

CONTRACTOR DEVELOPMENT MODELS THAT MEET THE CHALLENGES OF GLOBALISATION - A CASE FOR DEVELOPING MANAGEMENT CAPABILITY OF LOCAL CONTRACTORS

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ABSTRACT

This paper argues for contractor development models and programmes that are holistic and integrative in their approach. It supports a view that globalisation in the construction industries of developing countries is real, unstoppable and has the potential to destroy non-competitive contractors. Developing countries, particularly those in Southern Africa, are therefore encouraged to meet the challenges of globalisation by strengthening the competitiveness of small and medium sized-enterprises (SMEs) in particular.

The paper summarises a preliminary review study on the status of development models for construction SMEs in South Africa and other developing countries, highlights the challenges and potential effect of globalisation on this sector. On the basis of the review, suggestions are made that can improve the current models and procurement programmes. Due to a significant socio-economic role of construction industries in developing countries, the authors argue for increased effort in the programmes that promote contractor development of small and medium-sized indigenous contractors. The paper promotes implementation of well-structured contractor development models and supportive procurement programmes in order to improve technical and managerial skills, knowledge and competitiveness of contractors. The benefits expected from effective contractor development include global competitiveness, sustainable business growth, good environmental management and socio-economic development of the developing countries.

Key words: globalisation challenges, SME-contractor development models and programmes, Southern Africa, sustainable global competitiveness and growth.

INTRODUCTION

Globalization, according to Hough, *et al*, (2003:4), is the movement of resources, goods, services and skills over international borders. Hough (2003:7) argues that there has been a considerable growth in international business since World War II. It may be argued that there is a growing realization by construction industries of many developing countries that globalisation is real, irreversible and has the potential to destroy non-competitive contractors. The adage “if you cannot beat them, join them” should be taken to heart by many leaders throughout the world, in particular those in the developing world who are not currently in the forefront of globalisation.

According to Ofori (2000), globalisation is a trend which has occupied the headlines of major popular publications for several decades. He argues that there are sharply different arguments on the advantages and disadvantages of the process of globalisation from the perspective of developing countries. It is the view of the authors that the majority of contractors in many construction industries fall in the small and medium-size range and do not export their services outside their countries. This sector therefore does not compete in the global construction market which is dominated by a few, construction multinational enterprises. However, the local SME sector often has the capacity to execute small and medium-sized projects, and can thus compete at this level. Globalisation thus brings opportunities for SMEs to subcontract work from large, multinational enterprises and, in limited cases, to form joint ventures and partnerships. Competition of SMEs at regional level, where a contractor works across its national borders is, however, a common phenomenon.

This paper therefore advocates the development of contractors’ skills and knowledge in order to: (a) build capacity to grow their businesses through technical and managerial skills; (b) compete locally among fellow SMEs (c) build a foundation for competing globally, once adequate capacity has been built over time. A “Contractor Development Model (CDM)” refers to structured methodology comprising measures designed to help the managers of contractors to develop their technical and managerial skills and thus grow their business enterprises. These models should be located within the procurement programmes of government, in line with the government’s procurement policy.

The authors do not wish to create an impression that contractor development models advocated here will immediately make SMEs global players. Rather, the focus is on how the models can assist SMEs, largely within the context of domestic economies, to capitalise on construction opportunities brought by globalisation, as well as to mitigate the risks. What is promoted is an incremental approach to contractor development that is underpinned by clear development goals.

THE ROLE OF SMALL AND MEDIUM-SIZED CONTRACTORS IN THE ECONOMIES OF DEVELOPING COUNTRIES

A number of definitions can be put forward to describe small and medium-sized enterprises (SMEs) enterprises in the construction industry. For the purposes of this paper, a general definition will be limited to contractors with a capacity to handle projects up to US\$ 4m and which employ up to 50 permanent staff. The vast majority of contractors in

this range will have the capacity to handle projects of approximately US\$ 0.8m or less and employ up to 10 permanent staff. Clearly, the range is wide and the type of challenges experienced by each contractor can vary significantly across contractors. Small and medium-size contractors comprise by far the largest proportion of contractors in the industry. Whilst individual enterprises employ few permanent staff, usually fewer than ten employees per enterprise, this sector is still the largest employer. For example, the Singapore Construction Industry Development Board (1996) found that 73% of total construction industry employees employed by contractors in Singapore were employed by small and medium-sized contractors. Similar trends have been reported in many other countries.

It is thus clear that a development intervention focussed on small and medium-sized contractors can have a huge impact on the economic development of developing countries in terms of providing management skills that the enterprise creates sustainable employment. There are a number of additional benefits that can be realized, such as increased spending in the local economy through participation of local enterprises, growing entrepreneurship pool among the country's citizens and improved delivery of infrastructure through the use of competent contractors.

A starting point for many construction industries in developing countries should be to address industry constraints at a basic level by gearing local contractors to deliver effectively on local projects. While not all SMEs will thrive and be successful, a few good contractors will emerge to become more sustainable and globally competitive. In the long run, globally competitive medium-sized contractors could, through mergers or organic growth, grow to become large contractors able to compete across international borders – a sector that has become extinct in many developing countries.

GLOBALISATION CHALLENGES AND OPPORTUNITIES FACING LOCAL CONTRACTORS IN DEVELOPING COUNTRIES

A number of researchers (Rwelamila, 2002; Ngowi and Ofori, 2001; Mashamba, 2001) agree that an outlook of the SME sector in many Southern African construction industries needs serious attention. This situation needs the urgent attention of relevant industry stakeholders such as governments and training and research organisations.

According to Ofori (2001), estimates show that foreign contractors and consultants have about 70% of the construction market share in the Southern African region. In many Southern African countries, governments have expressed frustration at the poor returns on their investment in improvement programmes, such as the granting of tendering preferences to local construction firms. As early as the 1960s, the forces of globalisation had begun to make their presence felt in Africa in the form of international financial institutions, mainly the World Bank and the International Monetary Fund. The arrival of these institutions in Southern Africa opened the gates for foreign contractors to operate in these countries.

As indicated in Table 1, the disadvantages of globalisation are more severe to small and medium-sized contractors in the developing countries; hence the need to find solutions

through various measures and contractor development models (CDMs), which are advocated in this paper.

Table 1. Advantages and Disadvantages of Globalisation to Construction Industries in Developing Countries. Source: Ofori (2000)

Merits	Demerits
I: Involvement of international finance makes possible the implementation of several projects, such as those of major infrastructure.	I: Local construction firms have no funds or expertise to participate in the sponsorship of privatised projects.
II: Direct foreign investment in projects leads to increase in construction demand, creating work opportunities for local firms.	II: Local construction companies lack the technical and managerial capability to undertake most of the foreign-funded projects.
III: Competition between foreign firms lowers the costs of projects to developing countries.	III: It is possible that local firms will be deprived of the opportunity to grow (Hillebrandt, 1999).
IV: Presence of large numbers of international firms offers scope for technology transfer and the development of local firms and upgrading of the industry. The large number of such firms also means that technology transfer can be a tool for competition.	IV: Foreign construction firms may pay lip service to technology transfer (Carillo, 1994) or take measures to avoid it. Moreover, local companies may not be in a position to benefit from technology transfer, or to subsequently utilise the acquired expertise.

As indicated in Table 1 above, the disadvantages have brought a number of unfavourable situations in the construction industries of developing countries which need to be addressed. Firstly, local construction firms have no funds or expertise to participate in the sponsorship of privatised projects, but if their expertise/capacity could be enhanced, they could be in a good strategic position to be part of joint ventures with international firms (I). Secondly, the fact that local construction companies lack the technical and managerial capability to undertake most of the foreign-funded projects, deprives them an opportunity to be considered in any possible sound partnership arrangement with international/foreign firms (II). Thirdly, for many small and medium size contractors in the developing countries, the forces of globalisation have resulted in declining market share due to stiffer competition from foreign contractors invading their previously safe territories (III).

In spite of the negative experiences of the construction industries in developing countries, there is hope of regaining the lost markets. But the road will not be easy as they will have to gear themselves for serious competition in a new global, construction marketplace where competition against foreign enterprises is a way of life.

Mashamba (2001) comments that many Zambian contractors have, over times, found it very difficult to take advantage of these economic opportunities, due to highly controversial participation schemes which do not favour small and medium-sized local contractors. Mashamba (2001) further states that a cursory look at the history of the Zambian construction economy in the 1960s and 1970s testifies to the fact that many African countries have a long history of problems in their industries, which have seen the number total market share of local contractors shrinking drastically. Mashamba (2001) cites Kampsax's (1996) estimate that the current market share of Zambian contractors in road construction projects is a mere 17%, and the rest in the hands of foreign contractors, a situation even worse than Ofori's estimates. The Zambian experience highlights the critical role that government and other industry stakeholders should play in assisting contractor development.

While globalisation may have benefits for a country's economy, such as reduced prices, high standards of quality and improved technology and skills, it can have serious negative consequences for the construction industries of developing countries. Unless local contractors succeed in raising performance standards relative to foreign competitors, the current situation will worsen. Some of the key challenges faced by developing countries include:

- The high failure of local contractors due to lack of competitive advantage will result in a situation in which most of the construction work is undertaken by foreign contractors, with very limited participation by the local industry. Thus, in many Southern African countries, the base of viable contractors has been severely depleted.
- Severe socio-economic problems, such as increasing unemployment.
- Lack of resources resulting in an unhealthy dependence on foreign resources to create badly needed social and economic infrastructure.
- The lack of appropriate legislation that creates an environment in which contractors can grow sustainably.
- The lack of well structured training programmes to equip enterprises with technical and managerial skills, as well as the lack of strong mentorship programmes.
- The lack of performance improvement strategies and tools that nurture the culture of continuous improvement at national and regional level.
- Poor construction procurement systems and lack of management capacity and resources to equip managers to operate their business enterprises effectively and efficiently.

The question: "How do construction firms in Southern African countries adopt a strategic approach to performance management?" posed by Ofori (2001) is becoming increasingly uncomfortable for many in Southern Africa's construction industries as the pressures exerted by the global forces intensify. Rwelamila (2001) has also challenged the use of registers of contractors for "gate-keeping" purposes as opposed to facilitating contractor development and better project delivery.

The authors confront these challenges and argue that strategic adoption of contractor development models or programmes that have full support of governments and other institutions could well begin to create a culture of continuous improvement and innovation in the Southern African region and thus respond earnestly to globalisation challenges facing the construction industries of developing countries. The CDMs should be

implemented within a clear, supportive regional policy framework which encourages cooperation between contractors across the regional borders.

CONTRACTOR DEVELOPMENT MODELS

As a response to the question posed by Ofori, this paper suggests a possible solution, namely fostering a competitive construction sector at two levels, i.e. at the level of management tools and at the level of regional institutional collaboration.

The paper promotes contractor performance development models that seek to promote entrepreneurship, innovation and global competitiveness of contractors, based on the principles of the Total Quality Management (TQM) philosophy. The models should be used as instruments for promoting effective managerial approaches essential for a vibrant, competitive SME sector.

For CDMs to be effective, the following key characteristics should be the features of the model:

- The models should aim to develop contractors' technical and management capacity over a long-term period with a view to encouraging competitiveness and growth of contractors. There must be a clear development path along which contractors progress.
- The models should integrate development activities of all stakeholders, from government to private sector, such that procurement, training, mentorship and performance assessment activities are well integrated and complementary. In other words, the model should encourage partnering in all aspects of contractor development.
- The models should become an integral part of the entire industry development strategy and be strongly championed.
- The models should be flexible enough to accommodate the varying needs of contractors at different levels of development.
- The models should promote the adoption of industry best practices and be supported by excellent research practices in order to create and share knowledge. Many such models (for example: Dlungwana, *et al*, 2002; Brown, M.G., 1996) incorporate the use of Total Quality Management (TQM), including safety and environmental management.

Key processes on the way in which the typical models function, are centred around the need to focus the development effort on small and medium-sized contractors. These processes include:

Contractor selection and registration: Since development resources are limited, it is important that only contractors which show good potential to succeed be selected. It is also important that they be selected in a fair and transparent manner. The selection criteria should therefore be objective. An assessment should be conducted on selected contractors to determine their performance capabilities as well as the improvement intervention that will be required. Selected contractors should be properly registered and categorised in terms of their size and performance capabilities with a view to assisting their progression

through subsequent higher categories. Some development models make use of performance scores to rate the performance of companies.

Training and mentoring: Training and mentorship needs are identified, based on the results of the assessment exercise, and an appropriate training and mentorship intervention is developed. Training and mentorship revolves around the contractor's business management skills and knowledge, such as tendering and marketing, thus affording SMEs an opportunity to gain basic capability or, more importantly, a competitive edge in comparison to their counterparts. The benefits that construction industries reap for developing their contractors include, among others, sustainable, competitive enterprises that deliver better products and create growth and employment.

Continuous contractor assessment and grading: Another fundamental process in developing contractors includes a continuous cycle of contractors' performance assessment and improvement. This process serves as a feedback mechanism to monitor the development process on a continuous basis. Continuous grading validates the changing status of contractors as performance improves or deteriorates.

The implementation of development models requires serious commitment, planning and resource allocation by the managers of government agencies, to enable confident entrepreneurs to grow their businesses and create sustainable employment. Without such support, the models cannot effectively address the challenges faced by SME contractors in the construction industries. Appropriate support institutions, such as research organisations, also play a critical role in facilitating learning through knowledge creation and sharing.

Ultimately, an integrated contractor development approach that places development models and the cultural values of organisations and industries at the centre of the development effort, will yield tangible improvement in the economies of developing countries.

CURRENT STATUS OF THE USE OF CDMs IN SOUTHERN AFRICA AND ELSEWHERE – A PRELIMINARY REVIEW

Preliminary results of a study being conducted by the authors in a few selected countries in Southern Africa, including South Africa, Zambia, Botswana, Tanzania and Malawi, suggest that the CDMs, or some forms of CDM, have not yielded the required results in the past.

The most common approach to contractor development used by a number of countries is the registration of contractors. The use of registers is not, in the true sense, a development model but merely a tool that can be used to, *inter alia*, facilitate the development of contractors by ensuring the availability of accurate information on contractor capabilities. While most countries do not use the registers as a tool for managing the performance of contractors, there is clear evidence of benefits to those which do. Proper use of the registers enables public sector clients to manage contractor risk on their projects and to

monitor contractor progression based on accurate information. The best practices on the effective use of registers were found in Australia, Singapore and Malaysia. Rwelamila (2001) argues that many Southern African countries are not using their registers effectively. The register, he argues, are used merely record contractor information in an unstructured manner which does not allow for monitoring of performance and similar support interventions, and therefore have little benefit to the construction clients.

At the time of writing, South Africa was in the process of launching its register. Much of the contractor development effort in South Africa and in other African countries has a greater focus on providing work opportunities to as many contractors as possible, at the expense of assisting a limited number of contractors to build long-term sustainability. Much of this effort is also characterised by *ad hoc* development interventions that do not promote a culture of continuous improvement and long-term growth of contractors. However, some medium-sized and large construction enterprises in South Africa have been successfully competing in the global markets for some time. Within a period of less than ten years these contractors have increased their share of external revenue from less than 10% to between 30-50% of their total revenues.

Based on the preliminary review exercise, it would seem that a number of African countries do not have structured development models to assist their small and medium-sized contractors. Due to a lack of structured effort to develop contractors, many construction industries in Southern Africa are not in a position to compete in the harsh global construction market. Globalisation is therefore a big threat to these industries.

CONCLUSIONS

It is clear that construction industries of developing countries need to urgently address the problems they face. This paper recommends a vigorous promotion of well-structured contractor development models. Given the necessary integrated support from all stakeholders, the models could make a remarkable difference in easing the plight of small and medium-sized contractors as well as that of construction industries as a whole, in Southern African countries in particular. The following are suggested to address contractor competitiveness in the industries of developing country:

- The construction industry stakeholders need to urgently implement supportive legislation to create an enabling environment for small and medium-sized contractors to grow and compete in the global construction market. Contractor development models and programmes should be implemented urgently to develop a culture of continuous improvement and competitiveness. Education and research organisations should also contribute to a culture of learning, knowledge creation and knowledge sharing.
- Government departments should create a procurement environment which promotes excellent performance by small and medium-sized contractors, by removing a number of barriers, such as complicated and onerous tender processes.
- Contractor development models should be fully supported by research and educational institutions in the individual countries and throughout the regional trade blocks in order to create a learning environment in which knowledge is created and shared for

the benefit of all the entire stakeholders in the region. Such integration maximises the use of scarce resources and facilitate the easier sourcing of funds.

- African countries should embark upon strategic programmes to promote the development of skills, in particular management skills, to enable entrepreneurs to run their companies profitably and in a sustainable manner. This means that registers of contractors and the contractor development models should be carefully integrated into a streamlined effort designed to build contractors' capacity to grow and compete.
- The procurement systems should include contractor development models that are structured in a way that allows some form of preferential treatment to local contractors in order for them to establish, behind temporary protective barriers, a certain level of competency until they can compete in the open market. Although this strategy is often frowned upon in some developed market economies, it was and is still being used by many industries today in various forms to support and local industries (Hough, et al, 2003). In some cases, developed countries still have protective barriers against foreign competition such as in the agricultural sector. The breakdown of the talks in the World Trade Organisation meeting in Cancun, Mexico, is a recent reminder of globalisation challenges and tensions.

Thus, African economies should give their local contractors some limited form of temporary protection while they develop their capacity to grow and compete. Failure to do this will exacerbate the status quo and completely destroy local contractors, with grave consequences for local economies. On the other hand, the benefits of a competitive local industry include sustainable employment creation, economic growth as a result of the tendency by local contractors to spend in the domestic economy, and equity in income distribution.

- African countries should take advantage of the opportunities arising from the implementation of the New Partnership for Africa's Development (NEPAD) to jointly exploit opportunities brought by globalisation.
- Models for developing contractors should be implemented within a clear, supportive regional policy framework which encourages cooperation through joint ventures, partnering and sub-contracting - and which discourages exploitation - between contractors of different sizes across regional borders. Innovative partnering relationships between local enterprises and foreign construction enterprises to create a "win-win" situation in how local projects are undertaken. The support of other industry stakeholders must also be strongly encouraged.

While Africa's SME sector cannot stop the winds of globalisation, it must prepare itself hard in order to explore the opportunities of globalisation as well to mitigate the risks.

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