Black Economic Empowerment: An Evaluation of the Challenges Facing the Construction Industry and Emerging Black Contractors

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By

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This research report is not confidential.

It may be freely used by the Graduate School of Business.

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I certify that except as noted above, the opinions and conclusions expressed in this research are nevertheless mine.

All references used are reported and referenced accordingly.

Signed: __________________    Date: ________________

Essop Goga
ABSTRACT

This paper explores the state of the construction industry with regard to Black Economic Empowerment transformation, and the challenges facing emerging black contractors. It seeks to compare current viewpoints against those of emerging contractors’ experience. It further assesses the existing BEE scorecard against balanced scorecard theory, to determine possible shortcomings and opportunities for improvement in the scorecard. The purpose of this research is to assess the validity of currently perceived industry challenges, to determine areas that the pending construction charter should address and initiatives that may contribute positively to the BEE transformation process currently underway.

Key words: Balanced Scorecard; Black Economic Empowerment; Preferential procurement,
GLOSSARY OF TERMS AND ACRONYMS

Balanced Scorecard: A performance measurement tool developed by Norton and Kaplan

Black Economic Empowerment: A government strategy to redress the imbalances in South African society created by apartheid

Preferential procurement: Is an instrument used to reform public and private sector procurement. It promotes Broad Based Black Economic Empowerment (BBBEE) by giving preference to enterprises with higher BBBEE contributions. In so doing, it promotes market access for Black businesses and BEE contributing entities.

BEE - Black Economic Empowerment
BBBEE - Broad-based Black Economic empowerment
EPWP - Extended Public Works Programme
CIDB - Construction Industry development Board
ECDP - Emerging Contractor Development Program
PPP - Public Private Partnerships
CETA - Construction Education and Training Authority
CTCG - Construction Transformation Charter Group
SOE - State owned enterprises
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Figure 1. Diagrammatic illustration of the Balanced Scorecard

Figure 2. DTI BEE generic Scorecard
1 AREA OF STUDY

1.1 Background of Black Economic Empowerment

Since 1994, the government has utilised a range of initiatives to empower the majority of South African citizens. However, there has been a lack of a consistent extensive strategy that targeted black empowerment. Black Economic Empowerment (BEE) emerged as a central objective of the Reconstruction and Development Programme (Ministry in the Office of the President, 1994). Subsequently, in 2001, the BEE Commission released its report that made recommendations for the adoption of an integrated BEE strategy, designed to co-ordinate measures to achieve meaningful participation by Blacks within the next 10 years. In order to address the issue, a Black Economic Empowerment task team was established in March 2003 to advise Government on proposed BEE legislation.

BEE is defined along three separate but linked aspects (Cliff Dekker Attorneys, 2004):

- Direct empowerment
- Promotion of human resources development
- Indirect empowerment viz. procurement, enterprise development via investments and joint ventures with black-empowered or black-owned businesses.

Thus far, the financial, mining, and petroleum and liquid fuels sectors have expressed a commitment to the transformation required and have adopted BEE charters, while the ICT sector is in the process of finalising a BEE charter. The medical, retail and construction industry have yet to adopt BEE charters, and as such, are viewed as sectors that will be amongst the last to adopt and implement BEE principles that will effectively transform the industry. The Department of Trade and Industry has indicated that it intends to have completed BEE Charters for the ICT, transport, construction, agriculture and wine industries by the end of 2004. The Government expects the Charters to have ownership targets of over 25 percent over ten years (I-Net, 2004).

Given the continued focus by government on an Extended Public Works Program, it is essential that changes be brought about within the construction industry.

The Extended Public Works Program (EPWP) announced after the Growth and Development Summit is the government’s approach to dealing with unemployment and poverty within South Africa. Unemployment currently stands at approximately 4.8 million (30.5 percent)
(Maccord, 2003), and it is unlikely that it will fall below 30 percent, even with a GDP of 5 to 6 percent. It is therefore necessary for the state to intervene to address the issue, while ensuring the continued success of the economy. The EPWP involves all spheres of government and state-owned enterprises (SOEs) and will be supported by the private sector for additional assistance (www.safrica.info). It aims to create 1 million jobs over the next 5 years, mainly in labour-intensive infrastructural projects (www.safrica.info). The EPWP therefore offers opportunities for skills development and to bring about transformation within the industry.

"The centre-piece of the EPWP is a large-scale programme of using labour-intensive methods to upgrade rural and municipal roads, municipal pipelines, storm-water drains and paving, as well as fencing of roads, community water supply and sanitation, maintenance of government buildings, housing, schools and clinics, rail and port infrastructure, electrification infrastructure, and so on" President Mbeki; (www.safrica.info)

The programme will spend over 15 billion rand on labour-intensive jobs over the next 5 years. Such investment will translate into the construction of 37 000 kilometres of roads, 31 000 thousand kilometres of pipelines, 1500 kilometres of storm-water drains and 150 kilometres of urban sidewalks. (www.safrica.info)

"We want workers to gain skills while they are employed and increase their capacity to continue working elsewhere once they leave the programme" President Mbeki; (www.safrica.info)

The focus of the EPWP therefore ties in strongly with the long-term transformation of the country in terms of broad-based black economic empowerment (BBBEE). Thus far, the majority of large government construction contracts remain accessible to a few companies that have the capacity to perform the required services. The government is increasingly using Public Private Partnerships (PPP) as a vehicle for empowerment.

The National Treasury has released a draft code of practice for empowerment deals for PPP projects that would give new drive for Black Economic Empowerment in the country, as it requires that a greater weighting be given to empowerment deals when evaluating tenders for PPP projects (National Treasury, 2004). BEE as a component of PPP projects, is structured
around a combination of financial, technical and empowerment components to provide the optimal service delivery relative to cost, for the provision of infrastructure and services.

Unlike the Preferential Procurement Policy Framework Act (No 5 of 2000) (Government Gazette, 2000) that requires companies tendering for government tenders to show that they are 90 percent financially viable and have a 10 percent empowerment component, the proposed code requires that for PPP projects, the empowerment component should be between 15 and 20 percent, with the remaining 80-85 percent comprising of financial and technical considerations appropriate to the project. Of importance is that no PPP may be issued to the market by a government institution without a clear and appropriate set of BEE elements, targets and weightings that have been approved in terms of Treasury regulations (www.sacities.net).

In order to ensure that there is a meaningful transfer of benefits offered by EPWP and PPP projects to the majority of South Africans, it is necessary for BEE to be adopted and implemented in the construction industry.

Experiences from the implementation of BEE charters in the mining and financial services industry illustrated the following:

- Extensive negotiations are required to formulate an acceptable BEE charter and scorecard.
- Commitment to the process is required from industry stakeholders (Government, labour, business & non-government organisations).
- Capacity (viz. adequately skilled persons etc) must currently exist within the respective industry and the industry must be in a position to produce the required capacity to allow the implementation of BEE charters.

The industry faces the following problems and limitations in adopting BEE transformation initiatives (CIDB, 2004a):

- The ownership and management of large construction companies continues to lie with the white minority, and the industry shows little if any signs to suggest proactive changes in this regard.
- The industry is financially strong and does not require further funding, especially by equity distribution.
- A significant amount of the large companies’ turnover is currently generated by activities outside South Africa, where BEE and employment equity has no bearing. However, increased government expenditure through the PWP and other ‘construction related’ activities may result in a greater proportion of turnover being generated within South Africa.
- Research and development within the South African construction industry is limited.

As a result of these obstacles, the implementation of BEE within the construction industry and the effective transformation of the industry face strong opposition from current industry players.

1.2 Purpose of the Research

This research emanates from the realisation of the potential and the significance the construction industry plays within the development of South Africa, particularly given the focus on an EPWP and the opportunities afforded to previously disadvantaged individuals through the application of BBBEE legislation and preferential procurement policies.

The report attempts to investigate the current state of the industry, to explore the opportunities for the development of emerging black contractors and the challenges facing such contractors. Further, the report investigates weaknesses in the current BEE scorecard. The report subsequently makes recommendations on possible focus points and the use of the pending BEE Construction charter to address these issues where possible.

1.3 Problem Statement

Despite 10 years of democracy, the construction industry has shown little signs of transformation. While the industry has a large number of emerging black contractors, their involvement within the sector is limited due to the challenges facing emerging contractors in the construction industry.

While numerous initiatives have attempted to facilitate the emergence of black contractors, predominantly through the use of preferential procurement programs, such efforts have met with limited success. These failures have been attributed to the capital-intensive nature of the industry, the difficulties in obtaining financing, the lack of transformation within both the private and government sector and the rapid influx of predominantly labour-based contractors.
The development of the BEE Construction Charter aims to address the significant issues facing the industry, and to ensure that meaningful transformation is realised, thus ensuring that the large amounts of government budget spent on infrastructure development is disbursed in a manner that promotes BBBEE. The BEE Construction Charter process is examined at a later stage.

This research report is based on the presumption that a detailed literature investigation of the industry, combined with in-depth interviews of larger emerging contractors (typically with turnovers between 1 and 5 million rand), will highlight challenges facing emerging black contractors, which should be addressed in the forthcoming charter, and will provide insight into the transformation process currently underway.

1.4 Scope and Limitation

This research report presents a critical analysis of the current BEE construction transformation process and the challenges facing larger emerging black contractors. The approach adopted entails obtaining qualitative data through a desktop study, by assessing available literature and through discussions with key stakeholders (viz. emerging contractors, consultants and industry representatives), to determine the perceptions of the challenges facing the industry and the transformation process.

While BEE has been identified as a fundamental mechanism for addressing the disparities of the past, very little research has been undertaken on BEE transformation processes. BEE within the construction industry has come under increasing focus and a limited amount of literature is available. For this reason, this study’s findings are based on experiences drawn from other transformation processes, current BEE and industry trends and developments and available data sourced from larger emerging black contractors. The limited focus may restrict the findings of the study to contractors that have attained a critical mass. The findings may not necessarily be applicable to emerging black contractors of all sizes.

Some findings reflect individual’s opinions that may be biased. The most significant limitation to these findings is the limited amount of qualitative data that can be generated and the absence of quantitative data to assess the various aspects of transformation within the industry. The requirements for such a study, though initially attempted, are deemed to fall outside the scope of works of this project.
Due to the pending transformation charter, and the reservations of expressing or revealing one's position on the topic prior to further developments within the charter, some respondents might have opted to provide a reserved opinion, or one that is not reflective of their actual position. However, as the majority of respondents represent emerging contractors or minority groups within the industry, such a concern is not deemed to be significant.

1.5 Research Report Layout

This report is laid out as follows

1. A literature review investigates the following issues:
   a. Balanced Scorecard and Human Resources Scorecard
   b. The BEE Scorecard
   c. Government BEE legislation and existing charters
   d. The characteristics of the construction industry
   e. Emerging contractors and their challenges
   f. BEE in the construction industry
   g. Challenges facing the construction industry

2. The research methodology used is explained.

3. The key findings are presented and discussed.

4. The BEE scorecard is critiqued in light of Balanced Scorecard theory and the research findings.

5. Future areas of research are suggested.
2 LITERATURE REVIEW

2.1 Balanced Scorecard

Performance measurement is a well-established concept that has been used by organisations to quantify how they are progressing on their plans and strategies. Traditionally, scorecards have been used to track efficiency and effectiveness for improvement purposes. Other reasons are to communicate plans and strategies to employees or stakeholders and to ensure that strategies are aligned to the organisations goals.

The balanced scorecard (BSC) is a management tool used to measure performance and was designed by Norton and Kaplan (Kaplan & Norton, 1992). Their model outlines key performance areas that can be measured within an organisation. These are:

- Internal business processes
- Learning and growth
- Customer focus
- Financial performance

The BSC is predominantly internally focused and driven. It moves beyond assessing financial performance, and looks at operations, customers and portions of learning and growth (Rohm, 2003: p35). The BSC looks at a company’s vision, mission and strategy, and assesses the viewpoints, objectives and the achievable goals of all stakeholders (Kaplan et al, 1992). Each stakeholders’ interest is represented, the business owner’s through the financial aspect, the customer’s through the customer aspect, the operational requirement’s through the internal aspect and the employee and infrastructure requirement’s through the learning and growth aspect. (Rohm, 2003: p35). The basic balanced scorecard is presented in figure 1 below:
2.1.1 Financial

The need for traditional financial information is allowed for in the BSC, and is very easy to quantify. Financial goals incorporate aspects such as survival and the success of the company. Aspects that would be measured include cash-flow, quarterly sales growth, operating income, increased market share and return on investment respectively (Kaplan et al, 1992: p76). If the BSC successfully translates a company’s goals into measurable objects, the company’s financials will indicate whether its internal activities, strategy and implementation are contributing to the net profit and adding to shareholder value (Kaplan et al, 1992: p77).

2.1.2 Customer

This assesses whether the organisation is providing a superior service to the customer or end user, and assesses whether the organisation’s activities are achieving the objectives set out in the organisation’s mission statement with regard to customers. This assesses customer performance on the following criteria:
The BSC must ensure that the above issues are adequately addressed and defined in measurable terms. The customer aspect assesses the organisation from the customer’s viewpoint. In some cases external parties have been used to assess this to provide an independent objective assessment (Kaplan et al, 1992: p74).

2.1.3 Internal Business Focus

It is generally accepted that superior customer service is the result of superior internal operation, controlled and monitored through staff at management level. In order to determine what the organisation must excel at, to meet the customer’s needs, it is necessary to identify and use the right competencies to ensure that the firm remains at the forefront of the market (Kaplan et al, 1992: p75). Again, it is necessary to adopt measures that can be translated into measurable goals to determine if this object is being met.

2.1.4 Learning and growth

The business environment, both locally and internationally, is characterised by constant changes and this underpins the need for learning and innovation if firms are to compete effectively (Kaplan et al, 1992: p75). Learning and innovation measures must be designed to produce measurable outcomes.

2.1.5 Strengths of the BSC

The BSC is well known and recognised, and many western companies have adopted it to assess their performance. While most traditional performance measuring tools focus on financial performance only, the BSC employs a more holistic approach, viz. customer feedback, learning and innovation and internal operations improvements. Amongst the advantages of the BSC are:

- Generic structure allowing for application to different sectors and companies
- Shift from emphasis on control to strategy and vision, with a focus on competitiveness
- Holistic view, allowing for the interrelationships between different business components to be highlighted
- Focus on future prospects as opposed to reviewing past action through financial analysis only (Kaplan et al, 1992: p85)

2.1.6 Weakness of BSC

While the BSC offers a useful and powerful tool to measure performance, it has several weaknesses that detract from its usability and effectiveness. These are as follows:

- It is too detailed, making it difficult to use. The simpler a measuring tool, the easier it is to use (Neely, Adams & Crowe, 2001: p4)
- The BSC focuses on the customer’s needs from the organisation; it does not take cognisance of the organisation’s needs from its customers
- It does not include aspects to measure social responsibility and adopts a traditional approach where plough-back is not practiced or allowed for
- The BSC focuses only on two stakeholders, (customers and shareholders), and ignores other stakeholders such as suppliers and employees (Neely et al, 2001: p4)

2.1.7 Critical analysis of the BSC

The BSC is considered to be a useful tool due to its ability to achieve the following (Neely, 2003):

- Linking strategic initiatives to the organisation’s financial goals
- Integration of evaluation and company management
- Holistic detailed approach
- Highlights the reporting and extent of organisational performance components

The BSC also has several disadvantages (Davidson, 2002: p7):

- Formulated in an excessive centralised and rigid manner leaving no room for adaptation to accommodate other key business aspects
- Highly quantitative, requiring high set-up cost in terms of time and money requirements
- Not flexible to adapt to changing business environment
Discards the value and significance of employee needs in the formulation of the measurement tool

Does not allow for the accommodation of unforeseen circumstances

Further the BSC does not measure intangible assets and activities (Becker, Husselid & Ulrich, 2001: p5), such as intellectual capital and social and environmental investment.

A significant drawback to the BSC approach is that managers are responsible for decision-making and may not be able to separate financial and non-financial decisions making priorities, thus limiting the benefits and effects of using the scorecard.

A further weakness of the tool is that there is no guidance given or criterion on how to effectively add significant issues to the tool, to align it to meet an individual organisational need. However, the following steps have been recommended to build the BSC (Kaplan, R.S. & Norton, D.P, 1993):

- Preparation – Define the business unit
- 1st round interviews – Obtain input on company strategy, vision, mission and the tentative BSC criteria
- 1st round workshop – Formulate preliminary BSC
- 2nd round interviews – Comment on measures and determine targets
- 2nd round workshop – Agree on targets and determine implementation plan
- Implementation – Develop implementation plan and link upper, middle and lower business units
- Periodic review – Review BSC measures in light of strategic goal setting and planning

Interest in the BSC has grown. However, with the drive towards sustainable development practices and triple bottom line principles, which cannot be accounted for in the BSC, there is a recognition of the limitations of the BSC. This has potentially resulted in a decrease in the interest in the BSC and in the number of recent academic papers published on the BSC.

While the BSC does have weaknesses, it remains a useful tool that can be improved and built on, given that the weaknesses are addressed as they arise.

2.2 The Human Resources Scorecard

Human resources has traditionally been considered as a secondary issue when allocating resources for departments. However, the development of a Human Resources scorecard
(HRS) suggests that human resources is beginning to play a more prevalent role in industry. This is especially true for knowledge-based and service-orientated industries where assets are largely intangible (Becker B, Husselid M & Ulrich D, 2001: p ix). The HRS aims to contribute to a company’s value-adding activities. It has four components (Becker et al, 2001):

- HR deliverables
- The High-performance Work System
- External HR system alignment
- HR efficiency

2.2.1 Strengths of the HRS

The HRS focuses on one of the most important organisational components, viz. human resources. The HRS has the following advantages (Becker et al, 2001):

- It aligns HR with the organisational state
- It measures performance of the four components
- It provides a means to quantify ‘soft issues’

2.2.2 Weaknesses of the HRS

While the HRS is useful as it focuses on an important organisational component, it suffers from the following weaknesses (Becker et al, 2001):

- The process is lengthy and highly detailed
- The HRS only focuses on human resources at the expense of other key organisational functions
- Interpretation of the results requires training

2.3 The BEE Scorecard

The purpose of the BEE scorecard is to provide a means to benchmark progress and compliance with the government’s BEE policy, in a manner that can be applied generically. The BEE scorecard was developed as a means to measure and track BEE progress.

The primary objectives of the scorecard arise from the need to have a uniform approach that would allow sectors sufficient flexibility to adjust the assessment weighting to meet their
specific organisational needs, and industry requirements and the socio-economic environment in which they operate, while still being able to measure progress in a meaningful manner.

The development and use of a common scorecard aims to provide a framework for various stakeholders involved in BEE implementation. The use of the scorecard applies to both enterprises and sectors and aims to provide flexibility to adjust to differing circumstances, while simultaneously providing a reasonably standardised approach to the assessment of BEE.

The BEE scorecard measures developments in three key areas:

- Direct empowerment through ownership and control
- Human resource development and employment equity
- Indirect empowerment through preferential procurement and enterprise development

The scorecard attempts to create components that can be applied generically to organisations and sectors. The relative weighting between each component is sector dependent and provides flexibility to meet the sector-specific requirements.

2.3.1 The Generic Scorecard

As indicated, the scorecard consists of three areas for BEE measurement, viz. direct empowerment, human resource development and indirect empowerment. Each of these is further divided into more specific component aimed to meeting BEE objectives.

Each component is weighted. This provides an indication of the relative importance of the particular area to meeting BEE objectives. The scorecard is not prescriptive in its approach and rather aims to serve as a guideline on how BEE should be implemented in each sector. Any significant deviations from the generic scorecard must be justified. The Department of Trade and Industry’s generic scorecard and weighting is illustrated in figure 2 below (Department of Trade and Industry, 2003: p23).
<table>
<thead>
<tr>
<th>Core Component of BEE</th>
<th>Indicators</th>
<th>Conversion Factor</th>
<th>Raw Score</th>
<th>Weighting</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct empowerment score</strong></td>
<td>Equity Ownership</td>
<td>% share of economic benefits</td>
<td></td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>% black persons in executive management and/or executive board and board committees</td>
<td></td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td><strong>Human resource development and employment equity score</strong></td>
<td>Employment Equity</td>
<td>Weighted employment equity analysis</td>
<td></td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Skills development</td>
<td>Skills development expenditure as a proportion of total payroll</td>
<td></td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td><strong>Indirect Empowerment score</strong></td>
<td>Preferential procurement</td>
<td>Procurement from black-owned and empowered enterprises as a proportion of total procurement</td>
<td></td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enterprise development</td>
<td>Investment in black-owned and empowered enterprises as a proportion of total assets</td>
<td></td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To be determined by sector</td>
<td></td>
<td></td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2. DTI BEE generic Scorecard (Department of Trade and Industry, 2003: p23)

A critique of the BEE scorecard, in light of BSC theory, the construction charter and the challenges facing emerging contractors is presented at a later stage.


2.4 Government Legislation

Black economic empowerment (BEE) and employment equity embody the government’s efforts to address the legacy of South Africa’s racial imbalances. These efforts have been legislated through the passing of several statutes, the most notable in the employment and commercial business arena and being:

- The Employment Equity Act (No.55 of 1998) (Government Gazette, 1998b)
- The Skills Development Act (No.97 of 1998) (Government Gazette, 1998c)

However, these efforts were met with limited success and strongly criticised for the slow rate of transformation and the lack of a coordinated process. This resulted in the formation of a BEE Commission whose mandate was to investigate the concerns raised and develop a strategy to move forward. The BEE Commission Report, (BEE Commission, 2001), made several recommendations, amongst them:

1. A call for the development of the national BEE strategy, outlining guidelines and targets to be achieved.
2. The passing of the BEE Act to enforce the BEE strategy.
3. The identification of major sectors for transformation and the need to develop empowerment charters and BEE scorecards specific to each of these sectors.

South Africa’s previous discriminatory laws resulted in ownership and control being vested in the minority of the population, preventing free and meaningful participation in the economy by all South Africans (Chege L, 2004). The Competition Act (Act No 89 of 1998) (Government Gazette, 1998a) tries to encourage efficiency, adaptability and the development of the economy. However, this is done in a manner that acknowledges the difficulties experienced previously and currently facing emerging enterprises and historically disadvantaged persons.

The Act allows for exemptions from the requirements of the anti-competitive practices. This applies in circumstances that would promote BBBEE and the ability of Black owned and Black controlled enterprises to become competitive (Chege L, 2004).
2.5 Review of Charters

2.5.1 Background

BEE transformation charters have been developed for numerous industries, viz. Mining, Liquid Fuels, Financial and ICT. As government is attempting to focus on industries where there is a need for transformation and sectors where government expenditure contributes significantly to the industry, further charters are in the process of being developed for the other industries, viz. Construction, Tourism, Maritime, Healthcare, Transport and Media. However, in the case of these industries, minimal work has been done on the respective charters to date, relative to the existing charters. Further charters are likely to be developed for the retail industry, manufacturing and management consulting in the future.

2.5.2 Relationships between charters and industry

An important point to note is that future charters are likely to be increasingly dependent on each other for their success. The financial charter is highly dependent on the ICT charter fulfilling its objectives and meeting its targets, as this will allow the financial sector the opportunity and means to meet their stated objectives and targets. The inter-dependence across sectors will also impact on the development of future charters, as there will be a need to consider the implications of a sector specific charter on the surrounding and associated sectors. The inter-industry relationships must therefore be clearly understood, considered and captured throughout the development of future charters.

2.5.3 The Financial Charter

Possibly the most significant feature of the Financial Charter (www.treasury.gov.za) is the focus on increasing access to financial services for poor households and communities and the 75 billion rand that is to be made available for black empowerment financing. The availability of such funds will allow for significant developments of black owned companies, potentially within the procurement sector. While the availability of such funds does provide opportunities, issues of risk, return on investment required and surety may negatively impact on such funds filtering through to the lower end of the spectrum, where they are potentially required the most. The availability of funding, as allowed for in the financial charter, is essential to ensure the success of transformation initiatives in other sectors.
2.5.4 Mining Charter

A significant point of the Mining Charter (Department of Minerals & Energy, 2002) is the undertaking by the local mining companies to assist in raising the one hundred billion rand required for transferring ownership to blacks, in accordance with the mining charter. A similar approach could be adopted by the construction charter, potentially with a focus on ownership equity and financing for sureties and equipment.

A development worth noting in the mining charter is the focus on Black owned companies receiving future mining rights in SA. Given the mining companies’ dependence on the government for the granting of mining licences, such pressure and requirements are likely to be a powerful driving force for BEE transformation within the industry. A similar approach, if adopted for the awarding of large-scale construction projects in the future, may help promote the transformation of the construction industry.

2.5.5 Liquid Fuels Charter

The most significant characteristic of the liquid fuels charter (Department of Minerals & Energy, 2000) is the focus on developing the value-chain, both upstream and downstream, through the development of black owned suppliers and distributors.

2.5.6 ICT Charter

A distinguishing feature of the ICT charter (ICT Empowerment Working Group, 2004) is its degree of detail and thoroughness. The ICT sector poses an interesting challenge to transformation, due to the presence of large multi-nationals that are opposed to the equity ownership component of transformation. Following extensive negotiation with bodies representing United States commercial interest, a provision is likely to be made to allow for equity equivalence.

Through this mechanism, companies that can provide reasons for not meeting the ownership equity requirements may be granted exemption from this component of BEE. They will be required to focus on other aspects of the scorecard to compensate for the ownership portion. This approach may offer significant benefit to the development of supply side companies, and may contribute towards the creation of a sustainable economy, while also increasing the overall market size of the specific industry.
2.5.7 Conclusion

The various charters developed thus far have demonstrated the ongoing nature of the process, with each successive charter providing greater detail and clarity on what is required. Further, the charters offer insight into possible approaches that may be included in the construction industry, most notably, company involvement in raising funding and the issuing of future contracts to black owned companies.

Of concern are the varying requirements between charters that will impact on the assessment of companies working across different industries. While it has been argued that a single charter should be developed to serve the needs of all industries, there is nevertheless a need to allow the charters to address industry specific needs and characteristics.

2.6 Characteristics of the Construction Industry

2.6.1 Background

The following sections aim to provide an understanding of the nature of the construction industry and the role it plays within South Africa’s socio-economic environment and government’s macroeconomic and transformation policy.

The construction industry serves a pivotal function in the provision of infrastructure that will help address the disparities caused by apartheid and stimulate economic growth. A significant percentage of the industry market share is through government procurement. An evaluation of the industry characteristics and challenges is provided, as these issues impact on government’s ability to influence the industry through procurement and on the ability to bring about meaningful transformation and economic growth.

2.6.2 Characteristics of the construction industry

“The construction industry creates and maintains the built environment that underpins all modern human endeavour, economic growth and social development” (CIDB, 2004a: p6)

The construction industry is a basic sector and encompasses professional consulting services, construction and related manufacturing and supply sectors (CIDB, 2004a). Companies within
the sector are involved in the provision of professional engineering services, the supply of various building materials and the construction of roads, buildings, bridges and infrastructure.

A 2002 assessment indicated a breakdown of total construction spend as follows: 29.5 percent private sector, 56.9 percent public sector and 13.6 percent state owned. The total construction spend in 2002 exceeded 57.5 billion rand. The significant reduction in interest rates has stimulated the property development market, resulting in an increase in the contribution towards GDP that the two sub-sectors, civil and building, make in the short term.

It is envisaged that investment of over 140 billion rand in industrial and mining projects will be made over the next seven years, if projected projects go through. However, construction material costs are increasing at approximately 8 percent, and in some instances, up to 20 percent, due to global competition and demand for products in growing economies (CIBD, 2004a).

High rates of liquidation are experienced in emerging enterprises, with 532 liquidations occurring in 2000, 554 in 2001 and 371 in 2002 (CIDB, 2004a).

2.7 Emerging Contractors and the Construction Industry

The EPWP offers a significant opportunity to develop and empower emerging contractors. To help achieve this objective, the government has launched “Sakhasoneke”, the Emerging Contractor Development Program (ECDP) (www.publicworks/programmes/index.html). This program is aligned to the Department of Public Works’ (DPW) commitment to overcoming the constraints facing emerging enterprises. Further, the program attempts to ensure that black and women contractors are able to enter the mainstream construction market.

The Sakhasoneke support programme has regional offices and offers support to emerging black contractors through the following (www.publicworks/programmes/index.html): Sakhasoneke help desk support; a database of emerging contractors, that has defined entry and exit criteria and that allows for monitoring and evaluating of contractor performance; the development of programmes and access to capacity building, finance and mentoring; the support of Women in Construction; and help desk support that provides an interface between the department and the contractors.
Through the ECDP program, the number of registered contractors increased from 1500 in the year 2000 to over 2500 in 2001, while the number of active women contractors increased from 118 to 247.

A further program focusing on emerging contractors is the *Vukuzakhe Programme* (DOT) ([www.kzntransport.gov.za/programmes/index.html](http://www.kzntransport.gov.za/programmes/index.html)). This is a Department of Transport initiative established to support emerging contractors. The program allows for targeted procurement to help address the issues resulting from the legacy of apartheid and gender discrimination. It is based on a four-stage advancement process designed to facilitate the development of small business. Each stage is characterised by increased levels of risk and less support structures. This allows contractors to develop and progress incrementally in a sustainable manner. The four stages are limited by maximum contract values as indicated below:

- **Stage 1A**: maximum value of the contract = R 50 000
- **Stage 1B**: maximum value of the contract = R 200 000
- **Stage 2**: maximum value of the contract = R 500 000
- **Stage 3**: maximum value of the contract = R 1 000 000
- **Stage 4**: maximum value of the contract = R 5 000 000

Emerging contractors must be verified and included on a database prior to being eligible for contracts. The verification process is based on an in-depth interview process that is designed to ensure that suitable and eligible candidates are identified. Further, the interview is used to ascertain skills levels. It is estimated that there are approximately 20 000 registered contractors on the database.

### 2.7.1 Challenges facing emerging contractors

Research performed by the CIDB highlighted the following issues as being significant challenges to the development of emerging contractors (CIDB, 2004b). In particular the CIDB highlighted these issues as contributing to the unsustainability of emerging contractors. The issues identified are:

- Procurement procedure and delivery management
  - Perceived lack of commitment to preferential procurement
  - Negativism of consultants when dealing with emerging contractors
- Non-standardised tender process
- Biased tender process (favouritism etc)
- Delayed payments
- Lack of performance monitoring
- Focus on price rather than competency

- Access to finance
  - Difficulties to secure sureties and bridging finance
  - Credit facilities with material suppliers
  - Confined to small contracts limiting growth potential

- Capacity to perform
  - Lack of management training and skills
  - Fronting
  - Lack of skills transfer through joint ventures
  - Exploitation of emerging contractors in joint ventures
  - Expectation of emerging contractors and failure to take responsibility

The existing literature suggests that these challenges face all contractors, irrespective of size. These areas were investigated further to confirm their validity when dealing with larger emerging companies that have attained the required critical mass to break into the mainstream market and contribute positively towards transformation in the industry.

2.8 An Evaluation of BEE in the Construction Industry

Currently, there is no broad-based BEE policy for the construction industry. Within the consulting environment, the SA Association of Consulting Engineers has decided to develop its own BEE policy, which will be aligned to the balanced scorecard published by the Department of Trade and Industry (Department of Trade and Industry, 2003). The proposed policy will be integrated into a Construction Industry Charter. The proposed Construction Industry Charter was initially scheduled to be drawn up in April 2004, but has not been released to the public thus far.

In terms of listed companies, the sector contains 16 companies that generate approximately 40 billion rand of revenue per year. The total market capitalisation of the sector is approximately 15 billion rand. The sector provides 122 000 jobs. Key players in the sector are PPC, M&R
Holdings and Aveng. These companies constitute over 70 percent of the total market capitalisation of the industry (Empowerdex Empowerment Watch, 2002).

The term *Black influenced enterprise* was initially used in the BEE Commission Report, and refers to companies that have demonstrated a limited level of commitment to BEE and transformation, below the criteria of required to be considered as a Black-empowered company. While the term is not part of the BEE Policy and BEE Act (Department of Trade and Industry, 2003), it continues to be used by certain JSE listed construction companies, and certain BEE rating companies.

The BEE wealth invested in the sector amounts to R1.3 billion, accounting for 9% of the total sector. Despite the term no longer being used, two companies are reported to be BEE-influenced companies, Group 5 and Murray & Roberts. The remaining 14 companies are non-BEE companies. There are no Black Owned Companies or Black Empowered Companies in the sector (Empowerdex Empowerment Watch, 2002).

Empowerdex research indicates the following (Empowerdex Empowerment Watch, 2002):

- Eight companies currently exceed the average BEE status of the sector, with Group 5 and Murray and Roberts showing high levels of BEE contribution to the industry.

- The sector has an average BEE ownership of 4.9 percent. Italtile currently leads the sector with a claimed 23 percent BEE ownership. However, of this 23 percent, 16.9 percent is held by PIC and should not be counted as BEE. This highlights the difficulty of assessing and evaluating BEE ownership.

- The average weighted BEE control of the sector is 3.8 percent and there are currently no Black Executive directors in this sector. There are nine non-executive directors who sit on the boards of Aveng, Cemenco, Ceramic, Group 5 and M&R Holdings.

- Employment equity profiles, details of skills development and affirmative procurement for the majority of the companies have not been disclosed.

- The industry tends to focus strongly on enterprise development through the use of joint ventures and skills transfer. Social development thus far has focused strongly on the advancement of Historically Disadvantaged Individuals (HDI). However, under
the new legislation, the terminology has been revised and the Act applies to Blacks, (defined as Africans, Coloured and Indians).

The sector is considered to be subject to high empowerment risk from affirmative procurement, particularly as the sector provides a significant portion of services to the public sector and in light of the expected increases in work opportunities due to the EPWP.

2.8.1 Challenges facing the construction industry

2.8.1.1 Ownership

Amongst the greatest problems facing the industry is the lack of registered black professional engineers, which account for less than 5 percent of the country’s total number of registered engineers. This has a significant negative impact on the industry’s ability to grow black equity, as it is considered essential that engineering practices continue to be owned by qualified engineers (Business Report, 2004a). While it is not a legal requirement for ownership to be held by professional engineers, due to cost constraints in establishing and running of a consulting practice, professional engineers own the majority of emerging consulting companies.

Emerging construction company ownership does not require professional engineers to be involved in the management and ownership of the company.

2.8.1.2 Skills Development

Twenty-five SETAs have been established nationally and they are responsible for developing sector skills plans, approving, registering and promoting learnerships and quality assurance training and administering levies and grants (Department of Labour, 2003). Employers contributing to the training levy have been very slow to utilise the available opportunities, citing bureaucracy and red tape.

While there are a total of 8365 levy paying construction companies within the sector, only 56 learnerships have been registered as of mid 2003. This represents 12 percent of the total of 478 learnerships registered across all sectors of the economy and suggests a poor response from industry to meet the needs of transformation.
Information on the performance of other SETAs is currently not available, therefore it is not possible to draw a comparison between the construction industry and other industries. The construction Education and Training Authority (CETA) is discussed briefly at a later stage.

2.8.1.3 Preferential Procurement

2.8.1.3.1 Background to preferential procurement

Government’s procurement policy is based on a 10-point plan that provides a series of interventions that are aimed at increasing the participation of previously disadvantaged persons in public sector procurement opportunities (Chinje, 2003). The 10-point plan focuses on improving and simplifying the tender process, increasing the participation base, wavering of securities for contracts below a certain value, the unbundling of projects, improving of payment cycles, providing procurement advice, classifying building and engineering contracts and developing a preferencing system for targeted groups (Chinje, 2003).

2.8.1.3.2 Challenges to participation in preferential procurement

Numerous barriers have been identified that prevent or hinder black business participation in the public sector procurement. These are as follows (Chinje, 2003):

- Institutional weaknesses within tender boards, procurement offices, and government departments combined with a lack of appropriate skills (Black Economic Empowerment Commission, 2001)
- Discrimination within government and state owned enterprises restricting black access to business (Black Economic Empowerment Commission, 2001)
- Tender process that favours larger and better-established entrepreneurs (Department of Public Works, 1995)
- Limited interaction between procurement units and prospective tenders resulting in difficulty in obtaining access to information (South African Ministry of Finance and Ministry of Public Works, 1997)
- Contract documents that are confusing and difficult to comprehend (South African Ministry of Finance et al, 1997)
- Lack of staff professionalism, resulting in inappropriate evaluations, cost increases and limited development of suppliers (Black Economic Empowerment Commission, 2001)
Additional challenges face the industry in terms of preferential procurement practices are (CIBD, 2004a):

- The unbundling of projects resulting in an inappropriate division of responsibilities and increase risk
- The extension of tender validity periods
- Delayed interim payments and settlement of final accounts
- Discounting of professional fees
- Undue focus on lowest price to the detriment of best value
- The lack of uniformity in procurement documentation and procedure, particularly in terms of the three levels of government, i.e. local, provincial and national
- The absence of a contractor grading system, resulting in a market in which everyone is eligible to submit tenders
- The limited number of institutions providing teaching on preferential procurement methodology

With regard to the lack of uniformity in procurement practices and the absence of a grading system, it is believed that “…the introduction of Supply Chain Management principles, the Standard for Uniformity in Construction Procurement and the implementation of the Construction Industry Development Board (CIDB) will support improvements to the procurement processes” (CIBD, 2004a: p 21).

Through the utilization of preferential procurement, substantial progress has been achieved in providing historically disadvantaged contractors with access to opportunities. However, despite the current difficulties facing the industry in terms of transformation, industry representatives continue to have concerns regarding the claimed negative impact of preferential procurement policies.

2.8.1.4 Joint Ventures and Fronting

The use of preferential procurement practices in public sector contracts has resulted in the formation of numerous alliance and joint ventures. However, few, if any, of these joint ventures have been carried through to the private sector. Large companies have expressed concern regarding the increased resources required to manage joint venture construction work, while emerging contractors express concern regarding the allocation of costs resulting in emerging companies realising minimal profits.
Associated with joint ventures is the practise of “fronting”, an issue that has been present since the inception of preferential procurement. It was recently brought to the fore in a case in which, as a result of forensic auditing into BEE fronting, at least five companies were identified as having been involved in “fronting” to secure contracts from the eThekwini Municipality for Durban’s 700 million rand uShaka Marine World (Business Report, 2004b). The practice of “fronting” undermines the principles and objectives of empowerment and results in significant and unacceptable market distortions.

It has been suggested that “the widespread practise of fronting would appear to indicate that a threshold of real absorption capacity may have been reached within the development of historically disadvantaged enterprises and that greater targeting of supply side development interventions may be called for.” (CIDB, 2004a: p28).

However, when the current levels of BEE owned, empowered or influenced companies listed on the JSE are examined, the above statement must be questioned. As long as BEE companies are not in a position to tender for both public and private sector work, and are limited to work as sub-contractors, transformation within the construction industry, in terms of black construction enterprises, cannot be deemed to be at an acceptable level.

2.8.1.5 Financial Barriers

The perceived risk and the lack of availability of working capital and guarantees pose a barrier to transformation of the industry. Banks are managing their risk by establishing risk-related ceilings on loans to individual clients as well as to the industry as a whole. As a result, emerging contractors perceive increasingly tighter control measures in terms of access to performance guarantees and finance. While this poses a significant challenge to emerging enterprises, the requirements of the financial charter may result in banks providing the necessary access to funds. However, given the capital intensive nature of the construction industry combined with the high risks, the banking sector may opt to fulfil its charter obligations by financing other lower risk sectors that are less capital intensive.

2.8.1.6 Transformation in the Manufacturing and Supply Sector

While the primary focus of this study is limited to companies involved in the actual construction of infrastructure, the levels of empowerment within the manufacturing and supply sector must be taken into consideration. Depending on the nature of the construction,
materials contribute as much as 60 percent of the total project cost and as a result the sub-sector is considered to be a major role player (CIDB, 2004a). As an example, the cement industry consists of four producers and represents a market of approximately 4.5 billion rand. The steel industry is significantly bigger.

Within the manufacturing sector, black equity ownership faces the challenge of high capital requirements and technical know-how. While large companies are investigating the potential for empowerment through equity, the medium sized suppliers are predominantly family-owned establishments where empowerment at equity levels is unlikely to occur.

2.9 The Construction Education and Training Authority

The Construction Education and Training Authority (CETA) was established in April 2000 through the Skills Development Act No 97 of 1998 (Government Gazette, 1998b). Its main objective is to ensure that training and skills development provided meets the needs of the construction sector.

The construction industry is very large and complex. This complexity needs to be catered for when planning and managing Workplace Skills Development. Further, it is estimated that there are in excess of 35 000 employers in the construction industry, 95 percent of which are small and micro enterprises, and approximately 330 000 employees. Small and micro enterprises have limited participation in the Workplace Skills Development framework, as only about 30 percent of these companies pay levies and approximately 8 percent have Workplace Skills Plans. (www.ceta.org.za)

Employer participation levels are also of concern. Developing the construction centre is seen to be critical for the economic well being of the country, due to its labour intensive nature and the support it provides through infrastructure provision. Employer participation is quantified as follows:

- Contractors 58%
- Professionals 27%
- Material Manufacturers 11%
- Other 4%
2.10 The BEE Construction Transformation Process

2.10.1 The construction charter transformation group

Government and the private sector are currently in the process of developing a transformation charter for the construction industry. The Construction Charter Transformation Group was formed by business and attempts to ensure representation of all key industry stakeholders. Thirteen national organisations are currently actively participating on the process (www.ctcg.co.za). Labour and community are also seen as key role players in the process.

While the National Department of Public Works carries responsibility for the construction sector, and represents national department interests focusing on infrastructure and the construction, the transformation process is currently being driven by SAFCEC, a major construction association representing predominantly established companies from a non-disadvantaged background.

The purpose of the process is “to develop a pragmatic and effective transformation strategy through a transparent and inclusive process” (www.ctcg.co.za).

The industry acknowledges that the past decade has not resulted in effective transformation within the construction sector (www.ctcg.co.za). The charter and associated scorecard will also result in the development of a Code of Good Practice, potentially focusing on procurement issues. This therefore requires both government and private sector involvement in the charter development process.

2.10.2 The Construction Charter

Public Works Minister Stella Sigcau officially launched the transformation process. Currently, the charter is in the process of being formulated and is not available for public comment. Discussions with numerous parties involved in the transformation process suggests that the charter will focus on

- Changing the racial and gender profile within the industry
- Developing skills
- Promoting the development of the supplier and materials sector of the industry
- Addressing fronting and the use of labour only contracts
- Supporting BEE compliant suppliers and service providers
The charter will also have to address issues resulting from companies involved in various sectors. There will therefore be a need to ensure that, should a company be required to comply with the specific requirements of the construction charter, it will be exempt from conditions arising out of future charters, unless the construction charter is amended to accommodate these changes. Further, the construction charter will have to be developed taking cognisance of existing charters and the requirements placed on industries supplying or competing in both the construction and other industries that have already completed charters.

“Stella Sigcau (Minister of Public Works) told the industry that she is expecting a scorecard that would put a weight of no less than 30% on direct empowerment in the first three years and no less than 45% thereafter”. (Botha, 2004: p20). However, there is some confusion as to whether thirty percent ownership is required, or whether this refers to the converted score on the DTI BEE scorecard. Clarity on this issue will be required on the future, as a low ownership target may result in companies scoring highly on the weightings attributed to the ownership component of the scorecard.
3 METHODOLOGY

3.1 Initial Research Focus

The initial intention of the research study was to:

- Evaluate the current status and trends of BEE in the construction industry
- Identify the unique challenges facing transformation within the industry, and hindering the acceptance of a BEE construction charter and scorecard
- Evaluate the level of commitment for transformation and participation, particularly in multi-national companies and companies with significant interests outside of South Africa
- Identify opportunities for outsourcing and sub-contracting within the construction industry that can be used to further BEE transformation
- Identify characteristics and requirements that are unique to the industry and that can be used as indicators of performance for a BEE scorecard, taking into consideration the challenges currently facing the industry
- Make recommendations to overcome the challenges facing the South African construction industry in adopting transformation and a BEE charter and scorecard

Initial attempts were made to use a detailed questionnaire, adapted from the BEE Monitor, to obtain information. A copy of the questionnaire is included in appendix A. This comprised of a short compulsory section that would allow for the development of an industry wide scorecard analysis, and an optional section, that would gauge the industry’s perception and level of commitment to BEE transformation. In excess of five hundred questionnaires were sent out electronically. In addition, reminders were also sent at a later stage. However, due to a very poor response from industry, with a response rate of less than one percent, it was not possible to perform the envisaged study. The poor response rate is deemed to be reflective of the state of the industry and the reluctance to transform.

Additional attempts were made to obtain further data through conducting semi-structured interviews with numerous key players in industry representing major private South African companies, civil engineering and construction associations and government bodies and departments. Such attempts were unsuccessful. Of the five major companies contacted, only one company responded and was willing to discuss BEE issues within the construction industry.
Further, attempts to obtain assistance from several major construction organisations were poorly received, with one major organisation requesting that the research be postponed till after the signing of the charter, as indicated in appendix C. Many organisations (representing various stakeholders within the transformation process) were largely unreachable and once contacted, were unwilling to assist. The response was attributed largely to the state of flux the industry currently finds itself in, and indicates an unwillingness of industry to actively transform.

Due to the difficulties experienced, it was decided to focus the research on emerging black contractors of a reasonably large size, and restricted to a single municipality. The research was refocused to investigate the challenges facing emerging contractors and to ascertain how the forthcoming charter could address some of these challenges. A revised questionnaire targeting emerging contractors was subsequently developed and is provided in appendix B. This was due to requests for a written questionnaire as opposed to telephonic interviews. Despite, this request, no responses were obtained using the questionnaire.

3.2 Research Hypotheses

H1: Larger emerging black contractors have not yet been integrated into the mainstream of the sector.

H2: Large and traditionally established companies are not effectively engaging with emerging black contractors to promote meaningful BEE transformation, to the detriment of the latter.

H3: There are numerous weaknesses in the BEE scorecard that are a hindrance to the success of emerging black contractors.

3.3 Instruments Utilized

A semi-structured questionnaire was adopted, and in-depth interviews were held with the selected sample. The information obtained was analysed using qualitative analysis methods, outlined below.
3.4 Procedure

3.4.1 Qualitative analysis

Data that do not have numeric properties are referred to as qualitative data (Keller & Warrack, 2003). There are three data collection and analysis methods that are largely used to deal with qualitative data:

- Frameworks can be developed based on existing theory and information, in order to direct the analysis process
- A deductive process that identifies emerging themes through pattern matching procedures
- An inductive approach, through the use of grounded theory. This entails breaking down data into categories and assigning labels that can be analysed for relationships (Saunders, Lewis & Thornhill, 2003: p377 – 403)

Due to the difficulty in obtaining information, a deductive approach to research was adopted. An in-depth literature review was conducted to identify the characteristics of the industry and the challenges facing the industry. Further literature review was conducted to determine the challenges facing emerging black contractors. Hypotheses were drawn up based on the key challenges identified. Telephonic interviews were conducted to determine if the hypothesis were true and applicable to larger emerging contractors.

3.4.2 Framework analysis approach

The analysis approach adopted was based on a framework analysis. Framework analysis is traditionally deemed to be inductive, though it may be used for deductive analysis as well (Saunders, et al, 2003). It is ideally suited for analysis that requires measurable outcomes, as it uses defined stages and provides a systematic approach to analysis. It is also ideally suited for research that needs to meet specific outcomes and provide recommendations, and that need to be conducted over a short period of time.

Framework analysis uses five key stages, typically (Lacy & Luff, 2001: p3):

- Familiarisation
- Identifying a thematic framework
- Indexing
In addition to the stages outlined above, the following stages were also adopted:

- Testing the existing theory, determined from the literature review, against the data
- Investigating possible reasons behind the outcomes determined

### 3.4.3 Sample

For the purposes of this research, the population was limited to emerging black contractors in the Tshwane Municipality, with turnovers between one and five million. The survey was restricted to such companies, as it is believed that companies of this size are most likely to become better established and bring about substantial transformation within the industry, i.e. the companies are of a suitable size and capacity to begin to compete with established white owned companies.

The study was restricted to the Tshwane Municipality as the Tshwane Municipality falls under the Gauteng province, which has allocated approximately eight billion rand for infrastructure upgrade over the next three years. This offers both a significant potential and a need for BEE transformation to be undertaken within the construction industry.

Further, the availability and accessibility of information and contact details for emerging contractors in other regions was limited and unavailable. Attempts were made to obtain contact details for emerging black contractors in the Kwa-Zulu Natal and Western Cape areas (perceived to be areas of above average growth rates). However, despite repeated attempts, such information was not readily available.

Additional contact information focusing on contractors tendering for projects of values less then R100 000 was obtained. These contractors were based in the Western Cape Province. However, it was found that these contractors were not in a position to challenge and compete with the established companies. As a significant amount of government infrastructure budget will be disbursed through the allocating of larger government contracts (i.e. above one million rand), the study focuses on contractors with the capacity to enter, compete and win such contracts.
Within the stated population, i.e. Black emerging contractors in the Tshwane Municipality with turnovers between one and five million, twelve companies were identified as meeting the stated criteria, based on the information available. Four of the twelve companies were successfully contacted, providing for a 25 percent response rate. Telephonic in-depth interviews, based on a semi-structured questionnaire were conducted with each of the companies. Attempts to contact the remaining companies were unsuccessful due to:

- Out-dated contact details
- Unavailability of contractors to discuss BEE transformation, due to pressing work commitments
- Unwillingness to discuss BEE transformation and a lack of interest in the transformation process.

The implications of these issues are addressed later in the study.

3.4.3.1 Other Key Stakeholders and Industry Representatives

Attempts were made to contact representatives from the following key associations, viz. South African Institute of Civil Engineers (SAICE); Engineering Council of South Africa (ECSA); Women in Construction (WiC); National Association of Black Contractors and Allied Trade (NABCAT) and National African Federation for the Building Industry (NAFBI), to determine their concerns as key stakeholders in the industry and to gain further insight into the challenges facing transformation within the industry. However, it was found that in all cases, organisations representing the emerging black contractors and other minority groups within the industry did not have an established network, readily available contact information or an internet portal. This is reflective of the dispersed nature of the emerging black construction industry, and adds to the difficulty in ensuring meaningful transformation in the industry through adequate and substantial representation in the transformation process.

In order to determine and further investigate the stated hypothesis, a predominantly qualitative analysis was performed. Extensive data collection was conducted through desk research. Attempts to obtain further information through the use of structured self-administered interviews and via company interviews proved unsuccessful. For this reason, the approach outlined above, using in-depth interviews on a select sample, was adopted.

Research covered literature sourced from the Internet, publications, books, periodicals and other resources to ascertain what has been done in BEE thus far, the state of the construction
industry, trends and developments within the industry, and the challenges facing black emerging contractors in the industry.

Existing charters and scorecards were reviewed to try to identify issues that may limit or promote transformation within the industry, and to make recommendations accordingly.

3.4.4 Variables used

From the research, key themes were identified. These were further explored through telephonic interviews with key emerging contractors. The research examined challenges facing emerging contractors around the following issues:

- Procurement
  - Tender process
  - 90/10 Points system
  - Fronting
  - Payment delays
  - Consultant attitudes
- Financial issues
  - Profitability of the industry
  - Obtaining materials on credit
  - Access to finance and bank attitudes
- Capacity
  - Access to equipment
  - Technical competence
  - Management competence
  - Joint Ventures
- Opportunities for supply side development
- The BEE transformation process and the charter

These factors may suggest that:
- Industry is unwilling to embrace BEE transformation
- There is a reluctance to divulge information that may expedite BEE.
- Black interest groups and black contractors suffer from poor access to resources.
4 PRESENTATION OF FINDINGS

The key findings of the interviews are presented and discussed below. The respondents' comments are provided in appendix D.

4.1 Financing Challenges

4.1.1 Sureties

Typically, government contracts require a 10 percent surety prior to the appointment of a contractor and the start of the project. The sourcing of such surety required for both smaller and larger contracts is seen to be the most limiting factor preventing the further development of black emerging contractors. The sourcing of sureties was cited as a major barrier to the development of emerging contractors by all respondents. “... black contractors are already out of the race. I am referring here to issues such as 10% surety on a R5m tender, proof of plant and machinery ownership to name a few.” Correspondence from respondent.

Discussions with leading consultants also supported the view that the 5 and 10 percent sureties and performance guarantees required, and the liability period are major challenges for emerging contractors. However, such sureties and guarantees are required in order to protect the client from excessive risk.

Sureties remain a significant challenge to emerging contractors. A reduction or wavering of the sureties will result in an increase in the number of emerging contractors tendering for projects, without necessarily having the required technical competencies. This will result in reduced service delivery. While there is a need to provide assistance through reduced sureties and alternate funding mechanisms, sureties and guarantees are still required to ensure service delivery and performance. Alternate funding avenues will need to be provided.

4.1.2 Access to funding mechanisms and banking

The perception amongst black emerging contractors is that there are no suitable avenues to raise sureties and finance required for projects, with eighty percent of respondents citing access to funds as a major barrier. The general assessment of the industry indicates that there is a perception that banks are not willing to assist in the development of black emerging contractors. This has largely been linked to the perceived higher risk the industry carries, combined with the relatively unsustainable nature of many emerging contractors. Difficulties

40
are also experienced in sourcing funding for bridging finance, as indicated in the literature, and confirmed through field investigations.

Due to the lack of suitable rapid funding mechanisms to facilitate the provision of sureties and bridging finance, black emerging contractors are utilizing third party or private vendor financing, which results in significantly lower profit margins, due to excessive interest rates and profit sharing mechanisms (typically up to 30 percent) demanded by private vendor financing bodies. There is concern amongst emerging contractors that such finance bodies are being funded by banks, with the result that emerging contractors carry the extra cost of finance.

Further, Governmental bodies mandated to provide finance to BEE companies and to facilitate the development of previously disadvantaged individuals are not active in this sector, due to a perceived high level of risk.

The inaccessibility to funding results in emerging contractors being limited to small projects, and limits the level of transformation attained in the industry.

4.2 Sustainability

4.2.1 Company success rate & industry sustainability

The high levels of insolvencies and liquidations amongst emerging contractors (CIDB, 2004a) suggests that the market is over-saturated. Attempts to regulate that market, through the requirement for contractor registration have been made. Interviews conducted concur with the finding that there are an unsustainable number of companies competing for a limited number of projects. This sector is daily joined by unemployed young men and women who register closed corporations with the hope of procuring tenders, but then they get disappointed because it is a tough world out there.” Correspondence from respondent.

A key reason, cited by consultants, for the failure of many emerging companies is the lack of cash flow management and the rapid growth without adequate structures.

However, discussions with consultants indicated that while the market is highly competitive, there are sufficient opportunities to support the number of emerging contractors. “We believe that currently supply outstrips demand, placing pressure on the industry. There is a need to grow the pie. However, the future growth potential is largely dependent on the strength of the
“If Trevor Manuel’s promises are right, then demand will outstrip supply in the future.”

Consultant response.

Discussions with consultants also indicated a current bias towards public sector development in the industry, with an approximately 60/40 split. This was attributed to the mining industry limiting its’ development due to the strong rand. However, the EPWP will create a medium term demand in the market. This will not be sustainable due to the limited time period the EPWP is envisaged to run for. The EPWP will further increase the number of emerging contractors entering the market, and propagate the unsustainability of the industry.

The unsustainability of the industry has been cited as a reason for fronting, in which emerging black contractors serve as fronts to white companies. However, this issue will be addressed in the charter through limitations placed on the degree of work that may be sub-contracted. The degree of sub-contracting will impact on projects where specialist skills are required (e.g. pipe jacking), particularly in instances where such work exceeds twenty five percent of the contract value. However, the exemption must not hinder the development of black owned service provider’s competencies to develop such skills.

4.3 Opportunities for Supply Side Development

4.3.1 Market opportunity

Despite the un-sustainability of the construction market, as a result of excessive number of competitors, there are opportunities for the development of black suppliers. Interviewed persons indicated that, in the event of a black supplier base being formed, they would receive support from black emerging companies. The general view presented was that suppliers are unwilling to provide materials on credit. A subjective view indicated that a fifty percent up-front payment for materials was required in some cases.

There is also pressure from consultants for contractors to use suppliers from consultants’ databases, resulting in the majority of procurement spend flowing into white owned business. This restricts the development of black suppliers. The lack of black owned plant suppliers has also been cited as a major issue, as the budgetary allocation towards plant and equipment constitutes a significant portion of the contract value, and currently is restricted to white owned companies.
Interviews with consultants confirm that the development of a black supplier sector faces a significant challenge due to the monopolistic nature of some of the key materials sectors, viz. timber, cement and steel. These areas have high capital set-up costs and are capital intensive. There are therefore opportunities that are less capital demanding in the supply of other materials, viz. piping etc.

4.4 Fronting

All respondents indicated that fronting is widespread. However, the perception and definition of fronting amongst emerging contractors differs and needs to be addressed, as the use of black company names is perceived to be a form of fronting, and in some instances is so. Further, the appointment of skilled black persons to white companies was also considered to be a form of fronting. There is therefore a misconception of the nature and level of fronting within the industry.

4.4.1 Verification and auditing

Research indicates that there is a need for increased levels of forensic auditing by government to ensure that fronting does not occur. However, while black emerging companies recognize the need for such auditing procedures, the implementation of legislation and the requirements to prove ownership are seen by emerging black contractors as being difficult to meet. There is a very divergent view in that respondents indicated that there is a need to address fronting but they consider the verification process to be onerous. There is therefore a lack of synergy between the requirements to protect the interests of emerging black contractors and the vehicles and measures necessary to achieve such protection.

Consultants indicated that they do request basic ownership and employment equity information, but are not in a position to verify the details or to conduct a forensic audit on every company that submits a tender. Verification and administration is also made more difficult through the use of differing scorecard by the Treasury Department and the Department of Trade and Industry. Issues pertaining to verification of BEE compliance will be addressed through the accreditation of existing BEE rating agencies by SANAS (South African National Accreditation System).
The continued use of fronting limits the benefits that would normally accrue to black emerging contractors. Further, the conduct of black owned companies that serve as fronts indicates a high level of non-commitment to the transformation process.

4.5 Capacity Development

4.5.1 Joint ventures

Respondents indicated that joint ventures were not successful due to the relatively low profit margins they received from them. This was attributed to the structure of the joint ventures, in which the emerging black contractor supplies labour only, while the established contractor provides equipment and materials. As the majority of profit is made on equipment usage and materials, the relative profit awarded to emerging black contractors is limited. It was pointed out that established contractors use labour only contracts as a means of circumventing the labour law, thus placing the responsibility for labour law compliance on the emerging contractor. Discussions with key members on the Construction Transformation Charter Group suggested that the charter would address the issue of labour only contracts.

Further, the majority of respondents indicated that there was no skills transfer occurring through joint ventures. Discussions found that this refers to management training, as opposed to technical skilling. In contrast, consultant viewpoints indicated that the larger companies are making progress in skills development for emerging contractors. However, this is limited to technical skilling.

There is also a sentiment that joint ventures are being used for fronting. There is a divergent opinion on the use of joint ventures as the view was expressed that joint ventures provided an opportunity for emerging black contractors to develop skills by working as sub-contractors before tackling larger projects as main contractors.

4.6 Procurement

4.6.1 Tender process

All respondents found that the tender process to be onerous and highly legislative.
4.6.1.1 Costs & financial requirements

Respondents queried the cost of the tender documents, which is typically five hundred rand, non-refundable. The purpose for this cost was unexplained, and it is argued by some respondents to be an attempt to restrict access to tenders. It is argued that the tender documentation cost is used to limit the number of tender responses and to discourage contractors who lack the necessary competencies from tendering for work.

However, discussions with consultants indicated that current and future tender processes would prevent people without the required sureties from obtaining the tender document. It is argued that this is an attempt to protect both government interest and to prevent excessive costs being incurred by emerging contractors that do not have the required skills. This move may be seen to unduly inhibit BEE transformation at larger project levels.

Further, current procurement practices require that tenderers be able to show a sustained cash flow and proof of surety. Given the challenges and restrictions placed on emerging contractors, combined with the difficulties and lack of experience in financial management, these requirements are onerous.

4.6.2 Non-standard tender process

All respondents indicated frustration at the procurement process, due to the non-uniformity across provinces and between provincial and national departments, and stressed the need for an education to explain the process and requirements. Consultants argue that the differing processes make contract administration significantly more difficult.

Further, emerging contractors argue that the compliance requirements are being used to limit and slow transformation. This argument must however be balanced with the need to protect government and client interest, while still achieving BEE transformation. As such, the government has adopted a legislative approach to protect both the interests of the emerging contractor and the client.

4.6.3 Mindset

A key point stressed through engagement with the consultant was the view that government and municipalities have not fully applied preferential procurement legislation, largely due to a lack of capacity and willingness to implement the policy. While the policy exists, and staffing
may have changed within government, the mindset within government departments remains unchanged. Further, discussions with consultants indicated that parastatals had not transformed and were not applying preferential procurement fully. There is therefore a need for municipalities and the general public to be educated on the purpose and implementation of preferential procurement, and for government to fully implement preferential procurement principles.

4.7 90/10 Points System

The majority of emerging contractors expressed reservations on the merit of the 90/10 system, with many respondents of the view that the system was failing. Further, it was stressed that, if one had access to the consultants responsible for the project, it would be possible to beat the system. Discussions with consultants echoed the sentiment that the 90/10 system was failing, largely due to the fact that price remains a determining factor when awarding a contract. Further, emerging contractors cited the capital cost required to source equipment as a reason why they are not able to compete with established contractors that have lower overhead costs due to their plant being paid off.

The application of the 90/10 points system in the consulting environment has had a negative impact on the sector as it results in the commoditizing of knowledge-based skills, forcing companies to perform work “at risk”. Due to increasing competition, established consultants are unable to retain staff as income and salary levels are limited. Further, as indicated, the system forces companies to perform work ‘at risk’; in many cases business plans are generated for government bodies to secure funds for future work, likely to material in a two to three year period and there is no guarantee that the project would be given to the consultant once the funds have been obtained.

4.8 The Transformation Charter Process

4.8.1 Representation and stakeholder involvement

Viewpoints on the transformation charter process were varied. Many respondents contacted expressed disregard for the process and the study. This highlights the lack of transformation within the industry, and the limited commitment to the initiative. Currently the process is being driven by SAFCEC, an organisation that broadly represents the interests of established contractors and emerging contractors, from a non-disadvantaged background. Respondents
were of the opinion that the process should not be driven by SAFCEC. However, respondents also acknowledged that the emerging black contractors were uncoordinated, lacked a significant presence and the BEE transformation process lacked a visionary leadership. In contrast to this viewpoint, persons involved in the Construction Transformation Charter Group (CTCG) have indicated that SAFCEC have been receptive and open to discussion thus far.

Discussions with parties involved in the CTCG indicated that both government and private parties were committed to transformation and embracing preferential procurement.

While there is significant pressure from the government to complete a charter before the end of June 2005, some emerging contractors are of the opinion that the process should be slowed down, to allow black associations and stakeholders time to group and develop to a stage at which they may positively influence the charter.

The poor response to the research, from all sectors, including emerging black contractors, is reflective of the state of BEE transformation and the levels of commitment to the transformation process. Of serious concern is the lack of awareness, interest and commitment to the process by emerging black contractors and various organisations.

4.8.2 Equity ownership targets

A further area of divergent viewpoint is the issue of equity ownership, where some respondents indicated that they would prefer ownership targets of fifty percent, while others indicated that the focus of the charter should be on the development of black owned companies and not on diluting ownership in existing companies. In contrast to this, and despite comments and pressure from the Minister of Public Works to attain thirty and forty percent targets for the future, consultants involved in the charter feel the targets set will be similar to those in other charters, as the industries operate in the same socio-economic environment.

4.8.3 Focus points

Both consultants and emerging contractors surveyed indicated a need to focus on skills development. A further focus will be to address issues of fronting.
Further discussions with consultants indicated that while consultants account for approximately ten percent of the industry value, amounting to approximately four billion rand, and do not contribute significantly to the market share, they are in a position to influence and impact greatly on the transformation process. The consulting environment has made moderate steps to transform thus far, predominantly by focusing on employment equity, skills development and social investment. However, this must be assessed from the context of whether companies are focusing on development of previously disadvantaged individuals or historically disadvantaged individuals.

The development of emerging consultants was cited as being a necessary part to the transformation of the industry. However, their limited capacity, resulting in relatively higher costs, limits their ability to tackle specialist projects.

4.8.4 Targets

Discussions with parties involved in the CTCG indicated that meeting the charter requirements is dependent on economic growth within South Africa. Further, it was felt that other targets set in the charter would be in keeping with those stipulated in existing charters.

4.8.5 Challenges

Consulting companies expressed concern at the numerous charters being launched. It was suggested that a single charter be considered, as this would facilitate ease of use, particularly when dealing with inter-sector projects.

Further concern was expressed at the potential for conflict between what the CIDB has done thus far and what the charter will propose.
5 DISCUSSION OF KEY ISSUES

5.1 Financial Barriers

Financial limitations continue to restrict the growth and development of emerging contractors. There is a need for government funding agencies to be prepared to carry increased levels of risk, and to provide sureties for emerging contractors that have demonstrated competencies to perform the work tendered for. Further, a means to enable private financial institutions to accept higher levels of risk associated with the construction industry should be found. In a similar vein to the mining charter, the construction charter should also include an undertaking from the private sector to assist in raising the necessary funds required to bring about transformation in the industry.

The construction charter should allow for the evaluation of emerging contractors to assess their technical competencies through a grading system, and allow for a reduction in sureties in instances where the emerging contractor possesses the required skills. Such a system would have to be structured to recognise prior learning and work experience. Further, the charter should address skills development, particularly focusing on management training, and the provision and access to finance, possibly through avenues presented in the financial charter.

The BEE transformation initiatives should lean heavily on the financial sector to provide or fulfil the requirements of the financial charter, which stipulates the need for investment and the development of black owned business, as this is a means of addressing the funding barrier.

Development and funding agencies founded to assist in providing funding to emerging BEE companies may also be a potential vehicle to address the financing issue. Government agencies will need to adopt a higher risk threshold in order to support emerging black contractors and assist in the development of a black supplier base.

5.2 Industry Sustainability

Adequate management training must be provided to ensure companies are able to develop and be sustainable. Such training may be provided through CETA. Further, the market must focus on developing other avenues, potentially on the supply side, to ensure that the competition does not reach a point where it is detrimental to the industry as a whole.
Project sizes should be structured in a manner that ensures a sufficient flow of work to support the industry and to promote skills development. Projects of approximately six months duration would allow for such skills development. Larger projects of longer duration may be shared between emerging consultants, though this would require substantially more administrative and project management work.

Despite differing viewpoints on the use of a contractor rating system, there is a need to apply certain regulatory measures to the industry, to protect both existing emerging companies and client interests. However, the regulatory process needs to be applied in a fair and transparent manner, must ensure that there is progression for contractors and that persons are not discriminated against from entering the market.

5.3 Supply-Side Development

Measures should be included to prevent consultants forcing the use of specific suppliers. Further, the proposed charter should include steps to assist in the development of black owned materials and service suppliers. Consideration should be given for government to make payment directly to suppliers, on behalf of contractors, (with an agreed percentage profit payable to the contractor), as a means of addressing the inability to obtain credit.

The charter should also allow for operational management and support to be provided to emerging suppliers, to ensure that there is up-stream integration with the needs of emerging contractors. Difficulties in supplier credit may be addressed by government departments’ sourcing and supplying material directly to emerging contractors, effectively providing a financial management role or service.

5.4 Consultant Attitudes

In order to bring about meaningful transformation within the construction industry, a greater degree of transparency between consultants and contractors is required. Further, while the consulting environment has made progress in transformation, significant changes and the development of larger wholly black owned consulting companies is necessary to address the problems experienced by emerging contractors, with the awarding and administration of projects. The charter, while focusing on the construction sector, must also establish targets for transformation within the consulting environment, taking cognisance of the service and knowledge-based orientation of the sector.
5.5 Fronting

The process of ownership verification needs to be simplified, or documented and presented to emerging contractors in a manner that allows for ease of understanding and implementation. There is a need for government to develop an accredited means of establishing BEE status.

The proposed charter must include steps to eradicate fronting, possibly through blacklisting of companies. Further, the charter should define, through the enterprise development, key outcomes and levels of training that should be provided through joint ventures. These must be measurable targets that can be achieved and easily monitored and assessed through the BEE scorecard. Further, the proposed scorecard must establish and differentiate between labour only joint ventures, and joint ventures that are structured to ensure skills transfer.

5.6 Tender Process

The tender process needs to be standardised across local, provincial, national and SOE levels. Further, training through the CETA should provide instruction and guidance on tender process requirements. It is suggested that government engage public servants dealing with procurement and ensure that the government policy if fully understood and implemented.

Government should address the shortcoming within the public sector to ensure transparency in the 90/10 points system, while still ensuring integrity. While alternate systems may be explored, adopting a new system would further complicate the transformation process. The current system should be adhered to but a greater emphasis on auditing, ethics and integrity is required. The 90/10 system should be assessed to determine if established contractors with plant are at an unfair advantage, in terms of pricing structure and overhead cost.
6 CRITIQUE OF THE BEE SCORECARD IN LIGHT OF FINDINGS

6.1 Shortcoming of the Current Scorecard in Light of BSC Theory

As outlined in the literature review, the balanced scorecard focuses on four major themes, viz. (http://www.valuebasedmanagement.net/methods_balancedscorecard.html):

- Financial: “To succeed, how should we appear to our shareholders?”
- Customer: “To achieve our vision, how should we appear to our customers?”
- Learning and growth: “To achieve our vision, how will we sustain our ability to change and improve?”
- Internal business process: “To satisfy our shareholder and customers, what business process must we excel at?”

It has been claimed that the BEE scorecard is based on the balanced scorecard. However, the BEE scorecard shares little similarities with the balanced scorecard. The following areas have been identified as weaknesses and misalignment of the BEE scorecard and the concept of the BSC.

6.1.1 Basis for developing the BEE scorecard on BSC principles

Interest in the BSC grew rapidly around 1996. The BEE scorecard was finalised in 2003. It is likely that, given the international recognition the BSC has achieved after 1996, it was seen fitting to model a scorecard for BEE transformation around the concept the BSC. However, little consideration was given for the focus and the fit of the needs of BEE transformation to what the BSC could effectively provide. Similarly, the HRS is not a fitting model for the basis of the BEE scorecard, as it focuses predominantly on human resources, while BEE policy requires a more holistic and extensive approach to measurement.

6.1.2 Alignment to financial performance

A major criticism of the BEE scorecard is that many of the requirements do not result in improved financial performance. Typically cited examples are the need to procure from BEE compliant companies, with often-higher costs. Thus, basing the BEE scorecard on the BSC is flawed as the BSC assumes that non-financial performance evaluation will lead to improvements in the strategic outcome. “The claim that the BSC provides a balance between financial and non-financial performance evaluations must be moderated because it is based
on the implicit assumption that improvements in non-financial target measures will lead to improvements in the overall strategic goal.” (http://www.bham.ac.uk).

The primary shortcoming of this is that the BEE scorecard’s intended outcome in the larger perspective (viz. to bring about transformation) differs from that of the organisation, which often seeks to maximise profits and limit costs.

6.1.3 Recognition of stakeholder needs and environment

The BSC is largely internally focused in its approach to measuring company performance. In contrast, the BEE scorecard considers both the internal and external environment when measuring performance. A major shortcoming of the BEE scorecard is that, unlike the BSC, it does not recognise the needs of the organisation from its customers, i.e. BEE transformation is measured one-way, and the requirements from customers (typically government) are not measured or accounted for in the BEE scorecard. While the BEE scorecard does consider both internal and external environments, it is primarily driven to meet external requirements without due regard to the organisational internal needs. Further, there is an increasing drive towards triple bottom line principles (i.e. social, economic and environmental considerations), which should be incorporated into the business process and industry charters. The BSC is not able to accommodate such measures as it battles to measure intangible assets.

6.1.4 Ease of use and application

Unlike the BSC, the BEE scorecard is relatively simple and not restricted by detail. However, the reporting requirements of the BEE scorecard share the BSC approach to focusing on measurable outcomes, and the process, information required and verification process is considered to be onerous.

6.1.5 Focus areas

While the BSC does not consider measuring corporate social investment, the BEE scorecard does give consideration to this. Further, the balanced scorecard focuses on customers and shareholders and ignores employees and suppliers. In contrast, the BEE scorecard placed emphasis on skills development, employment equity and preferential procurement. This differs significantly from the focus and approach of the BSC.
The BEE scorecard does share many of the limitations of the BSC. It is rigid with little room for adaptation to changing business needs, it is highly quantitative, and is unable to accommodate unforeseen circumstances. The BSC shares similarity with Hoshin Planning (http://www.library.arizona), which seeks integrated targets for all levels (www.skymark.com). This suggests that the BSC allows one to focus on specific areas, at times ignoring certain aspects, and to adjust the focus to meet specific organisational needs. In contrast, the current structure of the BEE scorecard does not allow for an integrated approach to target setting and explicitly states the degree of focus on each of the seven criteria. Further, the BEE scorecard does not fully recognise intangible assets and activities.

In addition, the BSC does not measure intangible assets and activities (Becker et al., 2001: p5), such as intellectual capital and social and environmental investment etc. A major criticism of the BSC is that it fails to consider the importance of measuring human resources perspective and employment satisfaction (Neely A, 2003: p148).

In the light of the above, the BEE scorecard, though sharing certain characteristics with the BSC, cannot be said to be based on the BSC. The current BEE scorecard has several limitations, for it fails to recognise the organisation’s own needs, operational capacity and customer needs.

6.2 Suggested Charter and Scorecard Revisions

Given that the generic BEE scorecard (Department of Trade and Industry, 2003) has been used as the basis for BEE scorecards in other sectors, it is not viable to amend the scorecard in the broader context. Where possible, the following issues, identified and highlighted by the research, should be included in the charter and scorecard under the component proposed.

6.2.1 Operational capacity

The charter should allow for an ongoing assessment of the company’s experience and ability to successfully undertake the project tendered for. Organisation’s financial strengths and cash-flow management should be reviewed as part of the operational capacity assessment, and where sufficient capacity is demonstrated, a reduction of sureties may be allowed. This should then be included in the 90/10 points system and will help facilitate the development of emerging contractors. Assessing contractor’s operational capacity may be used to assess their eligibility to qualify for financial support through the reduction of sureties and guarantees.
6.2.2 Customer satisfaction

The charter should allow for previously completed projects to be assessed and a performance rating awarded. This will help to determine if potential problems exist in the company’s capacity to complete the work on hand. Shortcomings and weaknesses in skills may then be addressed through training, via CETA. This will provide a greater degree of protection for the client, and may offer opportunities for a reduction in the required sureties.

The charter should also set targets for the full implementation of preferential procurement policy by government and state owned enterprises, with due consideration for the time required to provide the necessary training of procurement staff.

Further, possibly through the residual component, preferential procurement policy training and help desks should be established. This will help facilitate the development of emerging contractors by overcoming one of the major barriers to entry, i.e. the non-standard tender process.

The charter should also tie into the objectives of the ICT Charter (ICT Working Group, 2004), to push for the development of efficient avenues of networking and communication. This may require the development of internet portals and computer literacy training.

6.2.3 Employee development

The charter should include an evaluation of the company employee’s core experience and competencies, through the skills development component. This will ensure that the contractors tendering for work have the required capacity to perform and meet the project requirements, and will motivate companies to invest in CETA training.

6.2.4 Enterprise development

Joint venture projects should be assessed on the following criteria in the BEE scorecard, to reduce the likelihood of fronting and abuse of labour only subcontractors.

- Percentage project sub-contracted
- Percentage project on labour-only basis
7 SUGGESTIONS FOR FUTURE RESEARCH

This paper has demonstrated a lack of willingness to transform within the construction industry, the limited integration of emerging black contractors in the mainstream construction industry and has highlighted the ongoing problems and challenges facing emerging black contractors. Further, the weaknesses in the BEE scorecard, which hinder the success of emerging black contractors has been highlighted. As the study was limited to a very small and specific population, a more extensive survey, across all provinces and addressing emerging contractors of all sizes should be performed. This will allow the unique challenges facing specific sizes of contractors to be identified.

Future research should focus on the following areas, as there is a need to investigate these issues further:

7.1 Level of Government Procurement Transformation

The lack of transformation within government was identified as a major barrier to transformation. An in-depth assessment of the process, attitudes and challenges regarding implementing preferential procurement policy will need to be conducted, particularly as the transformation initiative is heavily reliant on procurement to bring about meaningful and sustained economic benefit to the majority of previously disadvantaged persons.

7.2 Transformation within the Consulting Engineering Sector

The potential of the consulting industry to impact on the construction industry was identified, and further research into the levels of transformation within the consulting industry needs to be conducted. The challenges and difficulties in the relationship between consultants and emerging contractors should also be investigated to determine if these are case specific occurrences or whether there is widespread discrimination by consultants. The roles, responsibilities and authority of the consultant and the contractor needs to be investigated further and brought to public attention.

7.3 90/10 Pricing Structure

The impact of pricing structure, in terms of capital cost requirements for emerging contractors, on the 90/10 points system needs to be examined carefully. The issue of overhead cost differences, with respect to plant costs for emerging contractors, will need to be
investigated to determine if it is a significant factor and if it can be allowed for in the 90/10 points system.
8 REFERENCES


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Cambridge, pg 148  

http://www.balancedscorecard.org/files/Improve_public_sector_Perf_w_BSC0203.swf [18 November]  


9 BIBLIOGRAPHY


SURVEY QUESTIONNAIRE

A Baseline Transformation Index for the Construction Industry

September 2004
MBA Research Report
INTRODUCTION

This questionnaire is part of an MBA research report that is being conducted by a student from the University of Cape Town’s Graduate School of Business (UCT GSB). The research investigates the current state of BEE in the construction industry, and aims to identify the challenges and opportunities within the industry. This report will provide your company with a baseline against which to measure it’s progress in the industry, and allow you to determine industry trends. The research may also contribute towards the formation of the Construction Industry Charter. This survey therefore presents an exceptional opportunity for your company to contribute towards the charter and to highlight the challenges facing your organisation. Your assistance in completing this research would be greatly appreciated.

(i) Confidentiality

The information provided in this survey is strictly confidential. No disclosure of actual financial amounts is required in this survey; only percentages are requested. The following confidentiality conditions are guaranteed:

a. Information provided will, under no circumstances, be divulged to any other persons/organisations. The data will be used for developing a baseline transformation index for the industry and to identify challenges facing the industry.

b. Only aggregated data will be provided in the report.

c. The final report will be electronically available to all participants.

(ii) Completing the Survey

Please complete separate submissions for operating companies/divisions within a holding/corporate structure.

Part 1 covers the nature and size of your company, and assesses your company on aspects of the BEE scorecard. The combined results from respondents will provide an indication of the current state of the industry. It is important that Part 1 is completed in full if possible, as all of the survey items are included in the evaluation.

Part 2 & 3 are optional and presents an opportunity for your company to express its opinion on the challenges it faces in implementing various aspects of BEE. This information will contribute towards finding solutions to the challenges presented, in a manner that is in the interest of all stakeholders concerned. An electronic copy of the full questionnaire, containing part 2 and 3, is available for downloading from: http://gsbnet.uct.ac.za/projects/construction/ConstructionQuestionnaire.doc

The completed Word document may be E-mailed to: gaxess001@gsb.uct.ac.za. Alternatively, it may be faxed to the GSB at: 021 - 4061070 or 021 - 421 5510, marked for the attention of E Goga.

PLEASE FORWARD COMPLETED QUESTIONNAIRES BY 15-10-2004.

(iii) Definitions and guidelines

Detailed definitions and guidelines have been provided for each section of the survey (See Appendix A). Please contact me should you have any queries, or require assistance or clarification on any of the survey items: Essop Goga; 082 418 2786; gaxess001@gsb.uct.ac.za

Thank you for your participation.
## PART 1
### 1. COMPANY DETAILS

Please mark the appropriate box with an X.

<table>
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<th>1.1 If you would you like an electronic copy of the final report, please supply an E-Mail address to which the report may be sent.</th>
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<td>1.6 Nature of company</td>
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<td>1.7 Company classification (If applicable)</td>
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<td>Above R300 million up to and including R350 million</td>
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<td>Above R350 million up to and including R400 million</td>
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<td>Above R400 million up to and including R450 million</td>
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<td>Above R500 million up to and including R550 million</td>
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<td>Above R800 million up to and including R850 million</td>
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<td>Above R850 million up to and including R900 million</td>
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<tr>
<td></td>
<td>Above R900 million up to and including R950 million</td>
</tr>
<tr>
<td></td>
<td>Above R950 million up to and including R1 billion</td>
</tr>
<tr>
<td>1.9 What % of turnover is generated within RSA</td>
<td>%</td>
</tr>
<tr>
<td>1.10 Company activities on a % revenue basis</td>
<td>Construction</td>
</tr>
</tbody>
</table>
2. SCORECARD INDICATORS - QUANTITATIVE

2.1 DIRECT EMPOWERMENT

2.1.1 Ownership

Ownership by Race and Gender: Please indicate in the table below the percentage of company’s shares held by black shareholders, and black owned and black empowered companies. Please allocate shareholding in the categories provided in the table.

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>DESCRIPTION</th>
<th>% OF TOTAL SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership – Race</td>
<td>Percentage (%) of shares held by black owned companies.</td>
<td></td>
</tr>
<tr>
<td>Ownership – Gender</td>
<td>Percentage (%) of shares held by black empowered companies.</td>
<td></td>
</tr>
<tr>
<td>Ownership by Staff – Race</td>
<td>Percentage (%) of total shares held by staff (White &amp; non-white).</td>
<td></td>
</tr>
<tr>
<td>Ownership by Staff – Race</td>
<td>Percentage (%) of total shares held by black staff</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

a. The ownership component of direct empowerment is not applicable to government departments and other public sector entities.

b. Ownership of shares by PIC does not constitute black ownership in this regard.

2.1.2 Management Control

Management control refers to the decision making control of the company. Both executive and non-executive directors need to be recorded.

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coloured</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>White</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

a. The control component of direct empowerment is not applicable to government departments and other public sector entities.
2.2 HUMAN RESOURCE DEVELOPMENT

2.2.1 Employment Equity

Please refer to your latest EEA2 Form, as submitted to the Department of Labour (DoL), when completing this data. Please note the use of occupational levels rather than categories. Levels are more accurate for comparing data.

<table>
<thead>
<tr>
<th>Occupational Levels</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
</tr>
<tr>
<td>Top management</td>
<td>(Paterson F+)</td>
<td></td>
</tr>
<tr>
<td>Senior management</td>
<td>(Paterson E)</td>
<td></td>
</tr>
<tr>
<td>Professionally qualified and experienced specialists and mid-management</td>
<td>(Paterson D)</td>
<td></td>
</tr>
<tr>
<td>Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-skilled and discretionary decision making</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unskilled and defined decision making</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL PERMANENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non – permanent employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Persons with disabilities (included in the above totals)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.2.2 Skills Development and Education Investment

a) Internal Skills Development Investment

Please report for the latest financial year your total skills development expenditure as a percentage of total payroll. (Total payroll = gross salaries, wages, overtime and bonuses plus employment benefits, including pension, medical aid and loans. Total cost to company, excluding profit shares, share schemes and other non-contractual remuneration.)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
a.1. Does your company have a registered learnership with Construction Education and Training Authority (CETA) |     |    |
a.2. What percentage of the total payroll is spent on skills development and education investment? |     | %  |
b) Internal Skills Development: Training Activity

Please report for the latest financial year the number of people trained in each of the specified categories:

<table>
<thead>
<tr>
<th>Training Activity: number of people trained</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Black</td>
<td>White</td>
</tr>
<tr>
<td></td>
<td>Black</td>
<td>White</td>
</tr>
<tr>
<td>Management Training:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior &amp; top management (Paterson E &amp; F).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionally qualified and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>experienced specialists and mid-management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Paterson D):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other Training (Paterson A – C):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(c) Outside Learner Support (Education). Total investment (as a percentage of turnover) in bursaries, scholarships and grants for people not working for the company (For the latest financial year):

<table>
<thead>
<tr>
<th>Total Investment in Outside Learner Support: Education (As a % of annual turnover)</th>
<th>9.1.1.1.1</th>
<th>9.1.1.1.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
</tr>
<tr>
<td>9.1.1.1.1</td>
<td>Total %</td>
<td></td>
</tr>
</tbody>
</table>

2.3 PREFERENTIAL PROCUREMENT

a) The purpose is to evaluate the extent to which companies procure products and services from black owned and empowered enterprises. All percentages are to be based on the latest financial year:

<table>
<thead>
<tr>
<th>TOTAL PROCUREMENT</th>
<th>Procurement from Black-Owned Companies (50.1%)</th>
<th>Procurement from Black Empowered Companies (25.1%)</th>
<th>Procurement from Black Women Owned Enterprises (25.1% ownership and management representation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Non – Discretionary</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

b) Please list your top 5 categories of Procurement by Rand value (latest financial year), and then also indicate the proportion of this that was spent with black owned and empowered enterprises:

<table>
<thead>
<tr>
<th>Top 5 Categories of Procurement by Rand Value</th>
<th>% Of total procurement</th>
<th>% Spend with BEE Enterprise Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
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<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4 ENTERPRISE DEVELOPMENT
Please indicate the company’s other contributions to, and investment in, economic empowerment, using the categories in the table below (R): Data should be for the latest financial year, based on a % of the company’s annual turnover.

<table>
<thead>
<tr>
<th>Other Economic Empowerment Contributions and Investment</th>
<th>% Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct equity investment in black owned and black empowered enterprises</td>
<td></td>
</tr>
<tr>
<td>Loan finance to black owned and black empowered enterprises</td>
<td></td>
</tr>
<tr>
<td>Facilitation of empowerment, i.e. equity earn models where equity is earned by black companies through profit dividends and/or value add</td>
<td></td>
</tr>
<tr>
<td>Joint Ventures with BEE Companies</td>
<td></td>
</tr>
<tr>
<td>Supplier development programmes (i.e. training for black owned and black empowered enterprises: financial, core business, business planning, tender advice and support, etc.)</td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
</tr>
</tbody>
</table>

2.5 RESIDUAL/SECTOR SPECIFIC: CORPORATE SOCIAL INVOLVEMENT (CSI)
To evaluate the contribution to, and investment in, disadvantaged communities aimed at benefiting the community itself on a sustainable basis, and not at directly promoting the organisation’s products or services. It measures the financial commitment in seven categories. Only money spent directly on the social programme itself qualifies.

<table>
<thead>
<tr>
<th>CSI Programmes</th>
<th>Total Financial Commitment (latest financial year) as a % of annual turnover.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Education Infrastructure (building &amp; upgrading of education facilities, infrastructure etc).</td>
<td></td>
</tr>
<tr>
<td>2. HIV/AIDS Programmes</td>
<td></td>
</tr>
<tr>
<td>3. Health (other than HIV/AIDS)</td>
<td></td>
</tr>
<tr>
<td>4. SMME Development</td>
<td></td>
</tr>
<tr>
<td>5. Housing</td>
<td></td>
</tr>
<tr>
<td>6. Environment</td>
<td></td>
</tr>
<tr>
<td>7. Sport</td>
<td></td>
</tr>
<tr>
<td>8. Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>
PART 2
OPTIONAL: TRANSFORMATION BEST PRACTICE – QUALITATIVE
Part 2 deals with the more qualitative measures of empowerment in your organisation. It looks at broad objectives, challenges and best practice. This section is optional. However, it would be appreciated if you would take the time to complete it, as it will provide a far greater insight into the challenges facing your organization and the industry.

3.1 DIRECT EMPOWERMENT
3.1.1 Ownership

Objectives
a) What are your 2010 objectives/targets for ownership by black shareholders in the company? (% Equity ownership).

| 2010 Target Black Ownership: % |

Challenges
a) What challenges, if any, do you envisage in achieving the above 2010 objectives:

1. 
2. 
3. 

Best Practice
a) What do you consider to be best practice for increasing the levels of black equity ownership in the industry?

1. 
2. 
3. 
3.1.2 Management Control

Objectives
   a) What are your 2010 objectives/targets for black representation on your board of directors?

   | 2010 Target: Black Directors: | % |

Challenges
   a) What challenges, if any, do you envisage in achieving above 2010 objective?

   1
   2
   3

Best Practice
   a) What do you consider to be best practice for changing the composition of the boards of directors in the industry?

   1
   2
   3
3.2 INDIRECT EMPOWERMENT – HUMAN RESOURCES DEVELOPMENT

3.2.1 Employment Equity

Objectives

a) Do you have an updated Employment Equity Plan? YES NO

b) If yes, did you achieve your goals for 2003/4? YES NO

c) What are your employment equity targets for 2010 (Percentage of total workforce)?

<table>
<thead>
<tr>
<th>Black (Men and Women)</th>
<th>%</th>
<th>Black Women</th>
<th>%</th>
<th>People with Disabilities</th>
<th>%</th>
</tr>
</thead>
</table>

Challenges

a) What challenges, if any, are you experiencing in implementing employment equity in your organisation

1
2
3

Best Practice

a) What do you consider to be best practice in valuing and managing diversity in your industry?

1
2
3
3.2.2 Skills Development

Objectives
What are the three most critical knowledge and skills requirements for ensuring the sustainability of your organisation?

Knowledge and Skills Requirements

1. 
2. 
3. 

Challenges
What challenges, if any, do you experience in developing the required capacity in your organisation?

1. 
2. 
3. 

Best Practice
What do you consider best practice for developing knowledge and skills in your industry?

1. 
2. 
3.
3.3 Preferential Procurement

Objectives

a) Does your organisation have a formal, written Preferential Procurement Policy?  

   YES       NO

b) Please indicate your 2010 preferential procurement targets: Total procurement from black owned and empowered enterprises as a percentage of total procurement: __________ % by 2010.

Challenges

a) What challenges have you experienced in implementing preferential procurement in your company?

   1
   2
   3

Best Practice

a) What do you consider to be the critical success factors for implementing preferential procurement in your industry:

   1
   2
   3

3.4 Enterprise Development

Objectives

a) Does your organisation have a formal strategy to facilitate the growth and development of black owned and empowered enterprises?

   YES       NO

Challenges

a) What challenges has your company experienced in implementing successful enterprise development initiatives?

   1
   2
   3

……..
Best Practice
  a) What do you believe are the critical success factors for sustainable enterprise development initiatives?

3.5 Residual / Sector Specific: Corporate Social Involvement (CSI)

Objectives
  a) What specific criteria do you use in your organisation to allocate your CSI spending:

Challenges
  a) How do you measure the impact of your CSI investment?

Best Practice
  a) What do you consider to be best practice CSI for the industry?
PART 3
OPTIONAL: INDUSTRY TRANSFORMATION CHARACTERISTICS

This section evaluates industry specific transformation characteristics. Questions are posed to the industry at large, and need to be answered as such. In other words, this is not an evaluation of your own organisation, but observations about the construction industry in South Africa.

1. In your opinion, how committed are companies in the industry to transformation and empowerment?  
   1= not committed at all; 5 = totally committed

2. In your opinion, to what extent will transformation and empowerment result in tangible economic and other benefits for the industry?  
   1= no economic and other benefits; 5 = major economic and other benefits

3. In your opinion, to what extent are sectors applying pressure for transformation on adjacent sectors of the value chain?  
   1= no pressure at all; 5 = a great deal of pressure

4. Does your company/organisation have certain targets/quotas that need to be reached in terms of using local content, products and services?  
   Yes  No

5. If yes, please indicate the focus area, actual targets and the current status quo.

<table>
<thead>
<tr>
<th>Focus Areas</th>
<th>Target/Goal</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
APPENDIX A: DEFINITIONS AND GUIDELINES

Black People: Is a generic term that means African, Coloured and Indians collectively.

Black Enterprise: An enterprise that is 50.1% owned by black persons and where there is substantial management control.

Black Empowered Enterprise: An enterprise that is at least 25.1% owned by black persons and where there is substantial management control.

Black Women Owned Enterprise: An enterprise with at least 25.1% representation of black women within the black equity and management portion.

Direct Empowerment: Refers to the portion of black persons ownership of assets and enterprises must be a controlling interest, reflecting genuine participation in decision making at board executive management and operational levels, and the assumption of real risk.

Employees with Disabilities: For the purpose of this SURVEY the definition of employees with disabilities as contained in the Employment Equity Act is used. It means employees who have a long-term or recurring physical or mental impairment, which substantially limits their prospects of entry into or advancement in employment.

Ownership: refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership.

Control: Control of a business entity can be achieved in a number of ways a) a majority shareholding position i.e. 50% + 1 share, b) an effective controlling shareholding; c) a majority of a board of directors; and/or d) a shareholders agreement.

SKILLS DEVELOPMENT

Direct staff training: The total amount spent on formal staff training by occupational level, race and gender.

Study assistance: Includes amounts reimbursed to staff for passing courses they paid for themselves. Also include amounts paid by the company for staff education, as long as it has not already been included under direct staff training. Study leave should also be accounted for by quantifying study leave granted in monetary terms (calculated on a salary allocation basis). The breakdown is also by occupational level, race and gender.

Outside learner support: This covers the investment in education for people not in the employ of the company. The first part covers the amount spent on bursaries, scholarships and other educational grants made to non-employees. The breakdown is by race and gender. The second part covers the value of facilities provided, training, and mentoring granted to outside parties to promote skills development in the industry. This is a monetary value.

Learnerships: This covers the number of learners embarking on learnerships programmes in the company/organisation as a percentage of the total workforce.

Procurement: Procurement from black owned and empowered enterprises as a proportion of total procurement. The calculation measures the amount of discretionary expenditure allocated to empowerment suppliers out of the total discretionary expenditure. Discretionary means that there is no legislation preventing more than one supplier of that similar product or service from entering the South African market. Imported products/services are not taken into consideration. Where a foreign owned company has a local subsidiary or branch office, the subsidiary or branch office qualifies as a supplier.

Enterprise Development: Includes Joint Ventures, sub-contracting, and supplier development initiatives. It also includes the facilitation provided by the established company to its BEE partners e.g. discounts, access to cash flow, guarantees or put options deferred payments, and other vendor financing models.

CSI SPEND

SMME development is defined as the assistance given to previously disadvantaged entrepreneurs to develop new businesses, and hence create new jobs. Where SMME assistance is given to suppliers, the expenditure must be included under procurement.

The expenditure must cover development projects, not sponsorships. This applies particularly to sporting and cultural projects. If the project falls under the Sport category, then the sport must be recognised by the National Sports Council.

Education refers to education projects other than bursaries and grants to individuals, as education investment in individuals was covered in Section
INTRODUCTION
This questionnaire is part of an MBA research report that is being conducted by a student from the University of Cape Town’s Graduate School of Business (UCT GSB). The research investigates the current state of BEE in the construction industry, and aims to identify the challenges and opportunities within the industry. This report will provide your company with a baseline against which to measure its progress in the industry, and allow you to determine industry trends. The research may also contribute towards the formation of the Construction Industry Charter. This survey therefore presents an exceptional opportunity for your company to contribute towards the charter and to highlight the challenges facing your organisation. Your assistance in completing this research would be greatly appreciated.

(i) Confidentiality
The information provided in this survey is strictly confidential. No disclosure of actual financial amounts is required in this survey; only percentages are requested. The following confidentiality conditions are guaranteed:
   a. Information provided will, under no circumstances, be divulged to any other persons/organisations. The data will be used for developing a baseline transformation index for the industry and to identify challenges facing the industry.
   b. Only aggregated data will be provided in the report.
   c. The final report will be electronically available to all participants.

(ii) Completing the Survey
Please complete separate submissions for operating companies/divisions within a holding/corporate structure. Part 1 covers the nature and size of your company, and assesses your company on aspects of the BEE scorecard. The combined results from respondents will provide an indication of the current state of the industry. It is important that Part 1 is completed in full if possible, as all of the survey items are included in the evaluation. Part 2 & 3 are optional and presents an opportunity for your company to express its opinion on the challenges it faces in implementing various aspects of BEE. This information will contribute towards finding solutions to the challenges presented, in a manner that is in the interest of all stakeholders concerned. An electronic copy of the full questionnaire, containing parts 2 and 3, is available for downloading from: http://gsbnet.uct.ac.za/projects/construction/ConstructionQuestionnaire.doc
The completed Word document may be E-mailed to: ggxess001@gsb.uct.ac.za. Alternatively, it may be faxed to the GSB at: 021 - 4061070 or 021 - 421 5510, marked for the attention of E Goga.
PLEASE FORWARD COMPLETED QUESTIONNAIRES BY 15-10-2004.

(iii) Definitions and guidelines
Detailed definitions and guidelines have been provided for each section of the survey (See Appendix A). Please contact me should you have any queries, or require assistance or clarification on any of the survey items: Essop Goga; 082 418 2786; ggxess001@gsb.uct.ac.za
Thank you for your participation.
### PART 1

#### 1. COMPANY DETAILS

Please mark the appropriate box with an X.

<table>
<thead>
<tr>
<th>1.1 If you would you like an electronic copy of the final report, please supply an E-Mail address to which the report may be sent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-Mail Address:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.2 Please indicate head office location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
</tr>
<tr>
<td>Western Cape</td>
</tr>
<tr>
<td>Limpopo</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.3 BEE criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black owned company (&gt;50% black ownership)</td>
</tr>
<tr>
<td>Black empowered company (&gt;25% black ownership)</td>
</tr>
<tr>
<td>Non-BEE company (&lt;25.1% ownership)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.4 Company classification (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMME: (Turnover less than R26 million/ annum; gross asset value, excluding fixed property, of less than R5 million; and less than 200 staff)</td>
</tr>
<tr>
<td>Non-SMME: (Turnover greater than R26 million/ annum; or gross asset value, excluding fixed property, greater than R5 million; or more than 200 staff)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.5 Annual turnover (total other operating income/revenue and income for the latest financial year). This will be used to gauge the size of your company:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to an including R0.2 million</td>
</tr>
<tr>
<td>Above R0.2 million up to and including R0.3 million</td>
</tr>
<tr>
<td>Above R0.3 million up to and including R0.6 million</td>
</tr>
<tr>
<td>Above R0.6 million up to and including R1.5 million</td>
</tr>
<tr>
<td>Above R1.5 million up to and including R5 million</td>
</tr>
<tr>
<td>Above R5 million up to and including R26 million</td>
</tr>
<tr>
<td>Above R26 million up to and including R50 million</td>
</tr>
<tr>
<td>Above R50 million up to and including R100 million</td>
</tr>
<tr>
<td>Above R100 million up to and including R200 million</td>
</tr>
<tr>
<td>Above R200 million up to and including R300 million</td>
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<tr>
<td>Above R300 million up to and including R400 million</td>
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<tr>
<td>Above R400 million up to and including R500 million</td>
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<tr>
<td>Above R500 million up to and including R600 million</td>
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<tr>
<td>Above R600 million up to and including R650 million</td>
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<tr>
<td>Above R650 million up to and including R700 million</td>
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<td>Above R700 million up to and including R800 million</td>
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<tr>
<td>Above R800 million up to and including R850 million</td>
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<tr>
<td>Above R850 million up to and including R900 million</td>
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<tr>
<td>Above R900 million up to and including R1 billion</td>
</tr>
<tr>
<td>Above R1 billion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.6. Does your company have a registered learnership with Construction Education and Training Authority (CETA)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>
PART 1
1.1 DIRECT EMPOWERMENT

1.1.1 Ownership

Challenges
a) What challenges, if any, do you envisage in companies achieving the black shareholder ownership (30 & 40%) by 2010:

1

2

3

Best Practice
a) What do you consider to be best practice for increasing the levels of black equity ownership in the construction industry?

1

2

3

1.1.2 Management Control

Challenges
a) What challenges, if any, do you envisage in achieving increased black management control in companies?

1

2

3

Best Practice
a) What do you consider to be best practice for changing the composition of the boards of directors in the construction industry?

1

2

3
1.2 INDIRECT EMPOWERMENT – HUMAN RESOURCES DEVELOPMENT

1.2.1 Employment Equity

Challenges
What challenges, if any, are you experiencing in implementing employment equity in your organisation?

Best Practice
What do you consider to be best practice in valuing and managing employment equity in the construction industry?

1.2.2 Skills Development

Objectives
a) What are the most critical knowledge and skills requirements for ensuring the sustainability of your organisation?

Knowledge and Skills Requirements

Challenges
a) What challenges, if any, do you experience in developing the required capacity in your organisation?
Best Practice

1.3 Preferential Procurement

Objectives

a) Does your organisation have a formal, written Preferential Procurement Policy?  

YES | NO

b) Do you procure from black owned and empowered enterprises where possible?  

YES | NO

Challenges

a) What challenges have you experienced in implementing preferential procurement in your company?

1

2

3

Best Practice

1.4 Enterprise Development

Best Practice

a) What do you believe are the critical success factors for sustainable enterprise development initiatives (JVs etc)?

1

2

3
1.5 Residual / Sector Specific: Corporate Social Involvement (CSI)

Best Practice

a) What do you consider to be best practice CSI for the industry i.e. what so you think would benefit the development of emerging contractors & communities etc?

1

2

3

Part 2.

2.1 What are the most significant problems you experience with the procurement process?

1

2

3

a) What are your views on the following issues:
   - Consultant attitude
   - Non-standardised tender process and non standardised tender forms
   - Payment delays
   - Performance monitoring
   - Sustainability

What are the most significant problems you experience with access to finance.

1

2

3

b) What are your views on the following issues:
   - Sureties & bridging finance
   - Access to equipment and plant
   - Credit on materials
   - Being confined to small contracts
What are the most significant problems you experience with the capacity to do the work.

1. 

2. 

3. 

C) What are your views on the following issues:
- Management skills
- Fronting
- JVs and experiences in JV etc.
- Exploitation by joint contractors or when subcontracted
- Lack of responsibility
APPENDIX A: DEFINITIONS AND GUIDELINES

Black People: Is a generic term that means African, Coloured and Indians collectively.

Black Enterprise: An enterprise that is 50.1% owned by black persons and where there is substantial management control.

Black Empowered Enterprise: An enterprise that is at least 25.1% owned by black persons and where there is substantial management control.

Black Women Owned Enterprise: An enterprise with at least 25.1% representation of black women within the black equity and management portion.

Direct Empowerment: Refers to the portion of black persons ownership of assets and enterprises must be a controlling interest, reflecting genuine participation in decision making at board executive management and operational levels, and the assumption of real risk.

Employees with Disabilities: For the purpose of this SURVEY the definition of employees with disabilities as contained in the Employment Equity Act is used. It means employees who have a long-term or recurring physical or mental impairment, which substantially limits their prospects of entry into or advancement in employment.

Ownership: refers to equity participation and the ability to exercise rights and obligations that accrue under such ownership.

Control: Control of a business entity can be achieved in a number of ways a) a majority shareholding position i.e. 50% + 1 share, b) an effective controlling shareholding; c) a majority of a board of directors; and/or d) a shareholders agreement

SKILLS DEVELOPMENT

Direct staff training: The total amount spent on formal staff training by occupational level, race and gender.

Study assistance: Includes amounts reimbursed to staff for passing courses they paid for themselves. Also include amounts paid by the company for staff education, as long as it has not already been included under direct staff training. Study leave should also be accounted for by quantifying study leave granted in monetary terms (calculated on a salary allocation basis). The breakdown is also by occupational level, race and gender.

Outside learner support: This covers the investment in education for people not in the employ of the company. The first part covers the amount spent on bursaries, scholarships and other educational grants made to non-employees. The breakdown is by race and gender. The second part covers the value of facilities provided, training, and mentoring granted to outside parties to promote skills development in the industry. This is a monetary value.

Learnerships: This covers the number of learners embarking on learnerships programmes in the company / organisation as a percentage of the total workforce. Study Assistance. Support for employee independent study/formal education for the latest financial year. (R):

Procurement: Procurement from black owned and empowered enterprises as a proportion of total procurement. The calculation measures the amount of discretionary expenditure allocated to empowerment suppliers out of the total discretionary expenditure. Discretionary means that there is no legislation preventing more than one supplier of that similar product or service from entering the South African market. Imported products/services are not taken into consideration. Where a foreign owned company has a local subsidiary or branch office, the subsidiary or branch office qualifies as a supplier.

Enterprise Development: Includes Joint Ventures, sub – contracting, and supplier development initiatives. It also includes the facilitation provided by the established company to its BEE partners e.g. discounts, access to cash flow, guarantees or put options deferred payments, and other vendor financing models.

CSI SPEND

SMME development is defined as the assistance given to previously disadvantaged entrepreneurs to develop new businesses, and hence create new jobs. Where SMME assistance is given to suppliers, the expenditure must be included under procurement.

The expenditure must cover development projects, not sponsorships. This applies particularly to sporting and cultural projects. If the project falls under the Sport category, then the sport must be recognised by the National Sports Council.

Education refers to education projects other than bursaries and grants to individuals, as education investment in individuals was covered in Section
APPENDIX C – RESPONSE FROM INDUSTRY ASSOCIATION REPRESENTATIVE
From: ****************
Sent: 04 October 2004 09:23 AM
To: Goga, Essop
Subject: Re: Research: BEE in the Construction Industry

Essop

Thank you for the e-mails and your initiative.

Your study is very important, BUT it comes at a very difficult time. The reasons are as follows;

1. The Construction Industry is in an intense process of research/deliberations /interactions with itself, Government and Labour to put a transformation charter together.

2. The time frame is VERY tight; the research has to be completed by November this year and the negotiated agreement published in the Government Gazette by March next year for us to have the Charter/Scorecard published as a Code of Good Practice by June next year.

3. We have just sent out a 17 page detailed questionnaire to THE WHOLE construction industry to determine more or less the same as your (much simpler) questionnaire tries to achieve.

4. We may be overloading the guys completely which will delay the main process and your research.

5. Under no circumstances can we afford any delays.

I/We cannot stop you from doing this, but we make an urgent appeal for the research to be delayed by 6 months, at least.

We hope you understand.

Best regards

***************

*****
## Procurement and tender process

<table>
<thead>
<tr>
<th>Focus</th>
<th>Tender process</th>
</tr>
</thead>
</table>
| Case 1 | - The process is difficult  
- Approaches differ from province to town  
- The anticipated budget is unknown  
- The criteria for the work/contract is not known  
- Too many companies exist in the market, competing for limited contracts  
- The cost of the tender document is prohibitive (R500)  
- If one knows people within the process (consultants, politicians, government staff), one can get the job |
| Case 2 | - The legal compliance required is onerous, and is done by white companies to limit the accessibility to work by black emerging contractors  
- The compliance is required by councils and is being used to delay the transformation process  
- For major/established companies, compliance is easy to obtain, but for black emerging contractors, it is not possible. |
| Case 3 | - +_70% of council work does not go to Black contractors  
- There is a need for a mandate for the R8bn anticipated to be spent on GP roads. 50% of this should go to black firms  
- The process in not standardised  
- councillors have previously been involved in the procurement process  
- Consultants are responsible for the final decision with the head of department. The bid committee merely rubber stamps the decision irrespective of the project requirements  
  - **There is a need for government to unify the procurement policy**  
  - There are differing dates applied for obtaining sureties for white companies and black companies  
  - New requirement is for a letter of intent - to obtain sureties. Is now used to decide who will get the contract |
| Case 4 | ▪ R500 cost of tender is restrictive. Why is it required?  
▪ Cost of tender documentation is used to exclude emerging contractors  
▪ 10% guaranteed surety required.  
▪ Must also have suitable cash flow (to purchase materials etc). Without these, cant emerge  
▪ Perception that construction is being used to launder money.  
▪ Tender advert sent out electronically first, before being advertised in the paper  
▪ Tendering is a risky and costly business |
|---|---|
| Case 5 | ▪ Uniformity is a major issue. It makes contract management significantly harder and increases costs  
▪ 10% surety and 5% performance guarantee and the liability period are seen as major problems for contractors  
▪ Surety and other items are required to protect the client. There have been cases in which client have wavered these and has been burnt  
▪ Non-standardised forms and processes are also costly for consultants as they create paperwork and require consultants to regularly revise approaches continuously. Moves are underway to educate municipalities  
▪ Politicians are no longer involved, but the bid committee does not always accept the tender with the highest points  
▪ Government has not fully applied preferential procurement legislation. Municipalities are not able to do it, and none are fully doing so  
▪ Government mindsets need to change. While the people have changed, the approach remains the same.  
▪ Contractor registration is seen as a way of protecting both the client and the emerging contractor.  
▪ Government and parastatals have not transformed and are not applying preferential procurement practice. |
<table>
<thead>
<tr>
<th>Case 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>- There are attempts to bring the various legislations into sync with each other. Due to changing environment and developments, legislation and goals will move over the next few years.</td>
</tr>
<tr>
<td>- Both the private and public sector are embracing transformation and preferential procurement.</td>
</tr>
<tr>
<td>- Legislative approaches to issuing tender are meant to protect both the contractor and the client.</td>
</tr>
<tr>
<td>- The breaking up of projects is seen as spreading the pie in terms of achieving transformation. However, it results in higher cost for the consultant.</td>
</tr>
<tr>
<td>- There is a need for a single certificate system to ease the evaluation and verification process.</td>
</tr>
<tr>
<td>- The use of differing scorecards, (DTI versus Treasury), creates complications.</td>
</tr>
<tr>
<td>- Municipalities and the public need to be educated in terms of preferential procurement policies.</td>
</tr>
<tr>
<td>- There is a move to stop people from even taking tender documents if they don’t have the required surety. This ensures government protection to get the job done, and also prevents people from wasting money purchasing documents for work they cannot successfully compete for.</td>
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<tr>
<td>Focus</td>
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<tr>
<td>Case 1</td>
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<td>Case 2</td>
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<td>Case 4</td>
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<tr>
<td>Case 5</td>
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</tbody>
</table>
| Case 5 | - Companies are forced to work at risk. Government cannot afford to do business plans to secure funds for future work, therefore companies do it and hope to get work in 2 to 3 years. Companies are forced to work at risk and to discount on rates.

- Consultants make recommendations, based on points, but the client does not always follow the recommendation. This may lead to legal action in the future. There needs to be accountability, possibly the accounting officer |
<table>
<thead>
<tr>
<th>Focus</th>
<th>Fronting</th>
</tr>
</thead>
</table>
| Case 1  | - If a contractor is able to get the job done fast, its normally a front.  
- If a contractor is struggling, its normally not a front  
- Most fronts are based on people getting a salary, attending a meeting, but with no profit sharing |
| Case 2  | - Window dressing and fronting is rife                                                                                                                                                                     |
| Case 3  | - Occurs through the use of back company names, and through the use of black staff names  
- It is a major scam  
- Nothing is being done to improve the situation  
- Companies with financial clout can buy people into the company |
| Case 3  | - Blacks are appointed to positions without any knowledge of construction. "Rent a black" scams.  
- Government must do forensics to ensure no fronting.  
- Nothing is being done at the moment  
- There is evidence to suggest that non-BEE companies are presenting themselves as BEE companies  
- There is use of the restriction to information to prevent people doing further checks on companies  
- People with no skills are used to start BEE companies for white co.s  
- Big companies are fronting on management |
| Case 4 | - There is a lot of fronting in the industry  
  
  - 2 type of fronting: when a white co. puts entry level staff on board of directors without financial benefit; Approach a BEE co, tender on BEE company name, win project and split work 90/10 or 80/20%. Provide equipment, BEE co provides labour only |
|--------|----------------------------------------------------------------------------------------------------------|
| Case 5 | - Fronting is still a significant problem  
  
  - Labour only contracts tending towards fronting, but the charter will address this  
  
  - Consultants do perform an audit, in terms of requesting ownership and employment equity details, but are not in a position to verify and do a forensic audit on the information  
  
  - Joint ventures are still using labour versus materials and equipment. This is seen as an alternate ‘front’. It is an issue of survival. People will do whatever needs to be done in order to survive, especially if the industry cannot support that many emerging contractors. It is partly the reason why black emerging contractors front for white companies.  
  
  - There are moves underway to limit the amount of sub-contracted work to 25% of the contract value.  
  
  - There is a need to blacklist companies. This is difficult as companies re-emerge under different names |
<table>
<thead>
<tr>
<th>Focus</th>
<th>Payment delays</th>
</tr>
</thead>
</table>
| Case 1 | - The basis for payment is unknown  
- The payment timeframe is unknown  
- Delayed payments impacts on cash flow  
- The person responsible for the payment is unknown |
| Case 2 | 
| Case 3 | - Within PTA & GP, there are minimal delays and no significant impact  
  - GP does not pay through cheque, but through electronic payment, which results in delays. *(Delays are likely to be due to processing time, from approval to being loaded into the IT system).*  
  - National Government and GP have improved.  
  - In other areas, payment is a chronic problem with 3-month delay. This impacts on cash flows and kills emerging contractors |
| Case 4 | - Delayed payments have resulted in many failed projects  
  - Late payments result in delayed payment to labour, which results in delayed projects. Makes for difficulty in cash flow management |
<p>| Case 5 |</p>
<table>
<thead>
<tr>
<th>Focus</th>
<th>Consultant attitudes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td></td>
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<tr>
<td>Case 2</td>
<td></td>
</tr>
</tbody>
</table>
| Case 3 | • There are very few black consultants, though #s increasing slowly. Need more to ensure work is given to black emerging contractors.  
  • Black consultants work is limited and impacts on black emerging contractors. White companies give work to white contractors  
  • Consultants tend to create problems on delivery  
  • There is a need to address consultant's attitudes in terms of the notion that black emerging contractors are not competent. Consultants need to transform  
  • There are site intimidation and ‘baas/boy’ attitudes. Conduct and attitude at site visits are problematic  
  • 15% contingencies allowed for in contract are not spent if one argues with the contractor.  
  • Disagreements with the consultants results in work being rejected. I.e. There is abuse of the consultant/contractor relationship. |
| Case 4 |                      |
| Case 5 | • The consultants role is to protect the clients interest, therefore they must ensure that both work and financial issues are up to par  
  • Sureties, performance guarantees, and retention monies are a problem for emerging contractors, but they are necessary to protect the client. The consultant merely advises the client in this regard |
Financing issues

<table>
<thead>
<tr>
<th>Focus</th>
<th>Profitability and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>• Cash required upfront is prohibitive</td>
</tr>
<tr>
<td></td>
<td>• Interest payments are high</td>
</tr>
<tr>
<td></td>
<td>• At the end of the project, there are no profits realised</td>
</tr>
<tr>
<td></td>
<td>• Going to focus on smaller jobs as larger jobs are not profitable</td>
</tr>
<tr>
<td>Case 2</td>
<td></td>
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<tr>
<td>Case 3</td>
<td></td>
</tr>
<tr>
<td>Case 4</td>
<td>• Cost of Quantity surveyors and site inspection cost before project awarded impacts on emerging contractors</td>
</tr>
<tr>
<td></td>
<td>• Big companies have equipment therefore don't mind merely breaking even, and can accept low profit margins, as they are involved in multiple jobs. Emerging contractors do 1 small job in 3 months</td>
</tr>
<tr>
<td></td>
<td>• 3 parts to construction: Labour, material, equipment. Money/profit lies in materials and equipment</td>
</tr>
<tr>
<td></td>
<td>• The current funding structures limit the profitability of the emerging contractor to +_5% net</td>
</tr>
<tr>
<td></td>
<td>• Project management staff has a cost implication, as emerging contractors cannot afford to keep staff as a resource.</td>
</tr>
<tr>
<td>Case 5</td>
<td>• There are a lot of contractors, but the problems are the same for all new companies, in terms of liquidations.</td>
</tr>
<tr>
<td>Case 5</td>
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<tr>
<td>- Cash-flow and rapid growth are the primary reasons for the failure of emerging contractors</td>
<td></td>
</tr>
<tr>
<td>- There are too many emerging consulting companies. Not all are professionally registered and this impacts on the client. There may be a need for CIDB regulation in the future</td>
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</tr>
<tr>
<td>- There is a need to grow the pie. Currently there is a 60/40 split in work towards the public sector. Due to the strong rand, mines are not developing. However, normally this is a 50/50 split.</td>
<td></td>
</tr>
<tr>
<td>- The growth potential is there, but largely dependent on the rand.</td>
<td></td>
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<tr>
<td>- Currently, supply outweighs demand, therefore placing pressure on the industry. In the long term, if Trevor Manuel’s promises are right, then demand will outstrip supply.</td>
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</tr>
<tr>
<td>Focus</td>
<td>Credit purchasing of materials and supplies</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------</td>
</tr>
</tbody>
</table>
| Case 1 | - Significant challenge  
| | - Difficult to obtain credit as new to business  
| | - **Suppliers require 50% payment up front**  
| | - Suppliers unable to deliver to schedule - impacts on contract performance  
| Case 1 | - Must liquidate existing assets to fund projects, resulting in net loss at the end of project  
| | - **The government should facilitate the purchasing of materials and let people handle the construction**  
| Case 2 | |
| Case 3 | |
| Case 4 | - 3rd party used to source material. Emerging contractors merely supply labour  
<p>| Case 5 | - There are opportunities for supplier development, but currently the market is monopolistic for timber, steel and cement. There are opportunities for bricks, piping and other construction items. |</p>
<table>
<thead>
<tr>
<th>Focus</th>
<th>Bank attitude and access to finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>- No sources/avenues to raise funds</td>
</tr>
<tr>
<td></td>
<td>- Security for bank loans are a significant challenge</td>
</tr>
<tr>
<td></td>
<td>- Raising surety to perform larger contracts (e.g. R13m) is a major difficulty</td>
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<tr>
<td>Case 2</td>
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</tr>
<tr>
<td>Case 3</td>
<td>- Obtaining sureties are difficult</td>
</tr>
<tr>
<td></td>
<td>- Banks refuse to provide sureties</td>
</tr>
<tr>
<td></td>
<td>- 10% surety is the most significant problem</td>
</tr>
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<td></td>
<td>- Government should not require a surety before work has started.</td>
</tr>
<tr>
<td></td>
<td>- <strong>Most companies cant raise finance from banks therefore resort to loan sharks. Impacts of profitability</strong></td>
</tr>
<tr>
<td></td>
<td>- Banks are not co-operating or assisting.</td>
</tr>
<tr>
<td></td>
<td>- Bridging finance is a major problem. Difficult to raise funds from the banks</td>
</tr>
<tr>
<td></td>
<td>- DTI does not help too much, as money goes to plant</td>
</tr>
<tr>
<td></td>
<td>- <strong>Financial constraints limit companies to smaller contracts where it is easier to raise surety</strong></td>
</tr>
<tr>
<td></td>
<td>- <strong>Financial constraints restrict emerging contractors from growing into bigger companies</strong></td>
</tr>
<tr>
<td></td>
<td>- <strong>Banks will not provide letter of intent to provide surety until contract is awarded i.e. banks want a letter of appointment.</strong></td>
</tr>
</tbody>
</table>
Case 3
- Banks want mentoring of contractor, where mentor and contractor manage the account
- Transformation is largely dependent on banks changing attitude. This is required if big changes are to be realised

Case 4
- Perceive construction to be a risky industry
- Obtaining finance is seen as the biggest difficulty
- Banks are perceived to be anti-black
- Banks provide funding to 3rd party, who then supplies emerging contractors at a percentage profit.

Case 4
- Banks control the construction industry through financing and the use of other parties (selling of money; supplying funds to private financing companies)

Case 5

Capacity

<table>
<thead>
<tr>
<th>Focus</th>
<th>Equipment</th>
</tr>
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<tbody>
<tr>
<td>Case 1</td>
<td>Sourcing equipment is not seen as a problem</td>
</tr>
<tr>
<td>Case 2</td>
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<tr>
<td>Case 3</td>
<td>Not a significant problem to get plant</td>
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<tr>
<td>Case 4</td>
<td></td>
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<tr>
<td>Case 5</td>
<td></td>
</tr>
<tr>
<td>Focus</td>
<td>Technical capacity</td>
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</tr>
<tr>
<td>Case 1</td>
<td>Not perceived to be a problem</td>
</tr>
<tr>
<td></td>
<td>Limitation is access to cash.</td>
</tr>
<tr>
<td></td>
<td>If funding is available, larger projects may be completed</td>
</tr>
<tr>
<td>Case 2</td>
<td>Companies will deny emerging company's skills with the current pace of the Transformation process</td>
</tr>
<tr>
<td></td>
<td><strong>The introduction of separate programs for black emerging contractors is nonsense</strong></td>
</tr>
<tr>
<td></td>
<td><strong>There are lots of shell companies established. There should be a focus on working as a sub-contractor first before progressing to main contractor status. This should be a rule</strong></td>
</tr>
<tr>
<td>Case 3</td>
<td>Needs to be a focus on training in construction management: Engineering, construction management, training of contractors</td>
</tr>
<tr>
<td>Case 4</td>
<td></td>
</tr>
<tr>
<td>Case 5</td>
<td>Quality and delivery is not seen as problematic. However, the consultants’ role is to protect the client’s interest.</td>
</tr>
<tr>
<td>Focus</td>
<td>Management capacity</td>
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<tr>
<td>Case 1</td>
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<td>Case 2</td>
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</tbody>
</table>
| Case 3 | ▪ There is a facilitation problem due to past SA history  
▪ There are difficulties in obtaining suitable site agents due to the limited pool of resources.  
▪ There is fear of appointments with emerging contractors, due to limited project lifespan i.e. no certainty of continued work  
▪ CETA training does not focus on management training. |
| Case 4 | ▪ There is a need for increased focus on project management training  
▪ Projects are of a limited duration, and do not allow time for training. Money is available from CETA but no allowance is made for time required. |
| Case 5 | ▪ The CETAs are in the process of piloting a management education pilot program in the eastern cape  
▪ Education is the key to transformation, and funds are available for university education  
▪ The university trends are increasing this year. This is unexplained, and is perhaps due to pressure from industry to transform, and the perception amongst the public that there is an industry boom.  
▪ Many emerging consulting companies are not professionally registered, but municipalities don’t know better and still give them work |
Emerging companies have limited capacity, therefore it costs a lot more to do the same job than it would cost a large company, (despite lower overhead costs)

<table>
<thead>
<tr>
<th>Focus</th>
<th>Joint Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>Getting into a JV is akin to being a dead partner</td>
</tr>
<tr>
<td></td>
<td>People don’t know the jobs in JVs</td>
</tr>
<tr>
<td>Case 2</td>
<td></td>
</tr>
<tr>
<td>Case 3</td>
<td>Big companies squeeze emerging contractors on profits because they have finance and provide sureties. There is no focus on development, purely profit attitude.</td>
</tr>
<tr>
<td></td>
<td>Don’t work, as very big and very small don’t work well together. Big companies supply materials and equipment (charged out for additionally), Small companies required to supply labour only. Results in limited profit and failure</td>
</tr>
<tr>
<td></td>
<td>Government has no policy or manpower to police BEE implementation in JVs</td>
</tr>
<tr>
<td>Case 4</td>
<td>Projects tend to be on the supply of labour only. Materials etc are procured separately.</td>
</tr>
<tr>
<td></td>
<td>Sub-contracted contracts are labour only and do not provide for management capacity building</td>
</tr>
<tr>
<td></td>
<td>JVs, 50/50%, only at profit level. Based on the same principle as sub-contractors. Established co. supplies materials and equipment at a cost, emerging contractors supplies labour. Profit not shared equitably in JVs</td>
</tr>
<tr>
<td>Focus</td>
<td>Other</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Case 1</td>
<td>- Biggest limitation is financing to grow</td>
</tr>
<tr>
<td></td>
<td>- One needs to know people in order to get big jobs</td>
</tr>
<tr>
<td>Case 2</td>
<td>- The sustainability of BEC needs L/T assistance, which may be achieved through skills training.</td>
</tr>
<tr>
<td></td>
<td>- Separate programs are seen as insulting</td>
</tr>
<tr>
<td>Case 3</td>
<td>- There is a need for plough-back into skills and management training</td>
</tr>
<tr>
<td></td>
<td>- Support and training needs to focus on: legal, financial and project management</td>
</tr>
<tr>
<td></td>
<td>- Government must provide support and provide funding to develop black business</td>
</tr>
<tr>
<td></td>
<td>- Government must assist with mentoring</td>
</tr>
<tr>
<td>Case 4</td>
<td>- Current labour laws impact on emerging contractors profitability, and adds to issues of labour only contracts</td>
</tr>
<tr>
<td>Case 5</td>
<td></td>
</tr>
<tr>
<td>Focus</td>
<td>Supply side opportunities</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Case 1</td>
<td></td>
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<tr>
<td>Case 2</td>
<td></td>
</tr>
</tbody>
</table>
| Case 3 | - Can procure from Black suppliers, but local suppliers can\ can\ deliver.  
- Largely dependent on the job size  
- Consultants place pressure on contractors to procure from companies on their database - white companies  
- Since emerging contractors must stay in consultants 'good books', they are forced to procure from white companies  
- Black suppliers are rare due to financial limitations  
- There is a market for suppliers, but it would require a change of attitude with the banks. Assistance would be needed to develop black suppliers  
- No black suppliers of plant. Money still goes to white companies |
| Case 4 | - Difficult to procure from BEE companies as there are no black suppliers. If black suppliers were available, they would be supported  
- **Black suppliers who are understanding, and who can take decisions are required as they can ease the burden in emerging contractors**  
- Fronting in also occurring on the supplier side of the industry  
- Supplies required are dependent on the contract requirements, but opportunities exist for BEE companies to enter the market |
<p>| Case 5 |                          |</p>
<table>
<thead>
<tr>
<th>Focus</th>
<th>Other insights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>Lack of understanding of BEE</td>
</tr>
<tr>
<td>Case 2</td>
<td></td>
</tr>
<tr>
<td>Case 3</td>
<td>Regional action is required to bring about transformation</td>
</tr>
<tr>
<td>Case 4</td>
<td>Industry has been open for 7 yrs, but remains white, as white companies have established networks etc</td>
</tr>
<tr>
<td>Case 4</td>
<td>There is no visionary leadership in Government or at local level. The provision of infrastructure is a means to fight poverty. There is no integrated vision focusing on wealth creation, infrastructure &amp; asset investment</td>
</tr>
<tr>
<td></td>
<td>People in local government are not yet transformed, and remain in strategic positions</td>
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<tr>
<td></td>
<td>Government is selling work to others and making money on it</td>
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<tr>
<td></td>
<td>There is a need for local government to transform</td>
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<tr>
<td></td>
<td>The black construction industry in not coherent or vibrant</td>
</tr>
<tr>
<td>Case 5</td>
<td>There may be conflict between CIDB legislation and other legislation</td>
</tr>
<tr>
<td></td>
<td>The various legislations are pulling in different directions</td>
</tr>
<tr>
<td>Focus</td>
<td>The charter process</td>
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<tr>
<td>Case 1</td>
<td>No real knowledge or understanding of the charter</td>
</tr>
<tr>
<td>Case 2</td>
<td>No real knowledge or understanding of the charter</td>
</tr>
<tr>
<td></td>
<td>It should be delayed for a year or 2, to allow black companies to improve skills</td>
</tr>
<tr>
<td></td>
<td>The proposed dates are too soon. There should be a focus on developing skills instead to allow emerging contractors to meaningfully participate in the process</td>
</tr>
<tr>
<td></td>
<td>There should be a focus on JVs etc</td>
</tr>
<tr>
<td></td>
<td>The charter should be based on: knowledge, work, understanding, support network</td>
</tr>
<tr>
<td></td>
<td>Established white companies will not want to give equity to blacks, as they built their companies.</td>
</tr>
<tr>
<td></td>
<td>There should be a focus on skills development and not equity</td>
</tr>
<tr>
<td></td>
<td>The most significant 20 companies should be identified and should be involved in the charter process</td>
</tr>
<tr>
<td></td>
<td><strong>There should be a focus on developing fully BEE companies, not in diluting existing equity</strong></td>
</tr>
<tr>
<td></td>
<td>There should be a focus on skills development</td>
</tr>
<tr>
<td></td>
<td>The charter should focus on university training, management training, QS, building site degrees etc</td>
</tr>
<tr>
<td></td>
<td>There should be an increased focus on engineering at high-school level</td>
</tr>
<tr>
<td>Case 2</td>
<td>• Civil engineering needs to be marketed correctly</td>
</tr>
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</tr>
<tr>
<td>Case 3</td>
<td>• No real knowledge or understanding of the charter</td>
</tr>
<tr>
<td></td>
<td>• The 30% and 40% equity ownership targets are better then none. It’s not possible to have it all. It is hoped that it will come up to 50%</td>
</tr>
<tr>
<td></td>
<td>• The charter must address the problems experienced with consultants</td>
</tr>
<tr>
<td></td>
<td>• The CIDB is White run, and cannot address BEC issues</td>
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<tr>
<td></td>
<td>• There is talk of the charter speeding up the process of obtaining sureties, but no talk of actual financing</td>
</tr>
<tr>
<td>Case 3</td>
<td>• There needs to be a focus on education from high school through to university</td>
</tr>
<tr>
<td>Case 4</td>
<td>• No real knowledge or understanding of the charter</td>
</tr>
<tr>
<td>Case 5</td>
<td>• The process is inclusive</td>
</tr>
<tr>
<td></td>
<td>• SAFCEC is driving the process but is seen to be fair and willing to listen</td>
</tr>
<tr>
<td></td>
<td>• There is a strong focus on education and fronting issues</td>
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<tr>
<td></td>
<td>• It is likely that similar targets to other charters will be set, as we all operate in the same socio-economic environment</td>
</tr>
<tr>
<td></td>
<td>• The need for a single charter for all industries must be considered</td>
</tr>
<tr>
<td></td>
<td>• The charter needs a long term view, but there is no need to slow the process down</td>
</tr>
<tr>
<td></td>
<td>• The consulting sector has made good progress to transformation</td>
</tr>
<tr>
<td></td>
<td>• There is potential for conflict between what the CIDB has done, and what the charter is now driving forward</td>
</tr>
</tbody>
</table>
- The charter will focus strongly on skills
- The charter's success is strongly dependent on economic growth. We will need to grow RSA in order to meet the charter requirements
- Major companies are doing a lot for developing emerging contractors in terms of skills transfer
- Skills transfer and education are the key to transformation
- The development of emerging consultants will play a part in the transformation of the industry
- There is an acceptance within the industry to transform