

# ENCUMBRANCES OF THE COMPETITIVENESS OF SOUTH AFRICAN CONSTRUCTION ORGANISATIONS IN THE BUSINESS ENVIRONMENT OF OTHER AFRICAN COUNTRIES

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## ABSTRACT

*The study aims to assess the challenges posed to the competitiveness of South African construction contractors in other African countries. This was instituted to formulate a pathway for the penetration of South African contractors into the business environment of other African countries. The study employed a quantitative method underpinned by a post-positivism philosophical approach using a questionnaire as the research instrument. The target respondent of the study was construction professionals, while the study area was Gauteng province of South Africa. The data analysis methods were mean item score, Kruskal-Wallis h-test, and Student Newman Kaul post hoc test. Findings from the study showed that the most significant challenges faced by South African construction organisations in exploring business opportunities in other African countries are collusive acts, high cost of financing, lack of technical skills, and difficulties in obtaining loans. Also, the difference in viewpoints given by the sampled professionals is outlined in the study's findings. Based on the results obtained from the analysis, the study made recommendations that would aid the competitive capabilities of South African construction organisations in the business landscape of other African countries.*

**Keywords:** African Countries; Competitiveness; Construction; Contractors; South Africa.

## 1. INTRODUCTION

The construction sector plays an important role in any nation's socio-economic development as it makes provision for the necessary infrastructure required for nation-building (Ikuabe et al., 2021; Chigara and Moyo, 2014). The sector aids in delivering the

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needed infrastructure required by other sectors of the economy, which includes urban utilities (sewerage, water supply, drainage, residential buildings, railways, roads, ports, health facilities, recreation centres, agricultural facilities, telecommunication, and airports (Ikuabe et al., 2022a; Rangelova, 2015). Also, the sector provides a significant base for the employment of labour both in the informal and formal sectors (Stats SA, 2010), hence contributes to the socioeconomic welfare of the country's populace. The construction sector is projected to contribute 13% of the world's gross domestic product (GDP) (Araya, 2021). This gives credence to the significance of the sector on a global scale. The construction sector in South Africa contributed R83 billion to the country's GDP in 2020 (Statistica, 2021), notwithstanding the associated encumbrances of the coronavirus (COVID-19) pandemic.

The business climate of the South African construction sector is highly competitive and attributed to a plethora of stakeholders, usually from private and public organisations, having varying interests and obligations. These include contractors, sub-contractors, consultants, government entities, regulatory organisations, manufacturers, and marketers, suppliers. The contractors are a vital economic actor in the construction business scheme. About 56653 listed contractors are on the country's Register of Contractors (CIDB, 2020). This underscores the stern competition characterising the business environment in the country's construction sector. According to Emuze and Smallwood (2014), many of these contracting organisations feature in the 'heavy bottom' strata of the total formation of all the organisations. Consequently, limiting their prospects of being engaged for high-priority construction projects within the business landscape. Resulting of the highly competitive business environment of the South African construction sector, construction contracting organisations can attempt to break through the construction market of other countries, particularly within the African continent.

The high competitiveness of the South African construction sector results in the need for contractors in South Africa to explore cross-border prospects, which proffers less competition cannot be overemphasised (Oyewobi et al., 2016). Luiz and Stephan (2012) noted that the entrance of South African organisations into the economic landscape of other African countries is a 'high risk-high reward' strategy characterised by a significant degree of risk and uncertainty, albeit the unraveling of rewarding opportunities. Furthermore, a construction organisation's competitiveness is portrayed as a significant 'predictor' of its cumulative business persistence and its capacity for sustenance in a volatile business environment (Oyewobi et al., 2016; Ikuabe et al., 2022b). Therefore, it becomes important to evaluate the challenges confronting the competitiveness of South African construction organisations in the business environment of other African countries. The study's outcome would help unravel the encumbrances faced by organisations attempting to explore the construction market in other African nations. Moreover, the study's findings would aid in boosting capital flow within African countries while also creating a platform for boosting economic activities, improving employment opportunities, enhancing technology transfer, and encouraging knowledge transfer.

## **2. LITERATURE REVIEW**

Construction is a considerably competitive business that requires deliberate strategies by contracting organisations to maintain accomplished or projected goals (Ikuabe et al., 2020). Due to the stiff competition among economic actors, the South African

construction business landscape presents a peculiar offering. Although, the concept of vying for economic gains in other African countries is receiving a significant boost. However, this is confronted by several bottlenecks which potentially hinder the benefits of the cross-border business pursuit. According to Tembo et al (2022), cultural difference is a hindering factor for foreign organisations to thrive in the business climate of the host nation. Cultural diversity could be in the form of language, religion, honoring social events, etc. A major challenge for most foreign organisations seeking to explore other climes is the lack of technical and managerial skills within the country to be explored. Araya (2021) noted that most African nations constantly face a shortage of requisite managerial and technical skills for construction project delivery. The lack of these skills hinders the smooth conceptualisation, execution, and delivery of construction projects. Moreover, economic policies leading to high taxation and volatile exchange rate hinder the construction organisation from seeking prospects in other African countries. Kerur and Marshal (2012) affirmed that unfavorable local tax policies might subject foreign organisations seeking prospects in a country to be discouraged from competing in such an economic climate.

The volatility of the local currency is a considerable cause of concern for prospective economic actors. Since construction project execution would oftentimes mandate the use of foreign materials, a volatile local currency would place the contractor on the losing end. Mukumba (2012) opined that striving to seek foreign currencies for material purchase contributes negatively to construction project delivery, such as late completion and an increase in the contract sum. These downsides serve as deterrents to prospective contracting entities who seek to explore opportunities in the construction market of other countries. Also, the delay in payment of construction projects executed is seen as a challenge to competing for projects in African countries. Ogbeifun and Pretorius (2022) noted that non-payment of completed works from clients is a major source of cash flow problems for contractors, leading to project delays, tighter profit margins, lower productivity, and abandonment of projects. The non-availability of materials for construction project execution is also a significant barrier to the prospects of foreign contractors in most nations, particularly in the African continent. Adeyemi and Masalila (2016) stated that the shortage or non-availability of required materials for project execution negatively impacts the outcome of construction projects. At the same time, the tendency of corrupt practices exhibited by stakeholders and economic actors in the construction business is also a major bottleneck. Chan and Owusu (2017) stated that some government officials use their access and positions to influence the award of contracts to preferred contractors in anticipation of receiving 'kickbacks'. This act distorts contractual arrangement and relegates deserving and competent contractors. These issues dissuade prospective contracting organisations from seeking prospects in other climes.

### **3. RESEARCH METHODOLOGY**

The study employed a quantitative method underpinned by a post-positivism philosophical approach using a questionnaire as the research instrument. Data were obtained from construction professionals situated in the Gauteng province of South Africa. The choice of the study area results from the large pool of construction organisations domiciled in the area which also boasts a large number of construction professionals. Also, the choice of the questionnaire for the study stems from its ability to cover a large number of respondents within a short time frame and its ability to elicit

quantifiable data (Tan, 2011). The respondents comprised of quantity surveyors, construction project managers, architects, construction managers, and engineers. The sampling technique employed was purposive and snowball sampling. The first was used in identifying professionals who have professional experience in other African countries, thereafter referrals were made for similar attributes among the target respondents. The questionnaire involved two sections. The former dwelt on the demographic information of the study's respondents, while the latter inquired on the challenges facing construction organisations in seeking opportunities in the construction sector of other African countries. Fifty-two responses were retrieved from the respondents of the study who were deemed fit for analysis. Retrieved data were analysed using mean item score (MIS), Kruskal Wallis *h*-test (*K-W*), and Student Newman Kauls (SNK) post hoc test. MIS was employed to rank the challenges facing the exploration of the construction business environment of African countries by South African contractors. At the same time, Kruskal Wallis *h*-test was used to establish if there is a statistical discrepancy in the opinions given by the groups of respondents based on their professional designation. Also, SNK post hoc test presented the difference in the mean responses given by the respondents using the categorisation of their professional designation. Furthermore, the validity and reliability of the research instrument were ascertained with the use of Cronbach's alpha test. The analysis gave a value of 0.891, thus affirming the validity and reliability of the research instrument since the resulting alpha value is above the threshold of 0.7 and tending towards 1.00 (Tavakol and Dennick, 2011).

## **4. FINDINGS**

### **4.1 BACKGROUND INFORMATION OF RESPONDENTS**

The research instrument comprised two sections. The first section focused on eliciting information on the respondents' demographic details. Results from the analysed data retrieved for the study show that the aggregate formation of respondents includes quantity surveyors who made up 38% of the entire respondents; engineers made up 21% of the total respondents, while construction managers and construction project managers had 18% and 16% of the total respondents respectively, and architects were made up of 7%. Based on the highest educational qualification gotten by the respondents, it was shown that respondents with a bachelor's degree made up 42% of the respondents, those with an honour's degree made up 32% of the total respondents, while those having a master's degree made up 21% of the total respondents. Based on the respondents' years of professional experience, those having 1-5 years made up 42% of the total respondents, those having 6-10 years made up 15%, and those having 11-15 years made up 9%. Based on the number of projects handled in other African countries, those with 3-4 projects made up 47% of the total respondents, those with 5-6 projects comprised 28% of the total respondents, while those with more than 8 projects made up 18% of the total respondents.

### **4.2 CHALLENGES OF SOUTH AFRICAN CONTRACTORS COMPETING IN AFRICAN COUNTRIES**

A review of extant literature identified thirteen challenges plaguing the competitiveness of South African construction contractors in competing in the business environment of other African countries. These challenges were presented to the target respondents of the study using a questionnaire for rating using a Likert scale. The retrieved data were analysed with the aid of MIS for ranking the challenges, while the Kruskal Wallis *h*-test

was used to determine the discrepancy in opinions given by the respondents based on their professional affiliation. The result of the mean rating of the challenges faced by South African contractors in vying for business opportunities in other African countries is outlined in Table 1. The result portrays that the mean score of all the challenges is above 3.50, which underscores the significance of the challenges. The most rated challenges are collusive acts, high cost of financing, lack of technical skills, and difficulties in obtaining loans, with mean scores of 4.43, 4.40, 4.39, and 4.32, respectively. The least ranked challenges are the unavailability of materials, lack of support from the government, and unstable exchange rates, with mean scores of 3.61, 3.68, and 3.70, respectively. Furthermore, with the use of the *K-W* test, the difference in opinion of the respondents was evaluated based on their professional designation. The findings of the analysis show that the respondents have differing opinions on three of the challenges facing South African construction contractors in exploring the business environment of other African countries. These three challenges have a *p*-value less than 0.05, indicating a departure in the aggregate views provided by the respondents. Also, for the other ten challenges, a *p*-value greater than 0.05 indicates a convergence of the respondents' views.

*Table 1: Challenges of Contractors' Competitiveness*

Challenges	$\bar{X}$	R	K-W	
			$X^2$	Sig.
Collusive acts	4.42	1	1.385	0.218
High cost of financing	4.40	2	4.811	0.083
Lack of technical skills	4.39	3	2.840	0.611
Difficulties of obtaining loans	4.32	4	1.986	0.293
Delay in payments	4.25	5	1.337	0.012**
Cultural differences	4.10	6	3.795	0.492
Lack of managerial skills	4.03	7	2.006	0.253
Hostile tax regime	3.92	8	1.293	0.571
Unavailability of equipment	3.86	9	3.841	0.128
Volatility of local currency	3.77	10	3.986	0.462
Unstable exchange rates	3.70	11	1.442	0.339
Lack of support from government	3.68	12	3.748	0.038**
Unavailability of materials	3.61	13	2.584	0.002**

N.B:  $\bar{X}$  = Mean Item Score; K-W = Kruskal Wallis *h*-test

The result of the SNK post hoc test is presented in Table 2. It outlines the multiple comparisons of the opinions given by the study's respondents based on their professional designation. The findings indicate that there is a difference in the viewpoints provided by the professionals on the challenges faced by South African construction contractors in seeking business opportunities in other African countries. These opinions are given in three broad categories. The first category comprises of engineers and architects with values of 2.735 and 2.512, respectively. The second category comprises of construction managers and construction project managers with values of 2.884 and 2.751, respectively. In comparison, the third category is comprised of quantity surveyors with a value of 3.323.

Table 2: SNK Post Hoc Test

Groups	N	Subset for alpha=0.05		
		1	2	3
Engineers	13	2.735		
Architects	13	2.518		
Construction Managers	13		2.884	
Construction Project Managers	13		2.751	
Quantity surveyors	13			3.323
Sig.		1.000	.241	

## 5. DISCUSSION OF FINDINGS

The analysis conducted on the retrieved data from the respondents of the study shows the significance of the identified challenges posed to construction contractors from South Africa in exploring the business environment in other African countries. The findings indicate that the collusive acts deployed by government officials and other stakeholders are a significant stumbling block to contractors from other climes seeking opportunities in African countries. This is corroborated by Chan and Owusu (2017), who stated that some government officials use their access and positions to influence the award of contracts to preferred contractors in anticipation of receiving ‘kickbacks’. These acts distorts contractual arrangement and relegates deserving and competent contractors. Also, it is shown that the high cost of financing and lack of technical skills are significant challenges. According to Araya (2021), most African nations constantly have a shortage of requisite managerial and technical skills for construction project delivery. The lack of these skills hinders the smooth conceptualisation, execution, and delivery of construction projects. Moreover, economic policies bothering high taxation and volatile exchange rate hinders the prospect of construction organisation in seeking prospects in other African countries. Moreover, the delay in payment for construction projects executed is seen as a challenge to competing for projects in African countries. This is supported by Ogbeifun and Pretorius (2022), who noted that non-payment of completed works from clients is a major source of cash flow problems for contractors, leading to project delays, tighter profit margins, and lower productivity and abandonment of projects.

## 6. CONCLUSION AND RECOMMENDATIONS

The study explored the challenges South African construction contractors face in seeking business opportunities in other African countries. From the review of extant literature, the challenges were identified and presented to the study’s respondents for rating based on their significance using a Likert scale. The result of the analysed data obtained from the target respondent shows that the most significant challenges are collusive acts, high cost of financing, lack of technical skills, and difficulties in obtaining loans. In contrast, the least significant challenges are the unavailability of materials, lack of support from the government, and unstable exchange. Furthermore, it is revealed that there is no statistical deviation in the viewpoints of the respondents based on their professional designation on ten of the challenges. While there is a differing viewpoint of the professionals making up the target respondent of the study on three of the challenges:

delay in payments, lack of support from the government, and unavailability of materials. Based on the results of the study, it is recommended that policies and regulations should be formulated by African nations that would propagate the engagement of construction organisations from other African nations. The encouragement of cross-border business penetration in the construction sector would yield attendant benefits such as upscaling employment opportunities, improved economic activities, and technology transfer. Moreover, construction organisations in South Africa should adopt organisational culture that gravitates towards the exploration of the business environment of other African countries.

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