



**Assessing the support given by the SEDA Construction Incubator programme
to emerging contractors involved in housing within the eThekwin
Municipality, KwaZulu-Natal.**

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*A dissertation submitted in partial fulfilment of the requirements of the degree of
Master of Housing in the School of Built Environment and Development Studies;
University of KwaZulu-Natal*

2018

ABSTRACT

This study assessed the support offered by the SEDA Construction Incubator (SCI) programme to emerging contractors involved in housing construction. Emerging contractors are black-owned small and medium construction enterprises. The housing process excluded such contractors during the apartheid era. This exclusion created a pool of underdeveloped black-owned companies. It is for this reason that the promotion of emerging contractors is a central theme of the current government's housing policy. The South African government appoints these contractors, through a tender system, for the construction and maintenance of state-subsidised housing. However, these emerging contractors often fail to grow beyond basic levels of business operations. The SCI programme has been developed as a response to the challenges emerging contractors face.

This study analysed the way support has been given to emerging contractors. The study analysed the discourse around the challenges hindering small and medium contractors in South African and internationally. It also looked at mentorship and training support programmes implemented locally. The study thereafter used qualitative research instruments to examine and analyse the challenges that contractors in SCI programme encounter and the extent to which the SCI programme's support assisted contractors to mitigate their challenges.

The study's findings revealed that contractors' main challenges were in respect of obtaining new construction projects and accessing finance. The challenge of winning projects compounded the challenge of accessing finance. Also, contractors did not maximise the benefits of the theoretical or mentorship support by the SCI programme because these forms of support were structured to assist contractors after they had won projects and begun the physical construction of the housing project. In addition to this, the findings revealed a difference between the support that the programme provided and the expectations of the emerging contractors, which resulted in contractors expecting project opportunities from the SCI programme. Many of these emerging contractors expected the SCI programme to offer them construction projects that they would implement while they were members of the programme but the programme only went as far as its mandate, which was to support contractors to win projects rather than arrange projects.

The researcher recommends that the implementers of the SCI programme consult with potential SCI contractors prior to them entering the programme, to carefully set out the roles of all the stakeholders involved within the duration of the incubation. This would ensure that the expectations of contractors are managed. In addition to this, the researcher recommends that the SCI programme extends its mandate to support contractors to win projects. The researcher suggests that the SCI programme should also provide a platform to emerging contractors that will enable potential clients to interact with, negotiate and do business with these contractors.

DECLARATION

I declare that:

- (i) The research reported in this dissertation, except where otherwise indicated, is my original work.
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ACKNOWLEDGEMENTS

For indeed, with every hardship there is ease. Indeed, with every hardship there is ease (Qur'an 94:5-6). I would like to express my appreciation to the following who contributed towards the success and completion of this dissertation:

- My profound gratitude goes to the Most Merciful who made this possible.
- My parents Mr C. I Saidi and Mrs L. M Saidi for their love, support and prayers that kept me going and focused throughout.
- To my Supervisor, Dr. Pauline Adebayo for her guidance and her patience with me.
- To all the members of the SEDA Construction Incubation programme who were most welcoming towards my research.
- My siblings, Thulile, Shamima and Dawood for the comfort and solid support they gave me.
- To all the contractors for giving me their time.

Thank you all.

ACRONYMS

ANC	African National Congress
BBBEE	Broad-Based Black Economic Empowerment
BDE	Business Development Expert
BDO	Business Development Officer
BNG	Breaking New Ground
CIDB	Construction Industry Development Board
CETA	Construction Education and Training Authority
DHS	Department of Human Settlements
DoH	Department of Housing
DPW	Department of Public Works
ECDP	Emerging Contractor Development Programme
GB	General Building
HDI	Historically Disadvantaged Individuals
HWP	Housing White Paper
KZN	KwaZulu-Natal
NCDP	National Contractor Development Programme
NHBRC	National Home Builders Regulatory Council
NHF	National Housing Forum
PPPFA	Preferential Procurement Policy Framework Act 2000
RDP	Reconstruction Development and Programme
RSA	Republic of South Africa
SCI	SEDA Construction Incubator
SEDA	Small Enterprise Development Agency

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CHAPTER ONE

INTRODUCTION

1.1 Research Background

In South Africa, the home building industry is part of the construction industry of the country. Together they play a vital employment role in the country's economic profile. Currently, the construction industry is a major indirect job creator in other economic sectors such as transportation, mining, and manufacturing. This is because the construction industry requires a wide range of inputs such as building materials, transportation, and equipment (Construction Industry Development Board (CIDB), 2015). However, for all the positive economic capabilities of the industry, an inevitable consequence of the apartheid policies governing South Africans differently based on their race has resulted in an industry fragmented along racial lines (Greef, 1990). Legislations such as the Native Building Workers Act, No: 27 of 1951 restricted black people to merely unskilled or low skilled work on residential buildings (Glücksman, 2010). The housing process excluded black contractors during the apartheid era. This exclusion created a pool of underdeveloped black-owned companies. It is for this reason that the promotion of black contractors is a central theme of the current government's housing policy.

Small black-owned companies involved in housing construction are called emerging contractors. The name '*emerging*' came about from the fact that they were previously marginalised and excluded from participating in higher spheres of the building industry (Murray and Appiah-Baiden, 2002) but are expected to come into their own in the democratic era. As a result, they were new arrivals to the construction industry of the democratic South Africa. To date small blacked-owned companies are still referred to as emerging contractors. The focus of this research is on the support given to emerging contractors involved in housing construction. Such construction enterprises have failed to establish themselves as economically sustainable enterprises that can compete against well-established contractors. This trend which persisted throughout the democratic era required the democratic government, led by the African National Congress (ANC), to prioritise contractor development among emerging contractors (Mofokeng, 2012). The government remains committed to ensuring that emerging contractors have access to the construction sector (Balogun et al., 2016).

The promotion of emerging contractors is an economic strategy that is not only instituted for the benefit of emerging contractors. It is also a strategy used to create employment opportunities, reduce poverty, and encourage economic growth for the benefit of other citizens. The government has enacted the Preferential Procurement Policy Framework Act 2000 (PPPFA). Through the tender system, the PPPFA makes use of emerging contractors for the construction of subsidised housing (Brynard and Magoro, 2010). These contractors are often only able to meet the minimum requirements needed to enter the lower end of the contracting market. They enter the lower end of the General Building Works (GB) contracts category. This category is primarily concerned with construction work that deals with shelter. Malongane (2014) states that this portion of the sector is extremely competitive due to the high number of contractors, which translates into a high failure rate among emerging contractors. Furthermore, emerging contractors lack appropriate business and financial management skills which contribute to company failure (Mofokeng and Thwala, 2013). The government of South Africa aims to address this skills gap.

Since the advent of democracy, the government of South Africa has increased its efforts to uplift the construction sector's contracting capacity, which includes the capacity of emerging contractors. The White Paper for Reconstruction, Growth and Development in the Construction Industry is one example of policy aimed at uplifting the construction industry. It was a collaborative effort by the former Department of Housing (DoH), and the Department of Transportation, Water Affairs and Forestry, with a vision to improve the skills within the construction industry (Department of Public Works (DPW), 1999). The Paper formulated a strategy aimed at enhancing the delivery of housing and infrastructure while bringing about better stability and performance of the industry. During the conception of this strategy, the CIDB was conceived.

The CIDB was established in terms of the Construction Industry Development Board Act 38 of 2000. According to the CIDB (2011) there had been an inconsistent approach to contractor development by the many private and public stakeholders that had already existed. As a response to such approach, in 2011 the CIDB in collaboration with the DPW adopted the Framework for National Contractor Development Programme (NCDP). The NCDP is a government programme comprising of a partnership between the CIDB, National and Provincial DPW along with other willing

stakeholders, in which the participating stakeholders align their individual contractor development programmes or initiatives with the principles set out in the NCDP framework, meeting both the objectives of the NCDP and their own service delivery objectives. One such willing stakeholder was the SEDA Construction Incubation (SCI) programme. The SCI programme was established in 2006 and already existed before the establishment of the NCDP framework. The SCI programme currently supports emerging contractors by improving their financial and business management skills, among other skills. This is because many of these contractors lack the business skills and experience to execute construction projects while the government intends to appoint these contractors to accomplish its economic and housing policy objectives.

1.2 Problem Statement

There is a noticeable drive to support emerging contractors at all levels of government using Contractor Development Programmes and other initiatives. For instance, the NCDP framework is an initiative at the national level while the Department of Human Settlements' (DHS) Emerging Contractor Policy Framework and the DPWs' Masakhe Emerging Contractor Development Programme are efforts directed to emerging contractors at the provincial level in KwaZulu-Natal (KZN). In addition to these, nine SCI branches are to be found within major metropolitan areas such as the eThekweni Municipality, the City of Tshwane, and the Ekurhuleni Municipality. With such a considerable drive to support emerging contractors, it is sensible to consider the successes and shortfalls of such efforts and programmes, particularly because contractors still face challenges despite such initiatives.

The high levels of competition indicated by Malongane (2014) is one contributing factor to the high failure rate of emerging contractors. Coupled with this competitiveness is the prevalence of client dissatisfaction when it comes to subsidised housing. In the construction industry, client dissatisfaction is highest in residential building projects compared to other types of construction projects (CIDB, 2011). Findings by Malongane (2014) also indicate that the lack of business and financial management skills is a major barrier to contractors' successes. Often construction companies are created by individuals that do not possess the necessary technical and managerial skills required for business success. The lack of business and financial management skills is compounded by the reluctance of contractors to employ skilled personnel on a permanent basis. Contractors attempt to reduce salary cost by only employing such

personnel once they are awarded construction contracts. Malongane (2014) asserts that this is problematic because there is no guarantee that skilled individuals are available when needed.

The CIDB baseline study of provincial Contractor Development Programmes (2011) acknowledged that the list of challenges and resource limitations are extensive but suggests that there is a need to focus on the most critical ones. It is also acknowledged that it is difficult to rank this long list of challenges in order of priority as they vary depending on individual contractors and level of development. Nevertheless, the lack of financial and business management skills is the most reoccurring (Malongane, 2014; Mofokeng, 2012). Primarily, this study assesses the support given to emerging contractors involved in state-subsidised housing. It looks at the support given by the SCI programme in areas of business management. The study assesses the presence of business plan support, access to reliable information, recordkeeping assistance, assistance in accessing finance, and assistance in pricing projects. There is literature (Dangalazana and Ncwadi, 2005; Makhura, 2011; Malongane, 2014; Mofokeng and Thwala, 2013; Balogun et al., 2016 among others) that suggests the above to be the key areas wherein emerging contractors face challenges. The development of contractors' skills to create viable construction companies that can support the delivery of subsidised state housing is the core theme of this study.

1.3 Research Objectives

The main aim of this study is to assess the effectiveness of the SCI programme as a tool to support emerging contractors involved in subsidised housing construction. The study also aims:

1. To assess the importance of emerging contractors in respect of housing delivery and economic redistribution.
2. To understand the objective and role of Contractor Development Programmes.
3. To identify the major challenges that emerging contractors encounter generally, and specifically within the SCI programme.
4. To establish the support that the SCI programme offers to the emerging contractors and assess the extent of its alignment to the support needs of emerging contractors.

5. To understand how such support aids emerging contractors to mitigate challenges.
6. To make recommendations to improve the SCI programme to better support emerging contractors.

1.4 Research Question

The study set out to answer the following main question:

How effective is the SCI programme as a tool to support emerging contractors involved in subsidised housing construction?

1.4.1 Research Subsidiary Questions

1. What is the importance of emerging contractors in respect of housing delivery and economic redistribution?
2. What is the objective and role of Mentorship/Contractor Development Programmes?
3. What are the major challenges that emerging contractors encounter generally, and specifically within the SCI programme?
4. What support is offered to emerging contractors within the SCI programme and to what extent is it aligned to the support needs of emerging contractors?
5. How does such support aid emerging contractors to mitigate their challenges?
6. What recommendations can be made to improve the SCI programme to better support emerging contractors?

1.5 Hypothesis

If the SCI programme's support for emerging contractors improves their business plans, recordkeeping and project pricing skills as well as their access to reliable information and finance, then such contractors would be able to develop into viable contracting enterprises that are independent of assistance.

1.6 Definition of Concepts

1.6.1 Construction Industry Development Board (CIDB)

The CIDB is a public entity created to lead construction industry stakeholders in construction development. It was established in terms of the Construction Industry

Development Board Act 38 of 2000, and is tasked with ensuring sustainable growth and capacity development of contractors. It found the need to unlock growth constraints and develop the contracting capacity of Historically Disadvantaged Individuals (HDI) and enterprises as they lagged far behind established contractors (CIDB, 2011). The CIDB along the DPW recognised the need to improve the management capacity and performance of emerging contractors through the NCDP (Mofokeng and Thwala, 2013). The main objective of the NCDP is to upgrade contractors' grading status from grade 1, which is easy to enter; to grade 9 which is the highest-level contractors can obtain (Adams, 2015). According to the CIDB and DPW (2011) other key objectives of the NCDP include the following:

- Improving the business management and technical skills of these contractors.
- Increasing the number of black, women, disabled, and youth-owned companies in targeted categories and grades.
- Improving the performance of previously disadvantaged contractors in terms of quality, skills development and employment practices
- Improving the grading status of previously disadvantaged contractors in targeted categories and grades.

The CIDB determines the grading designation of a contractor by the largest contract that the contractor has undertaken and completed within its class over the previous five years. Alternatively, contractors' grading designation is determined by their available capital.

The CIDB also determines the maximum value of the contracts that a contractor can tender for by the very same grading system. Grade 1 is the lowest grade which allows contractors to implement projects not exceeding R200 000 while grade 9 has no set limit. The CIDB however allows contractors of the same designation to consolidate their resources to undertake contracts above their individual designation. This, known as a joint venture, is not permanent but rather for a specific project. Under the CIDB, all public-sector clients are required to register all construction projects on the CIDB Register of Projects. The Register of Projects gathers information on the nature, value, and distribution of projects whereas the Register of Contracts was designed to manage risk in the tender process and reduce tender cost.

Illustrated below is the maximum value of contracts that different grades of contractors can undertake. These set limits are aimed at preventing contractors from procuring contracts that they will not be able to carry out successfully. Also illustrated in Table 1.1 are the requirements for contractors to reach a grading level. This is either by accumulating a determined amount of available capital or by completing a contract of a determined amount.

Table 1.1 Construction Industry Development Board Contractor Designation

DESIGNATION GRADE	TENDER VALUE LIMITS (Rands)	REQUIREMENTS TO UPGRADE	
		Upgrade by Contract	Upgrade by Available Capital
1	200 000	-	-
2	650 000	130 000	-
3	2 000 000	450 000	100 000
4	4 000 000	900 000	200 000
5	6 500 000	1 500 000	650 000
6	13 000 000	3 000 000	1 300 000
7	40 000 000	9 000 000	4 000 000
8	130 000 000	30 000 000	13 000 000
9	>130 000 000	90 000 000	40 000 000

Source: CIDB Annual Report 2015/16

1.6.2 Emerging Contractor

In South Africa, emerging contractors fall into a category of enterprises that are either small or medium businesses. This is consistent with small and medium contractors internationally (Mafimido and Iyagba, 2015). The National Small Business Act No.102 of 1996 describes a small business, which includes emerging contractors, as “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more and can be classified as a micro, a very small, a small or a medium enterprise by satisfying the criteria.” The National Small Business Act determines the size of contractors by the assets, turnover, and number of employees they have. Emerging contractors involved in subsidised housing register with the CIDB within the GB works category. De Wet

(2008) states that in South Africa, many government publications refer to emerging contractors without properly defining the term. However, De Wet acknowledges that most of these publications suggest that emerging contractors include HDIs and black persons (Africans, Coloureds and Indians) in the building industry.

The requirements for a contractor to qualify as an emerging contractor with the eThekweni Municipality's Learnership Programme include the following:

- That the contractor should be considered as HDIs as per the PPPFA.
- That the contractor should have been actively involved in the management of their company.
- That the contractor should have ownership of the company they represent.

The Council for Scientific and Industrial Research (cited in De Wet, 2008) has defined an Emerging Contractor as "an enterprise owned, managed and controlled by HDIs which is still overcoming business impediments arising from the legacy of apartheid." The SCI programme targets contractors as small as grade 1 for its support (CIDB, 2011). This study looked at contractors from grades 1 to 3. This group of emerging contractors have the greatest need for support compared to higher grades above them.

1.6.3 State Housing

Section 26 of the Constitution of the Republic of South Africa Act No. 108 of 1996 states that "everyone has the right to have access to adequate housing" and that "the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right." Thus, the Constitution recognises the uniqueness of housing as a fundamental need. It makes it an obligation on the part of the state to prioritise housing within its available resources for the sake of the poor. This understanding is shared by the National Development Plan of 2012, which is a long-term plan of action to enhance the capabilities of the state until 2030. The plan does not detail a strategy for the provision of adequate housing but acknowledges that a discussion is required on the future funding mechanism for housing in South Africa. Currently, housing subsidies are available for the construction of state housing. The National Government releases subsidy funds to local governments via the provincial governments (Tissington, 2011).

Local municipalities are responsible for the physical construction, development and maintenance of subsidised housings where necessary (Mbonane, 2005). These local municipalities can go about delivering housing through a range of seventeen mechanisms or programmes that exist in the National Housing Programme. Tissington (2011) categorises them into different 'Intervention Categories' that either fall under financial programmes, incremental programmes, social and rental housing programmes, and rural housing programmes. These programmes are backed by subsidies from the National Housing Subsidy scheme. Municipalities make use of contractors in the construction phases of many of these programmes. Therefore, the government of South Africa assumes the role of a client when it procures the services of contractors in the development of such housing. The study focuses on emerging contractors that do construction work on such housing projects. Some of these programmes include the project-linked subsidy programme, informal settlements upgrading programmes and the rectification of pre-1994 housing stock.

1.6.4 Emerging Contractor Development Programmes

The DPW was actively involved in the conceptualisation and implementation of programmes directed to promote emerging contractors since 1997 (Malongane, 2014). In 2007, the DPW proposed contractor incubation with the aim of creating an enabling environment in which selected construction enterprises could develop into sustainable contracting companies. Contractor incubation was one of several approaches used to develop contractors. Essentially, contractor incubation is business support that accelerates the successful development of construction companies by providing such entrepreneurs with an array of targeted resources and services. This type of incubation can include mentorship and training services among other services. Mentorship of contractors happens when such contractors undertake construction projects with the guidance of mentors while contractor training typically incorporates lessons relating to key aspects of construction like pricing of projects or financial management.

Contractor incubation could be viewed as an emerging contractor development programme (ECDP) on its own or alternatively it could be implemented as a component of an ECDP. Therefore, given that contractors' needs are different, ECDPs vary and are but a component of a larger developmental framework of the NCDP. The NCDP defines an ECDP as a programme established to provide developmental

support to contractors. Contractors who participate in these programmes receive structured developmental support that is targeted to achieve predetermined developmental objectives. Mofokeng (2012) states that ECDPs typically focus on grade 2 and 3 contractors. These ECDPs commonly incorporate mentorship of contractors so that they improve in business aspects in respect to contracting. This includes aspects such as contract administration, tendering for work, pricing of projects, financial management and marketing among others. Other ECDPs incorporate training sessions on the above business aspects.

This study set out to assess the SCI programme as a tool to support and develop emerging contractors. The SCI programme is an ECDP that entails incubation, mentorship and training for selected emerging contractors. It also falls under the framework of the NCDP even though its existence predates the establishment of the framework. As a sub-programme of the Small Enterprise Development Agency (SEDA), the SCI programme also has set service delivery objectives established by SEDA (SCI annual report, 2016). Key among these are that the SCI programme should:

- support a minimum of 200 contractors throughout all its branches
- have a minimum of 85% black owned companies supported
- have a minimum of 30% female owned companies supported
- have a minimum of 30% youth owned companies supported
- graduate at least 30 contractors annually

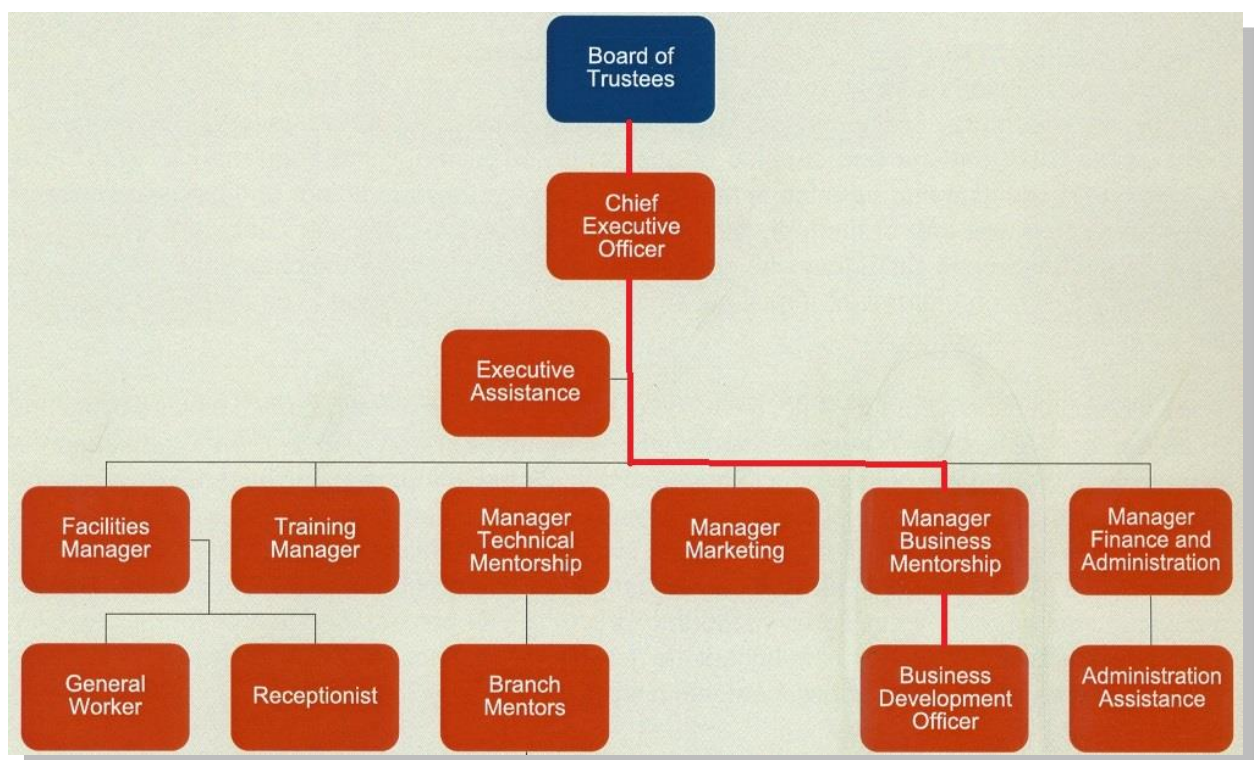
The SCI programme provides business development and support services for small construction enterprises, which is a prioritised area by the government (SCI, 2011). The SCI programme supports contractors with a view to elevate them beyond mere survivalist modes of operations. The core business of the programme is to develop emerging constructors through the infusion of both technical and business administration skills (CIDB, 2011).

The SCI programme's vision is to be the forerunner in the development of competitive construction enterprises (small, medium, and micro enterprises) through the provision of innovative mentorship, support interventions and business models. The programme provides support to selected participants for a period of three years. Within this time, each emerging contractor must be able to advance by at least one CIDB grade level

or more importantly, be capable of operating unassisted in the open market (SCI annual report, 2016). The SCI programme supported over 380 companies across all nine incubation centres nationwide (SCI, 2016). According to the SCI programme, successful contractors leave the programme after they have graduated. This graduation mechanism constitutes the major indicator of the performance of the SCI as well as the individual contractor. The target strategy of the SCI programme is to support existing emerging contractors who have a legal registered business entity. To be selected for the programme, contractors must be active CIDB and Companies and Intellectual Property Commission members with a clear tax record (SCI annual report, 2015).

The SCI is an established trust with its own appointed Board of Trustees. The SCI programme is managed by a Chief Executive Officer who is accountable to the Board of Trustees. Figure 1.1 below is an illustration of the organisational structure of the SCI programme.

Figure 1.1 SEDA Construction Incubator Corporate Structure



Source: SCI Annual Report (2015)

As mentioned above, the focus of this study is on the support given to emerging contractors. The study looks at the business development support and mentorship given by the SCI programme. A Business Mentorship Manager is responsible for this support. This Business Mentorship Manager is assisted by Business Development Officers (BDOs). The Business Development Manager reports to the Chief Executive Officer on issues pertaining to contractor development. The core purpose of business development is to improve the skills of emerging contractors.

1.7 Research Methodology

The overall aim of the research methodology used in this study was to assess the degree to which the support offered by the SCI programme to emerging contractors assists such contractors in overcoming their challenges. It was therefore necessary to select a SCI centre that had implemented the programme. Accordingly, this section explains the SCI programme implemented in the Municipality of eThekweni. The research approach adopted was that of a qualitative nature. It is based principally on a narrative of the information gathered from respondents through interviews. In addition to the information gathered from respondents, the study made use of documented secondary sources. This methodology also outlines the strategy used to solicit the participation of respondents for the study. Finally, the research methodology explains the way the information gathered is presented and analysed.

1.7.1 Selection of the Incubator Programme

The SCI programme in Durban, eThekweni was used for this study for several reasons. Firstly, the programme currently has a decade of experience in supporting emerging contractors. It is the first SCI centre to implement the programme. According to the SCI, the incubation model is a good intervention models that can make a significant difference in addressing the challenges faced by emerging contractors (SCI, 2011). SCI also believes that many construction companies approve of the services that the SCI programme offers as a solution to the skills shortages contractors have. In addition, the CIDB baseline study of contractor development programmes (2011) acknowledges the efforts of the SCI programme. It is important to note that gaining access to the programme does not necessarily translate into the contractors being awarded construction contracts. The programme supports and coaches contractors to develop into fully fledged contracting entities but does not go beyond a supportive role to arrange construction contracts for contractors.

In 2009, the Construction Education and Training Authority (CETA) accredited the SCI programme for two courses relating to GB works. CETA is tasked with influencing the course of training and skills development in the construction industry. It does this by ensuring that all training reflects the needs and requirements of the industry. In line with the CETA objectives, the SCI programme provides training and accreditation to emerging contractors in the following courses:

- NQF 2 - SAQA 49410 - National Certificate: Construction.
- NQF 2 - SAQA 20813 - National Certificate: Construction Contracting.

According to the SCI annual report of 2016, the graduation mechanism and assistance from CETA are the major indicator of the performance of both the SCI and the individual contractors. There are two Incubator centres in the Municipality of eThekweni, in Durban and in KwaMashu respectively. In addition to this, the Head Office is located within the Durban central business district. This office is within walking distance of the Durban centre. The study focused on the Durban centre although there was a smooth administrative relationship between the Durban and KwaMashu centres. Since the Durban centre is located within the central business district, it is accessible to a large threshold of contractors from the municipality. The Durban centre was also well located in relation to the Head office.

1.7.2 Data Collection

Both primary and secondary data sources were utilised in this study. This section outlines the different sources used for secondary data as well as discusses the tools used to collect primary data.

1.7.2.1 Secondary Sources

Existing literature on contractor support was gathered to trace the trajectory of the practise in South Africa. In addition to the literature on contractor support, literature containing the challenges that emerging contractors encounter was reviewed. This was done as the use of primary data alone could not demonstrate a holistic account of the need for contractor development and the political developments in South Africa underpinning this need. Such information formed the bulk of the secondary data sources. Secondary sources included books, journal articles, government publications, published dissertations, documents published by the CIDB, online sources, and conference and newspaper articles that were relevant to the subject. The

focus in respect of these sources was on government interventions focused on developing small and medium contracting enterprises as well as the challenges that gave rise to the government interventions. The international experience was reviewed from such sources with the aim of identifying similarities, solutions and lessons that had improved small and medium contracting enterprises internationally.

1.7.2.2 Primary Sources

Once the SCI centre in Durban was selected as the appropriate centre to conduct the study, it was thereafter necessary to establish the individuals that were to be interviewed to meet the objectives of the study. The individuals interviewed constituted eight contractors who made up a sample size of 40% and an expert on the business development aspects within the SCI programme. Together, the Business Development Expert (BDE) and the eight emerging contractors formed the primary sources used in the study. The selected BDE was knowledgeable about the programmes' business development aspects such as the mentorship and training of contractors. This was confirmed by the SCI's human resource manager who indicated that this individual was part of the SCI programme for the majority of the programme's existence. The researcher's interview with the BDE enabled the former to fully appreciate the aim and objectives of the programme designed for the contractors. Permission to use an audio recorder was obtained before the commencement of the interview session with this interviewee. The BDE provided key information relating to the strategies adopted by the programme to support the contractors to improve their construction companies. The BDE also provided information pertaining to the day-to-day assistance that the programme provided contractors. This information allowed the researcher to understand the purpose of the programme and its successes as well as its shortfalls from the perspective of its implementers.

The researcher also attended a workshop along with the emerging contractors. This opportunity that was granted to the researcher came about when a BDO suggested that the researcher attended such a workshop. This opportunity was used to interview some contractors and schedule appointments with others. The contractors, who are clients of the SCI programme, were interviewed to ascertain their experiences and views in respect of the support granted to them by the SCI programme. At the time the study was being conducted, the SCI programme had eighty-seven contractors of which only twenty had been involved in subsidised housing construction. This was the

group of interest for study. To get a fair representation of the different CIDB levels of contractors represented in this group of twenty, the researcher used stratified random sampling to select eight emerging contractors from the twenty. Contractors were stratified into three different strata. These strata were based on their CIDB level. This was done to increase the representation of contractors from different CIDB levels. Table 1.2 shows the total number of contractors each CIDB strata and the number of contractors selected from each to represent the strata. The first group consisted of eight level 1 contractors, three of whom were selected for interviews. The Second group had five level 2 contractors of which only two were interviewed. The last of these groups had seven level 3 contractors; three were selected for interviews. Table 1.2 summarises the stratified sampling process and sample size.

CIDB Level	Total Number (population) of Contractors	Selected Number (sample) of Contractors
1	8	3
2	5	2
3	7	3
Total	20	8 (sample)

Source: (Author, 2017)

These contractors were interviewed at the workshop, the SCI centre and at arranged meeting venues.

The Interview Process

DiCicco-Bloom and Crabtree (2006) state that the semi-structured interview approach allows a researcher to develop a flexible interview schedule around a predetermined set of subjects. In addition, semi-structured interviews allow the respondents interviewed to actively aid the process of making sense of phenomena rather than only playing an informant role. For such reasons, two sets of semi-structured interview schedules were prepared to guide the interview process. The first was prepared to interview the SCI BDE and the second to interview the emerging contractors. The semi-structured interview schedule prepared for the SCI BDE was shaped around a set of open-ended questions relating to the support given to the contractors. The

interview schedule prepared for the contractors was shaped around a set of open-ended questions relating to the challenges they face as contractors and their support needs.

Together, both sets of interviews for the SCI BDE and the contractors afforded the researcher the flexibility in the interviewing process. They allowed the researcher to ask follow-up questions when deemed necessary. The semi-structured format allowed for a systematic arrangement of questions. However, this arrangement was changed during instances wherein the respondents inadvertently answered multiple questions at a go. Furthermore, the researcher allowed the respondents to express themselves fully while guiding the interview to retrieve all relevant information. The duty of the researcher in the interviewing process was primarily to question the respondents. The researcher also undertook the duty of explaining the purpose of the study and guaranteed the interviewees' confidentiality. In addition to this, if any misunderstandings of the study arose, the researcher cleared them and elaborated on its intended objectives.

1.7.3 Data Presentation and Analysis

Data analysis is the process of making sense of respondents' views, opinions, and experiences (Creswell, 2009). The data analysis process involved preparing the data by means of transcribing voice recordings. It also involved the arrangement of corresponding patterns of the data into appropriate themes. The data was analysed according to various themes, namely, business plan support, access to reliable information, recordkeeping assistance, access to finance, and assistance when pricing projects. This approach to analysing data is known as a thematic analysis approach (Braun and Clarke, 2006). It was deliberately used as the researcher had hypothesised that the different forms of support, mentioned above, would lead to a contractor developing a viable business. The researcher went about the qualitative analysis of the interview data by using the four steps explained below.

Steps of Data Analysis

Phase One: Reading the transcripts

The researcher transcribed all the interviewees and thereafter quickly browsed through the transcripts. Initial thoughts were noted down, based on the researcher's

first impressions vis-à-vis the research question and objectives. The transcripts were then read once again.

Phase Two: Labelling relevant pieces

The researcher began highlighting or labelling interesting features, points, and arguments of the transcripts in a systematic fashion. This was done across the entire set of transcripts. These labels were based on challenges, experiences, and opinions of contractors as well as the BDE of the SCI programme. The labels also included things that the respondents explicitly mentioned as important or relevant.

Phase Three: Arranging the data into themes

In this step, the researcher went through all the labelled or highlighted data transcripts with the aim of allocating such data under the most appropriate themes. At this point, the researcher also reviewed whether the themes were appropriate for the data. The data was thereafter arranged under the appropriate themes.

Phase Four: Producing the summary of findings

In this step, the researcher presented the themes in no specific order. The themes represent different efforts that the SCI programme made to assist emerging contractors. Quotes from the contractors and BDE were used to illustrate and emphasise the findings.

1.7.4 Ethical Issues in the Research

This study was only undertaken once the proposal was approved by the School and the proposal had met all the requirements of the University Research Office. This University Research Office granted ethical clearance to the researcher for the study to take place. The researcher was committed to ensuring that all ethical issues pertaining to human research which include informed consent, confidentiality and emotional safety were upheld. The researcher made sure that all the participants were fully aware that participating in this study was voluntary and that they could withdraw from the process at any time without any consequences. In addition to this, the researcher ensured the confidentiality of all the respondents and used pseudonyms to refer to the contractors in the study. This was to ensure that the contractors' views on the SCI programme would not jeopardise the services and support that the contractors

receive at a later stage. The researcher ensured that the analysis and findings of this study was grounded in the original data set even though the researcher made use of secondary data to substantiate the findings.

1.8 Structure of the Dissertation

This section explains the structure of the dissertation. The study consists of five chapters as follows:

Chapter One: Introduction and Research Methodology

Chapter one is an introductory chapter which gives a detailed outline of the research background and problem statement. It further includes the aims and objectives of the study, the research question and subsidiary questions as well as the hypothesis. A discussion of the research methodology and data analysis is also incorporated in this chapter.

Chapter Two: Theoretical and Conceptual Framework

This chapter provides the conceptual and theoretical framework used for the study. It also places contractor development and support within the broader discussion of the South African housing policy.

Chapter Three: Literature Review

This chapter presents the relevant literature pertaining to the challenges contractors encounter, locally and internationally. The chapter also addresses literature relating to the mentorship programmes that are implemented in South Africa.

Chapter Four: Data Presentation and Analysis

This chapter presents and analyses the data gathered from the respondents, the emerging contractors and SCI expert.

Chapter Five: Summary of Findings, Conclusions, and Recommendations

The study ends with chapter five, which presents a summary of key findings. It draws from thoughts in chapter four and makes recommendations on how to improve the support given to emerging contractors so that they are able to win projects.

1.9 Chapter Summary

This chapter demonstrates the state of the construction industry in South Africa and the context of emerging contractors and the challenges they experience. The apartheid regime and policies introduced during that period are the main causes for the disparity between emerging and established contractors. The chapter highlights the post-apartheid democratic government's intentions and efforts to improve such emerging contractors. The study is thereafter constructed with a view to assess the SCI programme as a tool to assist emerging contractors involved in housing construction. A brief discussion of the SCI programme is given. The reasons for choosing the topic and research problem are also discussed. The study is guided by the objectives, research question and subsidiary questions presented above.

CHAPTER TWO

THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 Introduction

This chapter presents the theoretical and conceptual framework for the study. The theory of constraints is used to understand the limitations in the support efforts directed towards contractors and how they can best be improved. In addition to the theory of constraints, Rawls' justice theory is explained. This theory gives a basis for understanding the reason that the SCI programme's support, along with similar support efforts, have prioritised emerging contractors. The two theories make up the theoretical framework. The theoretical framework is used to connect all the aspects of the study, such as the purpose of the research, methodology and literature, to frame a carefully articulated assessment of support for emerging contractors by the SCI programme. The conceptual framework discusses housing related policy captured in the Reconstruction and Development Programme (RDP), Broad-Based Black Economic Empowerment (BBBEE) and the Construction Charter, which are some of the key policy drivers advocating for the use of emerging contractors in the construction of subsidised housing.

2.2 Theoretical Framework

2.2.1 The Theory of Constraints

The theory of constraints is a management model that sees any manageable system as being limited in attaining its goals by a small number of constraints. It advocates for the use of a focusing process to identify those constraints. Thereafter the theory suggests that the subsequent response should be to restructure the rest of the organisation around those constraints (Goldratt, 1986; Goldratt, 1984). The theory of constraints advocates for an ongoing process to improve the objectives of an organisation.

This process begins by identifying the key constraints of the organisation. It then requires the organisation to place maximum effort to address the constraint identified. This includes aligning the organisations decisions and policies in a manner that responds to the key constraint. The process ends by re-evaluating the organisation. In this study, the theory of constraints is useful in acknowledging that the SCI programme has constraints, whether internal or external. The ongoing process of the

theory of constraints is used to frame the recommendations made to overcome such constraints, once they have been identified.

2.2.2 Theory of Justice: Justice as Fairness

The concept of justice within societies was observed by political theorist as far back as Aristotle (Blackstone, 1975). In more recent times, John Rawls analysed the idea of justice to provide answers to how a society could offer justice to all its citizens. Rawls was a twentieth century American political scientist and philosopher. He wrote his book 'A Theory of Justice' in 1971 in which he developed a theory called '*justice as fairness*'. Rawls's justice theory has two main principles. Firstly, the liberty principle which is based on the idea that everyone has the claim to basic liberties and rights. He states that "*each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others*". The second principle, the equality principle, speaks of equal distribution of benefits or equal distribution of disadvantages to all the members of society. Accordingly, the equality principle is based on the idea of distributive justice. Distributive justice acknowledges that the needs of all people are not the same in that some have certain needs as compared to others (Darley and Pittman, 2003). As a result, a fair distribution does not necessitate an exact or equal distribution. Therefore, distributive justice is more complex as it seeks to provide a fair distribution of benefits rather than equal distributions of benefit.

A central component to the justice as fairness theory is the original position, which is a hypothetical situation in which social contracts are drawn. Social contracts are voluntary agreements among individuals by which organised societies are brought into being with the right to secure mutual protection and welfare (Hampton, 1988). Through the original position, these social contracts are determined by individuals that do not know their class, social position, abilities, or material wealth among other attributes (Rawls, 2001). This is done so that the outcome of such social contracts would advance the most disadvantaged or least equipped members of society. The two principles developed by Rawls are to regulate all collective social, political, and economic agreements. The liberty and equality principles enable the kinds of social cooperation that can be entered and the forms of government that can be established. Together, these principles provide a safety net and empower those that ordinarily would not be able to achieve growth. The principles enable disadvantaged individuals to achieve alongside individuals that are expected to achieve.

The justice as fairness theory is a deontological theory, meaning that it focuses on intent. Therefore, it has been useful in this study because it assists one in understanding the intentions of the South African government and relevant stakeholders such as the SCI programme with regards to supporting emerging contractors. It gives a framework to understand the logic behind the range of policies used to assist and empower emerging contractors. The South African government and other relevant stakeholders aim to empower emerging contractors within the subsidised housing market without placing established contractors at a disadvantage. To understand the reason behind, one must understand the housing background of the country. The following section discusses the housing background in South Africa.

2.3 Housing Background

The years leading up to the 1994 election were marked by widespread rural-urban migration. Such migration patterns led to an increase in the development of informal settlements. The housing landscape of the year 1994 was distinct in that there was inadequate housing for a large population of South Africa (Goodlad, 1996). However, the poor housing conditions in South Africa were not solely due to migration but also the colonial and apartheid policies. Such policies of racial segregation have left a daunting legacy of a fragmented urban form with unequal access to jobs, amenities, and public services. Wilkinson (1998) blames the colonial policies that predated the apartheid policies. These policies offered little development towards the African 'buntustans' or homelands as compared to the white urban areas. The white urban areas had first world characteristics though there were pockets of squalid conditions in which Africans resided in. Many of the African residents had located in these settlements to find work within the cities. The conditions of such settlements worsened without government assistance.

The subsequent apartheid policies attempted to shelter Africans by the provision of sites and services (Lalloo, 1999). This was because the increased number of informal settlements created a negative sentiment among the white citizens and the idea of relocating the African residents to homelands would have been impossible. The magnitude of the housing challenge that the apartheid administration was attempting to reduce can be understood by the statement of Dr Eiselen, the Secretary of the Department of Native Affairs in 1951, that "to control the overpopulated (urban) villages held in native ownership such as Sophiatown and Alexandra and the

numerous squatter camps around Pretoria and the Witwatersrand efficiently, would be attempting the impossible... Only by the provision of adequate shelter in properly planned Native townships can full control be regained” (cited in Wilkinson, 1998: 219). This marked the beginning of proper housing development for black South Africans in the country. However, this never meant that Africans would be given the right to implement and construct these publicly initiated housing units.

The key factor that prompted the development of such housing was exclusion and control rather than empowerment. This argument is clearly captured in the statements of the former Minister of Housing Joe Slovo in 1994, who said that “what housing there was, was about control. It was about excluding people from urban areas. It was about regimentation. It was about the administration of deprivation” (cited in Goodlad, 1996:1629). In fact, the Native Building Workers Act, No: 27 of 1951 prevented Africans from performing skilled work on these housing units and only allowed lower skilled labour to reduce the cost of constructing such units (Glücksman, 2010). As a result, black Africans did not influence the design, typology and location of their own housing. This directly influenced the capabilities of black building entrepreneurs. This is because they were not equipped to undertake basic residential construction, having had no experience doing so. The result of apartheid housing development was low cost housing units constructed in secluded peripheral areas of the urban metropolises, known as townships or locations. The development of townships never eliminated the housing challenge for Africans as many remained in poor housing. As a result, by the year 1994 the housing backlog within urban areas had risen to over a million units (ANC, 1994). Section 2.3.1 discusses the housing backlog that the ANC government had to address in 1994.

2.3.1 Housing Backlog

In South Africa, the term *housing backlog* refers to the shortage of houses required to meet the demand of households in the country (Ojo-Aromokudu, 2013). The poor are often the ones most affected by the backlog. Goodlad (1996) mentions that the scale of the housing shortage in 1994 remains a mystery due to the lack of reliable information at the time. Nevertheless, it was estimated by the former DoH that the housing backlog was 1.5 million units in 1994. In addition to this, an estimated 720 000 urban sites needed upgrading and approximately 450 000 people lived in hostel accommodation that required renovation. Under the apartheid administration, hostel

accommodation was strictly reserved for black-male migrant labourers but the demise of apartheid enabled wives and children to join their husbands and fathers in these hostels. This worsened the infrastructure and condition of such hostels. Further to this, around a quarter of the people housed inadequately did not have access to piped water and even more (46 %) lacked basic electricity. This included people who lived in informal settlements, backyard shacks and hostels.

In 1994 the housing backlog of 1.5 million had created a situation in which over 7 million people required adequate housing. A significant contributor to this large housing backlog was the growth of informal settlements, which had expanded in size and multiplied in number. Many of these informal settlements developed in the country's major cities. The housing backlog presented one of the most important concerns of the ANC government and continues to do so till this day. Wilkinson (1998) states that even portions of the previously advantaged white population could not address their housing needs adequately. Many households across all racial groups lived in poverty and failed to adequately cater to their housing needs. An estimated 4 out of 10 households (39.7 %) had an income that was less than R800 per month (Goodlad, 1996). As a result, the government had to subsidise housing if adequate housing for the poor was to be a reality.

Currently the housing crisis has worsened as compared to 1994. The use of emerging contractors is required more than ever if they are to play a role in addressing the housing backlog. Informal settlements have multiplied from around 300 in 1994 to 2 225 in 2015 (Tomlinson, 2015). The drastic increase works against the government's ambition to eradicate such housing. According to the eThekweni Municipality Integrated Development Plan of 2017, the housing backlog remains above 390 000 units. Nevertheless, the government remains committed to providing adequate housing. An indication of this sentiment is that the government funding for housing and auxiliary community amenities increased from 1 % of the total Gross Domestic Product to 3.7% over the period of 1994 to 2015 (Tomlinson, 2015). Government funding is a key component to subsidised housing projects. The funding is not only important because it prioritises emerging contractors but also because it bridges the gap that many households cannot cover to meet their housing needs. The median household expenditure in South Africa is only R 3545.50 (Statistics South Africa, 2017) while the Centre for Affordable Housing Finance in Africa estimates that the average mortgage

is around R 850 000. Therefore, many households would not be able to finance appropriate housing without some form of assistance. Discussed below is the government funding system for housing.

2.3.2 Funding for housing

In the democratic era, the South African housing policy saw a steady adjustment in its approach to funding housing beneficiaries. This adjustment was a shift away from the monolithic construction of a uniform housing product for all through the project-linked subsidy to a varied subsidy mechanism that offered numerous subsidy opportunities for households. The project-linked subsidy was however the only significant subsidy mechanism operational at the launch of the policy in 1994. By 2010, when the Minister of Human Settlements announced that 2.3 million housing subsidies had been made available, much of those subsidy funds were approved through the project-linked subsidy (Tissington, 2011). By 2015, 14.4% of South African residents had been funded by such subsidies (Statistics South Africa, 2016). These subsidies were available to developers who wanted to take on approved projects. The subsidies allowed qualifying households to obtain complete residential units using their subsidies. The amounts of these subsidies were relative to the income of the beneficiary (DoH, 1994).

There have been indications that the apartheid administration partially influenced the project-linked subsidy. This was the case because the members of the De Loor task group, a task group set up in the early 1990s to provide recommendations to the apartheid government on a new housing policy (Katsioloude, 2009; Wilkinson, 1998), were also members of the National Housing Forum (NHF). The NHF was the vehicle for policy negotiation and formulation established during the final years of apartheid. The result of the NHF was the Housing White Paper of 1994 (Lalloo, 1999). Although greater emphasis was placed on the top structure post-1994 (Huchzermeyer, 2000), the influence of the De Loor task report of 1992 was seen in key ideas such as the mass production of individual houses on properly planned and serviced sites. Also, the national housing subsidy scheme was structured in the same mould of the Independent Development Trust subsidy scheme which advocated for serviced sites accompanied by some form of top-structure. The 1994 national housing subsidy scheme provided low income households a maximum of R 15 000 which was paid to

developers or public-sector agencies to undertake approved housing projects under the project-linked programme (DoH, 1994).

The newly elected ANC government of 1994 placed emphasis on these project-linked housing units which were later coined '*RDP housing*'. This was because the ANC's election manifesto, the RDP (see section 2.4.1), aimed to deliver a million houses by the end of 1999. In the subsequent years, the language of the government changed to make use of terms such as sustainable human settlements, poverty alleviation and housing quality (Mthembu-Mahanyele, 1999 cited in Huchzermeyer, 2000). Logically, the national housing subsidy scheme would be altered to allow for such alternative ambitions of the government. The publication of the second National Housing Code in 2009, the first being in 2000, set out a general framework in terms of qualification criteria among beneficiaries.

The criteria applies to the current National Housing Programmes. The National Housing Code also sets out the underlying policy principles, guidelines, norms, and standards which apply to the National Housing Programmes and supporting subsidies. Some of these National Housing Programmes have been updated while others have been removed (Tissington, 2011). The National Housing Code is aligned to the Breaking New Ground (BNG) of 2004, which is a policy framework based on the Housing White Paper. Emerging contractors find work in many of these programmes which the government has committed to by providing funds. However, although subsidies are available, the government encounters challenges when implementing housing projects and this ultimately affects emerging contractors.

2.3.3 Challenges during the implementation of housing development

The challenges faced during the implementation of housing projects were encountered as early as the first year of democratic administration. Only 878 subsidised housing units were built a year into the administration of the ANC. This was after the RDP stated that one million houses were to be constructed within the first five years of democracy (Goodlad, 1996). Irrespective of whether that figure of a million houses was an ambitious target or the actual aim, the number of housing units constructed in the initial years were low. In subsequent years however, the number of units constructed increased to a peak of 235 635 within the financial year of 1998/1999. Since that peak, there was a significant reduction in the number of constructed houses.

This was clearly seen in the 2015/2016 financial year when a little over 100 000 units were constructed (DHS, 2016). There are several reasons for the sharp decline of house construction since 1999. Chief among them have been problems such as the lack of capacity by local municipalities to administer projects, improved regulations for subsidised housing, limited resources for housing development and corruption during the development of housing.

There is a strong correlation between the government's ability to administer housing and the positive prospects of emerging contractors in the housing process. For this reason, it is important to understand the challenges that the government encounters when delivering housing. Housing rights, like all other socio-economic rights in the constitution, have resource implications (Tissington, 2011). This means that even though it is the obligation of the government to ensure that everyone has the right to access housing, the government can only fulfil this obligation to the extent that its resources permit. As mentioned previously, the initial housing subsidy offered by the state in 1995 was a maximum of R 15 000. Currently, the subsidy for a unit under the same project-linked programme is more than R 160 000 (Tomlinson, 2015). Evidently the implications of this would mean a greater strain of the funding budget for housing, consequently resulting in fewer housing. There are two key factors that have over time made it mandatory for an increased subsidy package. Firstly, the added impetus by the BNG to develop formal housing that would later act as an asset for the end-users and secondly, the general increase of inputs required for the development of housing. The cost of funding subsidised housing increased over time; nevertheless, the government remained committed to the empowerment of emerging contractors in the housing process.

2.4 Empowerment of Emerging Contractors

As South Africa was heading towards the 1994 elections, the ANC government was clear on its intent to introduce redistributive policies that would allow HDIs, including emerging contractors, to exercise the most basic economic rights within a largely laissez-faire economy (ANC, 1994). Such rights would include black persons being able to own and control construction companies. However, the elected government recognised that emerging contractors were not on par with white established construction companies. This was because the apartheid government had historically excluded black contractors. Cottle (2016) states that approximately 50 000 black

contractors were forced into informal modes of operation under the apartheid government. The effects of the legacy of apartheid on the construction sector is still evident as only 10% of large construction companies are black owned while approximately 80% of public sector tenders are awarded to such large contractors. Therefore, white construction companies still dominate the sector.

Given that the sector is dominated by white established companies, an open market economy would perpetuate the apartheid construction sector with HDIs or emerging contractors lagging behind white companies. To remove this bias, the ANC introduced the RDP and BBBEE among other policies that aimed to empower, promote and develop emerging contractors. From a justice as fairness perspective, such policies were to allow for the subsidised housing market to incorporate emerging contractors. This is because they would not otherwise be included due to their limited capabilities in the market. The mentioned policies were seen to incorporate both principles of the justice as fairness theory, the first principle being the liberty principle as all groups can exercise the basic rights of participating in the construction industry, which was not the case under apartheid. Secondly, these policies are seen to incorporate the equality principle and give added importance to emerging contractors as they are not on par with established contractors. Section 2.4.1 discusses the RDP which was a policy document that aimed to empower HDIs and emerging contractors in the housing process.

2.4.1 Reconstruction and Development Programme (RDP)

The RDP document was the result of extensive consultations within the ANC party, its alliance partners, and the broader civil society (Huchzermeyer, 2000). As the ANC's manifesto, the RDP set out the party's intentions, motives, and views on how the country was to be governed if the ANC took over power following the democratic election in 1994. It took on the core tradition of the freedom charter which prescribed an egalitarian society. The RDP represented an integrated and coherent socio-economic policy framework that was to be utilised in guiding the national government come democracy (RDP, 1994). Such guidance was encompassing of matters relating to an array of governable sectors. This included housing and related services but also transportation, healthcare, environment, water, and sanitation, among others.

In terms of housing, the RDP viewed housing as an integral part of the policy framework. The value of housing in the RDP was not only seen in the need to provide shelter to those in need but also as a means of economically empowering HDIs by ensuring their access to the housing process. The RDP aimed to develop a million housing units within five years of democracy. To achieve this, the RDP aimed to reach a target of 200 000 housing units per annum through a mass housing programme. The RDP explicitly viewed the housing challenge as an opportunity, stating that “*a mass housing programme can help generate employment, skills and economic activity, both directly and indirectly*” (para 2.5.3: pg26). Emerging contractors were to have benefitted from this mass production of houses in that they were to have contracted for such housing construction. In addition to this, the RDP also sought to develop such contractors, stating that “*the development of small, medium-sized and micro enterprises owned and run by black people must be incorporated into the housing delivery programme*” (para 2.5.3: pg26) and thus empowering these contractors. Because of the RDP, public spending was channelled to the immediate priorities identified within RDP. Between 1994 and 1998, South Africa was marked by increased investments in social and housing infrastructure (Cottle, 2016). The ANC government effectively used the arena of housing delivery as a capital accumulation strategy for the emerging contractors. Together with the RDP, the Housing White Paper and BNG assisted in this regard.

2.4.2 Housing White Paper (HWP) and Breaking New Ground (BNG) Policy

The Housing White Paper of 1994 was the result of an intense negotiation process that took place as part of the NHF between 1992 and 1994 (Huchzermeyer, 2000). Since the NHF was the vehicle for policy formulation established by the DoH, the resulting Housing White Paper was to reflect a consensus between the members of the forum. These members included 19 organisations from developmental, civil, political, and business backgrounds (Lalloo, 1999). Unlike the consultation process of the RDP, the negotiation process of the Housing White Paper incorporated greater interest from the private business sector. This gave rise to sharp differences in many underlying principles of the housing process. However, in October of 1994, shortly after the first democratic election, a successful housing summit was convened. This summit, resulting in the Botshabelo Accord, was more inclusive than that of the NHF (Mhone and Edigheji, 2003; Wilkinson, 1998). Joe Slovo, the first Minister of Housing

and a long-time leader of the South African Communist Party as well as a leading member of the ANC, used that opportunity to re-emphasise the policy approach elaborated within the NHF to align to the redistributive objectives of the RDP (Wilkinson, 1998). The preamble of the Housing White Paper states that “*for the first time in its history, South Africa now has a policy framework for all of its citizens*”, thus confirming that those previously excluded from housing provision or the construction thereof, were now incorporated.

The Housing White Paper (section 4.5.6) prescribed that the government of South Africa conform to the vision of the RDP, this vision being the redistributive objectives of the RDP. Furthermore, the Housing White Paper placed emphasis on supporting local initiatives, particularly small, or medium sized companies. It intended to promote such companies to get into partnerships with larger, established companies committed to providing appropriate support and training. It is important to note that the Housing White Paper was explicit in stating that the housing strategy to follow its launch was going to place specific emphasis on “*the role of small and intermediate enterprises in housing construction*” (DoH, 1994: 22). The Housing White Paper intended to promote emerging contractors by:

- Stimulating entrepreneurial development by creating new housing environments and maximising the participation of historically disadvantaged, emerging entrepreneurs/ contractors.
- Giving contractors access to programmes for skills transfer and capacity building.
- Maximising job creation in the construction of housing (the role of labour based construction).
- Giving contractors access to bridging finance for the development of housing.

The Housing White Paper was the principle strategy guiding housing after the Constitution. This was despite continuous calls to re-evaluate its underlining principles (Huchzermeyer, 2000). In 2004 the call to re-evaluate the Housing White Paper was heeded and the BNG was introduced. It maintained the core principles contained in the Housing White Paper such as making use of emerging contractors for the construction of subsidised housing and facilitating support programmes for the provision of bridging finance to those emerging contractors. Much of the strategic

visions contained in the RDP, Housing White Paper and BNG can best be appreciated in the BBBEE policy. This is because the BBBEE policy promotes, prioritises and encourages the development of emerging contractors within the housing process.

2.4.3 Broad-Based Black Economic Empowerment and the Construction Charter

In South Africa, black economic empowerment is a concept initiated to address the socio-economic difference caused by apartheid. The lasting socio-economic results of apartheid are that the historically disadvantaged races (Blacks, Coloureds and Indians) still lack prospects of succeeding in the country's economy (Butler, 2017). The redistributive black economic empowerment strategy was first introduced by the South African government and private sector in the 1990s (Kruger, 2011). It was a strategy based largely on equity ownership and management representation by HDIs within large companies (Lazarus, 2007).

In 2003, the Broad-Based Black Economic Empowerment Act No. 53 of 2003 was introduced and became the foundation for all future black economic empowerment policies. The main role of this Act is to manage the legislative framework and processes of black economic empowerment. It focuses on the redistribution of wealth to HDIs. Large companies are graded by criteria that include procurement, skills development, enterprise development, shareholding and corporate social investments (Tshetu, 2014). The Act is a product of the Department of Trade and Industry and requires large companies to promote HDIs in order to do business with the government. Emerging contractors benefit from this cooperation between large companies and the government.

Following much criticism that the empowerment strategy only benefitted a well-connected and elite few, the BBBEE Codes of Good Practice was developed in February 2007 as an implementation framework during the administration of President Mbeki. Later that year, an Interpretive Guide was added to provide further clarification on the Codes of Good Practice. The Codes of Good Practice with the aid of the Interpretive Guide detail the method that BBBEE is to be implemented. This method makes use of a scorecard. The scorecard evaluates the extent of black economic empowerment by companies in term of the following; ownership, management control, employment equity, skills development, preferential procurement, enterprise

development and socio-economic development. Companies that achieve a high BBEE score stand to benefit in various ways. One way that a company can benefit is by securing business with large corporates and government entities as these corporates and government entities are incentivised to use the services of businesses with high BBEE scores.

The Broad-Based Black Economic Empowerment Act also makes provision for Ministers of certain sectors to publish transformation charters. Some of these industries include construction, finance, forestry, information technology, tourism, transport, mining, and petroleum (DTI, 2003). Emerging contractors fall under the construction sector. Therefore, the Construction Charter provides a framework for the construction industry to address BBEE (Lazarus, 2007). The Construction Charter was promulgated in 2007 under section 12 of the Broad-Based Black Economic Empowerment Act. Emerging contractors are promoted by the government within this charter in term of BBEE (DHS, 2010). This is because the Construction Charter applies to all enterprises that are involved in the creation, expansion or maintenance of fixed assets related to residential or non-residential buildings.

The Construction Charter was published by the DPW. The DPW believes that the positive implementation of such a charter would address the inequalities in the construction industry and unlock the full potential of the industry (Martin and Root, 2010). The Construction Charter has a number of objectives. Amongst them is the need to:

- Change the racial and gender composition of the sector
- Increase the procurement of goods and services from black enterprises
- Standardise the preferential procurement methodology
- Enhance entrepreneurial development and promote sustainable growth of emerging contractors.

The Construction Charter makes use of a scorecard that is aligned to the generic scorecard of the Codes of Good Practice (National Treasury, 2017). The scorecard has seven elements that include preferential procurement, skills development, and enterprise development. Since BBEE is applied to companies depending on their size, emerging contractors are exempted from contributing to BBEE. They are known as exempted micro enterprises as they generally have turnovers of less than R10

million. In addition to this, they automatically qualify as 100% contributors towards preferential procurement, meaning that it is easier for them to compete for projects tendered by large corporate and government entities (DTI, 2004). BBBEE through the construction charter benefits emerging contractors, directly or indirectly, through enterprise development, skills development, and preferential procurement. These benefits are discussed below, under the respective headings.

2.4.3.1 Enterprise Development

Enterprise development is the process of investing time, knowledge, and capital to help different types of small and medium companies. Such investments are made to help such small and medium companies establish, expand or improve their businesses. Enterprise development also comprises of mentorship and business skills training given by establishments to emerging black-owned businesses (Verwey et al., 2011). The Development Bank of Southern Africa states that enterprise development is crucial in the efforts of addressing unemployment, gender inequality and poverty related issues worldwide. One reason that enterprise development is able to address these mentioned poverty-related issues is that small businesses are able to provide more jobs than larger firms due to their labour intensive nature (Harper, 1987). Emerging contractors are among the companies that enterprise development is applicable to. For instance, the SCI programme is in its basic form a programme of enterprise development that is championed by the DTI. Given that enterprise development has a catalytic role in empowering HDIs, the Construction Charter aims to make use of this approach to reach its redistributive objectives.

The Construction Charter believes that through its enterprise development framework set up to co-ordinate the development of emerging contractors, such contractors can reach higher levels of financial sustainability. The charter argues that enterprise development is key to increasing levels of black ownership in the sector. The vision set out by the charter is that established companies should take on the role of developing emerging contractors by setting up enterprise development programmes in line with the charter's objectives (DPW, 2005). It calls for enterprise development programmes to:

- transfer management and labour skills to emerging contractors
- establishment cost control systems

- improve contractors' business skills with added emphasis on entrepreneurial and negotiation skills
- transfer technical skills with added emphasis on innovation
- develop of skills relating to legal compliance, procurement knowledge and contractual knowledge
- assistance contractors with regards to the establishment of credit rating and history

The Construction Charter advocates for the development of emerging contractors to be measured against indicators that include: annual turnover, growth in cost of employment, total value of assets, tax and regulatory compliance and improvement in ability to access credit facilities (DPW, 2005).

2.4.3.2 Skills Development

Windapo (2016) acknowledges that South Africa's construction industry is characterised by a shortage of skilled individuals. This shortage is the result of limited investment in human capital development and the migration of available skilled personnel. To combat this shortage, the government has prioritised skills development. Skills development is the process of improving on the capabilities of the workforce, thus improving on the quality of life of workers and their prospects of work. Furthermore, skills development improves the productivity of workers in the workplace. In South Africa, skills development is focused on HDIs (Engdahl and Hauki, 2001 cited in Lazarus, 2007). The Construction Charter aims to facilitate a framework in which established companies take on the role of developing the skills of HDIs within the construction industry. For this to happen, the charter calls for 1.5% of an established company's payroll per annum to be channelled towards skills development. From the funds set aside for skills development, the charter requires 70% of it to be spent on black people.

The Construction Charter also requires established companies to comply with the Skills Development Act No. 97 of 1998. The Act provides an institutional and legislative framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce. It is also responsible for the establishment of CETA. As mentioned previously, CETA influences the training and skills development in the construction industry. Together, the Construction Charter

and the Skills Development Act ensure that relevant skills are being developed to support the needs of the construction industry. Emerging contractors are envisioned to benefit from a pool of skilled professionals that would promote growth of their businesses.

2.4.3.3 Preferential Procurement

In South Africa, the procurement of goods and services is a strategy to redistribute the wealth of the country to all its citizens, especially the HDIs. This is the basis of the PPPFA. The preferential procurement element of the Construction Charter scorecard measures the extent to which a company purchases its goods, services and supplies from providers with strong BBBEE procurement recognition levels (Moyo, 2009). Emerging contractors qualify as enterprises with strong BBBEE procurement recognition.

The 2017 preferential procurement regulations stipulates the 80/20 preference point system for the procurement of goods and services with a rand value of R 30 000 up to R 50 million, and a 90/10 preference point system for the procurement of goods and services with a rand value of above R 50 million. The preference point system of 80/20 simply means that for a project worth between R 30 000 and R 50 million, the adjudicators of such a project contract should reserve 20 out of 100 points for the BBBEE status level of the contenders and 80 out of 100 points for the contender's value of the project contract (National Treasury, 2017). The same applies to contracts above R 50 million Rands, except here, only 10 points were reserved in respect of the contenders BBBEE status level. This is to strengthen the contribution of emerging contractors in the sector.

These preference point systems give emerging contractors an advantage when it comes to contending for project contracts. For instance, the Construction Charter calls for established enterprises in the sector to commit to procure 70% of their goods and services from BBBEE recognised companies. Emerging contractors are among these BBBEE recognised companies. The government has made considerable efforts to increase the participation of emerging contractors in the housing construction process by the use of enterprise development and procurement strategies. Nevertheless, for emerging contractors to gain meaningful involvement in the housing process, a financial system that caters to the specific needs of such contractors must be put in

place. Section 2.5 discusses the financial systems put in place for emerging contractors.

2.5 Chapter Summary

This chapter presented the theoretical framework of the study. It explained the theory of constraints which is used to frame the assessment of support given to emerging contractors. It also explained the justice as fairness theory which is used to understand why the government of South Africa has taken steps to ensure that emerging contractors are given support and preferential treatment. The chapter thereafter discusses the housing background/context and the place for emerging contractors in this context. It acknowledges that the country has a large housing backlog and that emerging contractors have a role to play in the delivery of housing. The chapter concludes by drawing attention to the different policies and support strategies that are structured to advance emerging contractors. The next chapter addresses the local and international challenges that small and medium contractors encounter. It also reviews support programmes implemented for the benefit of contractors.

CHAPTER THREE

CHALLENGES FACING CONTRACTORS: SOUTH AFRICA AND INTERNATIONALLY

3.1 Introduction

The construction industry is a multifaceted industry. Construction projects are largely unpredictable. The progression from project tendering to project completion is often complex with difficulties along the way. Thus, emerging contractors face a host of challenges through the process. These challenges lead to project failure and in some cases, business failure. The challenges faced by a contractor are specifically unique to each individual contractor. Such challenges could be the result of poor management on the contractor's part or external factors stemming from the business environment in which the contractor operates. Therefore, it is incorrect to assume that all contractors experience the same challenges. That said, there are notably a few core constraints that are recurring in studies directed at understanding the challenges contractors encounter (CIDB, 2011; Malongane, 2014; Ncwadi and Dangalazana, 2005).

These challenges are intertwined and thus the solutions implemented to address a challenge have the ability to remedy multiple challenges. Consequently, the ideas informed by the theory of constraints (which is that the efficiency of a programme can be improved by concentrating on a few of its core constraints) suggests that the SCI programme could successfully support contractors by putting in place support structures that address the root challenges that contractors encounter. This chapter discusses the major challenges that emerging contractors encounter. The chapter also examines challenges that small construction companies face internationally. These challenges, discussed below, either emanate from financial factors, poor competency or the business environment in which contractors are engaged in. The chapter also reviews the support programmes that have been implemented to mentor and train emerging contractors in South Africa.

3.2 Financial Challenges

Thwala and Phaladi (2009) and Thwala and Mvubu (2008) stress that financial barriers within the construction industry are critical factors that hamper the growth and

development potential of emerging contractors. Sections 3.2.1 to 3.2.4 discuss the financial challenges that contractors encounter.

3.2.1 Financial Management

Financial management is a skill that many contractors do not possess (Malongane, 2014). It is a key skill required within any successful business. Massie (1986) states that financial management is the operational activity of a business that is responsible for obtaining and effectively utilising the funds necessary for efficient operations. Consequently, bad financial management practices directly affect the abilities of contractors to conduct business operations. Ross and Williams (2012) mention that many small contractors that have available financial resources to do business, do so without fully understanding the implications of bad financial management practices on their profitability. This is because contractors mistakenly perceive their profit to be a steady amount of cash entering their businesses after they evaluate their bank balances. This is often deceiving as they fail to take into account all the required costs to complete work which inaccurately exaggerates their profits.

A large part of this incorrect financial judgement has to do with the manner in which construction contracts are done. Construction contracts are complex, especially for emerging contractors since they lack the financial expertise. Whether it is the way contracts are priced, the way variation orders are implemented, the unforeseen events that take place or the natural human tendency of clients to disagree over money, they all contribute to erratic financial situations that do not favour contractors. For such reasons, it is imperative that contractors reach a competent level of financial management in a bid to mitigate the complexity of contracts.

Financial management is important in the sense that there is a direct correlation between the management of finance and the growth of a business (Hall and Young, 1991). A company that has a good sense of its financial situation would not enter into project contracts that require financial resources that the company is not able to commit to. When a company is allowed to experience uncontrolled growth, the financial needs of the company's project contracts exceeds the available financial resources. This in turn increases the vulnerability of the company towards an insolvent state.

When pricing or venturing into new contracts, much of the uncertainty can be avoided by the use of professional quantity surveyors. However, there is an unwillingness of contractors to employ professional quantity surveyors on a permanent basis. This unwillingness limits many companies' ability to obtain financial information that would inform the companies' decisions regarding the feasibility of contracts (Malongane, 2014; Ross and Williams, 2012). The reluctance of contractors to employ professionals indicates that they do not see it as being in their best interest to make use of such personnel. As a result, they run the risk of misjudging the financial capabilities of their companies. Thwala and Mofokeng (2013) are of the view that work stoppages are often encountered due to the lack of financial forecasting, thus resulting in contractors not fulfilling contracts with their employees. This leads to disputes between contractors and employees over the agreed wage. Furthermore, Mofokeng (2012) states that many companies do not realise that equipment that is hired but not efficiently utilised affects the company's financial situation over a longer term.

Ncwadi and Dangelazana (2005) and Thwala and Phaladi (2009) view financial management as a constraint that limits other abilities of a company. From a theory of constraints view point, financial management among emerging contractors would be seen as a key constraint to such contractors being able to reach their full potential. Poor financial management is not unique to emerging contractors in South Africa alone. In the developing world, small construction companies suffer from poor financial management as well (Laryea, 2010). For instance, Ugochukwu and Onyekwena (2014) state that small contractors in Nigeria experience challenges in respect to financial capital management. These contractors exhibit poor financial planning which eventually leads to company failure.

Improving financial management would include the separation of business finance from family obligations. It is well understood that contractors have families that need to be attended to financially. However, Thwala and Phaladi (2009) suggest that contractors must look for alternative sources of income to cater for their families' basic needs. Tshivhase and Worku (2012) concur that a major problem emerges when profits should be invested into the business. The decision to reinvest profits into the business are outweighed by the personal luxuries and self-interests of the owners. This is because the temptation for contractors to use the profits before completing a project is high. Tshivhase and Worku (2012) state that emerging contractors in South

Africa have been advised of the importance of redirecting profits back into the company but they do not take heed of this advice because there is no interest on their side to fully establish the company beyond 'quick' profits.

The use of business funds for the purpose of personal interest indicates that contractors involved in the practice do not understand basic financial management principles. Besides this practice being a bad business practice, it is also considered to be an illegal practice simply because contractors are registered as Closed Corporations. Therefore, the company is its own entity or 'legal person'. The assets of the company are in its own name and if it is to become insolvent, then the company is to pay its debts with its own assets without infringing on the assets of the contractor. The use of the company's funds for personal luxuries by contractors allows them to avoid the repayment of debts as the contractor would falsely claim that the companies funds are his/her own. Thus, good financial management practices play a vital role in accounting for finance. With sound financial management, contractors can account for their expenditure. This in turn makes it easier for financial institutions to assess the risk in financing their businesses. This is important for contractors to access finance from financial institutions.

3.2.2 Access to Finance

A key problem that many small companies often face is the lack of finance from traditional financial institutions. Access to finance from these institutions allows for the acquisition of capital. This means that contractors can use such finance to invest in equipment, tools, technology and training to push company productivity, growth and the subsequent need for more human resources (Hess and Rust, 2010 cited in Madzivhandila and Mutyeniyoka, 2014). For such reasons, adequate finance for capital and other business needs are critical to the objectives of the government in respect to emerging contractors. Contractors may either use internal or external sources finance. Ntuli and Allopi (2014) state that internal sources of finance can be from the members of the company or profits from previous construction projects. External sources of finance are sources such as loans from financial institutions, family members and friends, and other financing mechanisms (Ntuli and Allopi, 2014).

Most emerging contractors have not operated within the industry for extensive periods of time. For this reason, they do not have large amounts of funds to reinvest into the

companies' projects and therefore rely heavily on external sources of finance (Mbonane, 2005). The DHS oversees the National Urban Reconstruction and Housing Agency (NURCHA), which is an agency that provides bridging finance to emerging contractors. The. From a justice as fairness perspective, one can appreciate the reason that the government has made efforts to establish agencies like NURCHA to allow for these contractors to have access to finance. The lack of finance is equally experienced by the small contractors in the developing world. Inadequate finance also restricts small contractors in Ghana, Nigeria and Swaziland from satisfying their financial needs (Laryea, 2010; Mafimido and Iyagba, 2015 and Thwala and Mvubu, 2008).

Thwala and Phaladi (2009) state that by promoting contractors' prospects in accessing finance, the development and growth objectives of the government in respect of emerging contractors are likely to be better reached. Access to finance is particularly important as the cost of capital assets are high. Mbonane (2005) maintains that many emerging contractors are individuals who retired or have been retrenched as labourers or lower grade artisans, thereafter seeking to earn their livelihood from construction contracts. As such, because of the unemployment time span after retirement/retrenchment to running their own companies and earning a living, many of them have acquired personal debts. These debts grow to the extent that their names may be black-listed across credit bureaus, resulting in the problem of accessing finance from financial institutions being exacerbated. The CIDB (2004) confirmed that many emerging contractors had their names black-listed with credit bureaus and that it was a major burden for them to acquire working capital.

With limited financial prospects, most emerging contractors cannot get the adequate capital which would otherwise enable them to bid for large and more lucrative contracts (Malongane, 2014). They are limited to small contracts which do not promote growth or inspire them to achieve a higher CIDB designation grade. Furthermore, limited finance leads to contractors failing to comply with contract completion dates. This is one of the major challenges facing the construction industry. The South African government has made considerable efforts to increase accessibility to finance through targeted programmes. One such example is the DPW, which has made arrangements with various institutions to provide bridging finance and sureties to emerging contractors at low costs and interest rates. For instance, the Khula Enterprise Finance

Limited has a scheme that provides guarantees that enable emerging contractors to access finance from banks. NURCHA on the other hand provides bridging finance for emerging contractors and developers on a project. However, these efforts have had limited success due to the awareness and usage of such promotional programmes being very low (Thwala and Phaladi, 2009; Malongane, 2014; Mbonane, 2005).

In addition to the barriers in accessing finance, high-interest rates present a significant challenge to contractors. Contractors have little collateral and the interest rates on overdraft are high (Mbonane, 2005). Furthermore, they are seen to be high risk clients by financial institutions, and these institutions fear that emerging contractors will fail to honour their loan agreements. Gounden (2000) cited in Thwala and Phaladi (2009) supports this view, reporting that there are core difficulties seen in terms of discrimination of contractors by financial institutions. This is because emerging contractors have little collateral and seldom use traditional forms of financial records. Financial institutions find it difficult to assess information about contractors seeing that contractors lack appropriate records on which they could be assessed against (Mbonane, 2005). The CIDB also claims that financial institutions have little interest in this market segment. Furthermore, the amount of time taken in acquiring guarantees and sureties leads to contractors commencing projects behind schedule (CIDB, 2004).

De Wet (2008) states that the inability of contractors to get guarantees for projects creates a situation wherein the project owners cannot be compensated should the contractor not deliver. This would mean that remedial work would have to be sorted out at the expense of the client. To mitigate this, clients may agree to deduct the relevant amounts from the contractor's initial payments which further puts the emerging contractor under financial pressure. Nissanke (2001) cited in Thwala and Phaladi (2009) suggests that the inadequacy of external finance at the critical growth stages of these contractors deters the companies with growth potential from expanding. Mbonane (2005) affirms that because of the lack of steady finance, contractors employ a small number of labourers as they attempt to reduce cost.

3.2.3 Delays in Payments

Delays in payment by clients have also been identified as a major hindrance that affects the growth of emerging contractors. Late payments and settlements of final accounts affect cash flow management and creditworthiness of contractors (Mbonane,

2005). Delayed payments have been challenges experienced by contractors within both the public and private sectors. The CIDB (2004) confirms that the private sector had been guilty in this regard. However, Thwala and Phaladi (2009) mentions that the public sector is more flawed when it comes to payments on time. This view is shared by Malongane (2014) who states that the public sector is the main defaulter in respect to late payments.

Many contractors have suffered financial ruin and bankruptcy due to delayed payments. Moreover, contractors also lose the advantage of buying materials on discounts since they do not get their payments on time. According to Amod et al. (2002), in 2000 the DPW made efforts to improve the payment process in the public sector. This included reducing the average number of days to process payments from more than a month down to just 14 days. Nevertheless, late payments remain an issue (CIDB, 2016). Late payments create instances where contractors are unable pay wages on time, which leads to work stoppages and disputes (Malongane, 2014). The DHS (2006) revealed that delays of payments are major challenges that contractors face even though attempts to remedy this have been made. According to Amod et al. (2002), the improvement in payment processes requires commitment from senior management. For growth and sustainability in the construction sector, issues of delayed payments should be treated as high priority by both public and private sectors. Payment processes should be monitored and evaluated.

Mbonane (2005) states that in order for the construction sector to work efficiently, delays in payments must be treated as high priority by both public and private sectors. This would promote the growth of emerging contractors as they would receive their payments on time which could be used for further projects. It is worth noting that delays in payments also present significant financial challenges to small contractors internationally. Small contractors in Ghana, Malawi, Nigeria, Swaziland, Tanzania and Zambia experience late payments (Laryea, 2010; Chilipunde, 2010; Mafimidio, 2015; Thwala and Mvubu, 2009). Since many of these contractors have limited financial resources, they are forced to run their businesses on a small and tight budget. Therefore, late payments makes it harder for these companies to operate their businesses.

Malongane (2014) attributes delayed payments to a number of factors. For one, the nature of payment processes is cumbersome. They often include unnecessary bureaucracy in the processing of claims. It is wise that public payments are verified at different tiers to avoid the fraudulent use of public funds. However, the strict balancing of invoices delays payments even in situations that the differences happen to be insignificant. Correcting such differences becomes time-consuming in over-centralised payment structures. Malongane (2014) also points out the lack of capacity within client departments as a reason contractors fail to receive their payments on time. Another contributing factor towards this delay is the lack of clarity on the part of contractors regarding the steps, procedures and requirements for payments. This is because emerging contractors are often new to the construction process and therefore often fail to fill out invoices correctly or are unaware of what is required to invoice a payment.

3.2.4 Co-operation with Materials Suppliers

Credit by materials suppliers is the most common source of external financing for equipment and materials among emerging contractors. Ncwadi and Dangalazana (2005) list the lack of co-operation with materials suppliers as one of the major challenges limiting contractors involved in housing. The fact that these contractors are 'emerging' means they have not been doing business for extended periods of time. Therefore, many have not built relationships with materials suppliers (De Wet, 2008). As a result, suppliers are sceptical about contractors as they fear that the contractors might never pay for materials delivered to them. To avoid such risk, suppliers resort to supplying contractors in small quantities. They also precondition the receipt of future materials on payment for past materials. Often suppliers have negative experiences and suffer losses when contractors fail on their sites and abandon the duty of paying for the materials.

De Wet (2008) states that the limited amounts of materials that suppliers are willing to credit emerging contractors do not allow the contractors to benefit from price discounts often obtained from bulk purchasing. In contrast, the contractors are vulnerable to unexpected price escalations on building materials, especially as the project lengthens. This is significant because the profit margins on project contracts becomes smaller as the cost to doing the work increases.

Given that suppliers are reluctant to do business with emerging contractors, the government has created a system in which contractors can have access to building materials from suppliers by means of cessions. A cession is a government departmental agreement to pay material suppliers directly from a contractor's contract. Cessions affirm the government's commitment to promote access to materials for emerging contractors and thereby to advance emerging contractors. Mbonane (2005) however suggests that this arrangement disempowers contractors as they do not ultimately control the expenditure of their businesses. Still, cessions do provide an added option to contractors needs in terms of establishing a relationship with suppliers.

3.3 Lack of proficiency

In South Africa, many emerging contractors have limited experience and skills in the field of construction (De Wet, 2008). This is especially true when it comes to low and middle-income residential construction. This segment of the housing construction market is ranked the lowest in terms of quality achieved by the CIDB construction quality report (2011). The principle challenges facing emerging contractors regarding the inadequacy of capabilities are elaborated in the subsequent sections.

3.3.1 Business Management

Construction companies require effective business management and construction management to be successful. Construction management addresses the effective planning, organising and coordinating of core construction processes during the erection of structures or facilities within a human settlement. These core construction processes entail procurement, production and administration that are necessary to achieve project goals (Harris and McCaffer, 2013). While construction management deals with matters relating to the physical construction of structures, business management on the other hand, is the activities associated with running a company, such as planning, organising, directing, leading, controlling, coordinating, motivating, and communicating. It is both an art and a science (Adrian, 1976). It is a science in the sense that it is informed by systematic bodies of knowledge upon which it is based. Yet, business management is more than just knowledge. It also requires skills and creativity to accomplish the desired results, thus, an art. Therefore, business management goes beyond the physical construction of structures and housing units.

Given that business management is complex, many emerging contractors fail to manage their businesses profitably. A study by Ncwadi and Dangalazana (2005) illustrated that many emerging contractors are unable to develop long-term strategies. Developing a short or long term strategy is important as it provides a guide for a company to achieve its goals. Therefore, it is essential that these goals are made clear from the onset. If not, business decisions are taken in a manner that lacks direction. The consequence is an inefficient company heading towards failure.

The building industry is multifaceted in nature and it requires strong business management. The industry also requires that contractors be able to adapt to multiple roles or hire relevant professionals. Therefore, it is difficult for a single individual to be able to manage all the tasks that are required of a construction company. This is usually the case as a company grows. While the building industry is demanding, emerging contractors often lack professional qualifications in the field. Admittedly, professional qualifications do not guarantee business success yet, the shortage of qualifications among black emerging contractors has a strong correlation with the failures of emerging contractors (Thwala and Phaladi, 2009).

A study by Mohlala (2015) highlights that the lack of formal construction education negatively affects the performance of emerging contractors. Emerging contractors with technical qualifications generally perform better than those with no technical background. Yet in South Africa, emerging contractors lack basic education, not just construction education (Burger et al., 2014). Makhura (2011) states that there is a need to focus on the development of managerial, technical and entrepreneurial competencies. From a justice as fairness perspective, the lack of appropriate education among emerging contractors reiterates the need for the government to intervene in the development of these contractors given that they were previously excluded from suitable educational systems.

The lack of appropriate formal education among contractors paints a negative picture of the industry. Emerging contractors have limited construction experience as executives in construction companies. De Wet (2008) draws attention to the lack of experience among contractors which becomes apparent when one evaluates the project rates that are submitted as part of their tender applications. Aside from the project rates being unrealistic, there are many instances where the individual rates of

smaller components within a project do not add up to the total value of a priced project. Experienced individuals would clearly be able to estimate figures that better reflect the cost needed to undertake a given project. The inexperience of emerging contractors is seen not only from the preparation and submission of tender documents but also the ordinary business tasks that are expected from any sizeable company. For instance, many emerging contractors fail to take the necessary steps to ensure that their companies' registrations are up-to-date (Tshivhase and Worku, 2012).

Ntuli and Allopi (2014) state that the government has placed heavy emphasis on transforming the construction industry to allow the participation of emerging contractors in the industry but failed to properly regulate the industry. As a result, most of the contractors do not have the experience and skills to operate a sustainable construction firm. This skills-related problem that the government inherited post-1994 was a result of apartheid policies. Thwala and Phaladi (2009) confirm that apartheid policies created a South Africa that is characterised by a systematic under-investment in human capital. For the government to increase the participation of the emerging contractors in the industry, it had to forgo rigid regulations in respect of entry requirements because this would indirectly exclude them. However, such regulations may well have the advantage of preventing aspiring contractors that fall short of the demands within the construction industry from entering in the first instance. That said, the government through the CIDB understood that the prerequisite of a successful construction industry is competent contractors along with competent employees within their companies. Furthermore, the CIDB understood that the competencies of contractors had to be improved once they entered the industry.

Contractors must exhibit good management skills. Good management implies a consciousness of all factors making up a successful company. In cases where contractors are unable to manage projects on their own, a competent project manager must be hired to fulfil this role. Ntuli and Allopi (2014) highlight that South Africa has a shortage of skilled project managers. The shortage worsens the lack of competent management as the few project managers often seek work within established companies. Madzivhandila and Mutyeniyoka (2014) mention that large companies should ideally act as a catalyst for the growth of their smaller counterparts through collaborated subcontracts. This would transfer important skills rather than take away from the potential of the emerging contractors. In other words, there is a need for the

government to formulate the shift from an exploitative and competitive relationship between small and large companies towards more partnership and professional harmony for the benefit of emerging contractors.

3.3.2 Record Keeping

Malongane (2014) lists recordkeeping skills among some of the key skills required to operate a construction company effectively. Recordkeeping is linked to financial management and therefore is vital to company success. Meyer-Stamer (2003) highlights recording keeping as a major constraint that impedes the growth of small businesses in South Africa. The practice is as important to small contractors as it is to management within large construction corporates. This is because it allows an individual, whether a contractor or manager, to keep track of their performance and company productivity (Taylor, 2003; Wortman, 1976). Regrettably, many small contractors see this practice as a cumbersome chore. However, recordkeeping is important in that the practice allows a business to make good business decisions because it has the relevant information available when taking decisions.

Recordkeeping extends to inventory and purchase order records, employee records, property and vehicle records. Burger et al. (2014) acknowledge that poor recordkeeping skills lead to business failure of small contractors. Unfortunately, emerging contractors do not prioritise recordkeeping. This is not surprising given that the educational background of many contractors does not exceed grade 12 which itself does not qualify one to engage in an executive position in the construction business (Burger et al., 2014). Given that records can take many forms such as emails, financial statements and receipts among other tangible formats; contractors are required to have high levels of capabilities amongst all these types of record formats. Alternatively, contractors can hire individuals with the skills to maintain these records on their behalf, but often choose not to do so in an attempt to reduce the operating cost of their companies.

No matter the reasons that contractors fail to correctly account for their daily operations, the consequences are often negative. For instance, the failure to properly account for the attendance of workers results in staff members being paid even when they have not worked. Furthermore, the failure to account for the work stoppages caused by unforeseen events like rain or protest limits the ability of contractors to

negotiate for project extensions dates and avoid penalties by the clients. Thus simple recording practices play a vital role in the success of construction management. Wortman (1976) argues that recordkeeping systems must be simple and contain actual detailed numbers. It allows for anyone that is not a member of the company to interpret the information. This is significant to contractors aiming to prove their good financial standing to financial institutions. When proving a good financial status, financial records play an important role in assuring and demonstrating that the flow of funds are not manipulated by the contractor. Mbonane (2005) states that many contractors use pure cash-based systems to make large payments, arguing that material suppliers prefer it in this manner. However, it is more laborious to keep records of a cash-based system, unlike electronic alternatives.

3.4 Business Environment

The business environment that all contractors operate in is difficult (CIDB, 2009) and has certain unique characteristics. This section discusses the challenges that emerging contractors in particular face as a result of the construction business environment. This section also includes the procurement practices that affect emerging contractors.

3.4.1 Challenges of the Business Environment

One of the key characteristics of the construction sector is that it is closely tied to the economic condition of South Africa. While the sector remains a sizeable economic contributor and employment provider, it has not significantly improved since the 2008 recession and so the number of investments set aside for housing and infrastructure by the government remains low as a result of the economic condition of the state (CIDB, 2010). Nevertheless, if the country experiences rapid growth, then it is expected to improve the work opportunities available to contractors. However, in South Africa a large share of these construction work opportunities are to the benefit of large construction companies as opposed to emerging contractors. A similar phenomena is experienced in the developing world where the market for major projects tends to be dominated by large foreign contractors (Laryea, 2010).

While the industry offers uneven project opportunities to large and small contractors, it is especially difficult for smaller contractors. This is because the industry necessitates that a contractor prices a project before he or she has implemented the

project (Ntuli and Allopi, 2014). This is particularly problematic as the business environment of emerging contractors is highly uncertain and susceptible to change. Contractors make assumptions about the duration of projects, climate conditions and other contingencies. Therefore, they work within a high-risk environment. They often only realise that these assumptions are not profitable once they are legally bound by the project contract. As a result, the contractor would either continue the project knowing that he or she will incur a loss or alternatively, the contractor could abandon the project as a whole but this has other implications. It would mean that the contractor's company would have a negative work history with the client and it could further be referred to the CIDB in terms of a potential breach of the Construction Industry Development Board Code of Conduct (CIDB, 2014: 22). If a contractor is referred to the CIDB for breaching a contract, then it would inevitably become harder for that contractor to win other projects in the future.

The CIDB Construction Industry Indicators of 2014 illustrate that at least 16% of housing clients that made use of small contractors during the development of houses were dissatisfied with projects implemented by such contractors. In specific regard to state-subsidised housing, a study on the quality of low-cost housing constructed by emerging contractors in the Eastern Cape proves that the end-users of such homes are often not satisfied with the quality of the dwelling (De Nobrega, 2007). Beneficiaries complain of structural defects that are the result of poor workmanship such as cracked walls, doors that do not fit or roofs that leak during rainy weather. The residential building sector was ranked as the most unsatisfied sector among clients. This suggests that clients and beneficiaries of the home building sector expect a decent level of performance from emerging contractors which at times contractors fail to uphold. Unlike other types of construction projects such as roads, public buildings and facilities; the construction of housing is to a larger extent more personal to the households than public facilities. For this reason, particular detail must be paid to the house structure. Emerging contractors fail to deliver houses that end-users are satisfied with.

Another challenge that emerging contractors encounter in the building of state housing is political interference. The provision of state housing is particularly susceptible to political interference (Brynard and Magoro, 2010). This is because the provision of such a commodity to the public is used by political figures to harness the approval of

the groups that the houses are delivered to. Political figures demand that the specifications of these housing units be changed by the contractors to improve the overall housing product. They demand this so as to improve their support among the eventual beneficiaries, notwithstanding that this would go against the contract that the contractor agreed with the principle client. These demands would also affect the profitability of contractors. Political interference is also encountered when contractors have to employ labourers to undertake the construction of these houses. Political figures demand that contractors employ individuals that they approve of.

As mentioned in section 3.3, contractors often lack the necessary skills to implement a project. There is also a shortage of skilled and semi-skilled labour. In a 2015 employment study, the CIDB states that contractors acknowledged that the unavailability of skilled labour was a significant constraint to their business growth. Contractors in the industry find it difficult to obtain skilled labour. Aside from there being the shortage of skilled labour, the market for emerging contractors is extremely competitive and becomes saturated as contractors enter it at the lower end of the contracting category. The 2015 CIDB annual report showed that there was 53, 872 contractors registered under the GB category, 96.8% of whom were registered in one of the first four lower grades. This means that the bulk of the contractors are skewed towards the lower end of the market. The saturation of the lower market is a matter for concern as contractors require regular work opportunities to allow them to venture into higher registration grades.

3.4.2 Challenges caused by Procurement Practices

Preferential procurement policy gives government departments, local authorities and other public entities the ability to give preference to emerging contractors. In addition to this, the PPPFA enables such public entities to make use of the unbundling system of procurement. The unbundling system of procurement is a system whereby a construction project which would traditionally be done by one contractor is broken into multiple smaller pieces of construction work (CIDB, 2004). These smaller pieces of construction work add up to one larger project but are divided amongst many contractors in an effort to provide business opportunities to more than one contractor. Mbonane (2005) states that this practice does not allow for contractors to reap the maximum profits of contracts which lead to contractors failing to efficiently sustain themselves. The unbundling practice results in the inappropriate division of

responsibilities and increased contractual risk. It also creates a situation where greater administrative attention is required from an already limited capacity of the public sector.

It has been well documented that many public departments fail to handle construction projects. This is because they lack satisfactory administrative, design and supervising capacities to do so (CIDB 2004, CIDB 2005). Brynard and Magoro (2010) state that the lack of administrative and supervising capacities impedes the procurement process, which in turn affects contractors. When public departments fail to adjudicate tenders on time, it delays the eventual commencement of construction work by the contractor. When the project is delayed, it impacts on the cost of the project amount as the cost of building materials increases. Government departments often insist that the contractors should retain the project amounts quoted on the project. However, this affects the profitability of contractors as they are paid outdated prices for construction work that is valued higher.

To increase the capabilities of public entities, these entities often resort to outsourcing design and supervising consultants. However, public sector employees fail to verify whether the consultants adhere to preferential equity principles when selecting contractors (Mbonane, 2005). In addition to this, many consultants have negative attitudes towards emerging contractors as they see them as being incompetent (CIDB 2004, p.1). The reason for this is that often procurement processes allow for any contractor to contend for projects which puts administrative pressure on the part of the consultants. This has negative consequences. For instance, in Nigeria, the way that contracts are awarded allows for the lowest bidders to win contracts even if they lack the necessary skills (Ogunde et al., 2016; Ogunsanya et al., 2016).

The challenge for consultants becomes one of sifting through many incompetent contenders' applications to find an appropriate contractor. In South Africa, Brynard and Magoro (2010) blame the absence of good vetting processes during the selection of contractors. Such vetting processes would include charging contractors a fee for contending for a project. A fee discourages contractors that are not aiming to establish a long-term business but rather make a 'once-off' profit. Eligible emerging contractors are then not disadvantaged. This would be the case if a 'once-off' contractor is

awarded a contract and thereafter subcontracts an eligible contractor to complete the project.

Aside from ensuring that there is a well implemented preferential procurement policy in place to advance emerging contractors, emerging contractors require mentorship and training support. The next section discusses some of the mentorship and training support that has been offered to contractors.

3.5 Mentorship and Training Support for Emerging Contractors

As mentioned before, owners of emerging companies often decide to manage their businesses on their own to save on cost. Besides not having the experience and the understanding of the physical construction work needed in contracting, many emerging contractors do not possess the necessary business management skills required to manage a construction company. As a response, there have been mentorship and training programmes to assist the contractors in their activities. From a theory of constraints perspective, such programmes must address the root challenges that emerging contractors face. These programmes have been designed by different government departments at various spheres. They are implemented across different provinces of the country. Examples of these programmes are the programmes offered by the CETA, DPW and other institutions outsourced by the government (Burger et al., 2014).

While there are numerous mentorship and training programmes that are implemented to assist contractors, Dapaah et al. (2016) asserts that these programmes have not been adequately evaluated. The CIDB baseline study (2011) on such programmes states that these programmes had delivered variant successes and failures. The same study also indicates that most of the public sector programme implementers lacked a clear rationale for initiating their mentorship and training programmes. While some have been initiated with good intent, others have been initiated primarily to gain political support from contractors. For such reasons, it is difficult to assess the overall extent to which these programmes have benefit emerging contractors and achieved their goals. Most have been implemented separately and are evaluated by the implementers of the programmes. As a result, such evaluations maybe distorted. Nevertheless, the following sections look at programmes that have been implemented and look at the objectives of the programmes.

3.5.1 Mentorship Programmes Implemented

The mentorship services that are provided by government departments and other outsourced agencies are similar, with comparable scopes. The Vuk'uphile contractor development Learnership Programme is one such programme. The programme is implemented at all spheres of government including the municipal level. The eThekweni Municipality Emerging Contractor Learnership Programme and the Polokwane Local Municipality's Contractor Development Programme are programmes based on the Vuk'uphile contractor development Learnership Programme and implemented at municipal level. Other municipalities that have implemented the programme include Mangaung, Nelson Mandela Bay, Tshwane, Buffalo City and Cape Town City (DPW, undated). The Vuk'uphile contractor development Learnership Programme was set up as a sub-programme of the Expanded Public Works Programme which is a national programme that aims to use public sector expenditure to provide employment and skills development opportunities for the unemployed (Mbonane, 2005; CIDB, 2011).

The learnership programmes are CETA registered programmes which aim to develop the skills of emerging contractors and enable them to successfully execute labour-intensive contracts. In addition to this, the learnership programmes aims to develop administrative, technical, contractual, managerial, and entrepreneurial skills of the emerging contractors (Kubayi, 2014). While many contractors benefit from the programme, the programme is held back by the non-performance of several stakeholders in fulfilling their roles (CIDB, 2011). Furthermore, managers of the programme are under the impression that the protective environment of the programme, which ensures that contractors do not fail, is not always ideal to develop emerging contractors. This is because emerging contractors find it difficult to adjust to the competitive external environment when they exit the programme.

Unlike the Vuk'uphile programme, the Masakhe Contractor Development Programme is a mentorship programme specific to the KwaZulu-Natal. It aims at developing contractors from an entry level of grade 1 to grade 6 (KZN DPW, 2016). It also prioritises women and youth contractors. The Masakhe programme is based on an incubation model that encompasses three strategic components namely mentorship, access to finance and development of contractors. The CIDB (2011) has criticised the Masakhe programme for failing to decide on the number of years that an emerging

contractor should stay in the programme. Contractors can in fact remain within the programme for over a decade. Remaining in the programme for extended periods is problematic as resources are dedicated to a few contractors. Furthermore, the programme has failed to allocate funds for training despite it being a development programme. For these reasons, the CIDB concluded that no credible contractor development had taken place during the 2011 review of the programme.

3.5.2 Outcomes of Mentorship and Training Programmes in South Africa

The CIDB (2011) states that if mentorship programmes are to be successful in assisting and improving the skills of emerging contractors, then the programmes must be well designed with clear targets to be achieved set upfront. The programmes must have political support and commitment from the organisations implementing them. The CIDB further suggests that there must be sufficient management resources to drive the programmes. The lack of sufficient resources is the reason that the CIDB found the Masakhe programme limited in developing emerging contractors. When mentorship and training programmes conduct physical training or on-site mentorship, then emerging contractors experience positive growth. A performance evaluation study of contractor development programmes in South Africa by Dapaah et al. (2016) found that emerging contractors overwhelmingly approved of mentorship programmes. These contractors affirmed that the programmes were achieving objectives such as improving their management skills and assisting the process of such contractors reaching higher CIDB designation levels.

While the successes of mentorship and training programmes are clear, the CIDB (2011) acknowledges that many programmes are used by emerging contractors to achieve short-term impacts rather than long-term sustainable growth. The short-term impact that attracts contractors is the prospect of winning projects. Emerging contractors found it easier to win construction projects while in these programmes and therefore prioritised winning projects above development. Another shortcoming is that contractors in many programmes felt that mentorship in terms of project pricing had been below adequacy (Dapaah et al., 2016). Finally, the majority of these programmes did not make an effort to give guidance to contractors for them to move forward independently after they exited the programme.

3.6 Chapter Summary

Emerging contractors face a number challenges. Interestingly, these challenges are not unique to South African emerging contractors as small contractors in the developing world face similar challenges. This chapter discussed financial challenges as well as those stemming from poor business management and the business environment that contractors operate in. Many of the challenges contractors face stem from one of these three sources. The chapter also looked at emerging contractor mentorship and training programmes that have been implemented in South Africa. While these programmes benefitted contractors, they had flaws in terms of ensuring that contractors would be independent of assistance. However, overall, emerging contractors that are part of such programmes have a positive impression of them and the training provided within them. This chapter looked at the appropriate literature that guides the interpretation of the empirical data presented in the next chapter.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents and analyses the data obtained from the study. This data was collected through semi-structured interviews administered to both the SCI programme's BDE and eight emerging contractors undergoing the programme. The interviews with emerging contractors contained the fundamentals of this study which are perspectives of their own challenges and the extent to which the SCI programme's support has assisted them to overcome these challenges. This chapter is crucial as it presents the primary data. The findings of this chapter are used to answer the main research question, that is, how effective the SCI programme is as a tool to support emerging contractors involved in subsidised housing construction.

4.2 Overview of the SCI programme

The objective of the SCI programme is to capacitate emerging contractors through the structured infusion of business and technical interventions for the purpose of sustainable business growth. This involves building the capacity and skills of contractors that have been identified as weak. The programme aimed to support emerging contractors to become formidable businesses that would be able to participate in the mainstream economy. By doing that, the programme intends to make a positive impact on job creation and positively contribute towards the South African economy via contractors. At the time of the study, the programme was supporting 402 contractors across all 10 branches. 87 of these contractors were based in the Durban SCI branch and 20 of them were involved in state housing development. As a programme implemented by the SEDA agency, the SCI programme had performance targets set by the SEDA agency (SCI annual report, 2015). These targets determined the number, race and gender of contractors. The SCI programme supported contractors with their business operations but did not provide finance or building materials. This was beyond the scope of the programme.

The Durban SCI branch offered contractors office units at a market related rental fee. Contractors that made use of these office units had to pay a deposit fee before they accessed the units. Office units were not standard across all 10 branches. While there

were offices units rented to contractors by the Durban SCI branch, the BDE was clear that the SCI programme did not intend to rent office units to every contractor in the programme. For instance, the Durban SCI branch has only 11 office units available while contractors exceed this number. The BDE stated that incubation happens with or without office space as every branch has a resource centre. A resource centre has basic office equipment that all contractors can utilise. For these resource centres, each has a boardroom, training room, computer room with multiple computers, printers, and other basic facilities for all contractors to use. The BDE acknowledged that the office units were in demand by contractors and that contractors had to be selected to occupy these office units by merit. Preference was given to contractors that were involved in construction projects as they were likelier to afford the rent and make maximum use of the offices. According to the vision of the SCI programme, the office units enable the contractors to have a conducive environment for pricing of documents, bookkeeping and keeping of records in one place.

The BDE mentioned that the common facilities such as computers, printers and other basic facilities were important for the development of contractors. Computers were equipped with construction-related software programmes that are ordinarily used by larger construction companies. The idea behind this was to introduce large company practices to emerging contractors. The BDE added that contractors should be capable of using computers. According to the BDE, contractors were not charged when they made use of common facilities such as computers and printers. However, they were charged a fee to make use of the office units. They also were charged for telephone use. The BDE highlighted that contractors were charged for telephone use because office units and the telephone lines were limited. Therefore, the SCI programme viewed the charges for these facilities as reasonable given that every contractor was not afforded the benefit of them.

4.3 Information of emerging contractors

This section presents the CIDB grades and construction background of the emerging contractors interviewed. These contractors were either in the process of completing a state-subsidised housing project or had completed a state-subsidised housing project and had begun actively seeking another project. Table 4.1 shows the contractors' CIDB grades.

4.3.1 Emerging Contractors' CIDB Grades

Table 4.1 below shows the CIDB designation grade of the contractors that participated in the study. Three of the eight contractors were registered as CIDB grade one contractors. Two of the Eight were registered as CIDB grade two contractors and the final three contractors were registered as CIDB grade three contractors. One of these contractors (African Lion Construction) was in the process of upgrading from grade one to grade two.

Table 4.1 Emerging Contractors' CIDB Grades

Emerging Contractor	CIDB Grade
Black Rhinoceros	1
African Lion	1
Cape Cobra	1
African Elephant	2
African Leopard	2
Cape Buffalo	3
Black Hippopotamus	3
African Cheetah	3

Source: (Field work, 2017)

4.3.2 Construction background of Emerging Contractors

Table 4.2 shows whether or not the emerging contractors had a background in construction before they started their companies. The majority of contractors (75%) did not have any construction background. 62.5% of these contractors had worked or ran businesses in other industries outside the construction industry. Among some of the occupations that these contractors mentioned that they had previously worked were jobs such as clerks, bakers and salesmen. One such example was the owner of African Leopard Construction who worked at a Blue Ribbon bakery until he lost his job and thereafter resorted to construction as the means of earning an income. The lack of any previous construction experience among these contractors implied that they were in need of the mentorship and training support. All of these contractors were set to graduate from the SCI programme having participated in the CETA courses. 25%

of contractors had worked within the construction industry previously but did not have any academic qualifications in this field.

Contained in Table 4.2 is the number of years that contractors have been operating their companies. 62.5% had been in operation for over five years. According to the BDE, the SCI programme aimed to assist existing companies rather than newly created companies. The SCI programme recruited emerging contractors that met a compliance checklist and that showed evidence of aiming to develop beyond quick profits. The programme did not assist individuals to start construction companies. There was no correlation between the emerging contractors CIDB grade and the number of years that the companies were in operation. The BDE attributes this to some contractors being reluctant to upgrading into higher grade levels. This is because they feared that they would not be able to win projects after they were upgraded.

Table 4.2 Construction background of Emerging Contractors

Emerging Contractor	Previous Construction Background	Years of Company Operations
Black Rhinoceros	YES	2
African Lion	NO	11
Cape Cobra	NO	6
African Elephant	NO	4
African Leopard	NO	5
Cape Buffalo	NO	10
Black Hippopotamus	NO	10
African Cheetah	YES	6

Source: (Field work, 2017)

4.4 Key challenges of the SCI emerging contractors

This section presents the main challenges SCI contractors faced. The BDE was explicit in mentioning the following key challenges that emerging contractors face while in the SCI programme. The interviews with contractors affirmed these challenges as the most problematic ones.

4.4.1 Failure to win construction projects

The primary aim for contractors is to complete construction projects so that they can make profits and for this to be possible the contractors must be awarded with construction projects. 87.5% of contractors from all the grades stated that they found it difficult to win projects, with grade 1 contractors being the most affected. On average, grade 1 contractors were awarded only 1.3 projects within a calendar year. Grade 3 contractors found most ease in winning projects as they averaged 2.3 projects per calendar year. However, these contractors equally raised the failure to win new projects as a key concern. According to the BDE, the failure to win projects prevented company stability, which she stated could be achieved if grade 1 contractors won 2-4 projects per annum. The same stability could be achieved by grade 3 contractors if they won 4-8 projects per annum.

The contractor's failure to win projects was attributed by the BDE to a combination of three factors namely corruption, high levels of competition and projects being geographically beyond their reach. While the extent to which corruption affected the construction sector could not be adequately assessed in this study, it is worth noting that contractors complained about unfair adjudication processes. Contractors believed that it was difficult to win projects as corruption among adjudicators prevented them from winning new projects.

High levels of competition also reduced the contractor's abilities to win projects. This was the case for all grades but even more so for grade one contractors as this market was more saturated. For instance, a grade one contractor mentioned that she attended a mandatory site briefing to find over 200 contractors attending that same briefing. The SCI programme does advertise a limited number of projects that emerging contractors within the programme compete for. This reduces the competition that contractors within the programme have. However, contractors mentioned that these opportunities to win exclusive projects were very limited.

In a discussion with Black Rhinoceros Construction, the contractor mentioned that he learnt that the programme merely acts as a support and that he realised that he needed to take the initiative to find projects for his company. The very same contractor said that the best advice he could give new contractors in the SCI programme, was that every new contractor should enter the programme with the understanding that

they need to find their own projects. They should make use of the programme to give themselves the advantage over other contractors that are not in the programme as they have access to professionals that know the construction trade. This contractor made it clear that SCI contractors had potential advantages in terms of winning projects. These advantages included obtaining reference letters from the SCI programme, making use of free internet and getting assistance when completing tender documents. These benefits put SCI contractors without projects in a better position in the subsidised housing market than those contractors who had neither projects nor support.

The BDE conceded that the consequence of contractors failing to win projects is that they fail to grow their businesses. She suggested that contractors should be steadfast in tendering for projects as she views the difficulty of winning projects as temporary. She added that the challenge of their clients failing to win projects is overcome during the course of the programme. The BDE noted that those contractors that remain steadfast to the programme leave it with the option of upgrading their CIDB designation as a result of having been awarded projects and thereafter completing those projects successfully. The SCI programme took initiatives to ease the task of contractors attempting to win projects and some of these initiatives are discussed in section 4.5. For instance, one initiative was that the mentors of SCI programme wrote reference letters confirming that the contractor was part of the SCI programme. This letter acted as a recommendation to potential clients of contractors. The letter simply notified the potential client that the contractor was undergoing mentorship and supervision under the SCI programme and therefore, he or she was unlikely to fail to carry out the project if he or she was awarded one.

The lack of new projects limited the opportunities that BDOs had to mentor contractors on their own projects. Furthermore, 75% of contractors felt that they had attended workshops and training sessions that dealt with theoretical aspects of a construction company or the theoretical aspects of implementing a construction project, but could still not put their new knowledge into practice because they did not have a stable stream of construction projects. The mentorship aspects of the SCI programme was most beneficial to contractors that were implementing projects, because it helped them improve the implementation of those projects.

4.4.2 Finance for projects and delays in payments

The research revealed that funding to complete construction projects was a significant problem. 75% of the contractors reported that finance was a significant problem. The reason for this was that attempts to get financial assistance from banks proved to be a challenge, or alternatively they did not attempt to seek such financial assistance. The challenge of getting finance from banks was partly because contractors had little or no proof to tender to banks to substantiate that they were capable of repaying their loans. One contractor revealed that he knew that he was unlikely to be given credit by a bank since he had accumulated debt before he became a contractor. 37.5% of contractors were uncomfortable with the idea of getting finance from banks and preferred not to make use of such financial assistance even if they were creditworthy. They feared penalties as a result of failing to honour their loan agreements.

Contractors stated that they preferred to save money from previous projects to cover the cost of future projects. When asked what would happen if those funds were not sufficient for future projects, they responded that they would prefer other options to borrowing from banks. One grade 2 contractor suggested that it was unwise to get finance from a bank for a project even though he had never made use of such finance himself. He claimed that the finance was unlikely to be made available for a project timeously.

The lack of available finance for projects was compounded by delayed payments from clients. For instance, one contractor attributed delays of payments from her client as the sole reason she was unable to finish constructing housing units that she had begun. As a subcontractor, she was unable to take the matter of extensively late payments to the principle client as she did not have a contract with the project owner, but rather with a principle contractor. In addition to that, this contractor complained of her client (principle contractor) changing payment milestones from three separate milestones (the construction of the foundation, brickwork until the window level, completion of the unit) to a single payment milestone that required her to construct an entire set of housing units before she got paid. The consequence of this change impacted the time in which the contractor would complete the milestone that allowed her to invoice the amount that was to be paid to her and therefore delaying the time that she received payments.

4.4.3 Business skills

The lack of business skills is a key challenge that emerging contractors faced. The BDE stated that it was common for contractors to win construction projects but have little knowledge on how to run a construction business. This was the case for 50% of the contractors interviewed. The fundamental business skill that contractors lacked was sound project management skills. This included planning a project and managing the cost of completing the project. The BDE noted that many contractors enter the SCI programme lacking others skills such as price negotiation skills, good decision making or basic stocktaking skills. In terms of decision making, the BDE cited that contractors were prone to making simple business errors such as hiring more labourers or buying more building material than a project required.

One contractor revealed that his company made a significant loss when he ordered bags of cement in bulk which were later stolen from the area he stored them. The contractor added that in hindsight, he should have ordered bags of cement incrementally as *“cement grows legs and starts walking”*. In term of project management skills, contractors acknowledged that they lacked the necessary skills to manage their businesses but also mentioned that their companies were in no position to hire individuals that had the necessary project management skills to do tasks that they themselves could not do on their own. Contractors admitted that they failed to take advantage of the potential profits that projects could have yielded simply because they had planned the implementation of the projects poorly.

4.4.4 Technical skills

Technical skills in construction are the abilities and knowledge needed to perform specific construction-related task. Half of the emerging contractors in the programme saw themselves as lacking either two or more technical skills such as developing a project scope, developing a health and safety plan, pricing a project, supervising bricklayers, understanding drawing plans, among other skills. In South Africa, a health and safety plan is to be produced by a contractor before they commence construction of a housing project. Contractors found it difficult to develop these plans which delayed the commencement of projects. It is worth noting that all the contractors interviewed took on the roles of site managers for their companies. Therefore, the lack of these on-site technical skills impacted their companies' site work. 25% of contractors

mentioned that they had to re-construct structures because they did not meet the required quality or specifications initially.

In an interview with the BDE, she explained that many of the emerging contractors were learning how to manage a site as they engaged themselves in the industry and that they had never been exposed to the construction industry before they started their companies. For instance, African Elephant Construction requested BDOs to assist her to specifically monitor the bricklaying portion of the units she was constructing because she was not experienced in that regard. She mentioned that she followed the advice of her bricklayer rather than instructed her bricklayer on the product she wanted. In terms of project pricing, it is a key skill that determines the profitability of a project. The overwhelming majority of contractors (87.5%) used some form of the SCI programme's assistance in relation to project pricing. The reason that the BDE gave for the high demand for project pricing assistance was that contractors struggled to price projects accurately, which led to their not winning projects or to financial losses because of extensively low-priced projects.

4.5 Support initiatives of the SCI programme

This section presents the findings regarding the mentorship and training efforts that the SCI programme offered to emerging contractors. The findings are discussed under the following themes:

- Business plan support
- Support in accessing information
- Recordkeeping assistance
- Assistance in accessing finance
- Assistance when pricing projects

These themes best described the support efforts that the researcher set out to investigate. These themes were based on common key failures of emerging contractors cited in previous studies.

4.5.1 Business plan support

A business plan is a formal statement of a business's goals. It states the feasibility of these goals and articulates the plans to achieve them. A business plan may also contain background information about the company or members attempting to reach the company's goals. A well-researched and carefully prepared business plan conveys

the company's goals and the methods by which the company will achieve its goals (DeThomas and Derammelaere, 2008). The BDE noted that for a contractor to gain admission into the mentorship and training programme, the SCI programme required all the contractors to submit a business plan along with other relevant documentation. These documentation includes a tax clearance certificate from the South African Revenue Service, proof of company registration on the CIDB database, proof of company registration with the Companies and Intellectual Property Commission and proof of company registration with the NHBRC. Due to the requirements of the SCI programme, every contractor interviewed had a business plan.

According to the BDE, the SCI programme viewed the business plan as an important document as it allowed the BDOs to understand how they could step in and assist emerging contractors. Once emerging contractors gained admission into the programme, they were afforded the assistance of a BDO. The BDOs were availed to contractors for the sole purpose of improving their business plans. The rationale behind this form of assistance came from the idea that the initial business plans that contractors submitted to enter the programme did not have SCI guidance in their creation. Therefore, the SCI programme gave contractors the opportunity to formulate their business plans with the advice of BDOs. BDOs understood the essential components of a well-structured business plan. Such support was delivered as a one-on-one consultation with a BDO.

Contractors had to make an appointment with a BDO in order to receive this assistance. The BDE insisted that the final product had be a reflection of the contractor's goals, adding that a BDO may guide or even type on behalf of an emerging contractor if they were not computer literate, but the finer details had to be the vision of the emerging contractor. Also, consultations to support contractors in the development of business plans were not once off but rather open to contractors throughout their development. The BDE stated that contractors had the chance to use these consultations to improve their business plans for the purpose of maximising their prospects of getting project finance.

Interestingly, only 25% of contractors had business plans before they joined the SCI programme. This suggests that the initial development of their business plans was done because it was a requirement to enter the programme rather than the greater

need of soliciting finance. The requirement and support of the business plan made a difference to all the contractors businesses in the sense that every contractor had a business plan that they would leave with when they exited the programme. Through the interviews with the contractors, it was revealed that no contractor had used their business plan as a supportive document to substantiate their need for finance from any financial institution. Also, none of the contractors viewed the business planning support as an important service they required. This was ironic because 75% of contractors reported access to finance as a challenge, which with a business plan, could possibly have been eased.

No contractor had used their business plan as a tool to market or inform potential investors of the goals their company was aiming to achieve. As a whole, contractors had business plans but had not made use of them. The reason for this was a gap in understanding the need/use of the business plan within the industry. This sentiment could be summed up by a statement of African Cheetah Construction who mentioned that the business plan was not very important because it was not a document required to tender for projects. While the business plan was indeed not required to tender, ideally the plan should have identified a target market that the contractors intended to engage in. The SCI programme support in respect of business planning must emphasise target market identification to contractors if they are to overcome the challenge of not winning projects. Furthermore, contractors must view their business plans as an integral part of their businesses in order to achieve their goals.

4.5.2 Support in accessing information

In the quest to understand the support that the SCI programme offered contractors in respect of relevant construction information, the researcher inquired on the information that had been disseminated in terms of the following; contract opportunities, building materials and tendering processes. According to all the contractors interviewed as well as the BDE, the SCI programme had made use of an emailing system to inform the contractors of construction projects that were available, the area in which such projects were to be carried out, the date of site briefing and the CIDB grade that the project was intended for. All the contractors were satisfied with the information disseminated regarding construction projects.

Most of these project opportunities were open to all contractors beyond the SCI programme. However, according to the contractors, there were a limited number of projects reserved for SCI contractors to tender for. All of these opportunities were sent to contractors via email. The emails were updated depending on the frequency of the construction projects. The SCI programme also made use of a notice board that was placed on the entrance of the building. The very same construction projects that were emailed to contractors were also placed on the notice board for all contractors to view. Furthermore, contractors were given access to the internet. This medium was used by contractors to get information regarding projects. 87.5% of contractors mentioned that in addition to receiving notifications of projects emailed to them, they bought local newspapers that advertised projects. The emailing system and notice board addressed the need for information regarding contract opportunities. The information made contractors aware of the available projects that they could tender for.

In terms of information relating to building materials, the SCI programme did not disseminate any information regarding this but rather guided contractors to suppliers that they perceived to be competitive in the market. The BDE stated that it was not wise to decide for contractors what building materials they should buy, where they should buy them and at what price. Therefore, contractors were simply guided against high prices. Contractors also mentioned that they were afforded internet access that they used to search for building materials online before approaching materials suppliers. This assisted them in getting a sense of prices of materials.

The BDE highlighted that the SCI programme co-opted third party organisations to inform contractors on matters regarding various forms of legal compliance such as BBBEE and labour laws. This method was also used to educate and inform contractors on matters regarding the tendering process. All the contractors expressed satisfaction with these arrangements. The BDE expressed that the information that third party organisations brought added value to the SCI programme. Such arrangements satisfied the need to educate contractors on the tendering process, labour law and the value of BBBEE when tendering for projects. Furthermore, the BDOs informed contractors of the different tender requirements to be included in the tender documents of different public clients.

4.5.3 Recordkeeping assistance

According to the BDE, the SCI programme offered contractors training sessions that included recordkeeping skills and techniques. These sessions focused on recordkeeping of financial transaction, work activities and the tracking of company equipment. In terms of financial recordkeeping, contractors were trained to channel their companies' finance through a specific company bank account. The said account was to be a dedicated account solely for the company's finance. This was for two reasons, the first one being that the contractors would have electronic records of their financial transactions while the second was so that the contractors' payments and savings would reflect business activity and improve their chances of obtaining finance.

Fifty percent of the contractors interviewed had either a paid individual (book keeper) or a family member to assist them with their recordkeeping. Contractors that paid an individual to keep track of their financial records did so primarily to comply with the South African Revenue Service. Contractors kept payment slips that were passed on to the individuals that assisted them. These contractors viewed themselves as lacking in the necessary skills required to comply with the South African Revenue Service. The BDE mentioned that "*contractors took as much as they could from the trainings*", acknowledging that not all contractors had become fully capable of doing the necessary financial recordkeeping tasks after having attended the training sessions provided. However, the BDE insisted that every contractor improved on their recordkeeping skills, although not instantly. Although contractors saw themselves as incapable of performing certain recordkeeping tasks to comply with the South African Revenue Service, all the contractors were able to account for where their finance was directed. Contractors viewed the recordkeeping training sessions as helpful even when they did not grasp all that was offered.

4.5.4 Assistance in accessing finance

The SCI programme does not provide project finance to contractors. However, the programme does assist contractors to get finances from banks and other public organisations such as NURCHA and the Small Enterprise Finance Agency so that they can complete housing projects. The BDE acknowledged that contractors generally lacked enough finance to complete new projects. The SCI programme assisted contractors in getting loans from traditional banks. The BDE mentioned that the task of assisting contractors to get loans was easier when contractors had obtained a letter

from their client stating that the client had awarded them a particular project. This letter, known as an acceptance letter, helped the contractor to substantiate/demonstrate their need for project finance from banks. Therefore, BDOs advised contractors to request such a letter from their clients.

When contractors required project finance, they were required to set up a consultation with a BDO. The banks or organisations that the SCI programme directed contractors to included Nedbank, African Bank, Ithala Bank, NURCHA and the Small Enterprise Finance Agency. In the interview with the BDE it was confirmed that the support for project finance did not guarantee such finance to contractors. In essence, the SCI programme maintained its supportive role while the final decision to finance contractors was the banks or organisations, which acted as a financier.

A number of initiatives were undertaken to improve the likelihood of contractors getting finance from banks. For instance, the SCI programme had investigated the financial lending market on the behalf of the contractors and was able to predict the likelihood of particular banks approving loans to contractors. The BDE stated that the members of the support team were aware of the amount that different financiers lent contractors. For example, the Small Enterprise Finance Agency lent amounts in the range between R0-R500 000. Another initiative that the BDOs took was to make themselves aware of the official documents required by the financiers mentioned above in order to efficiently facilitate the process of assisting contractors to apply for finances.

While the programme had made considerable efforts to bridge the gap between contractors' need for project finance with the initiatives mentioned above, only 12.5% of contractors interviewed had successfully acquired financial assistance from a traditional bank. The majority of contractors (62.5%) never attempted to get project finance while they were in the SCI programme and of these 37.5% were uncomfortable with the idea of using such finance as they were apprehensive of penalties that could be suffered if they failed to repay their loans. Twenty five percent of contractors had not attempted to get finance from banks because they had not won projects demanding substantial enough amounts to force them to source such finance. According to the BDE, the challenge of winning new projects directly affected the capabilities of contractors to get finance from private banks.

4.5.5 Assistance when pricing projects

The SCI programme offered contractors training sessions that included costing techniques. Every contractor was satisfied with these training sessions and the learning that resulted out of them. In addition to this, the SCI programme had bill of quantities computer software. This computer software allowed contractors to simply insert the quantities and prices of the building materials they required. The software would thereafter generate accurate estimations of project components such as walls and windows. The software was available to all contractors. However, 25% of the contractors preferred to do their pricing manually. These individuals felt that they were better off doing this task manually since they did not have sufficient knowledge of the use of a computer. Interestingly, the BDE stated that the SCI programme also catered for those contractors that were not computer literate. She acknowledged that the programme consisted of computer-illiterate contractors and that it was not ideal to expect them to be able to use specific computer programmes while they were not familiar with the basic operations of a computer. To cater for such contractors, or for contractors that wished for assistance beyond the bill of quantities software, the SCI programme allowed contractors to consult BDOs as they priced tender documents. However, the BDO's role in this regard was simply to guide the contractors in the pricing process rather than to propose pricing.

The BDE stated that contractors in the programme generally tender for the same projects. Therefore, it would be unfair to assist any contractor by giving them actual figures for projects because if one contractor was to win a project at the expense of the others, the other contractors would be disgruntled. Conversely, a contractor that is given precise figures by the BDO and thereafter fails to win a project could place the blame on the BDO as the reason that they failed to win that project. The BDE mentioned that it was important for BDOs to guard against extremely competitive or unrealistic project pricing by contractors as they would not be able to complete such projects.

The BDOs guarded against unrealistic project pricing by reviewing the tender documents of contractors before they were submitted. When a BDO found a contractor to have unrealistically priced a project, the BDO requested the contractor to reconsider their tender and assisted them in such reconsideration. The BDE added that it was unwise to win a project on the basis of unrealistic pricing that could not make a profit.

Contractors were routinely made aware of the many costly inputs of a project. This included traveling expenses, labour expenses and security expenses. The reason why the BDOs saw it fit to make contractors aware of these expenses was to prevent them from pricing projects at unprofitable rates. The project pricing support that the SCI programme offered contractors was the support contractors appreciated the most. The support was most valued even though contractors did not win projects with ease after receiving this support. The reason this support was valued notwithstanding the tendering outcome was because the contractors were able to identify their errors in previous tenders that they submitted. This was an indication of development and growth for the contractors.

The BDE mentioned that it was appreciated by BDOs when contractors researched the prices of building materials, building components and tools from the surrounding hardware stores or material suppliers for the purpose of submitting a tender. This was because it allowed contractors to make sensible estimations of projects after getting the market prices of the building materials needed for the said project. The BDE added that contractors were permitted to pay consultants to price project tender documents for them. However, the BDE also stated that it was better for each contractor to do their own pricing because paid consultants did not know the challenges that the contractors face. The BDE added that the paid consultants used predetermined project prices that do not consider the distance that contractors have to travel or the resources that contractors have. Contractors shared this view, with one contractor even stating that he preferred to fail while pricing on his own than rely on someone else. On the whole, project pricing support was a form of support sought after by contractors, yet the successful implementation of this support did not lead to contractors winning projects.

4.6 Chapter Conclusion

This chapter started by discussing the setup of the Durban SCI programme. The information of the contractors interviewed, such as their CIDB designation grade and the years in business, were thereafter presented. This chapter also covered the key challenges that the emerging contractors face within the SCI programme. The challenges experienced were that contractors failed to win construction projects and had difficulty in obtaining project finance from banks. They also had difficulties receiving their payments in timely fashion from their clients. The contractors also

lacked business and technical skills. The SCI programme supported these contractors through mentorship, training sessions and consultation services. This chapter presented the support initiatives that the SCI programme implemented to assist contractors. The last chapter of the study draws conclusions from this chapter and puts forward recommendations to improve the efforts of the SCI programme.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The research took an exploratory approach to understand how the SCI programme assisted emerging contractors involved in subsidised housing projects and the extent to which such assistance reduced the challenges that these contractors experienced. The main purpose of this chapter is to summarise the findings made in the previous chapter. Such findings demonstrate the extent to which the SCI programme has impacted contractors, specifically, whether or not the programme's support in respect of developing/improving a business plan, accessing information, improving recordkeeping skills, support in accessing finance and support when pricing projects have made a difference in reducing the challenges of contractors. In this chapter, a conclusion of the study is drawn and recommendations made for the purpose of enhancing the SCI programme.

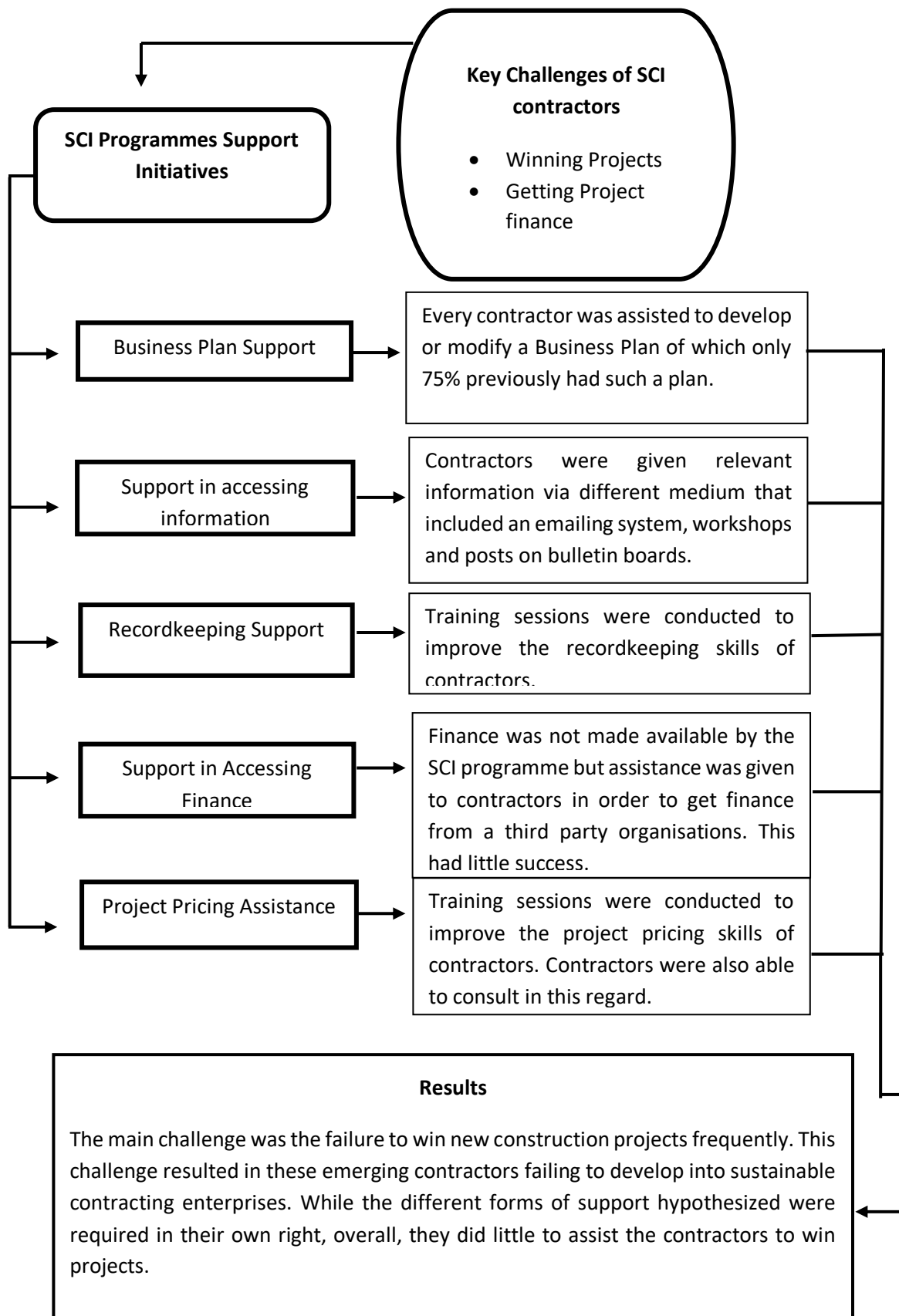
5.2 Summary of Findings

Informed by literature on emerging contractors, the researcher hypothesized that the presence of specific types of support by the SCI programme would result in viable contracting enterprises that no longer needed assistance to operate independently. Such specific types of support included business planning support, support in accessing information and finance, support in improving recordkeeping skills and project pricing skills. Therefore, the findings in respect of these five support elements were analysed as five separate themes. In addition to this, the study looked at the SCI programme's ability to meet its objectives. The said objectives were aligned to the principles of the framework of the NCDP.

The main challenge that prevented these emerging contractors from developing into sustainable contracting enterprises was the inability to win new construction projects. Over eighty percent of contractors interviewed stated that the inability to frequently win new projects prevented the growth of their companies in one way or another. Over half of these contractors suggested that the SCI programme should have arranged a memorandum of understanding between the programme and other public entities that fund or implement housing projects. By doing this, the contractors speculated that they

could gain practical experience while they were in the programme. The contractors argued that they could use such an arrangement to make a profit. However, the BDE maintained that such an arrangement would divert the SCI away from its core support mandate. A synopsis of the study's findings in relation to the effectiveness of the SCI programme's support is presented on the next page.

Figure 5.1 Synopsis of Findings



In terms of finance, the SCI programme did not make provide any finance to contractors but rather offered support to them in order to get finance from private sector banks or government agencies. Only 12.5% of contractors were able to seize an opportunity made available by a joint workshop between a bank and the SCI programme to get project finance. Seventy five percent of contractors stated that they could not or would not get project finance from banks. Those that could not (37.5%) get such finance from banks blamed the lack of proof to substantiate that they were capable of repaying their loans. The remaining contractors were sceptical of finance from banks. These contractors preferred other means of fulfilling their need of project finance such as taking loans from their friends or relatives.

Under the theme of business plan support, it was revealed that all the contractors had developed a business plan. These business plans were largely the result of the SCI programme's mandatory requirement for all the contractors to have a business plan as a prerequisite to their entering the mentorship and training programme. Before they entered the programme, 75% of these contractors did not have a business plan or any other document entailing their business strategy and goals. In addition to the programme requiring contractors to have business plans, contractors could seek assistance in improving these plans by means of one-on-one consultations with a BDO. Although all the contractors interviewed had business plans, they had not made use of their business plans to solicit finance. They failed to find the importance of the said plans beyond the use as documents that helped them gain access to the SCI programme.

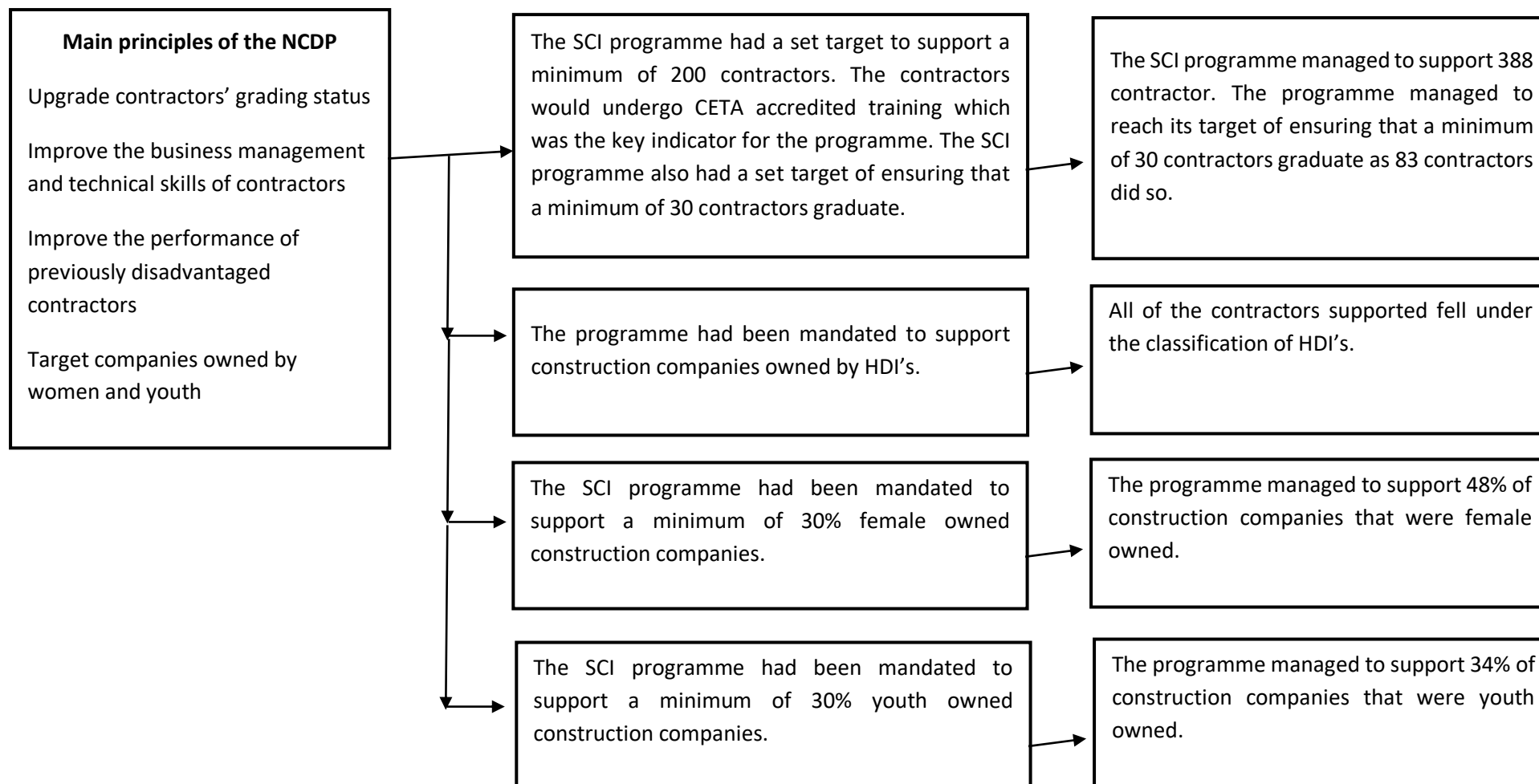
With regards to the theme of accessing information, contractors received information via email about project tenders. Contractors also got project information placed on a notice board accessible to them. All the contractors declared that this support was useful to them although they made an added effort to buy newspapers that advertised new construction projects. There was a general understanding held by contractors which was that they had to get their own newspapers to maximise their own chances of coming across more project opportunities. The SCI programme also got information through to contractors via third party organisations/companies to educate contractors about relevant legal compliance aspects of construction and the tendering process. Contractors were happy with this support that they received, even though it rarely led to new project.

On the theme of recordkeeping support, training sessions were held to improve the recordkeeping skills of contractors. These sessions focused on recordkeeping of financial transactions, work activities and the tracking of company equipment. Although contractors did not necessarily become proficient with their financial records, they did not view such a deficiency as a critical component that affected the outcome of their businesses. Nevertheless, 50% of contractors hired a book keeper to assist them when they needed to comply with SARS.

Under the project pricing support theme, it was revealed that the SCI programme implemented training sessions that addressed project pricing. Additionally, the SCI programme made available and taught contractors to make use of a costing software package. This software made it easier to calculate the cost of materials of a project. Recognising that some contractors preferred to do their project pricing manually, the SCI programme made available BDOs to conduct one-on-one consultations with contractors for the purpose of catering to the needs of contractors that were not computer literate. Although these efforts by the SCI programme did not always lead to contractors winning projects, contractors appreciated the pricing support particularly because they got to understand how to price projects correctly.

In terms of the SCI programme meeting the objectives that had been set by SEDA, the diagram that follows show these accomplishments. These objectives share similar principles to the framework for the NCDP. The ability to graduate emerging contractors with the CETA accredited training was seen by the SCI as the most important indicator of the SCI programme's success. The training covered various business management and technical skills. Based on the interviews conducted, it was found that all the contractors had not completed the three year mentorship and training, they were however, all on course to graduate. Overall, the programme had graduated 83 emerging contractors which was above its target of 30. It is worth noting that the SCI programme was able to meet all its targets comfortably although emerging contractors were challenged in respect finding new projects.

Figure 5.2 Synopsis of SCI objectives



5.3 Recommendations based on the Findings

According to the theory of constraints, any manageable system or programme is limited in achieving its goals by one or a few core constraints. With regards to the SCI programme, this constraint appears to be the inability of contractors to win new projects. The consequence of contractors failing to win projects was that despite the other support provided within the SCI programme, their business growth was restricted and this further made the need to win new projects more serious and urgent. The theory of constraints suggests that the subsequent response to a core constraint must be the restructuring of the rest of the programme around that constraint (Goldratt, 1986; Goldratt, 1984). Therefore, in light of the SCI programme, the SCI must address this challenge to ensure its support to emerging contractors is optimised and comprehensive. This could be done by increasing its support to contractors with regards to finding new projects. The subsequent three sections explain different initiatives that could be taken by the SCI programme to improve the likelihood of contractors winning new projects.

5.3.1 Stakeholder Clarification

The findings revealed that over half of the contractors expected the SCI programme to arrange projects on their behalf, so that they could have practical on-site experience under the supervision of a mentor and could simultaneously make a profit. The CIDB baseline study (2011) on contractor development programmes stated that many programmes in South Africa have become job-creation initiatives with only short term impact and have not had long-term sustainable development impacts on contracting enterprises. Therefore, many contractors see programmes like the SCI programme to be programmes that generate work opportunities.

As indicated in chapter one, the SCI programme is unique in that it does not give contractors construction projects by virtue of their being part of the programme. Although the SCI programme assist contractors to win projects, it should not be a programme wherein contractors expect projects in exchange for their participation. To prevent this, stakeholder clarification meetings should be conducted prior to contractors enrolling in the programme. Such clarification meetings would prevent the unexpected misunderstanding of roles by all the stakeholders within the programme. It would also make clear that contractors must take up the role of finding new projects knowing as this duty would not be undertaken by the SCI programme. These

clarification meetings would manage the expectations of contractors. It would also make known to the contractors, the support that they would receive throughout the duration of their incubation.

5.3.2 Extension of the SCI programmes mandate

Contractors failed to win new construction projects frequently. The consequence of this was that the SCI programme's support in terms of aiding contractors to manage construction sites and other forms of support was not highly regarded by contractors as they could only make use of such support after they won projects. For the SCI programme to be most effective in supporting contractors, contractors must win projects regularly. These projects must be more complex than labour-only contracts that do not promote growth. The SCI should extend its mandate to giving contractors a platform to market their businesses.

If the SCI was to extend its mandate to give contractors a platform to market their businesses, then this initiative would give potential clients the chance to take notice of the potential of the emerging contractors. One way in which the SCI programme could create such a platform is by producing a register of all its emerging contractors, listing all of their achievements. Such a register may be opened to the public via online or print mediums available at the different branches. This initiative should target large contractors like the Motheo or the Zikhulise Construction Groups that routinely carry out subsidised housing developments. As it was indicated previously, the Construction Charter and BBBEE favours corporations that do business with emerging contractors. With the assistance of the SCI programme, emerging contractors would likely find work opportunities with these corporations.

Such an initiative by the SCI programme should not arrange projects for the contractors but rather facilitate a way in which the contractors could approach established contractors. The emerging contractors may approach established contractors with a grading higher than their own and build a subcontracting relationship for current and future projects. This would require an understanding of the main contractor's objectives. This option would be beneficial as the main contractor would tender for work, reducing the pressure for the subcontractor to tender for work. The established contractors in turn would stand to increase their BBBEE component and

therefore, a mutually beneficial relationship could be established that sees gains for both the emerging contractor and established contractor benefitting.

5.3.3 Facilitation of Joint ventures

To increase the likelihood of contractors winning new projects, the SCI programme should facilitate joint ventures among the emerging contractors it supports. As indicated previously, a joint venture is a strategic cooperation where two or more companies agree to contribute goods, services and capital to a common commercial enterprise for the purpose of a specific tender. By facilitating these joint ventures, the SCI programme would enable an environment that allows contractors to compete for projects that they would not on their own be able to compete for. For instance, the CIDB allows three contractors registered in the 2GB grading designation to compete for a grade 3GB contract. It also allows three contractors registered in the 3GB grading designation to compete for a grade 4GB contract.

Emerging contractors that are members of the SCI programme have three advantages in creating joint ventures which other contractors do not have without similar support. The first of these advantages is the ability to communicate, plan and seek guidance from BDOs together as they regularly attend training sessions together and use the same premises for their business. The second advantage is that they have common goals to grow their businesses which allows them to tender for similar tenders. The final advantage is that the SCI programme has many contractors enrolled in the mentorship programme. This makes finding a suitable candidate to embark on a joint venture with easier than it would be out of the SCI programme.

If the SCI programme was to facilitate joint ventures among contractors, then its role in this regard would include mobilising contractors together, drawing up joint venture agreements, and supporting contractors to open specific accounts for the duration of the joint venture. The researcher is of the view that the successful implementation of these initiatives would result in more lucrative contracts for contractors which would in turn give them better practical experience. Furthermore, given that each member of the joint venture retains ownership of their own fixed and current assets, each member of the joint venture would increase their own company's assets and financial standing independent of the other member/members.

5.4 Reflections on the research aim, objectives and hypothesis

The main aim of this study was to assess the effectiveness of the SCI programme as a tool of supporting emerging contractors involved in subsidised housing construction. To reach a decision on the effectiveness of the SCI programme's support, the study sought to answer the six research questions. This section discusses how the research objectives have been addressed in the study. The first of these objectives was to assess the importance of emerging contractors in respect of housing delivery and economic redistribution. The researcher addressed this objective by looking at the 'Housing Background' and the 'Empowerment of Emerging Contractors' in South Africa with a view to find the importance of emerging contractors in respect of housing delivery. The second objective was to understand the role of Contractor Development Programmes which the researcher did by looking at such programmes that have been implemented locally.

The third objective required the researcher to identify the major challenges that emerging contractors encounter generally, and specifically within the SCI programme. The first part of this objective was addressed by reviewing the discourse on small and medium contractors locally and internationally while the latter part of the objective was done empirically. For the fourth objective, which was to establish the support that the SCI programme offered contractors, the researcher identified this support by administering interviews with contractors and a member of the SCI programme. The researcher completed the final objective by make recommendations to improve the SCI programme.

The researcher hypothesised that if the SCI programme's support for emerging contractors addressed business plans, access to reliable information, recordkeeping skills, access to finance, and project pricing skills, then emerging contractors would be able to develop into viable contracting enterprises that were independent of assistance. The SCI programme's support has addressed business plans, access to reliable information, recordkeeping skills, access to finance, and project pricing skills, yet the result has not been sound contracting enterprises that were independent of assistance. This was because, in its own right, such support was needed. However, the greater need as far as the contractors were concerned, was for them to win projects regularly, which was not the case. The result of the SCI programme's support was contractors improving on skills that they were not able to put into practice.

5.5 Conclusion

This study set out to assess the support given by the SCI programme to emerging contractors involved in housing with the understanding that such support would enable the contractors to overcome their challenges. The researcher first identified the challenges that these contractors face. The challenges identified included the inability to win new project frequently, the inability to get project finance, and lack of business and technical skills. The researcher thereafter assessed the SCI programme's assistance in terms of the five support initiatives covered in section 4.5. Such support initiatives were analysed to show how they have contributed to reducing the challenges of the emerging contractors.

The study concludes that for the contractors, the effectiveness and perceived success of the SCI programme's support was dependent on the contractors' abilities to win new construction projects. Therefore, if the SCI programme is to efficiently support contractors involved in housing construction, contractors must win projects frequently, which would allow them to overcome other challenges such as accessing project finance or improving their business and technical skills. The study suggests that the SCI programme should expand its brief to include the facilitation of joint ventures between contractors in the programme so that they are able to pool together their resources and strengths. This would allow them to compete for more lucrative projects and increase their chances of winning such projects. The study also suggests that the SCI programme should extend its mandate to provide contractors a platform in which they could approach larger contractors with the aim of subcontracting work. This would give the emerging contractors an opportunity to form relationships that would enable them to have regular work. In turn, the established contractors would be attracted to such arrangements because they would stand to increase their BBBEE component, thereby attracting more housing projects on such basis.

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APPENDICES

APPENDIX ONE: BUSINESS DEVELOPMENT EXPERT INTERVIEW SCHEDULE

1. What mandate does the SEDA Construction Incubator (SCI) programme serve?
2. How many emerging contractors are under the SCI programme currently?
 - a) How is this number determined?
3. How are contractors selected for this programme?
4. The SCI programme makes available office space for contractors. What other facilities are made available to contractors?
 - a) Why has the SCI programme found it important to provide office space to contractors?
 - b) Are the facilities that are provided adequate for the number of contractors that are currently in the programme?
5. Are there any resources (such as money or building materials) that the SCI programme provides to contractors?
 - a) If yes, what resources? And why has the programme found it necessary to provide these resources given that it is a support programme?
6. Are contractors expected to pay for anything within the programme?
 - a) If yes, what are contractors expected to pay for in the programme?
 - b) If not, why is this so?
 - c) Given that this is a support programme, why has the SCI programme found some form of payment necessary by contractors?
7. What have you observed to be the major problems that contractors have?
 - a) Why are there the key problems?
 - b) How does the SCI programme support contractors in dealing with them?
8. Emerging contractors are required to have both administrative skills for business/financial management and technical skills for construction work. Which of these two sets of skills do you believe that contractors lack most?
 - a) Why is this the case?
9. Within the SCI programme, are contractors expected to have a viable business plan?

- a) If yes, does the SCI programme assist contractors in developing and updating their business plans?
 - b) How does the SCI programme determine that the skills to develop and update a business plan have been acquired adequately by the contractor?
 - c) If the SCI programme does not require contractors to have a business plan then how does the programme ensure that its support is efficient in meeting the contractors' goals and ambitions?
10. Are the contractors able to get information regarding construction contract opportunities through the SCI programme?
- a) If yes, how is this information availed to contractors?
 - b) If not, why?
 - c) How are they assisted to access these opportunities?
11. Different clients that contractors seek work opportunities from often require different documents in the submission of a tender document (such as BBBEE certificate, Letter of guarantee from a registered financial institution among others). Does the SCI programme provide information about the requirements of a tender document?
- a) If yes, how is this information availed to contractors?
 - b) How does the programme assist contractors to access/obtain such documents?
12. There are a number of databases that contractors are required to register onto (such as the Construction Industry Development Board, National Home Builders Registration Council). Does the programme assist contractors in maintaining an active status within those databases?
- a) If yes, how is this done?
 - b) If not, why?
13. Good record keeping practices enable contractors to be well informed of different aspects of their businesses. Does the programme train contractors to keep records of business transactions and work activities?
- a) What kind of records does such training focus on and why?
 - b) How are contractors trained to keep records of transactions?
 - c) Do contractors succeed in record keeping following such training?
14. Are there instances where contractors fail to conduct construction work simply because their funds/finances are held up elsewhere?

- a) If yes, how common is this?
- 15. Are contractors trained in cash flow forecasting skills?
 - a) How does the programme train contractors in respect to cash flow forecasting?
 - b) If not, why?
- 16. Does the SCI programme assist contractors in getting loans from financial institutions?
 - a) If yes, how?
 - b) If not, why is this the case and how does the SCI programme see the contractors having the necessary finances to carry out their mandate?
 - c) Are there instances where contractors have constructions contracts but lack the finances to do the construction work?
- 17. Does the SCI programme assist contractors in arranging sessions from clients?
 - a) If yes, how is this done?
- 18. Does the SCI programme assist contractors in costing projects?
 - a) How does the programme train and mentor contractors to price correctly?
 - b) Do contractors use low rates to increase their chances of winning contracts?
 - c) How is the use low or unprofitable rates prevented?
- 19. Given that many emerging contractors entered this field of work without expert knowledge in contracting, are there any instances where contractors fail to acquire the skills that the SCI programme seeks to develop them in?
 - a) If yes, what happens in such a scenario?
- 20. Does the programme allow for the partnership with other institutions such Department of Human Settlements, Construction Industry Development Board and National Home Builders Registration Council to conduct coordinated workshops and programmes directed at contractors?
 - a) If yes, what would be the aim of such coordinated events?
 - b) If no, is there a reason that the programme does not allow for partnerships?
 - c) How does the programme avoid unnecessary overlap/repetition of roles?
- 21. What do you believe is different between the supports offered by the SCI programme and other mentorship programme?
 - a) What are the key successes that the programme has been able to achieve thus far?

Going forward, what do you believe should or will change about the SCI programme?

APPENDIX TWO: EMERGING CONTRACTOR INTERVIEW SCHEDULE

1. How did you become a contractor?
2. What did you do before you became a contractor?
3. What Construction Industry Development Board (CIDB) grade is your company registered as?
4. What were your major challenges as a contractor before you entered the SEDA Construction Incubator (SCI) programme?
5. Have you been able to address these challenges while your company has been in the SCI programme?
 - a) Which have you been able to address and how did you address them?
 - b) Which of your challenges have you not been able to address and why do you believe that this is the case?
6. What assistance would you have liked in addition to that given by the SCI programme?
 - a) Why do you believe that this additional assistance would be beneficial?
7. Do you have a business plan and what purpose does it serve for your company?
 - a) Have you found your business plan useful to get financial assistance from financial institutions?
 - b) How else was your business plan useful to your company?
8. Are you able to get information from the SCI programme pertaining to construction contract opportunities?
 - a) If yes, how did you get this information from?
 - b) If not, where did you get such information from?
 - c) What support/assistance would you need in this regard?
9. Are you able to get information pertaining to the processes of tendering from the SCI programme?
 - a) If yes, how was this information given to you and was it adequate?
 - b) If not, where did you get such information from?
 - c) What support/assistance would you need in this regard?
10. Were you able to get information from the SCI programme pertaining to the way in which you could improve how you operate your company?
 - a) If yes, was this information useful?
 - b) If not, where do you get such information?

- c) What support/assistance would you need in this regard?
- 11. Do you keep records of all your business transactions and work activities?
 - a) If yes, how do you keep such records?
 - b) What is the reason for keeping such records?
 - c) If not, why don't you keep such records?
 - d) Has your company suffered in any way simply because you did not have a particular record?
 - e) Has the training given by the SCI programme improved the record keeping capabilities of yourself and your company?
- 12. Before you entered the SCI programme, did you have difficulties in managing your financial resources?
 - a) If yes, have you been able to manage them better while your company is in the programme and what is the reason that allowed/prevented you from managing it better?
 - b) If no, how did you ensure that you had financial resources when you needed them?
- 13. Are you able to get loans from registered financial institutions?
 - a) If yes, do you use these opportunities?
 - b) If you are able to get loans, why would you choose to not make use of such loans?
 - c) How do you fulfil your financial needs if you do not make use of loans?
- 14. Have you been able to get materials such as cement and bricks among others on credit from suppliers?
 - a) If yes, how did you go about it?
 - b) If no, why were you unable to secure such credit?
 - c) In instances when suppliers have not co-operated, how have you dealt with your need for materials on credit?
- 15. Are you able to evaluate and price projects on your own?
 - a) If you are not able to price projects on your own, how do you go about pricing projects?
 - b) What assistance, if any, would you like when pricing projects and why?
- 16. Do you foresee a time when you can do business without being assisted as an 'emerging' contractor?
 - a) If yes, what will it take to get to such a stage?

- b) How long will it take for your company to operate without assistance?
- c) In the next 5 years, what grade do you think your company will be registered as and why?
- d) In the long-term of 5-10 years, what type of clients or departments (eThekweni municipality, private clients, Department of human settlements) would you be looking to seek construction contracts from and why?
- e) What might prevent your company from succeeding into a self-sufficient entity?

What assistance would you need to develop your company into a self-sufficient company?

APPENDIX THREE: ETHICAL CLEARANCE

21 June 2016

Mr Noor Mohamed Saidi 211501542
School of Built Environment and Development Studies
Howard Campus

Dear Mr Saidi

Protocol reference number: HSS/0718/016M

Project Title: Assessing the support given by the SEDA Construction Incubator programme to emerging contactors involved in housing within the eThekweni Municipality, KwaZulu-Natal

Full Approval – Expedited Application

In response to your application received 01 June 2016, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



Dr Shamila Naidoo (Deputy Chair)
Humanities & Social Sciences Research Ethics Committee

/pm

Cc Supervisor: Dr P Adebayo
Cc Academic Leader Research: Professor O Matpuri
Cc School Administrator: Ms Nolundi Mzolo