Full Length Research Paper

Using leadership and strategic planning functions to improve management performance: The progress made by small, medium and micro enterprises (SMMEs) in the province of Gauteng, South Africa

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This study investigated the use of the leadership and strategic planning functions in improving the management performance of small, medium and micro enterprises (SMMEs) in the province of Gauteng, South Africa. The primary objective was to establish the extent to which SMMEs in the construction industry in the study area utilised leadership and strategic planning to achieve continuous improvement in management performance. Primary data were collected through structured interviews with 326 respondents from 64 randomly selected SMMEs in the built environment. The findings showed the necessity of educating the owner-managers of SMMEs concerning the use of appropriate management measurement tools and strengthening the implementation of the leadership and strategic planning functions in order to improve management performance. These findings suggest that specific management function-focused courses should be designed and implemented. Rewards should be introduced for SMMEs that show signs of continuous improvement.

Key words: Built environment, leadership, performance management, small business, strategic planning.

INTRODUCTION

The building construction industry creates numerous economic opportunities for small, medium and micro enterprises (SMMEs) in South Africa (Lanor, 2008: 1). This industry is a significant employer, accounting for up to 70% of a nation’s capital stock, which in South Africa is about R 1.2 trillion (Van Wyk, 2003: 1).

The South African government recognises the building construction industry as a national asset to be developed, maintained and transformed through both policy and institutional and practical initiatives (Construction Industry Development Board (CIDB), 2004: 6). At the operational level, the industry needs to improve its management performance in line with modern global developments.

The difficulties facing the construction industry in South Africa include housing and electricity backlogs, and the fact that millions of people lack access to clean water and adequate sewerage (CIDB, 2004: 6). Large building construction companies typically need the assistance of SMMEs to reduce or eliminate these backlogs. SMMEs, however, need strong leadership and strategic planning skills in order to manage their performance effectively.

Since the concern in the study reported on here was that SMMEs lack strong leadership and strategic planning skills, it was deemed important to investigate and establish the extent to which SMMEs in the construction industry in the study area utilised leadership and strategic planning to enhance continuous improvement in management performance.

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In seeking to answer the research question, in this article we report on the research conducted using the South African Excellence Model (SAEM) in order to establish how SMMEs are performing in the province of Gauteng, South Africa.

**Objectives of the study**

The primary objective of the study was to investigate the extent to which SMMEs in the construction industry in Gauteng utilised leadership and strategic planning to enhance continuous improvement in management performance.

Secondary objectives were to profile sampled SMMEs in the construction industry, measure leadership and strategic planning management performance functions, identify the strengths and areas for improvement of these functions, and recommend action plans for areas requiring improvement.

**LITERATURE REVIEW**

Leadership and strategic planning are essential to the success and improvement of any business. Measuring performance in these areas is therefore of critical importance.

**Improvement of the performance of SMMEs through leadership**

Leadership is a process or action that affects the actions of an organised group that is working to achieve certain goals. The main qualities of a leader are long-term strategic thinking, communication skills, integrity and ambition. Leadership usually refers to motivating people and securing their commitment to negotiated goals (Ukkko et al., 2007: 40).

Leadership development enhances management and leadership capability, which in turn contributes to increased performance. Adequate or excellent management and leadership capability can be learnt and developed (Burgoyne et al., 2004: 2, 6).

McAdam and Kelly (2002: 14) report that there is evidence of leaders being committed to improving the performance of SMMEs. Furthermore, there is evidence of leaders involving and empowering employees in this improvement process. What is not always known, however, is how leaders assess the effectiveness of their leadership and determine appropriate improvements within these participating SMMEs.

Bolden (2007: 42) emphasises the importance of leadership in organisations of all sizes and the pressing need to improve leadership development in SMMEs in particular. It has been noted that leadership support from government and educational institutions tends not to reach SMMEs. Reasons for this could be related to the differing agendas of the public and private sectors and unsuitable modes of delivery.

The Council for Excellence in Management and Leadership (CEML) (2002: 3) warns about the lack of leadership in management and stresses that poor leadership and inadequate management within the company are the prime reasons for the failure of SMMEs within their first three years of operation.

**Improvement of the performance of SMMEs through strategic planning**

Strategic planning is vital to the improvement of the performance of SMMEs. Tapinos et al. (2005: 371-372) reported that performance measurement helps managers to identify skilful performance and is an indicator to corporate management of when it is necessary to intervene, such as when business performance is deteriorating.

Strategic planning has received significant research attention over the past three decades. While results vary, evidence suggests that formal strategic planning is related to superior performance (Gibbons and O’Connor, 2005: 171). Recent research findings show that strategic planning is being practised to an increasing degree among SMMEs because owner-managers increasingly look to strategy in their quest for competitive advantage (O’Regan and Ghobadian, 2007: 15).

Many SMMEs are transforming in pursuit of improved performance. In this regard, O’Regan and Ghobadian (2007:15) report an increase in the number of SMMEs implementing formal strategic planning. Their findings indicated that more than half of all SMMEs engaged in formal strategic planning.

However, the ideal situation, with most SMMEs performing well, has not yet been achieved. For example, Gibbons and O’Connor (2005:172) report that the absolute level of planning is relatively low among SMMEs. This low performance is attributed to, among other things, inadequate knowledge of the processes involved, lack of sufficient management expertise, lack of time to plan in a structured manner, lack of time available for non-operational activities, and lack of human resources. All the staffs are involved in managing daily work and have no extra time for additional activities, such as implementing strategic planning (Garengo et al., 2005: 28-29).

**METHODOLOGY**

**Research instrument**

Primary data were collected through face-to-face interviews, using the performance excellence self-assessment questionnaire (PESQ), a computer-aided matrix questionnaire research tool. The advantage of PESQ lies in the immediate availability of preliminary
The population and the sample size were therefore calculated as follows:

Total population (N) = 557 + 532 = 1089

Sample size (n) = N x 0.10

\[ n = N \times \text{sampling ratio} = 1089 \times 0.1 \]

\[ \approx 109 \]

Table 2 summarises the population, sample, response and GMBA and CIDB employees interviewed. Of a possible 109 SMMEs, a simple random sample of 64 responded, representing an average response rate of 59%. The response rate of the GMBA-affiliated SMMEs was 54%, and of the CIDB-affiliated SMMEs 64%. A total of 326 employees were interviewed to obtain their answers to questions about the SMMEs constituting the sample. These employees were purposively selected, based on the total number of employees in a business and their availability at the time of the interview. Staff at all levels, namely top management, middle management, lower management and labourers, were represented. The number of employees interviewed per business varied from 1 to 21. The reason for this variation was that some businesses employed fewer employees than others.

The equality of variances tests was evaluated to determine the variations in responses in cases where only one respondent represented an SMME, compared with cases where several respondents represented an SMME. Levene's test of variances (Field, 2000: 6) was used for this purpose. The results of the tests revealed that there was no statistical evidence from the data to indicate any difference/variance in responses between SMMEs represented by only one employee and those represented by several employees.

**FINDINGS**

The study reported the profiles of sampled SMMEs,
leadership performance measurement, and leadership and strategic planning performance gaps. This study profiled the age group of the owner-managers of the sampled SMMEs, their educational qualifications, the age of the business, the type of ownership and the management performance measuring instruments these businesses used.

Age of owner-managers

The age range of the SMME owner-managers interviewed was as follows: 22 (34.4%) were 40 to 49 years old; 15 (23.4%) were 30 to 39; 13 (20.3%) were 50 to 59; 11 (17.2%) were 20 to 29; two (3.1%) were 60 and older; and one (1.6%) was below the age of 20. Table 3 summarises the age profile of the sampled SMME owner-managers.

### Educational qualifications of owner-managers

The respondents' educational qualification profile was as follows: 21 (32.8%) held a first degree/diploma; 20 (31.3%) had completed Grade 12 (N3); 9 (14.1%) held a B.Tech/honours degree; 6 (9.4%) had completed Grades 8 to 11; 5 (7.8%) held a master's/M.Tech degree; 1 (1.6%) had completed Grade 7; 1 (1.6%) had completed the General Education (GET) band and 1 (1.6%) had no formal qualifications. Figure 1 summarises the educational qualifications of the sampled SMME owner-managers.

Table 3. Age of owner-managers.

<table>
<thead>
<tr>
<th>Age interval</th>
<th>Number of owner-managers</th>
<th>Percent (%)</th>
<th>Valid (%)</th>
<th>Cumulative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20 years</td>
<td>1</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>20-29 years</td>
<td>11</td>
<td>17.2</td>
<td>17.2</td>
<td>18.8</td>
</tr>
<tr>
<td>30-39 years</td>
<td>15</td>
<td>23.4</td>
<td>23.4</td>
<td>42.2</td>
</tr>
<tr>
<td>40-49 years</td>
<td>22</td>
<td>34.4</td>
<td>34.4</td>
<td>76.6</td>
</tr>
<tr>
<td>50-59 years</td>
<td>13</td>
<td>20.3</td>
<td>20.3</td>
<td>96.9</td>
</tr>
<tr>
<td>60 years and older</td>
<td>2</td>
<td>3.1</td>
<td>3.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1. Highest educational qualification attained by the owner-managers.
Most of the respondents (54.7%) had a tertiary qualification: 32.8% had first a degree/diploma, 14.1% had a B.Tech/honours degree and 7.8% had a master's/M.Tech degree.

**Age of sampled SMMEs**

Of the sampled businesses, 16 (25.0%) had been in existence for 3 to 5 years; 15 (23.4%) had been in existence for more than 11 years; 12 (18.8%) had been in existence for 7 to 9 years; 10 (15.6%) had been in existence for 5 to 7 years; 5 (7.7%) had been in existence for 9 to 11 years; 4 (6.3%) had been in existence for 1 to 3 years; and 2 (3.1%) had been in existence for less than a year. Figure 2 summarises the age of the sampled businesses.

**Types of ownership**

The types of ownership of the respondents’ businesses were as follows: 50 (78.1%) were close corporations; 9 (14.1%) were private companies; 2 (3.1%) were public companies; 2 (3.1%) were sole traders; and 1 (1.6%) was a partnership. Figure 3 summarises the types of ownership of the sampled SMMEs.

**SMMEs management performance measuring instruments**

The responding owner-managers were asked to indicate the management performance measurement instruments used in their business. Of the 53 owner-managers who responded to this question, 31 (58.5%) used financial...
statements; 12 (22.6%) used quality management; 5 (9.4%) used balanced scorecards; 2 (3.8%) used value chain management and other (unspecified) performance management instruments; and 1 (1.9%) used ISO 9000. None of the respondents used the SAEM. Table 4 summarises the management performance measuring instruments used in the sampled SMMEs.

### Leadership performance measurement

The SAEM, which is a self-assessment management performance tool, was used to measure the leadership performance scores. Ten questions were asked regarding the leadership performance measurement criterion. Using the representation and interpretation of the scale code (Table 1), the respondents’ scores for the different questions/focus areas and their corresponding consolidated scores are as follows: 12.7% of the responding SMMEs had not yet started to address the ten focus areas; 15.9% had made some progress (less than 25% achievement); 25.2% had made good progress (25 to 50% achievement); 22.6% had made substantial progress (50 to 75% achievement); and 23.6% had achieved most of what was required in terms of the criterion. Table 5 shows the ten questions asked/focus areas covered and the corresponding consolidated scores. Figure 4 summarises the consolidated scores in Table 5.

### Strategic planning performance measurement

A similar measurement tool and approach to the leadership performance measurement were used to measure strategic planning performance. The respondents’ scores for the questions/focus areas and the corresponding consolidated scores are as follows: 28.8% had made no progress in addressing the ten focus areas of the strategy and planning criterion of management performance; 19.1% had made some progress; 23.9% had made good progress; 17.6% had made substantial progress; and 10.6% had made all the progress required in terms of the criterion. Table 6 shows the ten questions asked/focus areas covered and the corresponding consolidated scores. Figure 5 summarises the consolidated scores in Table 6.

### Leadership and strategic planning performance gaps

There were significant gaps regarding leadership and strategic planning as criteria for management performance among the respondents interviewed. With regard to the leadership criterion, 12.7% indicated that they had not yet started addressing the leadership focus areas, and with regard to the strategic planning criterion, 28.8% had not yet started addressing the strategic planning focus areas.

Only 10.6% had fully addressed the strategic planning focus areas, while 23.6% had fully addressed the leadership focus areas. Figure 6 summarises the gaps between the leadership and strategic planning management performance scores. It can be concluded from the figure that when leadership management performance increases, strategic planning management performance decreases.

### DISCUSSION

The discussion of the findings of the study is based on the profiles of sampled SMMEs, leadership performance measurement and leadership and strategic planning performance gaps.

Most of the sampled business owners were 40 years and above (57.8%). This poses a problem since most of the South African youths are unemployed. The SAIRR (2011) stated that the unemployment rate among all 15 to 24 year-olds is 51%; more than twice the national unemployment rate of 25%. This is worrying to an extent that Stokes (2011) referred to youth unemployment as the ticking bomb threatening the rainbow nation (South Africa).
Table 5. Leadership performance measurement.

<table>
<thead>
<tr>
<th>Questions/Focus areas</th>
<th>Scores obtained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not started (0)</td>
</tr>
<tr>
<td></td>
<td>Count</td>
</tr>
<tr>
<td>All managers are proactive in sustaining continuous improvement.</td>
<td>35</td>
</tr>
<tr>
<td>Managers are able to demonstrate their external involvement in the promotion of total quality management as a business philosophy based on their own experience.</td>
<td>0.31</td>
</tr>
<tr>
<td>Managers have a consistent approach towards continuous improvement across the unit.</td>
<td>36</td>
</tr>
<tr>
<td>The management team is proactive in valuing, recognising and rewarding all employees for continuous improvement.</td>
<td>50</td>
</tr>
<tr>
<td>Managers are visibly involved in the development and support of improvement teams and act as champions.</td>
<td>61</td>
</tr>
<tr>
<td>A process is in place to ensure that managers are working with customers and suppliers, and that the effectiveness of the process can be assessed.</td>
<td>32</td>
</tr>
<tr>
<td>A process is in place to ensure that managers are visibly involved as role models in organisation improvement within the unit. The effectiveness of the process is reviewed.</td>
<td>42</td>
</tr>
</tbody>
</table>
Table 5. Contd.

<table>
<thead>
<tr>
<th>Description of assessment</th>
<th>Extent of progress (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A process is in place to ensure mutual understanding of organisation issues through two-way communication, both vertically and horizontally, throughout the unit.</td>
<td></td>
</tr>
<tr>
<td>A process is in place to create and continually increase an awareness of the organisation issues throughout the unit.</td>
<td>46 14.2 55 16.9 73 22.5 80 24.6 71 21.8 325 100.0</td>
</tr>
<tr>
<td>The management team has a process in place to develop its own awareness of the concepts of total quality management.</td>
<td>45 13.8 65 19.9 81 24.8 71 21.8 64 19.6 326 100.0</td>
</tr>
<tr>
<td>Consolidated scores</td>
<td>414 12.7 517 15.9 820 25.2 737 22.6 768 23.6 3256 100.0</td>
</tr>
</tbody>
</table>

![Figure 4. Summary of leadership performance measurement.](image-url)
<table>
<thead>
<tr>
<th>Questions/Focus areas</th>
<th>Scores obtained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not started (0)</td>
</tr>
<tr>
<td></td>
<td>Count</td>
</tr>
<tr>
<td>Mission and organisation policy statements cover the whole of the organisation, and everyone understands them.</td>
<td>98</td>
</tr>
<tr>
<td>A process is in place to analyse &quot;best in class&quot; strategy and modify unit plans as a result, in order to develop and sustain a service excellence organisation.</td>
<td>91</td>
</tr>
<tr>
<td>The policy and strategy processes are benchmarked.</td>
<td>105</td>
</tr>
<tr>
<td>A process is in place to modify policy and strategy as a result of organisation and operational information.</td>
<td>88</td>
</tr>
<tr>
<td>A process is in place to assess the continuing relevance of plans as a result of organisation and operational information.</td>
<td>76</td>
</tr>
<tr>
<td>The unit has policy statements and strategy that cover the eleven performance improvement matrix headings.</td>
<td>107</td>
</tr>
<tr>
<td>A process exists, subject to review, which promotes a clear understanding of the organisation and unit's critical success functions (CSFS) and policy statements, so everyone knows and understands them.</td>
<td>92</td>
</tr>
</tbody>
</table>
A process is in place to collect relevant external information to enable a review of CSFS and organisation plans.

|     | 99 | 30.4 | 76 | 23.3 | 72 | 22.1 | 52 | 16.0 | 27 | 8.3 | 326 | 100.0 |

A process is in place to collect relevant internal information to enable a review of CSFS and organisation plans.

|     | 86 | 26.4 | 67 | 20.6 | 92 | 28.2 | 56 | 17.2 | 25 | 7.7 | 326 | 100.0 |

The unit management team has developed a mission statement and CSFS.

|     | 97 | 29.9 | 62 | 19.1 | 71 | 21.9 | 62 | 19.1 | 32 | 9.9 | 324 | 100.0 |

Consolidated scores

|     | 939 | 28.8 | 623 | 19.1 | 777 | 23.9 | 573 | 17.6 | 346 | 10.6 | 3258 | 100.0 |

Although the findings are that most of the respondents (54.7%) had a tertiary qualification, these people do not represent the youths that are in the majority in any country. Smith (2011) reported that over 40% of 18 to 24 year olds in South Africa are not in formal education, nor employed, nor disabled so that they cannot work. Most (90.6%) of the sampled businesses had been in existence for three or more years. These businesses had therefore passed the critical stage of survival of three years (Mtshali, 2007: 11). Small businesses are however, expected to grow to medium size businesses. The most common types of business ownership, accounting for 92.2% of the sampled businesses, were the close corporations and private companies (78.1% were close corporations and 14.1% private companies). There are however, changes with the close corporations. No new close corporations are registered with CIPRO before 1 April 2011 will continue to exist for a ten year period. Provisions have however been made for close corporations to convert to companies. On the issue of leadership performance measurement results, a total of 25.2% had made good progress while 12.7% had not yet started. Most SMMEs need to explore more avenues to improve on their leadership capabilities. This is critical because CEML (2002: 3) warns about lack of leadership in SMMEs' management. She counsels that poor leadership and inadequate management within the company are the primary reasons for SMMEs failure within the first three years of operations. The importance of strong leadership among SMMEs cannot be overemphasized enough. Bolden (2007: 42) emphasised the importance of leadership in organisations of all sizes and a pressing need to address leadership development in SMMEs in particular. Although O'Regan and Ghobadian (2007: 15) reported an increase in the number of SMMEs deploying formal strategic planning, the sampled SMMEs have not yet started engaging in formal strategic planning. A total of 28.8% respondents had made no progress in the strategic planning criterion. Those that responded to have fully achieved their performance measurement focus areas in this criterion are only 10.6 percent. This state of affair is however not isolated. Gibbons and O'Connor (2005: 172) reported that the absolute level of planning is relatively low amongst SMMEs. This low performance is apportioned to inadequate knowledge of the processes involved, lack of sufficient management expertise and lack of the time to plan in a structured manner.

**CONCLUSION AND RECOMMENDATIONS**

The profiles of the sampled SMMEs reveal that most (54.7%) owner-managers had achieved a post-matriculation qualification. Educational
qualifications were therefore not a factor hindering owner-managers in implementing leadership and strategic planning functions to improve their business management performance.

It was further revealed that most (90.6%) of the sampled businesses had been in existence for three or more years. These findings show that the age of the business did not contribute to the owner-managers’ failure to increase the use of leadership and strategic planning skills to improve their management performance.

Most (58.5%) of the sampled SMMEs made use of financial statements to measure their management performance. However, financial statements alone are not sufficient as a measure of management performance.

Since most SMMEs were not utilising their strategic planning skills to improve their management performance, it can therefore be concluded that the sampled SMMEs needed more drastic measures to encourage them to grow, since the educational qualifications of the owner-managers and age of the businesses were not contributing to their lack of growth.
It is therefore recommended that the building construction industry SMME owner-managers do the following:

1. Prioritise the strategic planning management performance criterion and introduce interventions in this regard, since poor ratings for this criterion were obtained in the survey. Priorities should be considered in terms of both the low scores for this criterion and the scores for the individual focus areas in this criterion (each criterion has ten focus areas).
2. Promote the use of a standardised management performance instrument, such as the SAEM. This management performance improvement measuring instrument could become a powerful tool for improving the management performance of individual SMMEs and for industry and international benchmarking purposes.
3. Involve employees in the continuous management performance improvement self-assessment of the business. Training programmes could be developed and presented through the local building construction industry associations.
4. Benchmark strategic planning management performance scores against industry, SADC and world-class best practice scores. The building construction industry scores for benchmarking purposes in South Africa are unknown; the findings of the study could therefore serve as the South African industry scores.

REFERENCES


