documented in literature (London, 2008; Rwelamila, 2012; Shakantu, 2012). Implicitly, there has also been an increasing understanding of the need for the government to intervene in the construction industry that is largely dominated by albeit specialized, underperforming small and medium-sized enterprises (SMEs) (Egan, 1998; Latham, 1994; UK BIS, 2013; Wolstenholme, 2009).

SMEs have long been recognised to play an important role as key drivers of economic growth (Abor & Quartey, 2010; Shakantu, 2012; Vosloo, 1994). For example, the South African architectural, engineering and construction subsector, accounts for about 34.2% of total small business employment (Schüssler, 2012), making it the second largest employer among SMEs. Construction SMEs are very diverse and highly specialized; and they constitute a significant part of the construction industry supply chain (Dainty *et al.*, 2001). The sustained significance of construction small and medium-sized contractors (SMCs) has led to the focus of government policies on promoting the advent of capable SMCs and supporting their continuous development and sustainability (Egan, 1998).

Consequently, some governments have implemented prescriptive measures to promote small contractor development (Gounden, 2000; Hawkins, 2012; Ofori, 1996; Watermeyer, 2003). Others have initiated and set-up supportive procurement programmes (demand side interventions) and well-structured contractor development models (supply side interventions) (Dlungwana & Rwelamila, 2004). These interventions are usually implemented through public procurement where the government becomes an active participant in the market economy as a major client contributing significantly to GDP – averaging 13% in the OECD countries, up to 30% in developing countries (OECD, 2011; Roos, 2012), and up to 50% of entire domestic construction expenditure in South Africa (Newadi & Dangalazana, 2006). Therefore, governments have progressively used their purchasing power to intervene in the construction industry towards achieving a broad range of national socio-economic goals including the development and sustainability of the *de facto* drivers of economic growth, i.e. local SMEs.

Targeted procurement (TP) is an innovative government procurement intervention strategy designed and used in the construction industry to promote the participation of targeted enterprises and targeted labour in government infrastructure contracts (cidb, 2008a; Ofori, 2009; Watermeyer *et al.*, 2001); in a bid to achieve the state entities' 'contractor development goals' which are included as a relevant criterion for contract award, along with other functional criteria (e.g. price and quality). Although few studies have been undertaken to assess the impact of TP in South Africa, there have been more studies (e.g. Gounden, 2000; Kajimo-Shakantu, 2007; Letchmiah, 2012; Manchidi and Harmond, 2002) relating to preferential procurement policy generally. Previous reports (Letchmiah, 2012; Manchidi & Harmond, 2002) indicate that preferential procurement practices have successfully opened up the construction industry to SMCs with their contract-winning rate and market share increasing significantly; however, SMCs remain deprived in a competitive industry where three out of five SMCs do not become established firms (Greyling, 2012; Mofokeng & Thwala, 2012). Explorative in nature, this study looks to provide a better understanding of the role of TP in stimulating the growth and development of SMCs in the construction industry in South Africa during the period 2011 to 2015.

OVERVIEW OF TARGETED PROCUREMENT STRATEGIE AND MEASURES OF SME GROWTH PERFORMWNCE

Targeted Procurement Strategies

SME development initiatives through public procurement are most often applied by governments in two broad ways: bid price preferences that load the lowest non-SME bid or provide a discount to the lowest SME bid, and set-asides which provide quotas for targeted

SMEs to bid competitively against each other (ADB, 2012). For example, in Singapore, bidding preferences were offered to local construction firms and joint ventures (Ofori, 1996). While Botswana implemented bid preferencing schemes to promote engagement of citizen contractors (Watermeyer, 2003). On the other hand, set-asides or reserved procurement strategies have been used to encourage participation of small businesses and minority business enterprises in government contracts in the US, South Africa, Indonesia and Malaysia (Arrowsmith, 1995; Hawkins, 2012) and to develop minority enterprise and counter the effects of past discrimination (Bolton, 2006; Chatterji *et al.*, 2014).

Preferential procurement practices in public procurement are an important government intervention strategy for stimulating the growth and development of SMCs in the construction industry of many countries including South Africa (Hawkins, 2012; Watermeyer *et al.*, 2001). The adoption of preferential procurement policies in South Africa as a vehicle for contractor development, in a practice called targeted procurement is well documented in literature (London, 2008; Shakantu, 2012; Watermeyer, 2003). As part of national procurement reforms to address past imbalances and stimulate SMC growth and development, the Department of Public Works, in South Africa, introduced innovative TP strategies to promote the participation of targeted SMCs in public sector contracts (Shakantu, 2012).

Table 1: Targeted procurement strategies

Targeted Procurement Strategy	Description
Unbundling of contracts	Clients break contracts down into smaller contracts or packages to facilitate the participation of small and/or emerging contractors as prime/main contractors
Mandatory subcontracting	Client requires larger main contractors to subcontract a portion of the works to small contractors using prescribed procurement procedures
Preferencing	Client grants tender evaluation points to contractors who satisfy prescribed preferencing criteria (e.g. joint ventures between large and small contractors)
Third-party Management	Client appoints larger established contractors and/or consultants to provide construction management support, and mentor small and/or emerging enterprises in the execution of contracts as prime contractors and monitor satisfactory progress of their work
Tendering equity	Client requires tenderers to have minimum levels of equity when tendering for certain type of contracts (e.g. >50% black women ownership)
Accelerated rotations	Client accelerates the rotation of targeted enterprise on electronic databases to ensure that target groups have greater access to work opportunities

(Source: cidb, 2008b; Letchmiah, 2012; Watermeyer, 2005)

The various government targeted procurement strategies used in public procurement are outlined in Table 1. According to Watermeyer (2005), public sector clients tend to combine some of the identified targeting strategies in an effort to maximize outcomes.

Measures of SME Growth Performance

Small firm growth theorists (Davidsson *et al.*, 2005; Penrose, 1959; Starbuck, 1971) refer to growth as the change in an organization's size – a multidimensional phenomenon that necessarily happens over time. Unlike large firms that tend to grow through acquisitions,

small firms usually grow organically (Penrose, 1959). In the analysis of firm growth from the change-in-size perspective, growth has been measured with a range of different indicators in the literature; the most frequently suggested being sales, revenue, employment, assets, physical output, market share and profits (Ardishvili *et al.*, 1998; Delmar, 1997; Weinzimmer *et al.*, 1998; Wiklund, 1998). In specific industry studies, more specialized measures are conceivable (Davidsson *et al.*, 2005). For example, in construction, increase in turnover and employment are the most frequently used by scholars in construction management research (Abu Bakar *et al.*, 2011, 2012; Ofori & Chan, 2000; Tucker *et al.*, 2015). However, in the context of this study, multiple indicators of increase in annual turnover, profits, assets (plants and equipment), and number of permanent and skilled employees will be used to measure SMC growth performance in relation to TP objectives. These indicators are selected because the South African Construction Industry Development Board (cidb) uses increase in financial and works capability plus number of registered skilled professionals in a firm's employment as the main requirements for progressing through the cidb contractor grading system – a holistic measure of company growth performance in the South African construction industry.

THE INFLUENCE OF TARGETED PROCUREMENT STRATEGIES ON SME DEVELOPMENT

According to Chatterji *et al.* (2014) and Letchmiah (2012), little is known about the actual effectiveness of preferential procurement in promoting the growth and development of SMCs, and only a handful of studies have attempted to analyse whether these programmes have met their goals in the construction industry. Reports from previous studies on the impact of set-asides in the US construction industry indicate that set-asides: significantly increased contract awards to SMEs (Marion, 2007; Morris *et al.*, 2006); have a positive and significant empirical impact on SME growth regardless of how growth is measured (House-Soremekun, 2006); and plays a significant role in the net survival rates of these SMEs (Marion, 2007; Morris *et al.*, 2006). However, Blanchflower and Wainwright (2005) argue that these programmes have not achieved their objective of improving the position of SMCs in the construction industry.

In South Africa, four major previous studies (Gounden, 2000; Kajimo-Shakantu, 2007; Letchmiah, 2012; Manchidi & Harmond, 2002) have been identified in literature. Three key similarities can be drawn from the results of these independent studies – the application of targeted procurement strategies significantly contributed to increased participation of SMCs in government tendering process, led to greater success in winning government contracts, and promoted the development of business linkages between historically empowered firms and historically disadvantaged SMCs. However, attempts to measure the impact of TP on individual SMC growth performance in the construction industry has been so far evasive.

THEORETICAL AND CONCEPTUAL FRAMEWORK

The phenomenon being investigated by this study (i.e. the relationship between targeted procurement and SMC growth performance), has its theoretical underpinnings in the field of industrial organisation economics. Industrial organisation economics builds on the theory of the firm, which is a group of economic theories that explains and predict the nature of the firms – existence, behaviour, structural organisation, and their relationship to the market or industry. However industrial organisation economics focuses on two main areas, i.e. the structural and behavioural characteristics of the industry, and how these influences the

performance of firms in the industry (Bain, 1959; Martin, 1993). Two schools of thought exist in the field of industrial organisation economics, namely: the Chicago School and the Structure-Conduct-Performance (SCP) paradigm.

The Chicago School argues for economic rationalism, i.e. market forces rather than government intervention should dictate the allocation of economic resources and determine the performance of firms within the industry (Stilwell, 1993). This approach is usually applied to markets in perfect competition, which is not always the case, as some experience market failure or severe socio-economic challenges e.g. income inequality in South Africa (Palma, 2005; Rwelamila, 2012; UNDP, 2013). On the other hand, the SCP school of thought argues for government intervention. The rationale is that because market structure has a direct influence on, and is central to the firm's economic conduct/behaviour, which in turn affects the firm's performance in the market, it is necessary for governments in their role as the regulator of the economy, to intervene in altering the market structure towards influencing the growth performance firms and the industry as a whole (Bain, 1959). Targeted procurement – a form of government intervention, adheres to the SCP paradigm, and evidence (Kajimo-Shakantu, 2007; Letchmiah, 2012) shows that TP has changed the structural characteristics of the construction industry with the market share of SMCs increasing significantly.

This study draws on the theories of industrial organization economics, firm growth, and strategic management (Davidsson *et al.*, 2005; London, 2008; Martin, 1993). Based on literature review, a conceptual framework is developed proposing an association between TP strategies and growth performance of SMCs through the procurement process. The constructs for SMC growth performance are turnover, profits, assets (plants and equipment) and number of skilled employees (Abu Bakar *et al.*, 2011, 2012; Ofori & Chan, 2000; Teruel-Carrizosa, 2006; Tucker *et al.*, 2015). While the TP strategies identified are unbundling of contracts, mandatory subcontracting, preferencing, third-party management, and accelerated rotations (cidb, 2008b; Letchmiah, 2012; Watermeyer, 2005).

RESEARCH METHODOLOGY

A quantitative approach was adopted for this study. Primary data was collected via a structured self-administered and online questionnaire survey. A combination of stratified random sampling and purposive random sampling techniques was used to sample 1007 Grades 3 to 6 SMC contractors that have executed TP projects and/or been part of a contractor development programme (CDP) within the last five years. At the end of the survey period, a total of 360 (35.4%) completed responses were received, out of which 307 responses from contractors that met the criteria for the study (e.g. those classified as an SME and registered on cidb Grades 3 to 6) were identified and extracted for the empirical study. Grades 1 to 2 contractors were excluded because they are unlikely to reflect the growth performance been sought, while Grades 7 to 9 contractors were also excluded because these are considered established contractors (Windapo & Cattell, 2011).

The respondents were asked to indicate the TP strategies that is frequently used on public sector projects, using a five-point Likert scale ranging from 1 (never) to 5 (always). Information was also collected on the company's economic growth performance (annual turnover, profits, assets, and number of permanent employees) which was converted to five-point Likert scales based on the classification for construction SMEs by the Republic of South Africa National Small Business Act (2003).

The collected data was subjected to descriptive and inferential statistical analyses using the Statistical Package for Social Sciences software (SPSS). Descriptive statistics such as frequency tables was used to determine the TP strategies perceived to be the most frequently implemented within the South African Construction Industry, while Spearman rank correlation was used to test whether there are significant associations between implemented targeting strategies and SMC growth performance.

DATA PRESENTATION AND FINDINGS

Table 2. General Profile of Companies and Responding Officers

	Frequency (N)	Valid Percentage (%)	Cumulative Percentage (%)
Companies' experience/years in business			
1 - 5 years	52	17.0	17.0
6 - 10 years	89	29.1	46.1
11 - 20 years	145	47.1	93.1
21 - 30 years	17	5.6	98.7
> 30 years	4	1.3	100.0
Grade of works on cidb Register of Contractors			
3	117	38.2	38.2
4	82	26.8	65.0
5	60	19.5	84.5
6	48	15.5	100.0
Number of employees			
Less than 20	215	69.9	69.9
20 – 49	55	18.0	87.9
50 – 99	27	8.7	96.5
100 – 199	7	2.4	99.0
More than 199	3	1.0	100.0
Responding officers' designations			
Top management	255	83.1	83.1
Middle management	40	13.1	96.2
Senior employees	12	3.8	100.0

Source: Field Data

Demography of Respondents

Information obtained show that 166 (54%) contractors have been in the construction business for more than 10 years while 141 (46%) have been in it for fewer than 10 years. Thus, the majority of respondents have considerable track record in the construction industry which validates the reliability of the data obtained. Table 2 show that 199 and 108 (65% and 35%) of the companies are registered with cidb on Grades 3 to 4 and 5 to 6 respectively. Moreover, 215 (70%) engage less than 20 permanent full-time employees which is well within the range for SMEs. Finally, information about the responding officers show that (295) 96% of the respondents were top and middle management employees, while 12 (4%) were senior employees at their respective companies.

Company Growth Performance

Information from the growth performance data obtained on the company's annual turnover, profits, assets, and number of permanent employees are presented in Figure 1.

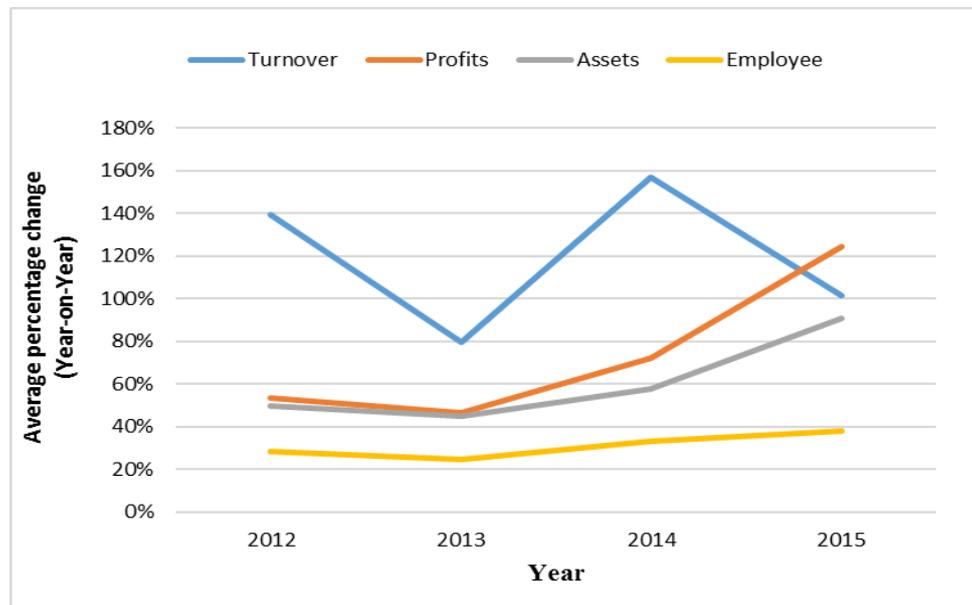


Figure 1: Percentage average year-on-year change in company growth performance (Source: Authors, 2016)

Figure 1 illustrates the year-on-year average percentage change in growth performance (annual turnover, profits, assets, and number of permanent employees) of construction SMCs participating in TP projects over a five-year period, i.e. between 2011 and 2015. It shows that, except for year 2014 where the average increase in turnover more than doubled from the previous year, the companies generally experienced a decrease in turnover between 2011 and 2015. There was also a corresponding decrease in company profits, assets and number of employees between 2012 and 2013 when compared to turnover. Company profits, assets and number of employees also increased along with turnover between 2013 and 2014, but increased in 2015 against a decline in turnover.

Most Implemented TP Strategies and Influence of TP Strategies on Company Growth Performance

Questions were asked to determine the perception of the targeted SMCs on the most implemented targeting strategies on public sector projects. Result from Table 3 reveal that tendering equity (MS 2.84) was perceived to be the most frequently implemented targeting strategy. Other highly ranked targeting strategies include preferencing (MS 2.27), and mandatory subcontracting (MS 2.23). While unbundling of contracts, accelerated rotations, and third-party management ranked lower. This suggests that government clients progressively require tenderers to have certain levels of equity ownership when submitting bids for targeted procurement contracts.

Table 2: Descriptive statistics and correlation matrix of study variables (Source: Author, 2016)

	MS	SD	UNB	MSU	PRE	TPM	TEQ	ARO	TUR	PRO	AST	EMP
UNB	2.123	1.338	1									
MSU	2.427	1.387	.276**	1								
PRE	2.564	1.374	.308**	.386**	1							
TPM	1.741	1.136	.148*	.217**	.253**	1						
TEQ	2.842	1.456	.258**	.190**	.348**	.095	1					
ARO	1.899	1.221	.299**	.204**	.254**	.170**	.411**	1				
TUR	2.319	1.409	-.044	.101	.293**	.175	.172*	.224*	1			
PRO	3.204	1.555	-.012	-.143	-.131	.041	-.151	.058	.015	1		
AST	2.718	1.258	-.068	-.152	.092	.203*	.129	.142	.552**	.100	1	
EMP	1.555	0.685	-.007	.093	.053	.170	.201*	.229*	.484**	-.027	.431**	1

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

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

Key: Mean Score (MS), Standard Deviation (SD), Unbundling of contracts (UNB), Mandatory subcontracting (MSU), Preferencing (PRE), Third-party management (TPM), Tendering equity (TEQ), and Accelerated rotations (ARO); Turnover (TUR), Profits (PRO), Assets (AST), Number of skilled employees (EMP)

To determine whether there are significant associations between implemented TP strategies and the indicators of SMC growth performance, Spearman's rank correlation was used as an index of association between the variables. The strength of association was measured by coefficient of correlation which ranges from 0 to ± 1 , where +1 indicates a perfect positive correlation, -1 a perfect negative correlation and 0 indicates no association. The results from the Spearman's correlation is presented in Table 3.

Result from the correlation analysis presented in Table 3 show that positive significant associations exists between preferencing and turnover; third-party management and company assets; tendering equity, turnover and number of employees; as well as accelerated rotations, turnover and number of employees ($p < 0.01$, $p < 0.05$). This implies that an increase in one variable was strongly associated to an increase in another significantly correlated variable and vice-versa. In other words, an increase in the use of a TP strategy (e.g. preferencing) is strongly associated to an increase in the corresponding SMC growth performance indicator (e.g. turnover), and vice-versa. Moreover, the result show that there were no significant associations between company profit and TP strategies, and all TP strategies except accelerated rotation and third-party management showed negative correlation to company profit. It also emerged that unbundling of contracts, although not significant, was negatively correlated to all growth performance indicators.

DISCUSSION OF FINDINGS

Findings emerging from this study which aimed to examine the influence of targeted procurement strategies on the growth performance of SMCs in the construction industry in South Africa have been presented in previous sections of the paper. The study provided an overview of the growth performance of SMC contractors under the targeted procurement regime over a period of five years (2011 to 2015), which uncovered certain growth patterns in the companies' turnover, profits, assets and number of employees. The study revealed that except for year 2014, SME contractors generally experienced a decrease in turnover during

the period of observation. It could be inferred from the relatively low growth in profits against a high growth in turnover in 2014 that this was a period of high construction activity and similarly high competition (cidb, 2013), when contractors have been known to submit low bids (Lee, 2009). Furthermore, a corresponding increase and decrease in the number of employees relative to turnover in 2013 and 2014 is an indication that the SMCs tend to hire based on construction activity. In other words, number of employees depend on the volume of work available. This trend suggests that there is a relationship between SMC's turnover and number of employees, requiring further investigation. The SMCs also recorded an increase in asset growth performance, indicating progressive investment in plants and equipment, which contrasts reports by Fagbenle and Oluwunmi (2010) in a similar investigation of indigenous construction firms in Nigeria.

Previous studies (Gounden, 2000; Kajimo-Shakantu, 2007; Letchmiah, 2012; Manchidi & Harmond, 2002) in South Africa have reported that the application of TP strategies significantly contributes to increased participation of SMCs in government tendering process, and led to greater success in winning government contracts. However, attempts to measure the impact of TP on individual SMC growth performance has been so far evasive. This study which aimed to fill this gap revealed that positive significant associations exists between preferencing and turnover; third-party management and company assets; tendering equity, turnover and number of employees; as well as accelerated rotations, turnover and number of employees. Whereas unbundling of contracts and mandatory subcontracting did not show any significant correlation with the growth performance indicators. Furthermore, results from this study show that there were no significant associations between TP strategies and company profit, however third-party management and accelerated rotation was found to be positively associated to company profit but not significant. Whereas, an earlier study by House-Soremekun (2006) reported a significantly positive relationship between participation in minority set-aside programs in the United States and growth in annual company profits. This contrast may be because of the size of the businesses or other internal SMC organization critical success factors (Ng *et al.*, 2009; Ng & Tang, 2010).

The data also appear to suggest that the use of unbundling strategy is not favourable to SMC growth performance, with all growth performance indicators showing negative correlation to unbundling of contracts. Similarly, evidence from the study suggest that the use of mandatory subcontracting as a targeted procurement strategy does not help SMCs grow their assets, however, it is one of the most frequently implemented targeting strategy. Whereas, third-party management which showed a positive significant association with company assets is one of the least used strategy. The capital-intensive nature of the construction industry requires contractors to acquire and retain their own plants and equipment while maximizing its utilisation. Hence, investment in plant and equipment is essential to operational activities in the construction industry (PwC, 2013), hence the use of strategies that promote this such as third-party management should be encouraged. The inability of SMCs to own plants and equipment results in their employment as subcontractors by larger main contractors on simpler less capital intensive, and labour-intensive works, thus hindering their growth and development (cidb, 2013). Moreover, according to the cidb (2013), about 70% contract value of general building works is subcontracted out, while 20 to 30% contract value of civil engineering works is subcontracted. It can therefore be deduced that where there is a lack of investment in plants and equipment, SMCs potentially exclude themselves from a significant volume of work as prime contractors in the construction industry. This could be a major

factor forestalling the impact of TP in South Africa as a vehicle for transformation and contractor development.

The study also found that the implementation of tendering equity as a TP strategy is positively and significantly associated with the growth in turnover, and particularly, number of employees of SMCs. There are no previous studies that have investigated the latter relationship, which is a key finding of this study. This is also supported by the trend uncovered from this study which suggests that targeted contractors increase their employee size due to a corresponding increase in work (turnover). Another possible explanation for this may be to improve their Broad-Based Black Economic Empowerment (BBBEE) status and/or to become BBBEE compliant, which is a common criterion for the award of government contracts in South Africa.

The study further revealed that the implementation of accelerated rotations as a targeted procurement strategy is associated with the growth in turnover and employee size of SMCs. This finding is aligned to earlier reports (cidb, 2008b; International Standards Organisation, 2010; Watermeyer, 2005) that indicated that accelerated rotations ensures more work opportunity is given to target groups. By design, accelerated rotation uses an electronic database to rank firms according to their date of entry and targeted enterprise status, thus facilitating their invitation to submit tenders and hence a greater chance of success (Watermeyer, 2005). However, the study also revealed that accelerated rotation is amongst the least used targeting strategy, and that it is underutilized by public sector clients. This should not be the case as sustained work opportunities is an important factor to company survival (Lee, 2009).

CONCLUSION AND IMPLICATION OF FINDINGS

This study examines the government targeted procurement strategy frequently used in South Africa and their perceived impact on SMC growth performance. The study found that tendering equity is the most frequently used TP strategy, closely followed by preferencing and mandatory subcontracting; while unbundling of contracts, accelerated rotations, and third-party management are less frequently used. The study also uncovered that although the concept of TP is designed to provide more work opportunities to targeted SMCs, the general belief that by extension all TP strategies will lead to a growth in turnover should be adopted with caution. Findings from this study supported by empirical evidence suggests that only preferencing, tendering equity and accelerated rotations are strongly associated with increasing SMCs' chances of winning contracts thereby increasing their turnover. Based on these findings, it can be concluded that government intervention through targeted procurement has the potential to achieve its intended results of improving the position of historically disadvantaged SMCs in the construction industry in South Africa, however TP strategies are implemented inappropriately by government clients to the detriment of the SME contractors.

It is therefore recommended that clients should learn to match their expected growth objective in SMCs with the appropriate targeting strategies, e.g. third-party management for growth in assets; and they should curtail the use of targeting strategies that are at a disadvantage to SMCs such as mandatory subcontracting which does not allow SMCs to build their asset base thus limiting their operational capacity. It is recommended that government clients should consider other factors influencing targeted SMC growth

performance beyond the implemented targeting strategies within the targeted procurement process. For example, relational factors such as contracting parties' attitudes and working relationships. Further research to determine the type of contracting relationships formed by SMCs with other entities in the project supply chain and whether this influences their growth and development is recommended.

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