

## **LINKING TRENDS IN THE CONSTRUCTION INDUSTRY TO GLOBALISATION AND THE TRANSITION IN SOUTH AFRICA**

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### **ABSTRACT**

This paper highlights the trends in construction management over the last decade and relates these to the transition in South Africa (SA) and to globalisation. Directors of South African public listed construction companies, industry authorities and influential academics were interviewed. The interviews explored the reasons for the downsizing of construction companies, a possible shift from a traditional procurement system to one of management-oriented organisation, and the effect of opening up the economy to the industry. Based on the results recommendations regarding the construction industry in contemporary South Africa are made.

### **KEYWORDS**

South Africa, Globalisation, Transition

### **1. INTRODUCTION**

The transition in South Africa (SA) has had far-reaching consequences for South African business and industry. The construction industry has been no exception and has been subject to much change over the last decade. The main objective of this paper is to highlight the trends in construction management over the last decade and relate these to the transition in the 1990's in SA and to globalisation.

Based on the literature and preliminary interviews a list of questions and alternative answers were put together. Eleven people were interviewed. Interviewees included directors of SA public listed construction companies, industry authorities and influential academics. Industry authorities included representatives from the Building Industry Federation of South Africa (BIFSA) and the Construction Industry Development Board (CIDB). Interviewees were handpicked on the basis of reputation and position.

Part 2 of the paper provides background to the research. Trends in the SA construction industry as well as the concept of globalisation are introduced. As part of the transition in South Africa, liberalisation has allowed South Africa to re-enter the world arena since 1994. South Africa has remained committed to an economic policy of global integration. It is difficult to separate globalisation and the transition in South Africa, as it is the transition that has liberalised our markets and allowed for global competition.

The interviews investigate factors causing the downsizing of SA construction companies; possible shifts in SA construction procurement systems; and an assessment of how the opening up of the economy has affected the industry. Results of the interviews are presented in Part 3.

Finally conclusions based on the results of the interviews are drawn and recommendations regarding the construction industry in contemporary South Africa are made.

## **2. BACKGROUND TO THE RESEARCH**

### **2.1 Recent Trends in the SA Construction Industry**

Surveys by Shor, et. al. (1998, 1999) identified major management shifts in the SA construction industry over the period 1990 to 1996. Over this period the majority (66%) of the companies had increased their amount of sub-contracted work

Herbst (1997) determined that company structure had changed over the same period. Possible change in structure was measured in terms of the number of people that had been directly employed by the respective construction companies. The research indicated that there had been a 34% decrease in the average number of direct employees from 1990 to 1996 in SA construction companies.

Abromowitz (1999) showed that these trends in the reduction of the number of direct employees and increase in sub-contracted work continued from 1997 to 1999.

According to the research conducted by Abromowitz (1999), Herbst (1997) and Shor, et. al. (1999), there seems to be a definite trend in the South African construction industry over the last decade concerning the retrenching of direct employees and replacing those employees with sub-contractors. The research further indicates that South African construction companies are concentrating more on the management of projects rather than the actual construction of projects.

### **2.2. Globalisation**

As part of the transition in South Africa, liberalisation has allowed South Africa to re-enter the world arena since 1994. Globalisation is used as a synonym for liberalisation and greater openness (Milberg, 1998). It is difficult to separate globalisation and the transition in South Africa, as it is the transition that has liberalised our markets and allowed for global competition.

*Economists and politicians all over the world have noted that the world has been experiencing changes since the 1970's, which are as significant as the Industrial Revolution. These changes involve the formation of a global market economy ruled by global forces, and they are referred to as the process of globalisation.*

Isaacs (1997)

Since the new dispensation of President Thabo Mbeki in 1999, South Africa is committed to a policy of global integration. This has resulted in lifting trade barriers. Globalisation has provided a window of opportunity in post 1994 South Africa in that it now allows South African companies to balance out local economic cycles with international opportunities. This acceptance into the world arena has made the industry slightly more attractive to local prospective entrants.

Several South African construction companies have now worked internationally with great success. Globalisation has provided international opportunity for the industry.

Local firm's now face competition from foreign contractors for local projects. This in turn may cause construction companies to re-define their service offerings. Local companies could also become targets for international take-overs. Negative effects of globalisation include foreign competition for local projects and possible take-overs by foreign construction companies.

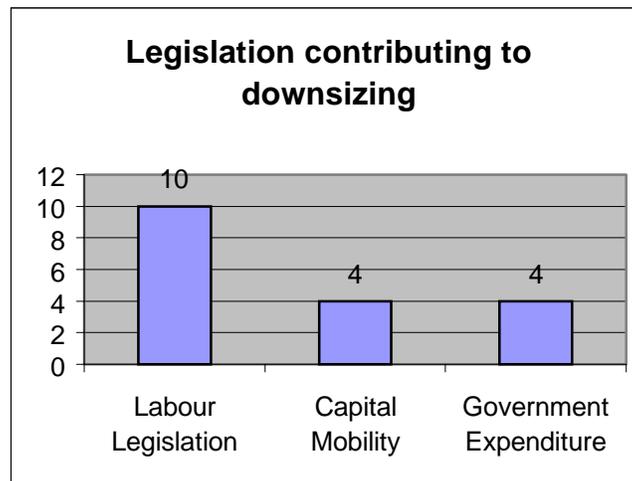
## **3. RESULTS OF THE INTERVIEWS**

The results are divided into three main sections:

- 3.1. Factors causing the downsizing of SA construction companies
- 3.2. Possible shifts in SA construction procurement systems
- 3.3. An assessment of how the opening up of the economy has affected the industry.

### 3.1. Downsizing of Construction Companies

The first objective of the interviews was to identify the main factors causing the downsizing of SA construction companies. The most common responses are shown diagrammatically in Figure 1. Of the eleven respondents ten referred to the labor legislation, and four discussed capital mobility and government expenditure.



**Figure 1: Changes in Labor Legislation**

Since the appointment of Tito Mboweni as Minister of Labor in 1994, the rights of employees in the workplace have undoubtedly improved through changes in legislation. However, these advances for employees have come with some significant costs for business. While they are impressive from a human rights point of view, they may not be affordable for an emerging market. Although they improve the rights of people already employed, they lower the chances of the unemployed finding work. This is due to the respondents' perception of the rigidity of the new labor laws.

Following its election to power in 1994, the ANC appointed Tito Mboweni as Minister of Labor. In his first four years in office, parliament passed the Labor Relations Act (LRA), the Basic Conditions of Employment Act (BCOEA), the Employment Equity Act (EEA) and the Skills Development Act (SDA).

The LRA regulated collective bargaining relationships and promoted industry wide bargaining. The BCOEA regulated the relationship between employers and individual employees. The EEA dealt with affirmative action and fairness in the workplace. The SDA provides a legal framework for promotion of training.

These changes in legislation are seen as "labor friendly" for the following reasons:

- Trade Unions rights are extended
- The right to strike is entrenched
- Affirmative Action is promoted
- Training for workers is promoted
- Employee participation in decision-making is promoted
- Basic conditions of employment are improved

This was a dramatic shift from previous legislation. SA legislation joined the most "labor friendly" in the world. Many criticized the legislation as it promoted job destruction rather than job creation. The labor legislation reduced the number of direct employees.

A further problem emerged as a result of the prescription that companies should hire a large part of its work force from the local community – a RDP (Reconstruction and Development Programme) principle. According to Langenhoven (1997):

“If a company has no other projects to keep its permanent staff employed but ones where community employment is an imperative, the LRA prevents it from replacing its own staff with the community. Yet the company cannot maintain unproductive resources – the choice is between survival and bankruptcy”

Langenhoven (1997)

### ***Capital Mobility***

Since 1994, South African legislation has changed to allow domestic capital to be invested overseas. This has resulted in money, which previously would have been available for domestic investment in the construction and related industries, to be invested abroad (Bruce, 1999). According to many interviewees, this is having a major effect on the SA construction industry, because less money is available to invest in the domestic construction industry. This shift is evident when one looks at the redirection of the major SA insurance companies to the international market and their decrease of investment in domestic property.

Not only has South African legislation changed to allow domestic capital to be invested overseas, but also international financial transactions world-wide have reached unprecedented levels.

“There is wide agreement that the volume of international financial transactions has exploded to... an unprecedented level.”

Milberg (1998)

### ***The Government Budget***

The government is spending less and less on infrastructure projects and more and more of the budget is used up on consumption spending (salaries and wages).

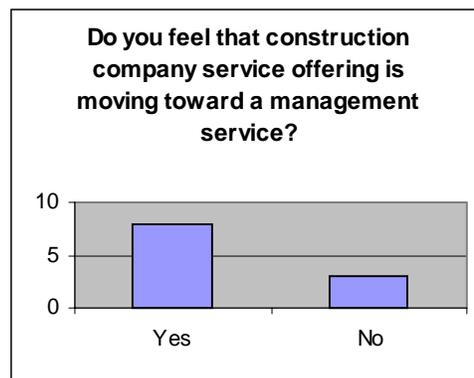
### ***Global Issues***

Respondents were asked whether there has been an increase in international competition, which has caused companies to become more efficient and therefore downsize. Nine of the eleven respondents disagreed with this statement. The main reasons given by the respondents for this were the difficulties in working with the local culture, labor and legislation.

## **3.2 Shifts in South African Construction Procurement Systems**

The second main objective of the interviews was to establish whether SA construction companies are shifting their current service offering, as a result of the company structure changes noted in Part 2.

Eight of the eleven respondents felt that the service offering of construction companies was shifting from a traditional procurement system to a management-oriented organisation (Figure 2). The reasons behind this are the downsizing of construction companies discussed previously.



**Figure 2: Shift Responses**

## **3.3 How Has the Opening of the Economy Affected the Industry?**

Liberalisation provided a window of opportunity in that it now allows South African construction companies to balance out local economic cycles with international opportunities. Several South African construction companies have now worked internationally with great success.

Management and technical skills are easier to export than labor and machinery. This limits the extent to which liberalisation has affected the industry. If one compares construction to an industry like finance, the effects of globalisation are quite different. In the construction industry, knowledge and management skills are transferable.

The final objective of the research was to establish whether SA's technical and managerial construction skills are internationally competitive. Eight out of the eleven respondents agreed that South Africa's technical and managerial skills are indeed internationally competitive.

#### **4. CONCLUSIONS AND RECOMMENDATIONS**

This project has presented an examination of the trends in construction management over the last decade and related these to the transition in SA and globalisation. A number of conclusions can be drawn from the results.

One of the key trends highlighted was the downsizing of construction companies, and labor legislation was identified as the main reason for this. Respondents felt that while changes in legislation improved the rights of employees in the workplace, they promoted job destruction rather than job creation. According to most respondents the ability of major insurance companies to shift their portfolios to overseas investments, as well as shifts in the government budget away from capital projects, have also contributed to the downsizing.

As a result of the downsizing, construction companies are shifting their service offering from a traditional main contractor to management oriented organisations. However the feeling of most respondents was that SA construction companies would not change their service offering. The main reasons for this revolve around existing documentation, fee structure and responsibilities.

As a result of liberalisation, South African companies are now able to take advantage of international opportunities. The construction sector in Asia demonstrates increased foreign construction participation. This is as a result of the lifting of trade barriers. Japan has been very successful in offering technology and management skills to neighbouring countries (Raftery et al, 1998). According to Raftery (1998), the success of Japanese contractors is attributed to their technological superiority, financial capacity and management skills. Brink (1999) explains that South African firms have to look for business in developing rather than developed countries, if they want to be global contractors. South Africa should be following the Japanese example by offering technical and managerial skills to its neighbouring countries. Clearly, it is the perception of most respondents that South Africa's technical and managerial skills are internationally competitive. It is highly recommended that SA construction companies develop their technological and managerial skills to give them a global competitive advantage. Furthermore, the increase in sub-contracting noted over the last decade [Shor, et. al. (1999) and Abromowitz (1999)], gives local firms the opportunity to shift their core competency from actual construction to managerial and technical skills.

The Japanese have the competitive advantage in their innovative technological research. For example, they are known to be developing construction technology for innovation in space (Matsumoto, 1999). It is their superiority in technological research that gives them the competitive advantage in exporting technical and managerial skills to less developed surrounding countries. It is important that SA follow suit by developing innovative technological research, in order to compete in an international playing field.

This is especially interesting when one looks at the notable drop in the number of research students in the Building Science, Civil Engineering and Quantity Surveying fields. When one looks at research masters students in these disciplines at SA universities the numbers have dropped substantially. Therefore while it is imperative that SA develops its technological and construction management skills, and innovative technological research, there is unfortunately a decrease in the number of graduates and research students in these fields.

SA construction companies should offer attractive bursaries to undergraduate management and postgraduate research students. Technological and managerial skills are the core future business for SA construction companies and also the skills that are globally transferable. It is important that these are developed appropriately to ensure that SA construction companies have the global competitive advantage in the 21<sup>st</sup> century.

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