

Capacity Building In Preparation For Globalization Competition

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1.0 INTRODUCTION

The World over both developed and developing countries, Tanzania inclusive, are engaged in serious discussion on finding effective ways and means through which they would cope with the impact of globalization on their respective economies. Already there are few countries like China, Hong Kong, Taiwan that seems to have benefited from the positive results of this concept or ideology of free market economy. But, there are countries, particularly developing countries which are gripped with the fear of the consequences of this new concept of 'borderless world'.

Globalization means opening up of domestic markets (including the construction sector) to services providers with little or no restriction on access. It implies now, that contractors from other countries are allowed to carry out business in Tanzania as Contractors.

Local contractors are fearing the impact of the forces of globalization on their business due to the fact that the capacity of local firms has not reached the level that they could withstand the competition ensued from this forces of globalization. The local firms argue that they needed both special or preferential treatment and insulation from the forces of globalization. But again, the question is for how long?

There are benefits of a good competitive market like keeping the price down for the client, better use of available resources, improved efficiency, improved performance of national economies etc. In other words, for the rapid and sustainable economic growth a competitive market environment is a prerequisite.

The issue is therefore not how to resist this forces of globalization, globalization is widely received as beyond human control, but rather what should be done that should enable our local contractors realize benefits from opportunities as a result of global market.

2.0 EFFECTS OF GLOBALIZATION TO THE CONSTRUCTION INDUSTRY

Competition

Opening the construction market means that any body can bid on any work anywhere. It means opening domestic market to international competition. The construction sector becomes International. A company resident in one country, performs work in another country. This requires local contractors to have the Capacity to compete with International Contractors. The assumption is that the playing fields is level, so nobody has an unfair advantage. But on comparing the capacities and capabilities between foreign and local contractors in Tanzania, one would conclude that, the playfield is not level in terms of financial capacity, managerial capability, experience, technology, know-how of technical staff etc. And therefore, these two categories, foreign and local contractors cannot compete equally.

The case in Tanzania, the construction market is not yet competitive. Characteristics of a competitive market include (see Timothy Michael Lewis, 2003 pg. 567-577):

- ◆ Presence of large number of Independently acting sellers, usually offering their products in a highly organized market.
- ◆ The firms are selling a virtually standardized product so that the buyer is indifferent as to which seller he buys from
- ◆ The individual seller has no control over the market price.
- ◆ New sellers (producers) are free to enter, or existing firms to leave the market.
- ◆ Standardized product allows little or no non-price competition.

In Tanzania, the numbers of local contractors capable of competing with foreign contractors are very few to create effective competitive market. And this is why big projects have always been executed by foreign firms in *Table I*. Foreign firms have stronger asset base, greater financial muscle, appropriate technology to achieve the quality and performance standards required. For the market to be competitive bidding there must be a sufficient number of qualified firms who can and will bid for the works (see Merna and Smith, 1990) (see Mc Millan, 1998).

If you look at the contractors carrying out regional roads Rehabilitation projects in Kagera, Dodoma, Singida and Tabora (estimated at TShs. 20.bil.) they are either foreign or local of asian origin. Looking at Building and Mechanical works, those big contracts such as at Geita Mines, Buhyanhulu, Buhemba, Nyamongo, (for Mechanical works) all have been done by foreign contractors. Similarly for, Building works such as construction of PPF Tower, Ubungu Plaza,

Millennium Tower, Construction of BoT Building, all have been are being done by foreign contractors. All this goes on to show the low capacity and competitive capacity of our local contractors.

New Clients

Globalization has been characterized by privatization of state owned or public companies, acquisition of more shares; merging of companies, increase in foreign Direct Investment, partnering etc. Consequently there have new ownership of assets. The objectives have always been to improve efficiency and productivity in such companies.

The New Clients would always come up with new strategic plans that aim at achieving their corporate mission and vision. In the construction market this implies that performance of contractors would be crucial. The new clients shall be seeking performance based construction and value added services.

The clients will no longer have to hire the non-performers. Performance Criteria include: being on time, on budget, with no contractor generated cost change orders, and meeting quality expectations and the capability of the contractors to identify and minimize the risk of the owner (see *Kashiwagi 2003*). This implies that only contractors with experience and with good performance records shall get contracts and this remain the construction market.

Competitive Labour Market

The free movement of labour forces in pursuit of good remuneration has characterized globalization. Unfortunately, wage payments to workforce in the Construction Industry in Tanzania especially Local Contractors have been very low. Other problems have been poor security of employment, remuneration to staff, development and training of staff. Consequently, there has been frequent change of employers in the Construction Industry.

In free Construction Market, there will be new construction firms looking for competent and skilled workers as a strategy for good quality and performance.

Performing construction firms would employ skilled workers. This will create shortage of skilled workforce. Consequently, some firms will loose experience due to emigration of competent and skilled staff to new firms. Also company performance is likely to deteriorate.

In many countries (both developed and developing) people form construction trade out of necessity and not out of choice. In a survey conducted by Vaid in India 1999, it is found that 90% of the 2600 workers he interviewed accepted to work in construction because they had no choice, in China, construction work was ranked lowest among 69 occupations. The situation in is no better in countries like Tanzania.

Innovation

The globalization trend and the changing rules of the competition have made it inevitable for companies to seek effective strategies to gain competitive advantage in the construction market (see *Irem Dikmen, Pg. 396*). Construction companies must therefore become more innovative to boost their competitiveness, so that they can meet the demands of the growing International market place.

Implementation of an innovative idea in a construction project requires involvement of the client, main consultants, main contractor, specialist contractor, sub contractors and the material supplier (see *Arun Bajrachary 2003*). The team of all the involved and related organization can be termed as an innovation value chain.

In this competitive global market, in order for construction firms to develop and sustain competitive advantage in the construction business, firms would need to focus their resources and processes in acquiring unique knowledge embodied in new innovative products and services.

It is therefore a matter of how companies can help their employees to transform their past experience and professional knowledge into a reusable information mechanism systems. Knowledge Management is now the major strategy for enterprises to run their business. The ability to manage and exploit knowledge is becoming a global source of competitive advantage for the construction industry. To be competitive the organization has to find out how useful knowledge can be reused and accumulated through project activities and shared with the other projects.

Reduction of Construction Firms

Globalization will create transparency in procurement process and very high competition in the construction Industry.

Consequently non-performing contractors would definitely exit from the construction business resulting reduction in the number of construction firms in the market. It is anticipated that more working opportunities will be made available to those firms remaining in construction business. In order to continue remaining in business construction firms would highly improve their performance, marketing of their business, managerial and project management ability.

Certification with International Organisation of Standardization (ISO)

Achievement of quality attributes in construction projects has often been considered one of the criteria to contractor's performance. In the coming global market, more emphasis will now be on attainment of customers desired quality. More importantly will be gaining confidence by clients on performance of the contractors. This will require that contractors adopt Total Quality Management as a strategic tool to improve their services to their customers.

Simply defined, Total Quality Management (TQM) involves managing an enterprise to maximize customer satisfaction in the most efficient and effective way possible by totally involving people in improving the way work is done.

Furthermore, in order for construction firms to get international recognition, it becomes mandatory for such firms to be registered as ISO 9000 certified. This requires that among others, such firm should establish and maintain quality manual, proper documentation, evidence of control of records, establish quality policy, resource management, customer forms etc.

2.0 ASSESSMENT OF LOCAL CONTRACTORS CAPACITY

The purpose of making contractors capacity is to be able to establish crucial areas that would need improvement. It is also important to establish whether the number of contractors available meet the conditions required in the competitive construction market. The objective is to identify areas where the local contractors should be developed so as to be able to compete in the global market.

Plant and Equipment

Productivity and quality of construction works depend on adequacy and quality of Plant and Equipment, application of appropriate technology and use of skilled personal.

Generally, local contractors have inadequate equipment and most of them are in poor mechanical condition. Furthermore, they do not have equipment for carrying out forexample; periodic road

maintenance activities on both tarmac and gravel roads. The available equipment is basically for routine and spot improvements of road works.

This implies that, very few local contractors are capable of carrying out projects on periodic maintenance of roads. Such works are therefore left to foreign contractors or local contractors of Asian origin.

Manpower

In producing quality works at required productivity, contractors must have adequate skilled, committed and well-remunerated personnel. Among the problems that face our construction industry include:-

- ◆ Project managers do not have appropriate management structures to balance cost, quality, schedule and utility requirement
- ◆ Lack of skilled labor and poor site supervision
- ◆ In some projects the people to be closely involved in managing the project do not become familiar with the project until it has actually started
- ◆ Poor remuneration to technical staff

Experience in Contractors Registration Board in the registration of contractors has shown that:-

- ◆ There are frequent changing of employers by Engineers and technicians
- ◆ There is no security of employment to staffs employed by contractors
- ◆ The technical staff are poorly remunerated
- ◆ The Engineers employed by contractors are not fully involved in project management.

Financial Capacity

In processing application of contractors for registration and upgrading, it has been noted by the CRB, that the financial capacity of most contractors is very low (*Annual Turnover, Fixed Assets and Cash in Bank*)

For example, Annual turnover, which is an indicator of amount and size of projects executed by a contractor, has noted to be low for local contractors. For example Civil Works Contractors in classes One – Three, the average turnover is between TShs. 3 billion and 500 million. This compared to foreign counterparts whose annual turnover is in the tune of US \$ billions.

Low turnover of local contractors indicate that:-

- ◆ They have low investment capacity

- ◆ They have small profit margin
- ◆ Their sustainability in the construction business is uncertain
- ◆ They have low competitive advantages.

The other problem in connection with low financial capacity is the contractors' inability to access to credit facilities in commercial banks. Poor involved in the construction business and poor credibility of contractors has caused Banks to loose confidence in the contractors.

3.0 WHAT IS CAPACITY BUILDING

The Capacity of a contractor can be simply defined as the capability of that contractor to carry out assigned works efficiently and effectively to the required quality, time, budget and safety. This requires that such a contractor own adequate plant and equipment, appropriate technology, required experience, financial capability, adequate and skilled manpower, etc. The resources owned by the contractor should enable the contractor accomplish his/her duties in acceptable and required Quality and Productivity. This further would require proper resources management which include strategic planning, acquisition of Plant and Equipment, proper scheduling of activities, training of technical staff, material management, etc.

Capacity Building is therefore an attempt through which a number of strategies are formulated aimed at improving the capability of the contractor to perform in a competitive environment. In order to carry out such an attempt, it is important to:

- ◆ Identify the current capacity of local contractors
- ◆ Identify their weaknesses and their strength
- ◆ Formulate strategies to develop contractors capacity

Identification of Current Capacity

Identification of current capacity of contractors, would amongst other involve:

- ◆ The current status of Plant and Equipment (Qualitative and Quantitatively)
- ◆ The current workforce (availability, adequacy, training, qualifications, experience)
- ◆ The current financial capability (Turnover, assets and financial credibility)
- ◆ Current is contractors productivity

Identification of Weaknesses and Strengths

This would involve looking at the following issues:-

- ◆ What are the major problems facing contractors (internal and external)
- ◆ What is Local contractors market share in the Industry
- ◆ What is the current perception of clients on their performance
- ◆ What is contractors performance

4.0 STRATEGIES TO BUILD LOCAL CONTRACTORS CAPACITY

Improve Registration Criteria

The number of companies that are active within a market is usually considered a good indicator of whether or not the market is competitive. Therefore, one of the principal goals of a regulatory Body, such as CRB should be to ensure that there are competent and sufficient firms within the Construction Industry to make the Industry more competitive. There is no reason, although construction is a business like any other business, to have many registered construction companies, which eventually do not access the market and end up becoming inactive or being deleted. One way that the Board could do that is through raising the standard of registration criteria of contractors to match with other International similar institutions.

Furthermore, deliberate efforts should be done to ensure that capable contractors are promoted to higher classes.

Improve Market Share

The current data to the Contractors Registration Board through Annual Return Forms (ARF) indicated that the participation of local contractors in the available construction works (in terms of value) is very low (in the range between 20 – 30% executed contract values).

Improving market share of local contractors, require:-

- ◆ Improving contractors tendering and procurement procedures
- ◆ Ensuring that contractors improve their performance in terms of quality, productivity, cost and time.
- ◆ Improving contractors resources management (plant, capital and personal)
- ◆ Improving credibility of registered contractors.
- ◆ Ensuring that local contractors are given preferential treatment as stipulated in Procurement Act No. 3, of 2001.

Improve Equipment Capacity

Crucial to the performance of local contractors is their accessibility to appropriate Plant and Equipment. Looking at the financial turnover of local contractors, which is very low, the

possibility of local contractors making investment in new Plant and Equipment is very narrow. Furthermore, even the profit margin realized from the executed contracts is also very small. Therefore, the following options are proposed in order to help local contractors access to Plant and Equipment:-

- ◆ Special arrangements be made whereby contractors could be contracted on long term basis say 3 – 5 years in road works to enable them build capacity. The contract should state the amount that should directly in investment of Plant and Equipment.
- ◆ Contractors should prepare unit rates in their bidding which should ensure realization of reasonable profit that will enable them to invest in construction equipment.

Training of Contractors on Knowledge Management (KM)

Knowledge is increasingly becoming one of the most important assets in almost all organisations, construction inclusive. The ability to manage and exploit knowledge will be the main source of competitive advantage for the construction industry of the future. The local contractors need to develop a knowledge workforce. *Betts and Ofori (1992, 1994)* have identified how IT in construction offers strategic opportunities to gain competitive advantage, improves productivity, and performance, enables new ways of managing and organizing, and, in general developing business.

Organisational learning, which is considered as a tool for improvement, produces, retains, and retrieves organization's experience. *Fiol and Lyles (1985)* define organisational learning as the process of improving actions through better knowledge and understanding. *Nevis et al (1995)* view organisational learning as a process or a capacity, which interprets experience to improve organisational performance. *Senge et al (1994)* perceive organisational learning as continuous process, over which experience is tested, converted into transferable knowledge and delivered to the whole organisation for improvement.

It is generally accepted that knowledge needs to be managed if construction businesses are to remain competitive and be responsible to the needs of the needs of their clients. It is therefore imperative that construction firms continuously improve their ability in managing knowledge through the implementation of Knowledge Management (KM).

Therefore, contractors should be trained on the significance of knowledge management which involve sharing of experiences and knowledge with fellow contractors, consultants and experts in the construction industry, collection and management of knowledge in current and past projects, encouraging and sponsorship of individual staff for further studies, developing an organisation culture in learning, etc.

Training of Contractors on Corporate Governance

Among the issues, which have been noted, as a being chronic problems in the contracting industry, in particular to local contractors, are aspect of lack of corporate governance in totality. In global market, issues such as building company image, transparency, proper financial and good company management, etc. are going to play a big role in business success in competitive market. Companies will necessarily need to make a good name to the public and the clients in general.

Good corporate governance is characterized by accountability, transparency, integrity, probity, efficiency and effectiveness. In order to build up the capacity of local contractors, ways should be looked into how to train all construction firms on corporate governance.

Table I: Civil Works Projects

| S/N | Name of Project | Nature of Works | Contract Value | Category of Contractor |
|-----|----------------------------------|-------------------------------------|----------------------------------|------------------------|
| 1 | Nzega – Tinde and Tinde – Mwanza | Upgrading Project to tarmac (169km) | TShs. 48bil/= | Foreign |
| 2. | Mutukula – Muhutwe | Upgrading (112km) | FF 7,405,665 + 198,000,000 | Foreign |
| 3. | Nzega – Shelui Road | Upgrading (108km) | TShs. 20bil/= | Foreign |
| 4. | Songwe - Tunduma | Rehabilitation (71km) | NOK 167mil/= (TShs. 24 bill.) | Foreign |

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