Economics World, Sep.-Oct. 2017, Vol. 5, No. 5, 466-476
doi: 10.17265/2328-7144/2017.05.009

Becoming Big: How Small Enterprises Experience Project-based Enterprise Development

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Developing small and micro enterprises is frequently viewed as a panacea to unemployment, poverty, and inequality, or even a universal remedy for fast-tracking broad-based economic growth. In South Africa, mainstreaming entrepreneurship into the building of economic and social infrastructure is fundamental to the developmental agenda of government, and there are strong expectations that, by 2030, 90% of jobs would be created in small and growing enterprises. As part of the strategic program on socio-economic transformation at the Trans-Caledon Tunnel Authority, the organization's enterprise development model emphasizes that large contracting firms involved in the delivery of bulk water infrastructure take under their wings, smaller emerging enterprises, systematically transferring critical skills and providing mentorship. This paper explores the experiences and perceptions of the owners and managers of small enterprises in the program providing on-the-project support against their own aspiration of "becoming big" including alignment with what they consider as their developmental needs for sustainable business survival into the future. Data and information on the program were obtained through a review of internal documents on program design, progress reports on the enterprise development component, field assessment of projects, and resulting actions in enterprise development as well as from in-depth interviews with professional mentors, managers, and owners of beneficiary enterprises.

Keywords: TCTA, small enterprises, state-owned entities, economic development, business support, mentoring

Introduction

In most developing countries, and in particular South Africa, social entrepreneurship is considered a panacea to unemployment, poverty, and poor economic growth and to unlocking growth and economic inclusion. Mainstreaming entrepreneurship into the building of economic and social infrastructure is fundamental to the national government's developmental agenda. In terms of this evolving developmental agenda, the government has identified small to medium-size enterprises (SMEs) as key in tackling the unemployment crisis. It envisages that about 90% of jobs will be created in small and expanding companies by 2030. The role of SMEs in the economy expresses itself in their contribution to the gross domestic product and employment, which is estimated to be as high as large corporations' contribution.

The total economic output of SMEs is 50% of the gross domestic product and the sector employs about 60% of the total labour force (Karanda & Toledano, 2012).

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As a state-owned entity (SOE), the Trans-Caledon Tunnel Authority (TCTA, 2011) recognizes that it plays a strategic role in the development of the country. The SOEs are expected to take responsibility for meeting socio-economic and environmental challenges more proactively, and to achieve a more sustainable pattern of development. It is logical, therefore, that there is an expectation of the SOEs involved in large infrastructure projects, such as TCTA, to ensure the pro-poor expansion of infrastructure and thereby promote broad-based economic growth (Busari & Ndlovu, 2011).

While the potential for small businesses to contribute significantly to employment creation and economic growth is well recognized, emerging entrepreneurs as contractors or suppliers remain weak and operate in a manner that is unsustainable: current opportunities lack structured development of contractor capabilities (Windapo & Cattel, 2011). Many challenges faced by small enterprises include the lack of managerial skills, financial fragility, lack of market information, inappropriate technology, bad governance, legal and administrative hindrances, low quality products or services, competition from large companies, and a heavy regulatory environment (Windapo & Cattel, 2011).

To bolster the role of entrepreneurs in the economy, TCTA identified the need to effect redress with respect to historical imbalances hinged on race and gender, advancement of construction sector transformation, and the promotion of emerging entrepreneurs. The construction sector has long been identified as a key driver of economic and technological progress, and most importantly, the government has been the consistent major client for the industry. Enabling local, small, and women-owned enterprises to supply goods and services to bigger firms within the construction sector creates opportunities for supply chain diversification, maximizing development benefits by helping local enterprises grow and create jobs.

Because of its labour absorptive capacity and the significant percentage of public sector contracts awarded to large contractors, constituting about 8%, the construction sector is viewed as more suitable for skills and enterprise development than other sectors. In construction activities, social enterprises have profound effect in promoting employment, creating local wealth, and simply coming to the rescue of excluded population. Accordingly, social entrepreneurship cannot be separated from the links to economic and social development. While there is little consensus among economists and development practitioners over what constitutes a social enterprise or social entrepreneurship; there is increasing recognition of their role in reorganizing the boundaries between the private sector, public sector, and voluntary sectors. The literature is replete with various definitions of social enterprise or social entrepreneurship (Dees, 1998; OECD, 2013; Canadian Centre for Social Entrepreneurship, 2001; Karanda & Toledano, 2012; Ashoka, 2012).

According to an entrepreneurship and enterprise literature review by Seelos and Mair (2005), there are, at least, three distinguishable categories of social entrepreneurship: non-profit organizations, the initiatives of social entrepreneurs directed at certain social problems, and the socially responsible practices of commercial business engaged in cross-sector partnerships. Similarly, the global entrepreneurship monitor report proposes strict classifications of social enterprises—not-for-profit social enterprises, economic-oriented social enterprises, and socially-oriented hybrid social enterprises (Terjesen, Lepoutre, & Bosma, 2011).

The Organization for Economic Co-operation and Development (OECD) contends that there is no universal definition of the idea of a social enterprise or entrepreneurship. Transcending the traditional dichotomous perspectives of social enterprises, the OECD describes social enterprise as any private activity conducted in the public interest, organized with an entrepreneurial strategy, but whose main purpose is not the

maximization of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment (OECD, 2013).

Indeed, the interfaces implied in the above definitions, between social entrepreneurship and corporate social responsibility, provide greater potential for discovering novel forms of collaborative value creation in support of sustainable development goals. The TCTA's enterprise development model seeks to support entrepreneurial activities driven by sustainable value creation and influenced by innovation, and to create sustainable advantage for small enterprises in reducing negative externalities in the socio-economic system. The position is that establishing a strong growth of black-owned and women-owned contractors is in the best interest of the country. In this instance, social enterprise is expected to create a blended value that consists of economic, social, and environmental value (Emerson, 2003).

In this context, the TCTA, in its mega infrastructure projects, strives to encourage organizational networks embedded in the logic of exchange, instead of the market, to promote economic performance through inter-firm resource pooling, cooperation, and coordinated adaptation (Uzzi, 1996). The TCTA model intends to discourage one-time deals per mega-project and encourages large engineering organizations involved in infrastructure construction works to take under their wings, smaller emerging enterprises, systematically transferring skills and providing mentorship.

The strategic organizational move is a repositioning to play a more influential role in the evolution of the country's social and economic development through careful planning and execution of each step within the cycle of its multiple projects, beyond traditionally implementing and managing projects. In terms of its overarching tripodal transformation program—Transformation and Sustainable Development, Enterprise Development, and Preferential Procurement—the organization structures each bulk water infrastructure project to provide livelihood and job opportunities, and mentoring and entrepreneurial skills transfer to project communities and small enterprises. In this manner, the organization consolidates and deepens its contribution to sustainable socio-economic advancement.

This paper relates to the element of enterprise development, and presents the findings of an assessment undertaken to examine the experiences and perceptions of the beneficiaries of TCTA's corporate program to nurture socio-economic transformation by encouraging large construction firms to mentor and impart knowledge to emerging small enterprises. More specifically, the paper draws useful lessons from the experiences of small enterprise owners and managers in order to influence the mid-course improvement of a continuing initiative and share strategies for enhancing similar programs elsewhere.

Enterprise Development Models: Review of Literature

Prominent Business Incubation Models

The role played by incubators, by supporting the development of new competitive firms, or by training future entrepreneurs, is of critical importance for the generation of vibrant and growing small and medium enterprises. This thinking is reinforced by the assumption that business incubators help strengthen local economies, as their small business tenants and clients are more likely to survive the precarious early years than start-up enterprises that do not receive incubator support (Johnsrud, 2004). Owing to the incremental role of incubators in society and in the economy, knowledge of the entire incubation process is of key importance.

In their elaborate work of *a systematic review of business incubation research*, Hackett and Dilts (2004) provide a synthesis of numerous definitions and descriptions of business incubation. The broad study examines

incubator taxonomies, policy prescriptions, key findings, incubation configuration and frameworks, incubate/mentee development, measures of success, theories of incubation, and suggestions for further research (Hackett & Dilts, 2004). Presenting a more practical proposition, Lewis, Harper-Anderson, and Molnar (2011) provide a practitioner's definition of a traditional business incubation program in the following manner:

> Business incubation programs are designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed or orchestrated by incubator management, and offered both in the incubator and through its networks of contacts. A business incubation program's main goal is to produce successful firms that will leave the program financially viable and freestanding. Critical to the definition of an incubator is the provision of management guidance, technical assistance, and consulting tailored to young, growing companies. (p. 15)

In the practitioner's lexicon, Bergek and Norrman (2008) state that business incubation consists of four components, listed below as an evolutionary trajectory from the first generation (1980s) to the second generation (1990s) and the new economy (2000s):

- Shared office space, which is rented under more or less favorable conditions to incubates;
- A pool of shared support services to reduce overheads costs;
- Professional business support or advice (coaching);
- Network provision, internal and/or external.

Furthermore, research shows that in the developed world, the primary goal of the first generation category of business incubators was to facilitate economic development by promoting entrepreneurship, innovation, increasing employment opportunities and growth. As such, these incubators were operated by local municipalities. New economy type of business incubators, on the other hand, are often virtual and established by large multinational corporations. In fact, in the developed world, the goal of incubators is to use business incubation facilities as part of an overarching organizational infrastructure that educates, promotes, and supports the formation of free market. By contrast, in the developing and transitional economies, business incubation tends to reflect economic development goals, which are different from those of developed economies. In this regard, most of the business incubation processes in transitional economies are still trapped largely in the first generation business category (Bergek & Norrman, 2008).

Despite the numerous studies and proposals in recent times, there is no holistic vision of the process of incubation. In consonance with this research work, four types of incubators have been identified: a) with walls, a multitenant incubator facility and on-site management; b) without walls (virtual); and c) international incubators provide soft landing for transnational firms and accelerators—a large incubator program. Bergek and Norrman (2008) argue that this typology should be informed by five incubator model components: a) selection—relating to decisions about which ventures to accept for entry and which to reject; b) infrastructure—consisting of localities, office facilities, and administrative services; c) business support—associated with coaching or training activities to be undertaken to develop the entrepreneurs; d) mediation—refers to a network role between the incubator and the incubatees/mentee, as well as the environment; and e) graduation—related to exit strategy. Consequently, Bergek and Norrman (2008) suggest that selection, business support, and mediation are the main distinguishing components of incubator models.

As mentioned earlier, the South African government, in line with best practice thinking, underscores the potential contribution of small and medium enterprises to the overall economy. To this end, the government and the private sector have introduced mechanisms to support the development of small and medium enterprises. In

recognizing the role of business incubators, the government has set up two key agencies institutions, exclusively to support enterprise development—the Small Enterprise Development Agency and Khula Enterprise Limited—while also, recently, launching the Incubator Support Program.

While TCTA subscribes to the government's economic development approach that views business incubation as an important economic tool to foster job creation and increase wealth creation that can serve as a critical contributor to the national economy, it has developed its own unique enterprise development model, which embeds and fosters business relations during the construction of its mega infrastructure projects. In this context, TCTA goes beyond the incubation processes; it acts as an intermediary between the emerging contractor (incubatee/mentee) and the large contactor firms by nurturing and leveraging talent and resources within the construction environment.

Stimulated by the desire to undo structural inequality in terms of access and opportunity, and the drive to establish a strong growth of black- and women-owned construction firms, the model seeks to encourage a network mediating to make feasible, cooperative relationships that offer incubatees/mentees greater access to the information generated in the construction market, thus developing competencies by means of learning. In addition, structural shift as a result of the constituted ties, removes the original impersonal transactions and the market becomes concentrated and exclusive between sets of partners, forming networks of firms. Indeed, Uzzi (1996) reinforces this idea by arguing that the structural shift is significant because it links together dyads into a network composed of embedded ties.

Though influenced by some of the components of traditional business incubation and the state of economic development, the TCTA enterprise model diverges in its execution from the standard typologies of business incubation models. The program is implemented in a real project environment; it is not based on seed capital injection or reliant on a business incubation advisory board; rather, it embraces inter-firm resource pooling, cooperation, and coordination.

TCTA's Enterprise Development Model

In terms of the TCTA operational framework for transformation and socio-economic development, each construction contract contains selection criteria seeking to optimize socio-economic benefits by promoting enterprise development, preferential procurement, employment creation, and skills development. In particular, the organization's enterprise development model is designed to empower small emerging contractors through the development of their entrepreneurial, technical, and management skills in a real project environment, to access opportunities created through targeted procurement frameworks and other related legislation, and generate more employment and skills. Within the context of its infrastructure projects, the organization encourages and commits large engineering firms to collaborate with historically disadvantaged local entrepreneurs, to help build and mentor small firms by systematically imparting knowledge and business trades.

Similar to the selection component explained above, potential contractors are required to nominate at least two enterprise development beneficiaries, sometimes called Main Nominated Enterprise Development Beneficiaries, applying the relevant legislative and policy criteria for enterprise development. Following compliance with the criteria for selecting enterprise development beneficiaries, the appointed contractor would engage the small enterprises on clearly demarcated work-load.

The selection of enterprise development beneficiaries follows the following qualifying criteria:

- The beneficiary enterprise should be either a qualifying small enterprise (turnover of between R5 million and R35 million)[1] and/or an exempted micro enterprise (turnover of less than R5 million) that is at least 50% owned either by black people and/or black women;
- The beneficiary enterprise should be of any size and be owned at least 50% either by black people or black women; and
- The beneficiary enterprise should be of any size and be owned at least 25% either by black people or black women and have achieved a specific contributor recognition level of broad-based black economic empowerment.

Subsequent to identifying and appointing the enterprises, the main contractor is required to submit a "Method Statement", incorporating an enterprise development plan, outlining the key roles and responsibilities with regards to enterprise development. In the literature, this process is referred to as business support, and for TCTA, unlike the norm, the entrepreneur plays an active part in initiating the interventions. The method statement includes the following documentation:

- Information about the registration documents of the proposed small enterprises and the breakdown of equity ownership;
- Audited annual financial statements of the proposed small enterprises for the preceding three years;
- Grading certificates issued by the Construction Industry Development Board of South Africa;
- Valid South African Revenue Tax Clearance Certificate; and
- Official black empowerment verification certificate and scorecard accredited by the South African National Accreditation System.

Target enterprise expenditure varies according to the nature of the project and the scope of work. Overall, the expenditure on enterprise development would not be less than 12% of the tender sum, excluding value-added tax. The main contractor is expected to double the turnover of at least one small enterprise beneficiary upon completion of the works relevant to enterprise development and/or on contracts outside TCTA. In addition to providing biographical information about the small enterprises, method statements spell out how the initiative would be rolled out and how it would be managed, highlighting the main elements of the development program.

The enterprise mentorship intervention is informed by the business needs analysis undertaken during the pre-qualification phase of the construction tender. As part of the business support, mentors are nominated by the main contractor, with at least 10 years of appropriate experience in the field. The objective of mentorship is to develop the capacity of the nominated small enterprises "on-the-job", providing guidance until they have reached the stage where they can function independently and comply with all industry requirements for advancement in the sector. In particular, the mentorship initiative focuses on the following key elements:

- Mentoring of owner/manager in technical and management skills;
- Mentoring in the application of the contract, including mapping out the construction program;
- Mentoring in the interpretation of the specifications of work performed under the subcontract;
- Mentoring in the improvement and monitoring of site safety and environmental plans; and
- Assistance with costing and procurement related to the subcontract.

[1] Currently equivalent to between US$ 0.4 million and US$ 2.6 million.

Program Assessment: Findings and Discussion

The mid-course review of the organization's enterprise development program was designed to interrogate the progress of interventions from two interwoven dimensions.

First, the assessment *maps out the achievement of the expected outputs*, and second, *through the active participation of the program beneficiaries, explores their perceptions and experiences* for a deeper and more dynamic understanding of the program processes. By analyzing monitoring data and investigating causes of difficulties encountered by the small enterprises, the assessment underscores feedback to program management and hopes to influence mid-course improvement in similar undertakings.

Data and information on the program were obtained through a review of internal documents on program design; progress reports on the enterprise development component of projects; and site visits to projects and the resulting actions in enterprise development. Also, interviews were conducted with professional mentors and the managers and owners of beneficiary enterprises, with a particular focus on their perspectives of the areas and scale of mentorship, as well as their perception of the general management of the mentorship program by the initiating organization. This part of the assessment focused on the training and mentoring of owners and managers and the transfer of knowledge to them from their mentors. This dataset is limited and the following analysis should, therefore, be seen as an illustration rather than as a test of the validity of TCTA's enterprise development model.

Ahead of the interviews, data and information on project accomplishments, as documented in project reports, were grouped into similar categories to form the basis for the interview guide. In particular, the interview protocol sought to generate information relating to the direct experiences of the owners and managers of the small enterprises receiving support. Eight of the 11 small enterprises and three professional mentors actively participated in the interviews.

Key Enterprise Development Outputs

The assessment reveals that all the big construction firms complied with the contractual requirements for implementing enterprise development, by submitting method statements and enterprise development plans with their tender proposals. Prior to setting up construction, each of them employed the services of suitably qualified professional mentors. In addition to the evidence available, there is agreement among all the stakeholders that, at the aggregate level, the enterprise development program succeeded in providing implementation support to beneficiary enterprises, especially in the areas of basic financial management and technical back-stopping. In this regard, the selection criteria mapped out in each enterprise development beneficiary nomination form could be considered to be entrepreneur-focused, as it reflected the competency and character of the entrepreneur.

Unlike the conventional business support, each construction contract with the big firms promoted direct enterprise development, job creation, and skills development. In three years, the program recorded over R400 million[2] in construction spend related to small enterprise work, 2,000 new jobs and one case of enterprise graduation in grading by the Construction Industry Development Board.

Viewed in the light of the foregoing, the organizational approach to enterprise development seems to have achieved good results, holding the promise to mature into an integrated program for widening the base of contracting entities for large infrastructure, improving their capability to produce quality products, and contributing to socio-economic development in project communities. Going forward, the small enterprise

[2] Currently equivalent to US$ 30 million.

development thrust could prove to be the core pillar of the organization's social responsibility framework, enabling emerging enterprises to grow to the extent that they may have the potential to operate independently, with their financial and technical capabilities at prime or subcontract level.

Enterprise Perceptions of "Becoming Big"

Scope of mentorship. In contrast to the observed achievement of the key outputs of the enterprise development program, all the interviewed enterprise mentees pointed out what they considered as weaknesses in the original program design, specifically in the scope of mentorship, straddling the areas of business acumen and practices, tendering and contract management, as well as broad training on business administration.

While praising the traditional efforts of the professional mentors to help enhance the skills of enterprise owners and managers, as well as introduce better business practices, mentees gave a different perspective of what they viewed as presenting the potential to grow their enterprises into big contracting firms (Table 1). Their collective yearning was expressed in a perspective on construction business trade, particularly relating to their big construction counterparts: *Want to know how they became big and how do they make money?*

Table 1

Small Enterprise Perspectives of "Becoming Big"

Assessment themes	Small enterprise perspectives
Business trade	Want to know how they became big Want to know How do they make money Desire to build business systems and processes
Tendering/pricing	Want to be involved in determining prices during the tendering phase Want to learn about costing and structuring of tender proposals
Training on practice	Enterprises are tired of observing instead of doing the job on site Want more training on: Plant utilization Construction and logistics management Procurement procedures and work scheduling Management of industrial action (strikes) and human resource development
Interface management	Little interaction with TCT needs to provide oversight to the implementation of the program Project duration too short to gain full experience

There were mentee concerns that the on-the-project support provided by the big construction firms was not aligned with the developmental needs of the owners and managers of small enterprises, in terms of their sustainable business survival. Owners and managers expected to gain broader business development knowledge and skills, beyond the gaps outlined in the enterprise needs analysis reports prepared prior to the program, emphasizing managing finance, purchasing and selling of services, and hiring and managing employees.

As Table 1 indicates, small enterprise mentees expressed interests in undergoing training in "core business" managerial courses, in addition to their project on-site development. They would like to learn about, inter alia, tender pricing and costing, development of business systems and processes, plant utilization and work scheduling, industrial action management practices, as well as the different contracting approaches and mechanisms. Thus, instead of staying in a multitenant business incubator facility and on-site, the mentees want to acquire more knowledge and competencies.

It is instructive that interview responses suggest that small enterprise owners and managers expect to gain knowledge about the business trade secrets of big construction firms. Entrepreneurs are, by nature, imaginative and innovative individuals; transformation and developmental ideals tend to heighten these senses, and if not well-managed, such expectations may provide a breeding ground for tensions, impacting on the primary

objective of project delivery, on time, on budget and to specifications. Indeed, according to their professional mentors, some enterprise owners and managers tried to accomplish too much too soon, or expected to get results faster than is truly possible, at times in what their mentors viewed as “far-fetched business fields”.

Management of mentorship. In terms of the overall management support provided by the sponsoring organization in the course of the mentorship program, small enterprise owners and managers pointed out that the TCTA project life-cycle was too short to apply the acquired business knowledge, or to gain adequate experience and knowledge about running a business.

For them, by the time they had established a relationship with their professional mentor, the project was already winding down. Indeed, the enterprise development program does not specify how much time is required for the main contractor to effectively provide mentorship to a small enterprise owner or manager, with the assumption that the duration of project implementation is sufficient in every case.

There is consensus among both the mentors and mentees that the resources allocated by the sponsoring organization to monitor the implementation of the enterprise development plan may be inadequate. Fact is that, as a special project vehicle itself, the TCTA had considered that it made business sense to implement its enterprise development strategy through third party contracts on its multiple projects: the main contractors determined the scheduling and implementation of enterprise development plans. Program experiences indicate that such heavy reliance on the big contractors may be restricting TCTA’s contact and interaction with the small enterprises, missing out on the real actions in-situ. In addition to building a stronger interface between sponsoring organizations and the participants in enterprise development, there is a need to ensure that there are clear guidelines specifying the responsibilities of both the main contractors and their clients as sponsors.

Developing a stronger interface extends to the need for sponsoring organizations to facilitate networking to help small enterprises tap into the skills and experience of their peers. In the program under review, one small enterprise was home to an entrepreneur with over 20 years of experience in the construction sector, having previously been an executive in a big construction firm. As would be expected, the entrepreneur had fared much better than those who just joined the sector. Drawing on his valuable experience in the construction sector, the enterprise development program had helped the entrepreneur launch an employee benefits scheme, displaying the sort of catalytic potential that many small enterprise mentees aspired to.

Summary of Lessons

In the light of the above findings, a number of lessons pertinent to the achievements and challenges of the enterprise development program are summarized below, so as to assist in shaping similar programs and assuring their greater sustainability.

- While, traditionally, contracting out the responsibility for the implementation of large infrastructure projects may work well for sponsoring organizations, scaling up the long-term effects of small enterprise development within such projects calls for a stronger project interface between sponsoring organizations and the small enterprises, as well as between sponsoring organizations and their main contractors.
- A particular need exists to reinforce the guidelines specifying the responsibilities of both the main contractor and the sponsoring organization, and also to allocate sufficient resources to track the implementation of the enterprise development plan in-situ and assess the net impact of the program on the small enterprises.

- There is a value in sponsoring organizations facilitating networking among beneficiary enterprises, to help small enterprises tap into the experience, skills, and support of their peers with a stronger track-history. In this vein, entrepreneurs with long-term experience in the sector could be encouraged and incentivized to provide informal advisory services from time to time.
- Sponsoring organizations need to encourage their main contractors to work with the nominated small enterprises beyond their own projects, reinforcing the practical issues of capacity building over a longer time horizon, especially in the areas of efficient contract management, effective tendering and pricing, and the development of robust business systems and processes.

Conclusions

Through its enterprise development strategy, the organization has mainstreamed the empowerment of small enterprises into its traditional role of implementing and managing large infrastructure projects. In order to ensure that economic and business opportunities are provided for emerging small enterprises and to make a meaningful contribution to their development, each construction contract has achieved some mileage towards socio-economic benefits by promoting large-to-small enterprise development, employment creation, and skills development.

Considering the initial capacity gaps within identified small enterprises when they come on board, on-site mentorship programs for enterprise owners and managers may prove invaluable to their emerging businesses. In the initiative examined herein, the enterprise development program succeeded in providing implementation support to several small enterprises, particularly in relation to basic financial management and technical back-stopping. It is noteworthy that, in a relatively short-period of the program's existence, one small enterprise graduated from a lower construction industry to a higher grade.

However, true business advancement can only be achieved if small enterprises are effectively assisted to gradually become big: growing and developing from small and survivalist entities are to become sustainable. Such growth would require exposure to effective and structured broad-based business management, spread over a few projects, and especially enhance the capability to operate independently at prime or subcontract level.

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