Reshaping Construction analysis of the influencing factors

How will the remaining and new entrants fare in the new imposed environment?

Guest Lecture to Nelson Mandela University
Construction Management 4, 13 March 2019

Bob Hindle

Construction Academic & Business Development Consultant
• Continued uncertainty in SA’s political & business environment has had “a devastating effect on the local construction industry.” Source: Engineering News
<table>
<thead>
<tr>
<th>STATE OF SA’s Major League</th>
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<tbody>
<tr>
<td><strong>AVENG</strong> (Grinaker/LTA)</td>
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<td>Murray &amp; Roberts</td>
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<td>Basil Read</td>
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## STATE OF SA’s Major League

<table>
<thead>
<tr>
<th>Company</th>
<th>Status</th>
<th>Outcome</th>
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<tr>
<td>AVENG (Grinaker/LTA)</td>
<td>Piecemeal sell off of SA ops to be comp’td by June 2019</td>
<td>X</td>
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<tr>
<td>Murray &amp; Roberts</td>
<td>Sold its SA General contracting Businesses</td>
<td>X</td>
</tr>
<tr>
<td>WBHO</td>
<td>Best of bunch but now to be mainly beyond borders</td>
<td>✓</td>
</tr>
<tr>
<td>Group Five</td>
<td>In Business Rescue – March 2019 - Trying to sell-out</td>
<td>?</td>
</tr>
<tr>
<td>Stefanutti Stocks</td>
<td>Restructured &amp; Cross border future focus</td>
<td>✓</td>
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<tr>
<td>Basil Read</td>
<td>In Business Rescue – Debt standstill till June 19 but......</td>
<td>X</td>
</tr>
<tr>
<td>AVENG (Grinaker/LTA)</td>
<td>Broke SA General contracting businesses</td>
<td>Cross border future focus</td>
</tr>
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<td>Group Five</td>
<td></td>
<td>?</td>
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These two damaged investors more than Steinhoff did!!
<table>
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<tr>
<th>Other Contractors</th>
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<tbody>
<tr>
<td>NMC</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>LIVIERO</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>ESOR Construction</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Many other wobbly</td>
</tr>
</tbody>
</table>
The Majors though – represent just the tip of the proverbial Iceberg:

Other entities + employees

Specialist & subcontractors

Many gone –

Emerging Contractors

Many gone –

Skilled employees

Leaving for OZ & NZ.

Construction Labour

Unemployed

The loss of world class capacity

Set-back 20 years, at best!
FIVE Potential REASONS

1. Public servant – incapacity/neglect
2. State of the SA Economy
3. Fall-out from Collusion
4. Government (targeted) Interventions
5. Distressed working conditions
1. Public Servant – incapacity/neglect

• Lack of understanding & caution concerning industry

• Poor policy formulation & application

• Poor delivery:
  – Underspending of budgets
  – Procurement system abuses

• Eyes off the ball
  – State Capture
1. Public Servant – incapacity/neglect Cont’d

• R800-b infrastructure promise
  – Announced in 2012
  – Why did Gov’t not advise that this could not be found?
  – E.g. ESOR & Water work promises

• Stimulus Package for 2019 but...
2. State of the SA Economy
Cycle phases & Typical Symptoms

Construction Cycle (4)

- TROUGH after recession or prolonged decline
  - Weak demand
  - Competition very high
  - Discounted margins
  - Claims the norm
  - Short project durations
  - Antagonistic attitudes
  - Materials in good supply
  - Problem Contracts (1:5)
  - Retrench & downsize
  - Sell-off units or closures
  - Social upheaval
SA impacted by Global Economy

What can a financial crisis lead to?

**TRADE IMBALANCE**
It starts with people living beyond their means and taking on debt. Wages become distorted, production costs escalate and industries move offshore. The result: trade deficits and an unsustainable national debt.

**FINANCIAL CRISIS**
When debt levels reach the tipping point, the financial system suddenly and dramatically destabilizes. Companies and individuals can no longer borrow money. Bankruptcies and unemployment soar.

**CURRENCY WAR**
Politicians seek to cheat economic laws. Governments print money to pay debts and devalue their currency, which temporarily promotes exports and discourages imports. Those who devalue first gain the most.

**TRADE WAR**
As they work to steal trade from each other, governments enact tariffs, taxes and subsidies. Global trade plunges, exacerbating the financial crisis. Unemployment rises. Politicians again devalue currencies and enact more radical populist measures.

**HOT WAR**
Like currency wars, first-mover advantage goes to those who unexpectedly strike first.
3. Collusion Impact

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WE KNOW WHERE YOU ARE SO COULD WE PLEASE HAVE A VOLUNTEER?

BIG CONSTRUCTION COMPANIES GUILTY LIST

GETTING THE HANG OF IT?
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3. Collusion Impact (a)

- Fines of R1.3 billion

- Further Settlement R1.5 billion to fend off other claims & ..........
  - Form a Development Fund +
  - Sell off at least 40% +
  - Mentoring EC’s
3. Collusion Impact (b)

• It provided a reason to apply ‘full-screws’ B-BBEE and to....

• Punish beyond the fines to drive them out of SA!??
4. Government Intervention

• **Took-out** Industry leadership (Democracy)
• **Added new entities** - not helping but costing:
  – CBE / CIDB / CETA / NAHB
• **Huge burden of regulatory Compliance** – too much in short time - (Tsunami of change)
• **Production managers** required to become
  – HR & B-BBEE specialists
  – JV diplomats & Mentors
  – Abandon key loyal staff to employ raw locals
  – Manage labour where machines were used
• **Productivity relegated to 3rd or 4th place**
5. Distressed Operating Environment?
SURVEY RESULTS ARE IN!
<table>
<thead>
<tr>
<th>Problems Retarding Productive work 2018</th>
<th>RANK</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late or Non payment</td>
<td>1</td>
<td>From 20th 09 Cycle impact</td>
</tr>
<tr>
<td>Bus’ Forum (Mafia) attacks</td>
<td>2</td>
<td>33rd 2011 GROWING</td>
</tr>
<tr>
<td>Shortage of skills</td>
<td>3</td>
<td>1st or 2nd norm</td>
</tr>
<tr>
<td>Late/poor info’ then changes</td>
<td>4</td>
<td>3rd normal</td>
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<td>----------------------------------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>Antagonistic attitudes</td>
<td>5</td>
<td>Cycle impact</td>
</tr>
<tr>
<td>Poor performance of SMMEs</td>
<td>6</td>
<td>New</td>
</tr>
<tr>
<td>Few large tenders</td>
<td>7</td>
<td>New</td>
</tr>
<tr>
<td>Rework the norm</td>
<td>9</td>
<td>GROWING</td>
</tr>
<tr>
<td>Number of skilled leaving</td>
<td>5th</td>
<td>on average</td>
</tr>
<tr>
<td>High stress levels (self)</td>
<td>10th</td>
<td>on average</td>
</tr>
<tr>
<td>Empowerment policy unevenly applied</td>
<td>15th</td>
<td>on average</td>
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Project management feeling lonely on a raft of problems

Impact
Communities
MAFFIA

Skills Shortage
• No new Artisans
• Retirements
• Burnout

ENOUGH OF THIS DISTRESSED OPERATING ENVIRONMENT

Too much to handle ..................

Burn-out or Opt-out !!!
• “Without investment in the short-term the sector will be irrevocably crippled.”

Source: Engineering News 15 Feb 2019
R100 b infrastructure spend over next 10 years

• Another promise
• Use of PPP’s
  – Who will step-up to deliver?
  – Will they try to group dozens of EC’s?
• Enter the dragon?
Is this Sustainable?
TRENDS (1)

• More casualties expected
• Growth of SMME’s (16% to 40% already)
• Faster skills migration (Overseas)
• **New Majors Emerging** -empowerment buy-outs
• Risks to all from last:
  – Inexperienced management
  – Skills shortage
  – Contract guarantees?
TRENDS (2)

• Construction Mafia expanding
• Increasing risk of project failure
• More late payment issues –
• Big insurance premium increases
• Wage & Salary inflation
• Construction costs escalation expected
Just part of the story
but
All for now!

Thank You