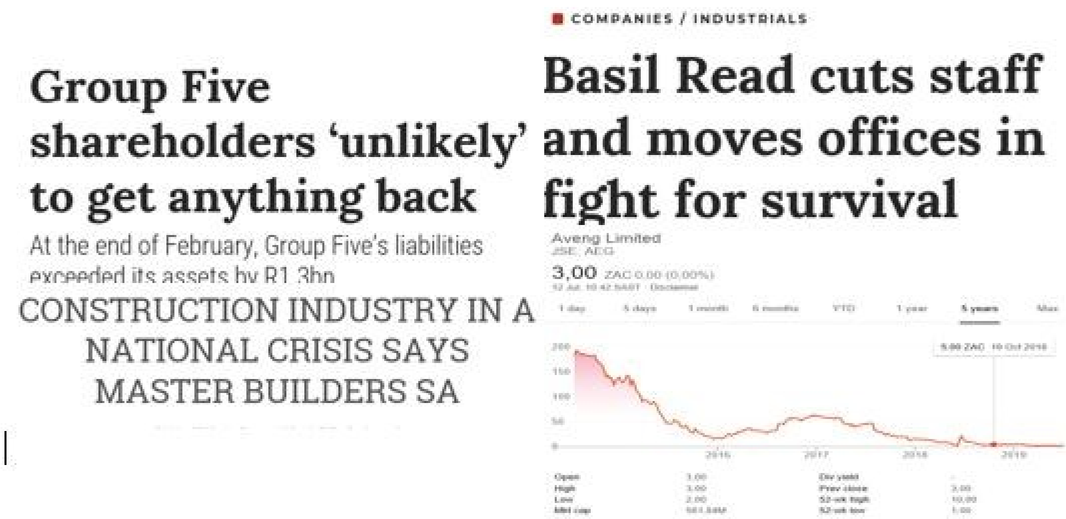


# The Dying Star - The Decline of the South African Construction Industry

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Arriving back in South Africa in late 2015 after a period delivering construction projects abroad, there was as sense that the construction industry was unwell. Not terminally ill, but certainly ailing. In the three years since, the decline of the South African construction industry has been cataclysmic. Even the biggest, oldest, the most well established firms have suffered to the point of collapse. Share prices in many of the top construction firms have plummeted to record lows. Everyday there is another insolvency, another failed contractor. There are many challenges facing the construction industry that are common to the macro economy. However, many of the factors that are leading to what seems to inevitably be the complete devastation of the industry, are challenges that are industry born. Most notable amongst these issues is contract pricing. There is a general expectation in the industry that contractor's price at barely break-even margins. An 8% - 10% mark-up which includes for overheads, profit and all other costs has somehow become an accepted standard. This ridiculous notion has become what employers expect, because their professional teams advise them that that it what is achievable. In order to fully understand this, we need to look at what has led to this situation. In the South African market this is not difficult to identify. There is a mentality of "us" versus "them". "Us" being the employers, the professional teams, the so called construction experts, dispute resolvers, legal practitioners. "Them" being the contractors and subcontractors. For too long a period the scale in this rivalry has been weighted in favour of the "us", allowing the standing of the contractor to be eroded.

Nowadays, in the South African industry, contractors must fight like hungry dogs for the scraps that are thrown to them. Suicide pricing has almost become the norm. This is driven by professional teams that are aware that in a challenging market they can drive down pricing. This may seem the smart move, the way to get that ever sought after pat on the back from the employer. In fact, the practice puts the employers at just as much, if not at more of a risk, than the contractor. The continued practice leads to what we now see in reality; an industry on its knees.

Principal Agents or Engineers employed to manage projects are taken from the "us" faction. Employed to be unbiased, fair, reasonable, they find that they can be anything but these things. They have to look after the employers' interest, and the only manner in which to do that is to act against the contractors interests. Quantity Surveyors feels obligated to squeeze every penny possible out of contractors to maximise employers' profits.

Irrespective of the cause, in South Africa, project delays are seen as a contractor's liability. Delay damages result in hundreds of millions being wiped off contractors accounts each year. When referred to adjudication or arbitration, dispute resolvers, few of whom have ever stepped foot on a construction site, or would know the difference between rebar and a sports bar, make decisions based on knowledge that is flawed and limited. They refer to themselves as construction "experts" without having spent a day on a construction site. Would you trust your surgery to a person who called themselves a medical expert but had never held a scalpel or stepped foot in a hospital?

Most of the construction dispute resolvers in South Africa feel that they are part of the "us" faction. They are after all professionals. The "them" are less so; they are less professional, less like "us".

The South African construction industry is on a precipice. There are not years available to set it right, and it may already be too late. Unless the industry has a sudden and severe change in mind-set, the likes of Esor, Aveng, Basil Read and Group Five, will be followed by many, many more. Contractors need a fair mark-up, they need to be profitable organisations. Agents employed to manage contracts need to act fairly and without prejudice. Dispute resolvers acting in the construction industry need to have first-hand experience of the construction industry. They need to genuinely be construction experts, not experts on paper and in name.

Employers and professional teams need to understand that it is of little use to initiate and design projects, for which there are no competent contractors left to build. The state of the South Africa construction industry should not be underestimated. It is not only the giants that are falling, but the medium sized contractors, such as the recent failure of NMC in Cape Town; the small contractors, the subcontractors, and moreover, it is the supply chain that is dragged down with them. Once gone, even in the best economy, it takes years to re-establish an industry the size of the South Africa construction industry.

If the extent of the problems plaguing the South African construction industry remain miscalculated, there is an inevitability to the outcome. The situation today in South Africa is reminiscent of working in the industry in London in the late 1980's and early 90's. Wholesale insolvencies and the combative "us" v "them" culture. Fortunately in the UK at the time, the government recognised the problems and stepped to address the situation. Absent of that intervention, the UK industry would have all but collapsed. Key reports by teams led by Michael Latham and later, John Egan, helped the government and the UK industry to rapidly change course. Today there are still large scale contractors in the UK that fail, but they are few. The UK industry is seen by the international industry as setting the standard as to how the practice of construction should be conducted. It has earned that reputation. The South African industry is at the point where intervention is required, without which there will be no improvement to the current poor state of the industry. Every stakeholder in the industry has a part to play.

Even the most expensive car stops functioning when just one wheel falls off. The construction industry needs all of its wheels functioning and spinning in the same direction. There are many lessons to be learned and a very short time to learn them in.