

THE EVALUATION OF SELECTED RISKS AND OPPORTUNITIES
ASSOCIATED WITH GLOBALISATION OF SOUTH AFRICAN
CONSTRUCTION COMPANIES INTO SOUTHERN AFRICA

By

Fatima Wadiwalla

Treatise Submitted in the Fulfilment of a Part of the Requirement for the

Master of Science (Project Management)

In the Faculty of Engineering, Built Environment and Information Technology

University of Pretoria

Study Leader: Mr. Gert Basson

June 2003

DECLARATION

I declare that this research is my own, unaided work, except where otherwise stated.

This treatise is being submitted in partial fulfilment of the requirements for the degree of MSc (Project Management) at the University of Pretoria. It has not been submitted before for any degree or examination at any other University.

F. Wadiwalla

June 2003

ACKNOWLEDGEMENTS

I thank my study leader, Mr. Gert Basson for his encouragement and invaluable guidance during the process of compiling this study and also during my years of study.

I would also like to acknowledge the following people for giving up their precious time for my interviews. Without their assistance this research would not have been possible.

- ◆ Mr. Geoff Skeen the Managing Director of Grinaker / LTA Building
- ◆ Mr. Harold Bantam the Group Executive Director of Group Five
- ◆ Mr. Mike Sprott a Director at Wilson Bayly Holmes Ovcon
- ◆ Mr. Jimmy Johnston the Business Development Manager of Basil Read
- ◆ Mr. Harry Nieman of Murray and Roberts; International Business Development

ABSTRACT

Title of Treatise: Selected Risks and Opportunities Associated With
Globalisation of South African Construction
Companies into Southern Africa

Name of Author: Fatima Wadiwalla

Name of Study Leader: Mr. Gert Basson

Institution: Faculty of Engineering, Built Environment and
Information Technology
University of Pretoria

Date: June 2003

Globalisation is an inescapable fact. National economies are no longer immune to external influences and cannot be insulated from global effects. South African construction companies globalise as a result of expansion, diversification, deepening of trade and to eliminate the cyclical nature of the construction market within South Africa.

A literature review revealed the following risks for South African construction companies when globalising into Southern Africa: competition from other international construction companies, the lack of political stability in the region, fraud and corruption, conflicting cultures of varying regions, the impact of foreign exchange, under-researched and documented industries and lack of quality assurance and the impact of HIV/AIDS amongst other risks.

In contrast, funding and foreign aid, the superior management capability and information technology that South African construction companies possess, the opportunities to form associations and joint ventures with other construction companies to access markets and the possibility of advance payments are amongst the opportunities that can be exploited in the Southern African region.

Sub-Saharan Africa is viewed as one of the world's poorest and under-developed regions. The region has alarming HIV/AIDS infection rates prevalent. However, it is a region rich in natural resources and tourism potential.

The countries analysed in this treatise for the risks and potential opportunities for South African construction companies are: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

A common trend, such as, political instability, under-developed infrastructure, massive housing, educational and health facility needs, ample supply of unskilled and semi-skilled labour and a high dependency on foreign aid is dominant in most Southern African countries. Conversely, opportunities exist to upgrade infrastructure, address the massive housing, schools and hospitals need, exploitation of tourism potential and the ability to form joint ventures with local construction companies in an attempt to transfer skills, share risks and overcome cultural barriers.

Interviews with representatives of leading construction companies emphasised risks such as late and non-payment, logistics, foreign exchange fluctuations, culture differences (including language disparity), bureaucracy, health of workforce and labour productivity. With very few exceptions, most respondents had similar views on risks perceived in particular countries.

Interviewees highlighted opportunities such as higher returns, access to larger markets, earning foreign exchange, the region's need for housing, schools and hospitals, availability of donor and foreign aid, superior management capabilities of South African contractors, reconstruction and rehabilitation of dilapidated buildings and tourism demand. With very few exceptions, most respondents had similar views on opportunities perceived in particular countries.

In terms of risks, opportunities and statistical data, the countries were ranked as follows, with first being most favourable and the last mentioned as least favourable: Botswana, Namibia, Mozambique, Swaziland, Angola, Lesotho, Zambia, Zimbabwe, Malawi.

A way forward is presented by means of “words of advice” and rules of thumb from the representatives of the leading construction companies in South Africa who have already tested the waters.

CONTENTS

Declaration	(i)
Acknowledgements	(ii)
Abstract	(iii)
Contents	(vi)
Schedule of Tables	(xi)
Schedule of Figures	(xii)
List of Abbreviations	(xiii)
CHAPTER 1: THE PROBLEM AND ITS SETTING	1
1.1 Introduction	1
1.2 The Milieu of the Problem	1
1.3 Sub-Problems	2
1.4 Hypotheses	3
1.5 Delimitations	4
1.6 Definitions	5
1.7 Assumptions	6
1.8 The Importance of the Study	6
1.9 Research Methodology	7

CHAPTER 2: LITERATURE STUDY OF SELECTED RISKS AND OPPORTUNITIES THAT EXIST WHEN GLOBALISING INTO SOUTHERN AFRICA	8
2.1 Introduction	8
2.2 Globalisation	8
2.2.1 What is Globalisation?	8
2.2.2 Why Globalise?	9
2.2.3 The Implications of Globalisation	9
2.2.4 Globalisation and Regionalism	11
2.3 Review of National and International Literature Identifying Most Notable Risks and Opportunities when Globalising	12
<i>Risks:</i>	12
2.3.1 Competition	13
2.3.2 Political Stability	17
2.3.3 Fraud and Corruption	18
2.3.4 Culture	20
2.3.5 Foreign Exchange	23
2.3.6 Research, Documented Industries and Quality Assurance	27
2.3.7 The Impact of HIV/ AIDS	28
2.3.8 General Risks	29
<i>Opportunities:</i>	34
2.3.9 Funding and Foreign Aid	34
2.3.10 Information Technology and Management Capability	36
2.3.11 Associations and Joint Ventures	38
2.3.12 Advance Payments (A Method to Reduce Certain Political Risks)	39
2.3.13 General Opportunities	44
2.4 The Current Status of Selected SADC Countries	47

2.5	The Analysis of Selected SADC Countries in terms of Risks and Opportunities	60
2.5.1	Angola	61
2.5.2	Botswana	66
2.5.3	Lesotho	71
2.5.4	Malawi	75
2.5.5	Mozambique	80
2.5.6	Namibia	86
2.5.7	Swaziland	90
2.5.8	Zambia	94
2.5.9	Zimbabwe	98
2.6	Conclusion	103

CHAPTER 3: THE INTERNATIONAL EXPERIENCE OF SOUTH AFRICAN CONSTRUCTION COMPANIES	106	
3.1	Introduction	107
3.2	The Results of the Interviews	108
3.2.1	Why Globalise?	108
3.2.2	To What Extent are the Major Domestic Construction Companies Globalising into Southern Africa?	109
3.2.3	What are the Risks Encountered in the Selected Southern African Countries?	111
3.2.4	What are the Opportunities Encountered in the Selected Southern African Countries?	121
3.3	Conclusion	127

CHAPTER 4: AN EVALUATION OF SELECTED RISKS AND OPPORTUNITIES IN SELECTED SOUTHERN AFRICAN COUNTRIES	129
4.1 Introduction	129
4.2 The Evaluation of the Risks	130
4.3 The Evaluation of Opportunities	132
4.4 The Evaluation of Selected Southern African Countries	134
4.5 Conclusion	138
CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS	141
5.1 Summary	141
5.1.1 Globalisation	141
5.1.2 The Current Status of Selected SADC Countries	142
5.1.3 Risks and Opportunities Identified from the Literature	
Review Associated with Globalisation into	
Southern Africa	142
5.1.4 The International Experience of Risks and	
Opportunities Associated with Globalisation into	
Southern Africa	152
5.1.5 An Analysis of the Risks and Opportunities in Each	
Selected SADC Country	155

5.2	Conclusion	163
5.3	Recommendations	165
5.4	Scope for Further Research	169
	BIBLIOGRAPHY	171
	ANNEXURE A: STRUCTURED INTERVIEW QUESTIONS	179

SCHEDULE OF TABLES

<i>Table No.</i>	<i>Title</i>	<i>Page</i>
Table 2.3.1	Turnover and Percentage of International Work per Top South African Construction Companies	14
Table 2.3.2	Corruption Perception Index	20
Table 2.2.3	Critical Success Factors for International Development Projects	32
Table 2.4.1	Area, Population and GDP per Country	48
Table 2.4.2	Human Development Index, Life Expectancy, Urban Population and Adult Literacy Rate per Country	52
Table 2.4.3	Natural Resources per Country	54
Table 2.4.4	Construction as a Percentage of GDP	56
Table 2.4.5	Inflation Rates and Interest Rates per Country	59
Table 3.2.1	Extent of Globalisation into Selected Countries by Major South African Construction Companies	110
Table 4.2.1	Risks Evaluation from Market Survey	131
Table 4.3.1	Opportunities Evaluation from Market Survey	133
Table 4.4.1	Risk Rating and Ranking per Country	135
Table 4.4.2	Opportunity Rating and Ranking per Country	136
Table 4.4.3	Statistical Data Rating and Ranking per Country	137
Table 4.5.1	Overall Rating and Ranking per Country	140
Table 5.5.1	Summary of Risks and Opportunities per Country	156

SCHEDULE OF FIGURES

<i>Figure No.</i>	<i>Title</i>	<i>Page</i>
Figure 2.3.1	Cash Flow for Domestic Contracting	40
Figure 2.3.2	Cash Flow for International Contracting with Advance Payments	41
Figure 2.3.3	Net Cash Flow for International Contracting with Advance Payments	42
Figure 2.3.4	Political Risk Line	43
Figure 2.4.1	Country Area Comparisons	49
Figure 2.4.2	Country Population Comparisons	49
Figure 2.4.3	GDP per Country	50
Figure 2.4.4	Human Development Index per Country	51
Figure 2.4.5	GDP per Capita Trend 1975 – 1998	53
Figure 2.4.6	GDP Composition by Sector per Country	55
Figure 2.4.7	Construction as a Percentage of GDP	57

LIST OF ABBREVIATIONS

BHC	Botswana Housing Corporation
CEO	Chief Executive Officer
CGIC	Credit Guarantee Insurance Corporation
CVA	Construction Value Added
CMA	Common Monetary Area; comprising of Lesotho, Namibia, South Africa and Swaziland
CPI	Corruption Perception Index
FIDIC	Federation Internationale des Ingenieurs-Conselis (International Federation of Consulting Engineers)
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIV / AIDS	Human Immune Virus/ Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
SACU	Southern African Customs Union; comprising of Botswana, Lesotho, Namibia, South Africa and Swaziland
SADC	Southern African Development Community
Selected SADC Countries	Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia, Zimbabwe
USAID	United States Aid Funding