

BRIDGING THE DIVIDE IN THE AFFORDABLE HOUSING SECTOR

by

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Dissertation submitted in partial fulfilment of the requirements for
the degree

MASTERS IN BUSINESS ADMINISTRATION

in the faculty of

ECONOMICS AND MANAGEMENT SCIENCE

at the

**POTCHEFSTROOM UNIVERSITY FOR CHRISTIAN HIGHER
EDUCATION**

Study Leader: Prof. J.P.S. PRETORIUS

Potchefstroom

2003

"Here is the key of success and the key to failure: we become what we think about..."

Earl Nightingale

Looking back on the past three years, it comes to mind that doing the MBA has indeed altered my way of thinking. You become what you think about; you change for the better. Once dormant and existing capabilities come to the fore that are honed to become precision instruments as part of your human persona.

This endeavor would not have been possible without the intervention and continuous support of the following parties that I wish to thank:

- God for granting me the insight and perseverance to complete this project;
- My wife Mariëtte for her unquestionable loyalty, support, proof reading and numerous cups of coffee that she has showered upon me during the last three years; and
- Professor Cobus Pretorius for his mentorship and insight that has guided me throughout the completion of this thesis.

Know that complacency gives birth to mediocrity and mediocrity gives birth to anonymity. Anonymity in any industry is surely guaranteed to bring any business concern to its knees. Once a business loses its ability to be competitive, i.e. being anonymous, it is doomed to failure.

Abstract

The road to success is one often paved with obstacles that prevent the top structure developers in the affordable housing sector from reaching their goal of becoming serious market contenders. This study has therefore been dedicated to developing a management model that may be applied by top structure developers to assist them in reaching this goal.

This management model has been developed based by firstly introducing the top structure developer to the concepts of competitiveness and strategy that will enable them to adopt a mindset conducive to this. This was followed by developing a model supported by research conducted in literature to establish a sound foundation from which to conduct empirical research on the topic.

The findings of the empirical research indicated that the affordable housing sector is characterised by a dynamic environment that lends itself to being susceptible to numerous internal and external influences. Two factors have been identified as being of paramount importance in their contribution in creating volatility in this industry. These factors are: access to serviced erven and access to mortgage finance that top structure developers need to meet the requirements and needs of the affordable housing consumer.

A methodology has thus been developed based on the insights gained from literature and respondents that have been interviewed as part of the empirical research component of this study. This will aid the top structure developer in dealing with this and other issues in becoming able to bridge the divide in the affordable housing sector. Success is not guaranteed, only a better chance of being considered a serious market contender.

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Chapter 1 - Introduction

1. Introduction

The South African population is constantly plagued by a dire shortage of housing – a basic need that goes unsatisfied for many. The affordable housing sector, as part of the South African residential property development market, strives to address this housing shortage by providing quality and affordable housing solutions to the economically active population, especially from the previously disadvantaged communities. This need for housing, coupled with the ability of various stakeholders to participate in the provision of housing, sets the stage for this endeavour entitled “Bridging the Divide in the Affordable Housing Sector”.

Affordable housing should not be mistaken for low-cost housing associated with the government's Reconstruction and Development Programme (RDP) – even though close links do exist in terms of the utilisation of “Capital Subsidies” with which to partly fund their purchase (should they fit the profile of said beneficiary) to which first-time homebuyers are entitled to when purchasing a house.

The RDP is an integrated, coherent socio-economic policy framework that seeks to mobilise South Africa's population and resources toward the final eradication of apartheid and the building of a democratic, non-racial and non-sexist future. The connection between the RDP programme and housing comes to the fore in that it endorses the principle that all South Africans have a right to a secure place in which to live in peace and dignity. Housing is a basic human right. One of the RDP's first priorities is to provide for the homeless (The Reconstruction and Development Programme, 2001).

Although housing may be provided by a range of parties (such as top structure developers in the affordable housing sector) the South African government is ultimately responsible for ensuring that housing is provided to all – to the extent that housing is affordable to even the poorest of the poor. This approach to housing involves and empowers communities, is affordable, developmentally sustainable, takes account of funding and resource constraints and supports gender equality. The RDP is committed to establishing viable communities in areas close to economic opportunities and

to health, educational, social amenities and transport infrastructure (The Reconstruction and Development Programme, 2001).

One could define affordable housing as the segment of the market that caters for the housing consumer in the lower income bracket that does not stand to benefit from the RDP programme (in terms of being a beneficiary of a house purchased and paid in full by the Capital Subsidy programme) but subsequently also falls short to participate in what may be construed as housing solutions of the middle income bracket. This market segment has unique characteristics and challenges that face various stakeholders in the affordable housing sector. This summary of affordable housing is in line with insights gained from respondents, i.e. senior representatives of top structure developers that have given the author an account of what the industry terms as affordable housing. This issue has been dealt with in Chapter 4, "The Interpretation of Data and Findings".

The stakeholders (the most important in terms of this study) that will be scrutinised in this study, although not being a comprehensive list, are as follows:

- **Consumers** with the need for housing, willing to pay a premium to satisfy their basic need for shelter;
- **Developers**, both top structure and erven suppliers, able to meet the demand for said housing at an attractive price to consumers and an equitable profit to themselves; and
- **Financial institutions** that are willing to fund the activities of consumers and developers alike.

The tremendous rise in interest rates that has characterised the residential property market as recently as 1998 (Radebe, 2003) shows that the property market (by default the affordable housing sector) is subject to forces that are often beyond the control of the developer in the task environment. Respondents, i.e. senior management / owners or organisations that pursue the business of being a top structure developer, have highlighted the fact that mere survival during 1998 was a tremendous challenge. This has culminated in the following observations made by the respondents in question:

- Numerous smaller developers had to terminate their business dealings – some even had to close down their businesses due to the perceived lack of knowledge and resources;
- It was almost impossible for aspiring developers (especially from previously disadvantaged communities) to make an entry into the market; and
- The bigger developers consolidated themselves (with market peers and / or erven developers) in the market, thereby creating an oligopoly that adversely influenced supply side economics in terms of the availability of serviced erven. An environment was thus created that was not conducive to continued existence of the perceived small to medium-sized developer.

2. Problem Statement

The small to medium-sized developer is obviously at a disadvantage in the affordable housing sector. The following preliminary problematic areas have been identified in line with observations made by respondents and with literary research conducted during the course of conducting this study:

- Access to serviced erven (residential 1 – freehold) in prime areas where demand exceeds supply in certain instances. Bigger developers tend to hoard erven in prime areas by going into “alliances” between themselves and landowners that are servicing land. The oligopolistic trend mentioned earlier is thus starting to emerge;
- Access to finance and technical know-how to embark on own ventures to service land in areas that lend themselves to being exploited in terms of being “prime” for the would-be consumer’s housing needs;
- Access to mortgage finance from financial institutions for clientele in order to finance individual projects. Prudence in granting mortgage loans to consumers are advisable. However, the conditions of grant are at times a bit harsh on consumers, resulting in consumers being unable to take up offers in terms of mortgage finance made by financial institutions; and
- Interest rate fluctuations in line with the Reserve Bank’s policy of curbing inflation have a detrimental impact in the sense that increases in the repo rate lead to a decline in demand in the affordable housing sector. This may be attributed to the fact that increases in the prime lending rate, based on the Reserve Bank’s repo rate, make it more expensive for the

consumer to borrow money (South African Reserve Bank, 2003), resulting in the decreasing monetary value of mortgage bonds that the consumer qualifies for. Respondents have indicated that the effect on the affordable housing developer is twofold in that the monetary value of the transactions between themselves and consumers decreases and that the lower segment of the affordable housing market no longer qualifies to partake in the procurement of property in this market segment. A decrease in turnover is thus the end result for the affordable housing developer.

The overall question is thus how the top structure developer in the affordable housing sector may be empowered to deal with the problematic areas that have been identified. The purpose of this thesis will be discussed in the next segment labelled "Purpose of Research".

3. Purpose of Research

The purpose of this thesis is to derive a strategy to level the playing field for all role-players in the affordable housing sector, especially the small to medium-sized developer and "would-be" developers, based on the following:

3.1. Primary Goal

Deriving basic strategic management principles that counter factors that are beyond the control (in the micro-, macro- and market economic environment) of the top structure developer in the affordable housing sector.

3.2. Secondary Goals

The secondary goals are the following:

- Researching and determining the causes of the perceived imbalance in the affordable housing sector, i.e. the ability of the small to medium-sized developer to compete on equal footing with market peers (competitiveness);
- Devising a practical and workable solution to the perceived imbalance – from which all role-players in the affordable housing sector stand to benefit; and

- Deriving strategies that lend themselves to influencing key decision-makers in the affordable housing sectors – especially in terms of financial institutions and landowners, i.e. suppliers and developers of serviced erven in the affordable housing sector.

4. Research Methodology

The research methodology that will be applied in this study encompasses an approach that rests on two pillars: a literature study and interviews that were conducted with various role-players in the affordable housing sector. However, the following should be highlighted:

- The **literature study** is undertaken with qualitative undertones seeing that the aim of this study is to find fundamental factors that contribute to the perceived imbalances in the affordable housing sector, coming up with solutions / models to manage the factors that are either in or out of the control of role-players in the affordable housing sector, and ultimately to derive and put strategies in place that may be utilised by developers in the affordable housing sector in order to rectify the perceived imbalances. By attempting to level the playing field in this manner, developers from various walks of life will have access to equal opportunities;
- The **empirical research** is undertaken on various developers in the affordable housing sector in the Gauteng province of South Africa. The research consists of an interview that tests the participants' views and opinions about aspects as highlighted in paragraph 4 of Chapter 1, "Purpose of Research";
- The **participants / respondents** in this study include role-players in the affordable housing sector that represent the developers (erven and top structure development) as well as representatives of various financial institutions active in the affordable housing sector (erven and top structure development);
- The **interview schedule** was designed with the various issues in mind that gave the interviewer the opportunity to ask the respondents direct questions with the possibility of further probing into (and clarification of) issues as the interview progresses, thus adding flexibility that is invaluable to gain private views and feelings in terms of the issues at hand (Cummings *et al.*, 2001:116). Another spin-off is the opportunity to explore other relevant issues;

- The **data collection procedure** consists of personal interviews with various role-players in the affordable housing sector in order to get first-hand and personal information from the respondents;
- The **data analysis** consists of a qualitative technique known as “content analysis” and will form the basis of said analysis.

5. Division of Chapters

The division of the chapters is as follows:

- **Chapter 1:** This chapter encompasses the problem that has been identified in terms of the competitive position of the smaller to medium sized top structure developer in the affordable housing sector. Consequently it has been noted what issues will be investigated in terms of the research purpose of this study as stated under the heading “Purpose of Research”. The research methodology that will be applied throughout this paper has briefly been discussed thus contributing to the function of this chapter being an overall introduction to the purpose of this study and how the questions at hand will be dealt with;
- **Chapter 2:** The literature study, being a crucial part of this thesis, has been conducted in this chapter. The goals of the literature study (as set out at the beginning of this chapter) should not be confused with the purpose of research for this paper. Although close links do exist, the goal of this chapter is to investigate the concept of competitiveness, strategy and a practical management plan relevant to the affordable housing sector;
- **Chapter 3:** The research methodology applied in this paper has been discussed in this chapter. A research methodology has been designed in terms of insights gained from literature and has consequently been presented for the perusal of the reader so that scientific validation may be given to said methodology. The basic premise behind the research methodology is of a qualitative nature in the guise of an interview that will be conducted with respondents;
- **Chapter 4:** The findings of the empirical research have been presented and discussed in this chapter; and
- **Chapter 5:** The focus of this chapter is to offer recommendations to the top structure developer in the affordable housing sector in terms of basic strategic management principles that may be applied to enhance their ability to be on par with competitors. This

chapter will be concluded with final remarks that will end this endeavour entitled “Bridging the Divide in the Affordable Housing Sector”.

6. Conclusion

This study is dedicated to the top structure developer's ability to compete on equal footing with market peers in the affordable housing sector and not the product *per se* – a house or residential dwelling that is being built for a consumer. Delivering products that adhere to the consumer's expectation of quality and value for money is paramount for the continued existence of any organisation. This fact should not be left out of the equation. This issue will, however, not be addressed in this study and the focus will be on the top structure developer's ability to compete as mentioned previously.

The need for housing, housing projects and the like has been addressed by various sources, locally as well as internationally. The ability of the top structure developer to compete in the affordable housing sector as a topic of research has not been touched upon by any local or international research that may have been conducted on this issue. This has been ascertained through a comprehensive literature study that has been conducted in line with the primary and secondary goals of this paper. This study seems to be the first research project undertaken on the topic of investigating the top structure developer's competitive ability in the in the affordable housing sector, thus entering un - chartered waters.

Chapter 2 - Literature Study

1. Introduction

Bridging the divide in the affordable housing sector: a statement not lightly made seeing that this concept encompasses various factors that needs to be addressed in this study. The main **aim of this chapter** is to provide insight gained from literature in terms of the following:

- Investigating the competitive position of the smaller to medium-sized developer based on unit turnover in the affordable housing sector, thus "**competitiveness**" as an encompassing concept that will form the first pillar of this literature study;
- Deriving "**strategies**" that will counteract and manage the imbalances by granting developers equal access to opportunities in the affordable housing sector (should they wish to pursue opportunities that present themselves to those that are actively seeking opportunities to exploit as profitable business concerns), thus forming the second pillar of this literature study; and
- Finding a solution to the perceived imbalance that exists in the affordable housing sector in the form of a "**practical management plan**" that will form the third pillar of this literature study.

In the first part of the literature study certain terms and definitions need to be highlighted and clarified, thus enabling the reader to understand and grasp their significance.

2. Terms and Definitions

The following terms and definitions will be used throughout this study:

2.1. Affordable Housing

For want of an established definition, the author has compiled this industry account based on his own experience as a top structure developer and also on the insights of respondents (even and top structure developers in the affordable housing sector). Said developers have been interviewed during the empirical research component of this paper as presented in chapter 4, the interpretation of data and findings. The following will thus suffice as the industry account of affordable housing:

- Affordable housing is a specific segment in the residential property market;
- That focuses on the specific needs of the emerging home owners (predominantly emerging black middle class) market;
- Priced in the region of R100 000,00 to R250 000,00 as at September 2003. Prices gets adjusted every 6 months thus compensating for increased input costs thus making these prices valid for this period only;
- The household income of a consumer is R5 000,00 per month (in terms of financial institution policy during this period) in order to qualify for mortgage finance that will in most instances finance said consumer's purchase;
- In predominantly former township and areas that are currently being redefined as "grey areas" that boast a mixed makeup of races, cultures and creeds in their population;
- That may thus be defined as an economic solution to affordable housing needs that nestles between the continuum that is RDP housing (government sponsored / subsidised housing for mostly the unemployed in terms of the Reconstruction and Development Programme) and the traditional housing segment of the economically active middle class population; and
- Where the emphasis is placed on developing / building new habitable structures as opposed to the trade in existing (old) property that is the core business of real-estate agents.

2.2. Property (Top Structure) Developers

The Housing Consumers Protection Measures Act (95/1998) defines the business of a homebuilder in article 1 as being "to construct or undertake to construct a home or cause a home to be constructed for any person and to construct a home for purposes of sale or otherwise disposing of such a home". This definition highlights certain issues that define the business of being a property developer, or rather – as per the focus of this paper – a top structure developer.

The following will then suffice as being the definition of a top structure developer:

- An individual or organisation actively involved in the business of causing a home / top structure fit for human habitation to be constructed;
- For the purpose of sale at a profit – either pre or post negotiations with the consumer;

- In terms of the consumer's predetermined needs that the individual / organisation strives to satisfy within reasonable and practical parameters; and
- By the utilisation of serviced erven as supplied by landowners / developers for sale to top structure developers / individuals wishing to pursue the construction of top structures fit for human habitation.

2.3. Financial Institutions

According to Mayo (1997:26) financial intermediaries / institutions / commercial banks refer to the method (intermediary) in the direct and indirect transfer of funds to firms and other borrowers from parties (individuals) such as savers or businesses (organisations) that are not using their funds at the present moment. The financial intermediary stands between the ultimate supplier and the ultimate user of the funds and consequently facilitates the flow of money and credit (mortgage bonds) between said suppliers and users.

2.4. Mortgage Bonds

A bond that is secured by property, especially real estate (Mayo, 1997:442). A bond is thus essentially a long-term liability with a specified amount of interest and maturity date that is secured by property. In the case of the affordable housing sector these are (i) bonds that are obtained by consumers to finance their actions in obtaining a house that satisfies their need for housing, and (ii) development bonds that developers obtain from time to time to finance their development activities, i.e. creating a supply of serviced erven ready for consumption by would-be homeowners.

2.5. Landowners

For want of an established definition, the author has compiled this industry account based on his own experience as a top structure developer and also on the insights of respondents (erven and top structure developers in the affordable housing sector). Said developers have been interviewed during the empirical research component of this paper as presented in chapter 4, the interpretation of data and findings. The following will thus suffice as the industry account of landowners:

- Being those individuals / organisations in the affordable housing sector whose core business it is;
- To supply top structure developers in the affordable housing sector with erven suitable for resale to consumers;
- In terms of being part of a "housing package" that has the amenities needed / required by the consumer to facilitate successful habitation inside the inhabitable top structure that is part of said "housing package" (erf and house); and
- That is being sold to the housing consumer by the top structure developer.

2.6. Serviced erven

For want of an established definition, the author has compiled this industry account based on his own experience as a top structure developer and also on the insights of respondents (erven and top structure developers in the affordable housing sector). Said developers have been interviewed during the empirical research component of this paper as presented in chapter 4, the interpretation of data and findings. The following will thus suffice as the industry account of serviced erven:

- Unimproved land that has been altered to be fit for human habitation in that;
- The land has been subdivided into portions (erven);
- That has been supplied with services such as a water connection point, electrical connection point and sewerage connection point by an erven developer; and
- Is thus been prepared for the construction of a habitable top structure that may be occupied by a housing consumer.

2.7. Competitiveness

The competitive aim, according to Thompson *et al.* (2001:150), is simply the organisation's ability to do a significantly better job of providing what consumers wish to procure by exercising their consumerism and by doing so, earning a competitive advantage that enables them to outperform market peers. The organisation's success at out-competing their rivals ultimately determines their

competitive position influenced by their ability and willingness to compete in their chosen market – the affordable housing sector in this case.

2.8. Strategies

The basic premise of business strategy, according to Thompson *et al.* (2001:3), is that it consists of a combination of competitive moves and business approaches that managers employ to please customers, to compete successfully and to achieve organisational objectives. Thus, for small and medium-sized developers to be successful in the affordable housing sector, effective strategies have to be utilised.

2.9. Strategic Management Plan

In order to cope with industry and competitive conditions, the expected outcomes of industry's key players and the challenges and issues that stand in the way of the company's success, a strategic plan needs to be devised that caters for the management of the aforementioned issues. Kroon (1990:170) shows that strategic planning enhances an organisation's ability to adapt to changing internal and external environments thus leading to improved performance of the organisation within said environments. Thompson *et al.* (2001:170) mention that a strategic plan constitutes a strategic vision and mission, it establishes objectives, gives direction by mapping out where the organisation is headed in terms of its short- and long-range performance targets, the competitive moves and internal action approaches that are used in achieving the targeted business results. These factors thus underlie the basic premise of a strategic management plan that will be developed in this study.

2.10. Micro-environment

Smit *et al.* (1999:66) hold that this environment consists of the organisation itself. This results in the fact that management has almost complete control over variables inherent to this environment such as the mission, goals and objectives as well as strategies of the organisation, various management functions, organisation's resources (inclusive of employees) and the corporate culture of the organisation in question. When an organisation and employees embrace the same values and goals, thus achieving a state of aligned commitment, the organisation has a good

chance of success. In this study, the micro-environment refers to the small to medium-sized developer that is the focal point of this study.

2.11. Task environment

The task or market environment refers to that which surrounds the organisation. The key variables in the industry, in this instance the affordable housing industry, are the *consumers* whose purchasing power and behaviour determine the number of entrants to the market, *competitors* who are already established in the industry / market who want to maintain or improve their market position, *intermediaries* who compete with each other to handle the organisation's product or wish to only handle the products of competitors, *suppliers* who supply or do not wish to supply products, raw materials, services and even finance to organisations, and lastly *labour unions* that deal with the supply of labour to the industry. It should be noted that management has a lesser degree of control over this environment than in the case of the micro-environment (Smit *et al.*, 1999:66).

2.12. Macro-environment

Kroon (1990:65) postulates that this environment exists outside the organisation and task environment and comprises six distinct sub-environments.

- *Technology environment* that is continually responsible for the pace of innovation and change;
- *Economic environment* that influences factors such as inflation, recessions, exchange rates, monetary and fiscal policy of the government and the wealth of the community;
- *Social environment* where people's lifestyles, habits and values are shaped by the community that, in turn, makes certain demands on the organisation / business in terms of particularly the community's consumerism;
- *Ecological or physical environment* comprises natural resources such as fauna and flora, mineral resources as well as man-made improvements such as roads and bridges;
- *Institutional environment* with government and its political involvement and legislation as the primary components; and
- *International environment* in which local and international trends and events influence the organisation and the market environment.

Now that certain terms and definitions have been identified, the literature study will be embarked upon that will focus on the issues as stipulated in the introduction to this chapter.

3. Competitiveness

This segment of the paper is dedicated to developing a competitive mindset that will aid the top structure developer in becoming competitive and in line with contemporary thought. The author has expressed views that are in line with the literature study to follow on the topic of competitiveness which sole purpose is to aid the development of a competitive mindset that will be addressed in chapter 5, the recommended methodology and conclusion. This will encompass developing practical pointers to be applied in the industry for the benefit of all parties involved in the affordable housing sector. The contribution of this segment is therefore to assist the top structure developer to understand the nature of competitiveness, i.e. being able to compete on par with peers in the affordable housing sector.

The first step of this journey will be to grant market peers (developers) equal access to opportunity in the market by equipping them to understand the basic premise of what competitiveness encompasses. High (2001:xxxii) states that for any contemporary organisation to grow and / or maintain its competitive position over an extended period of time, thus being profitable by implication, management must be able to:

- Reduce input costs, thus being able to widen the gap between inputs and outputs, i.e. being more profitable;
- Improve the efficiency and productivity of functional departments with the organisation in question for example marketing, production and purchasing;
- Improve on current products, processes and have the ability to be innovative by inventing new products / services and / or processes; and
- Meet the challenges and opportunities that the applicable task environment poses in terms of ever-changing technologies and markets.

Granting top structure developers access to equal opportunity implies the concept of perfect competition and therefore a market where conditions are determined by supply and demand. This

is solely a theoretical concept and a misconception that needs to be remedied from the start (Smit *et al.*, 2000:223). No market, except in Utopia, functions under the premise that competition and, therefore, the ability to be competitive are inherent characteristics of a specific industry. The affordable housing sector is no exception and there are characteristics of perfect competition (Smit *et al.*, 2000:223) that needs to be clarified in order to fully appreciate the concept of competitiveness or rather the ability to be competitive. It should be noted that the author has based on own insights in the market as top structure developer, coupled with the insights of respondents that have been interviewed as part of the empirical research component as depicted in chapter 4 of this study, highlighted the following points of interest:

- All sellers and buyers have perfect knowledge of the market. *To be more specific in the case of the affordable housing sector, all developers must have perfect knowledge of the market. Alas, this not so. Not all developers have perfect or near-perfect knowledge of the market. One could go so far as to say that this might be the first contributing factor in the perceived imbalance that exists in the affordable housing sector. As the empirical research component of this thesis progressed, the author came to the realisation that developers had different levels of knowledge and insight in terms of what the affordable housing sector encompasses;*
- The number of buyers in the market is so vast that the individual buyer does not have any influence on the market price or the point of equilibrium as dictated by supply and demand. *This is indeed the case in the affordable housing sector in that the individual consumer does not have the ability to influence the market. Numerous houses are sold each year in the affordable housing sector. A consumer buys one house at a time due to financial constraints and the fact that most people basically need one house to stay in at any given time. This then supports the premise that the individual buyer cannot influence the market;*
- Products that are traded on the market are homogeneous in that consumers will show no preference for one producer's product over another. *To a great extent this is true in the affordable housing sector. It is the author's experience (coupled with that of respondents, as mentioned earlier) that in the past consumers have expressed a distinct preference for his or another developer's products. Upon investigating this phenomenon it seemed that exposure (in terms of marketing campaigns and customer service) was the deciding factor. These views have been confirmed in part by respondents consulted in the empirical*

research component of this paper. It was their perception that existing customers that referred their peers to the developer in question have recruited a distinct portion of their customers. This was mainly attributed to the fact that the clientele in question were happy with the service that they had received. They also commented that marketing played a major role in attracting customers. The more elaborate and focused the campaign was, the greater the dividends were in terms of turnover generated by the marketing campaign in question;

- *Products sold on the market are perfect substitutes for one another. In the event of the affordable housing sector this characteristic is only partially true. Although the basic top structures that developers build may be near-perfect substitutes for each other, the imbalance mentioned previously comes to the fore in that the locality of the product (regarding the availability and access to serviced erven) is the problem. Respondents consulted in the empirical research component of this study indicated that locality is the biggest deciding factor in determining where a client would wish to purchase a property. This would mean that products on offer by various developers are not perfect substitutes for each other; and*
- *There are so many sellers that no single seller should be able to influence the market price – or rather the market equilibrium, which is normally determined by supply and demand. Once again this is not true in the affordable housing sector in that a select few developers do have the ability to influence the market. Respondents consulted in the empirical research component of this study indicated that they have experienced the influence that the bigger top structure developers exercise. This has come to the fore on more than one occasion where access to serviced erven was denied to smaller and medium-sized top structure developers due to the fact the bigger top structure developers have entered into strategic alliances with erven developers to secure exclusive access to erven..*

What is competitiveness? The Organisation for Economic Cooperation and Development (OECD) defines competitiveness as “the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while maintaining and expanding the real incomes of its people over time.” They add: “True competitiveness is not based on reliance on comparative advantage, raw materials, cheap labour,

special tax exemptions, or continual currency devaluation, but rather on economic growth impacting a far broader and deeper range of beneficiaries than a few well-placed individuals in business or government. Competitiveness is based on generating more value through improved productivity, quality, service, and innovation" (Southern Africa Global Competitiveness Hub, 2003).

It will be noted that the above definition has been crafted with the competitiveness of a country in mind, but certain elements are also applicable to businesses and therefore to top structure developers as such. The elements in question serve to expand the definition of competitiveness in that they contribute to create a competitive mindset that will be addressed in chapter 5. These elements are:

- Free and fair market conditions: *The plot is thus starting to emerge in the affordable housing sector. As stated in the introduction to this paper, market conditions do not seem to be free and fair in the affordable housing sector. This then poses the first question to be answered in terms of this thesis. Are market conditions indeed free and fair? If not, what remedy should be prescribed? Respondents consulted in the empirical research component of this paper indicate that conditions are unfair for the greater part. This issue will be addressed in chapter 5, the recommended methodology and conclusion;*
- Produce goods and services that meet the test of markets: *The implication for the developers in the affordable housing sector is clear: goods and services should be produced that meet the needs / demands of the consumers in this particular market segment. The test for this statement comes to the fore in asking the question whether it can be measured. The answer is yes, it may be measured using the profitability of a top structure developer, relative to its peers, as a yardstick;*
- Maintaining and expanding the real income of its people: *The implication for businesses / developers in the affordable housing sector is clear: real income / profit for the organisation in question should be maintained and expanded over time. This will further benefit role-players in the affordable housing sector. (In line with the contemporary trend of profit optimisation not only the developer but also the employees and community as stakeholders in the organisation will stand to benefit from this spin-off);*
- Not based on a sole reliance on any single factor, but rather on economic growth that impacts on a far broader range of beneficiaries than a strategically placed few: *As stated*

previously, the contemporary trend of profit optimisation calls for all stakeholders to benefit from the wealth that the organisation / developer generates. The practical implication is thus that for the developer in the affordable housing sector to be truly competitive, the scope of his operations should encompass all stakeholders, including consumers, employees and the community at large. This inclusion in the dealings of the developer holds that the developer in question should not rely on one factor in his organisation to be competitive. The growth within the organisation should spiral outwards to all stakeholders if and where practically possible.

- *Based on generating more value through improved productivity, quality, service and innovation: This holds that to be competitive, the developer in the affordable housing sector should, for all intents and purposes, base his / her competitiveness pitch on providing goods / services on the sound foundation of being that of high / improved quality, being provided in a productive manner where outputs preferably exceed inputs (thus creating value), where service is a given in that consumers (basically all stakeholders) expectations should be exceeded in their dealings with the relevant developer and finally a climate of innovation should be created and nurtured where new product innovation in terms of goods and / or services are offered to all applicable stakeholders.*

This concept of competitiveness highlights certain elements that raise interesting issues that are, in the opinion of the author, worth incorporating in this paper. When looking for a textbook definition of competitiveness, Kroon (1990:79) holds that competition may be defined as a situation in the task environment where various organisations / businesses in the same industry compete for the support of the same consumers. This then introduces the idea of competitiveness of the developer in question in his / her effectiveness and ability to attract and entice consumers to exercise their consumerism in favour of the developer as a measure of competence in relation to market peers in the affordable housing sector. Obviously the greater the competence of the developer to attract custom, the higher the degree of competitiveness of the developer in question.

In conclusion one could say that competitiveness in the affordable housing sector may be defined as the ability of a developer in the affordable housing sector to out-compete market peers in terms of

- Free and fair market conditions in order to facilitate the production of goods and services;
- That meets the test of the market by maintaining and expanding the real income (wealth) of all stakeholders;
- That is not based on a sole reliance on any one factor, but rather on economic growth that impacts on a far broader range of beneficiaries than a strategically placed few; and
- That is inherently based on generating more value through improved productivity, quality, service, and innovation.

4. Strategies

Having a theoretical understanding of what competitiveness encompasses, the next step will be to introduce the notion of strategy. The question that needs to be addressed is that of determining what the definition strategy needs to encompass and secondly to determine what the practical implication will add up to in this study.

When looking at a definition of strategy, Thompson *et al.* (2001:3) offers the perspective that a company strategy is basically the game plan management utilises to:

- Pinpoint / stake out their position in their relevant market segment (task environment) in which they operate;
- Conduct its operations in terms of internal and external dealings;
- Attract (market) and please (maintain and satisfy) customers;
- Compete successfully in their respective task environments; and
- Achieve organisational objectives that in essence are the conversion of the organisation's mission and vision into specific performance targets (results and outcomes) that the organisation wishes to achieve (Thompson *et al.*, 2001:9).

In essence management has decided (amongst the multitude of choices and actions that the organisation could have pursued) to move in a specific direction, focus on specific markets and consumer needs, compete in a specific fashion, allocate resources and energies in a predetermined (specific) manner and to rely on specific approaches to conduct business. In summation one could thus say that a strategy encompasses "managerial choices among

alternatives and signals organisational commitment to specific markets, competitive approaches and ways of operating" (Thompson *et al.*, 2001:3).

In order to be truly competitive in the affordable housing sector, a strategy needs to be put in place that will lead to consumer satisfaction in terms of goods and / or services offered by the developer. This then will then stand to benefit the organisation (developer) in question as well as all stakeholders by receiving an equitable share of the pickings. This then will be in line with the contemporary tendency towards profit optimisation where stakeholders of the organisation stand to benefit as opposed to the traditional view of profit maximisation where the organisation was the sole beneficiary of the wealth that was created, the move should thus be towards benefiting all stakeholders. These stakeholders, in line with a social minded approach, encompass the likes of the community at large, associates to the organisation, stakeholders within the organisation such as employees and ultimately the shareholders that should be the main beneficiaries of the wealth that has been created, thus improving and maintaining shareholder equity within the organisation (Brigham *et al.*, 2002:10).

When looking at strategy holistically, especially in terms of the perspective offered earlier in the study, some issues are highlighted that need to be attended to. Strategy seems to be a methodology or a game as Thompson *et al.* (2001:3) refers to strategy as a game plan that management utilises in their quest for profit optimisation. When looking closely at the perspective, it seems that five distinct steps / criteria may be identified:

1. **Pinpointing / staking relevant position in task environment:** The practical implication for top structure developers in the affordable housing sector is determining their relevant position to that of market peers. This entails that the developer in question should decide which position to occupy in the relevant market section (Kotler *et al.*, 2001:269). This holds that a product's position in the market is determined by the way the product is defined by consumers, thus the place that the product / services of the developer occupy in the minds of housing consumers relative to that of market peers. This basically involves that the developer should establish unique benefits and differentiation in terms of market identity as opposed to that of market peers in the minds of consumers. This establishes "brand

awareness" over that of competing brands (other developers), thus lending it self to be exploited as a competitive advantage;

2. **Conducting operations:** The focus of this criterion, and therefore the implication on the developer in the affordable housing sector, is that of internal and external operations in the micro-, macro- and task environment. This portion of the strategy perspective holds that the operating environment, also referred to as the competitive or task environment, is subject to more influence and control by the firm (Pearce *et al.*, 1988:107). When placing the level of control on a continuum in terms of the environments that the organisation functions in, it comes to light that the level of control that management exerts varies from almost complete in the micro-environment, less in the task environment and almost non-existent in the macro-environment (Kroon, 1990:62). This then introduces the notion that the developer should conduct operations in the micro-environment to influence (where possible) and adapt to (where necessary) the task and macro-environment in order to be competitive and obtain a competitive advantage;
3. **Attract and please customers:** The underlying notion that comes to the fore is marketing, i.e. attracting and pleasing clientele. The implication for the developer in the affordable housing sector is that marketing in its simplest form is an exchange for mutual benefit. For the consumer the importance amounts to the satisfaction of purchasing and consuming a product of choice. For the organisation (i.e. the developer) marketing represents an opportunity to identify unfulfilled consumer needs and to offer a product that will satisfy those needs, hopefully on an ongoing basis (thus pleasing and maintaining), and usually for a profit. Grigoriou (2000:4) states that the marketing activity is responsible for most of an organisation's income (and, by extension, its profit); marketing's role in any firm is central to that organisation's success. Kotler *et al.* (2001:5) maintain that successful organisations are those who know that if you take care of your customers, market share and profitability will follow. Marketing should thus be an ingredient in the success recipe of the developer;
4. **Compete successfully in relevant task environment:** The issue of competitiveness has already been addressed in part in this paper. The issue coming to the fore, and therefore of consequence to the developer in the affordable housing sector (the relevant task environment) is that of being competitive, i.e. being a competent contender against market

peers. In order to be truly competitive, the developer should be able to compete successfully in the relevant task environment by picking one of countless competitive strategies or even a combination of two or more. By capitalising on the benefits derived from implementing such a strategy (or strategies) and not merely focusing on this one competitive advantage, the developer will be on the way to being considered a serious market contender (Fenn, 1996:31); and

5. **Achieve organisational objectives:** As mentioned previously, the achievement of organisational objectives are related to the conversion of the organisation's mission and vision into specific performance targets. One should first be able to distinguish between goals and objectives in order to fully appreciate the relevance thereof for the developer in the affordable housing sector. Pearce (1988:244) holds that a company's mission is the encompassment of the organisation's broad aims evolving into a specific statement of wants that embodies the goals of an organisation. These goals are normally stated without any specific targets or time frames attached to them, thus lending themselves to be always pursued but never to be fully attained. Pearce (1988:244) further demonstrates how these goals that commonly deal with profitability, growth and survival, are, in essence, birthed in order to provide a general sense of direction, not to serve as benchmarks for evaluating the company's progress. This is the function of objectives: to serve as benchmarks against which an organisation (in this instance the developer in the affordable housing sector) may gauge its progress en route to achieving specific aims – in most instances those of profitability, growth and survival in an often dynamic and somewhat chaotic task environment.

A workable strategy will be compiled in chapter 5; the recommended methodology and conclusion based on the insights gained in chapter 2, the literature study and chapter 4, the interpretation of data and findings that discusses the findings of the empirical research component of this study.

5. Management Plan / Generic Model

The stage has been set for developing a practical management plan or generic model that may be utilised by any aspiring or existing developer in the affordable housing sector to compete on a more even footing with market peers, especially those that seem to dominate the market in terms of

having the ability to sway conditions in the task environment to suite their personal (often hidden) agendas. The following methodology (steps) are proposed:

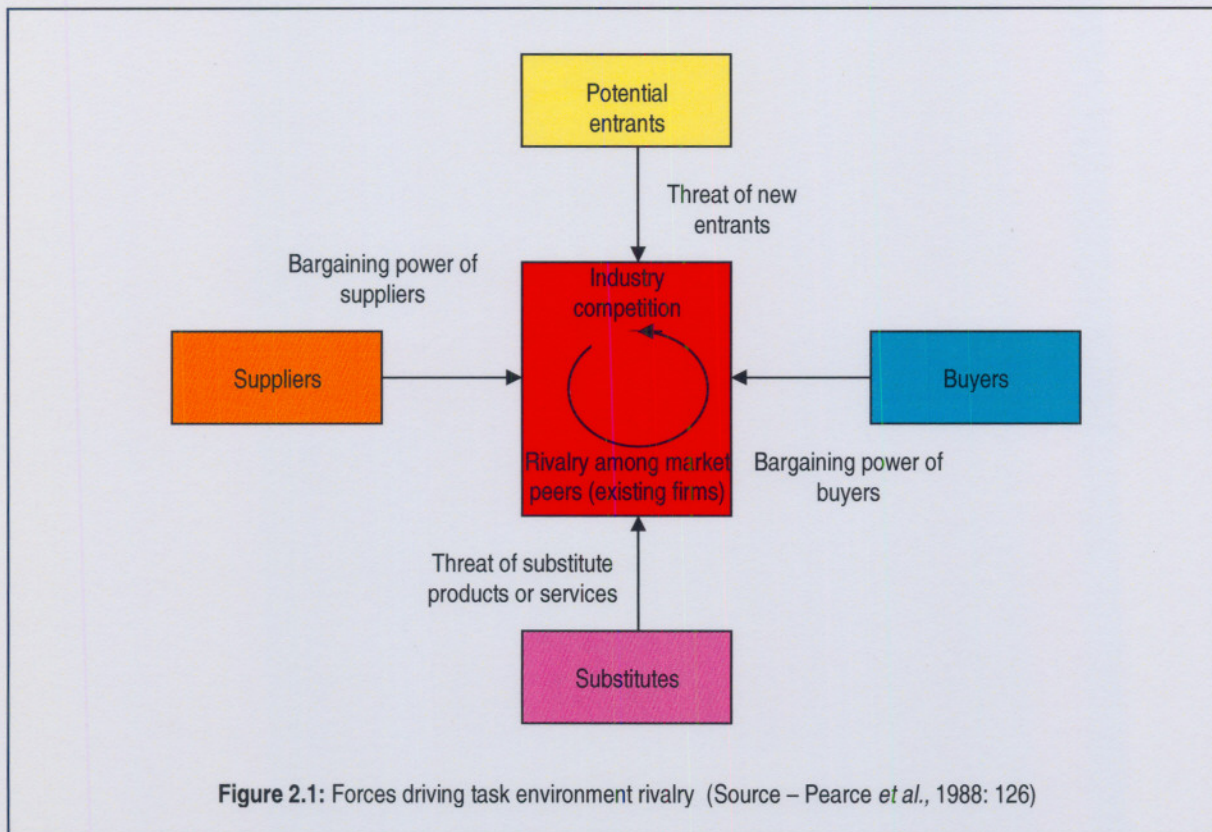
5.1. Step 1: Conducting an Environmental Audit

In developing a methodology that may be utilised by the developer in the affordable housing sector to compete on equal footing, the first move will have to be that of an **environmental audit**. The tool to be utilised is Porter's five forces model that is specifically aimed at analysing the relevant industry or task environment. Pearce *et al.* (1988:124) hold that the foundation of Porter's model is the emphasis that is being placed on the five forces that shape industry competition. This ties in neatly with the emphasis that is placed on the competitive position of the developer in the affordable housing sector that is postulated in this paper.

The nature and intensity of **competition** within the task environment **hinge on five forces** that individually and collectively contribute to creating conditions that are often dynamic, somewhat chaotic and extremely unpredictable (Pearce *et al.*, 1988:124). Hitt *et al.* (1999:48) postulate that the chaotic rules of competition with a given task environment depend on the constraints of industry regulations and the natural environment. Competition within this context depends on who enters the task environment and competes in it profitably. The five forces as depicted in figure 2.1 (i.e. the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and / or services and continuous vying for market position amongst market peers) will set the stage. For the developer to successfully deal with these contending currents and to be able to maintain and even expand market position despite the influence that they exert, the developer should be able to adjust to them and even to take advantage of them – should the opportunity present itself (Pearce *et al.*, 1988:125).

Knowing which forces are responsible for the continuous rivalry amongst market peers is not enough to grasp the significance of competition in the task environment. The next step would be to understand how the forces shape strategy in order to cope with the rivalry, which is a given in the affordable housing sector, as it is in any industry (Pearce *et al.*, 1988:125). The essence of competition in the task environment is not solely rooted in the rivalry among market peers. Other

factors also come into play, such as the underlying economics of the industry and the competitive forces as depicted in figure 2.1. Their interaction with the task environment may vary in terms of degree of intensity, depending on the nature of the industry (in this instance the affordable housing sector). The collective strength of these forces determines the ultimate profit potential of an industry where this may vary from miniscule returns on investment to returns that are the envy of many in an industry that may or may not be related to the relevant task environment. The relevance for the developer in the affordable housing sector is to find a position in the industry where he will be able to defend himself against these forces, thus being able to maintain their current scope of business. Ultimately the move should be towards being able to influence the market forces in such a way as to be to the benefit of the developer and all those role-players associated with the developer in question.



By being able to understand the underlying forces that govern the task environment, Pearce *et al.* (1988:125) show that knowledge of these competitive forces provides the groundwork for a strategic agenda in terms of being able to highlight the following:

- The critical strengths and weaknesses of the organisation (that may be further elaborated upon by utilising a SWOT analysis);
- Animate the positioning of the organisation in the industry;
- Clarify the areas where strategic chances may yield the greatest pay-off;
- Places where the industry trends promise to hold great significance in terms of postulating itself as being an opportunity or threat (by means of a SWOT analysis); and
- Understanding the forces that may prove useful in considering and implementing product and / or service diversification should the opportunity present itself (possibly by utilising a SWOT analysis).

The issue of **contending forces** is starting to come to the fore in that the profitability of an industry / task environment is determined by the strongest competitive force or combination of forces. The forces that govern industries differ from industry to industry in terms of determining profitability, and the relevant forces that govern the affordable housing sector will be determined later on as this paper progresses (Pearce *et al.*, 1988:126). Every industry has an underlying structure or set of fundamental economic and technical characteristics that gives rise to competitive forces. The developer as strategist in the affordable housing sector should want to position the organisation in such a manner as to best cope with its task environment and to ultimately influence the environment to the benefit of the organisation as well as to the benefit of associates and role-players associated with the developer.

In order to come to terms with the contending forces in the task environment, the developer should first of all learn what makes the forces work and secondly how they interact with the task environment. This section of the paper will therefore be dedicated to gaining this insight based on the suggestions offered by Thompson *et al.* (2001:81):

1. **Rivalry among market peers:**

Miller *et al.* (1996:71) illustrate that numerous industries in free market economies are characterised by high levels of competition which are caused by various factors. This thought is echoed by Thompson *et al.* (2001:81) who state that this factor (being the strongest of the five competitive forces) encompasses a race for market position and consequent consumer favour that

goes on amongst rival sellers of a product and / or service. In some industries rivalry gets birthed out of price competition, offering consumers the most attractive combination of performance features, being the first to market with innovating products, out-competing rivals with higher quality or more durable products, offering consumers longer warranties, superior after-sales service or creating a stronger brand image.

These methodologies utilised by market peers to compete often influence the intensity of the rivalry within the task environment when a competitor sees an opportunity to better please consumers or is under pressure to improve market share or profitability. Rivalry may vary from friendly to cutthroat, depending on how frequently and aggressively companies undertake fresh moves that effect the profitability of rivals. Irrespective of the rivalry in the task environment, every company / organisation is challenged to craft a strategy that produces a competitive edge over rivals and to strengthen its position with consumers.

This depends on the competitive capabilities and strategies of rival companies – an interdependence that means whenever one company makes a strategic move, its rivals often retaliate with offensive or defensive countermoves (Thompson *et al.*, 2001:82). This pattern of action and reaction makes competitive rivalry in essence an economic battlefield where the battle is conducted in a market setting according to the rules of fair competition. As already mentioned, the level of rival intensity is subject to change, thus being a slave to market dynamics and is influenced by common factors. Miller *et al.* (1996:70) confirm that the following factors act as catalysts in promoting rivalry:

- *Equally balanced competitors* that result in the most intense competition due to the fact that well-matched peers in a given scenario do not allow any particular organisation to dominate;
- Markets characterised by *slow industry growth* where sales growth must come from taking markets share from market peers (i.e. other competitors);
- Increased sales volume will aid the absorption of *high fixed costs* therefore enticing competitors to fight for any possible sales;
- The *lack of differentiation and / or the lack of switching costs* will promote the defection of customers to rivals seeing that there are no clear barriers to stop them from doing so. This,

coupled with the continuous battle to retain customers, contributes to intensify the levels of competition within a given task environment;

- Increases in *manufacturing capacity* (especially in large increments that characterise industries where increased capacity is only possible by adding an additional plant) usually leads to periods of excess supply and heightened price competition in the short term, but contributes nonetheless to intensifying the levels of competition within a given task environment;
- The profit potential of a market and / or the opportunities within a given task environment might lay the foundation for *strategic stakes* that make it worth while to fight for thus contributing to intensifying the levels of competition within a given task environment;
- Economic, strategic or emotional reasons might give birth to *high exit barriers* that make it difficult for competitors to leave a given industry. These barriers cause competitors to stay in a given industry, thus contributing to intensifying the levels of competition within the task environment by being opposing in the never-ending battle for survival;

Thompson *et al.* (2001:82) confirm this by adding the following factors not mentioned by Miller:

- Rivalry intensifies as the *number of competitors* increases or as the competitors become more equal in size and capability;
- Rivalry is more intense when *industry conditions* tempt competitors to use price cuts or other competitive weapons to boost unit volume;
- Rivalry is more stringent when competitors are dissatisfied with their market position and launch moves to bolster their standing in the market at the expense of rivals;
- Rivalry becomes more volatile and unpredictable the more *diverse competitors* are in terms of their visions, strategic intents, objectives, strategies, resources and countries of origin; and
- Rivalry increases when *strong companies / organisations* outside the task environment acquire weak firms within the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders.

2. The potential entry of new competitors:

New entrants to a market / task environment brings new production capacity, the desire to establish a secure place in the market and sometimes substantial resources to compete with

(Thompson *et al.*, 2001:84). The threat of this factor depends on two classes of factors, namely the *barriers to entry* that exist whenever it is hard for a newcomer to break into the market, or economic factors that put a potential entrant to a disadvantage relative to its competitors.

Shrivastava (1994:48) comments that if entry barriers are low, the potential threat that new competitors hold increases due to the fact that newcomers can easily enter a given task environment and, as a result, increase the intensity level of competition with the relevant industry. This usually culminates in the reduction of the total profit available for sharing among market peers. He shows, however, that the opposite is also true: high entry barriers serve to protect the industry and its potential profits.

There are several barriers to entry according to Shrivastava (1994:48) and Thompson *et al.* (2001:84). These are listed below:

- *Economies of scale* that forces potential competitors to either enter on a large scale (might be costly and risky) or to accept a cost disadvantage and consequently lower profitability;
- *Product differentiation* that hinges the ease with which to distinguish products within a given task environment / industry. Said differentiation may be based on objective or perceived features of the product. Perceived features includes factors such as brand image, novelty, status image and fashion appeal;
- *Cost and resource disadvantages independent of size* in terms of existing firms that might have cost and resource advantages not available to potential entrants;
- *Learning and experience curve effects* in that lower unit cost may partly or completely be attributed to experience in producing the product and / or service in question. New entrants do not necessarily have access to these learning and experience and are therefore being placed at a disadvantage;
- *Inability to match the technology and specialised know-how of firms already in the industry.* Successful entry might be dependent on this and new entrants will thus be placed at a distinct disadvantage;
- *Brand loyalty preferences and customer loyalty* might be a disadvantage to new entrants due to the fact that consumers are often attached to established brands, thus making it difficult for new entrants to break into the market;

- *Capital requirements* for new entrants into the market might be an obstacle: the more capital required, the smaller the pool of would-be entrants will be;
- *Access to distribution channels* may be a hindrance to success due to the fact that a new entrant might not have adequate access to consumers;
- *Regulatory policies* birthed by government agencies might limit or even bar entry in that licences and permits are required;
- *Tariffs and international trade restrictions* by national governments are commonly used to raise entry barriers for foreign firms and protect domestic producers from foreign competition; and
- *Miscellaneous barriers* such as technology patents and raw materials monopoly can also act as barriers to entry.

Whether an industry's entry barriers are considered too low or too high depends on the resources and competencies possessed by the pool of potential entrants. Thus, the new entrant's individual circumstances and characteristics will dictate to a great extent how high or low the barriers (if any) will be in the industry of choice.

In evaluating the potential threat of entry, Thompson *et al.* (2001:86) present the following methodology:

- Firstly, look at *how formidable the entry barriers are for each type of entrant*, i.e. for start-up enterprises, candidate companies in other industries that are already well established in one market segment or geographic area that may possess the resources, competencies and competitive capabilities to hurdle the barriers of entry into a new market segment or geographic area and current market peers looking to expand their market share.
- Secondly, the developer should entertain the idea of *how attractive profit prospects are for potential entrants*. High profit potential acts as a magnet to firms outside the task environment, thus motivating entrants to commit the resources needed to overcome entry barriers. The reaction of incumbent firms needs to be taken into consideration with regard to the entry of newcomers. Will incumbent firms offer only passive resistance or will clear signals be sent out to warn that they will defend their territory? Financially strong incumbent firms have the capability, and will exercise that capability, to make it difficult for

new firms to enter the market. (They will use price cuts, increased advertising, product improvements, etc. as weapons in their battle to protect market share and long-term profitability.)

- Finally, the level of possible resistance should be assessed in order to judge if the risk of entry into a new market will be worthwhile in terms of possible return on investment and payoff in terms of resources ventured in this enterprise (Thompson *et al.*, 2001:87). The best test to gauge whether potential entry is a weak or strong competitive force in the task environment is to ask if the industry's growth and profit prospects are attractive enough to induce additional entry. The threat of entry changes as the industry's prospects grow brighter and dimmer, thus inducing barriers to entry to react in kind. The developer in the affordable housing sector should therefore be constantly in touch with market potential to gauge the threat of new entrants. The same goes for many a potential entrant; keep in touch with market conditions to gauge the best possible time for entry.

3. Competitive pressures from substitute products:

Organisations from one industry are quite often in close competition with firms in another industry due to the fact that their respective products and / or services are good substitutes (Thompson *et al.*, 2001:87). The strength of substitute goods as a competitive force depends on the following:

- Whether attractively priced substitutes are available;
- Whether consumers view the substitutes as being satisfactory in terms of quality, performance and other relevant attributes; and
- Whether consumers are able to switch to substitutes easily.

Miller *et al.* (1996:68) postulate that the availability of substitute products and / or services creates competitive pressure by placing a ceiling on the prices that an industry can charge for its products without giving consumers an incentive to switch to substitutes – thus risking sales erosion. This price limit / ceiling puts a lid on profits that market peers can earn in the industry unless they find ways to cut input costs by for example using substitutes in the manufacturing process (Shrivastava, 1994:56).

The pressure from substitute products and / or services affects industry competition and profitability. In the event of substitutes being cheaper than the industry's products, industry peers come under heavy competitive pressure to reduce their prices and to find ways to absorb price cuts with cost reductions. The availability of substitutes inevitably invites consumers to compare product attributes such as quality, features, performance, ease of use and price in order to make their choice in exercising their consumerism. Thus, competition from substitutes pushes industry participants to heighten efforts to convince customers that their products possess certain attributes superior to those of substitutes (Thompson *et al.*, 2001:88).

Thompson *et al.* (2001:88) postulate that the ease or cost associated with switching to substitutes by consumers is another determinant in the intensity of competition. Obviously the higher the degree of effort required and the higher the cost associated with the switch, the less chance there will be for such a switch to occur. Should the cost and effort required be high, sellers of substitutes will have to offer some kind of incentive to entice consumers to purchase their products. "Incentives" often include a major cost or performance benefit in order to entice the industry's consumers away. Pearce *et al.* (1988:134) further go to show that products and / or services that are the most deserving of attention are those that are subject to trends improving their price-performance trade-off and/or that are produced in task environments subject to high profits. In general one could thus say that the lower the price of substitutes, the higher the quality and performance thereof; and the lower the user's switching costs, the more intense the competitive pressures will be posed by substitutes as a result of the summation of the influence exerted by the aforementioned factors (Thompson *et al.*, 2001:88).

Indicators that an organisation in any given industry / task environment might consider in determining the threat that substitute products pose to their industry are: the rate at which their sales and profits are growing, the market inroads that they are making, and the plans of substitute producers to expand production capacity (Thompson *et al.*, 2001:88).

4. Competitive pressure from supplier bargaining power and supplier – seller collaboration:

Thompson *et al.* (2001:88) hold that whether the supplier-seller relationships represent a weak or a strong competitive force depends on:

- Whether suppliers can exercise sufficient bargaining power to influence the terms and conditions of supply in their favour; and
- The extent of the supplier-seller collaboration in the industry.

Pearce *et al.* (1988:131) show that a supplier group may be powerful if subjected to the following conditions:

- Dominance is obtained by a few organisations / businesses and is inherently more concentrated than the industry / task environment that it sells to;
- Its products and / or services are unique or at least differentiated and / or has incurred switching costs, i.e. fixed costs that a buyer faces when suppliers are changed;
- There is no noticeable competition from substitute products and / or services in the relevant industry;
- A definite threat is being posed of forward integration into the business of the industry / task environment that the supplier in question serves; and
- The industry / task environment is not of great importance to the supplier group in terms of being an important customer.

Thompson *et al.* (2001:89) further show that supplier bargaining power is subject to certain conditions that promote or do not promote pressure that is conducive to competitive conditions and are as follows:

- Suppliers have little or no bargaining power or leverage over rivals when the items that they provide are commodities that are readily available on the open market and when numerous other firms have the capacity to fill the orders;
- Commodity product suppliers have market power only when supplies become so scarce that users are anxious to secure the availability of the supplies in question that they will agree to terms more favourable to suppliers;
- Suppliers are likewise subjected to a weaker bargaining position whenever good substitute products for their product are to be found and when the effort and cost associated with the

switch is so low that the users of the product feel that it is worth their while to exercise their consumerism in favour of the suppliers of substitute items;

- Suppliers tend to have less leverage to bargain over price and other terms when the consumer is a major customer. This is due to the fact that the well-being of the supplier is closely tied to that of their major customers. The supplier has an incentive to ensure that its customer's competitive position is maintained and, where possible, enhanced through reasonable prices, exceptional quality and ongoing advances in the technology of the items supplied;
- The opposite is also true: many organisations have little or no bargaining power with major suppliers. When suppliers provide an item that accounts for a sizable portion of the cost of an industry's product and it is crucial in the industry's production process or significantly affects the quality of the industry's product, suppliers have considerable influence in the competitive process;
- Suppliers possess more bargaining leverage when it is more costly and difficult for users to switch to alternate suppliers;
- Suppliers that are big players in the industry, that have good reputations and growing demand for their output, are harder to be subjected to concessions than suppliers striving to broaden their customer base or with excess production capacity that needs to be filled;
- When it is cheaper to obtain a component from a supplier than to have it made by industry peers themselves, the bargaining leverage of the supplier tends to be of a more powerful nature. The bargaining power of the supplier tends to stay strong until economics of scale dictates that the user of the product utilise backward integration to manufacture the product themselves due to the sheer volume of the product required. The more tangible the threat of backward integration, the more bargaining power the user of the product has in terms of negotiating favourable terms; and
- In the event of the supplier not being able to provide industry members with high or consistent quality, the profits, reputation and competitive position of the industry peers are adversely affected and the bargaining position of the supplier is jeopardised. The warranty and defective goods cost of the industry members are increased and once again terms might be negotiated to the detriment of the supplier but in favour of the user, indicating that an issue is at hand that needs to be remedied.

Collaborative partnerships between sellers and suppliers can create competitive pressures in that more and more industries rival sellers are electing to form strategic partnerships and close working relations with select suppliers in order to:

- Promote just-in-time deliveries that reduce inventory and logistics costs;
- Speed up the availability of next-generation components;
- Enhance the quality of the parts and components being supplied and reduce defect rates; and
- Reduce the supplier's costs that pave the way to lower unit costs on items supplied (Thompson *et al.*, 2001:90).

These benefits may translate into competitive advantage(s) for the developer in the affordable housing sector that does the best job at managing supply chain relationships and form collaborative relationships with suppliers (Thompson *et al.*, 2001:90).

5. Competitive pressures stemming from buyer bargaining power and seller – buyer collaboration:

Thompson *et al.* (2001:90) hold that the intensity of seller-buyer relationships as a competitive force is subject to the following:

- Whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favour; and
- The extent and competitive importance of seller-buyer strategic partnerships in the industry.

Pearce *et al.* (1988:131) show that a buyer bargaining power may be a force to be reckoned with should the following transpire:

- The buyer is a concentrated entity or purchases in large volumes. This comes to the fore especially when the affected industry / task environment is characterised by high fixed costs;
- The products and / or services being purchased are standard or undifferentiated in nature thus making it easy to procure elsewhere. This then sets the stage for the buyer in

question to play the one supplier off against the other in order to get the best possible price on the item in question;

- The products and / or services being purchased from the relevant industry form a component of its product and a significant portion of its costs. High component costs are likely to cause buyers to shop around for the best deal in terms of the item in question;
- The buyer earns low profits in the relevant task environment, thus creating a big incentive to lower input costs by lowering its purchasing costs;
- The product and / or service being purchased as an input component is unimportant to the quality of the buyer's product that eventually gets delivered to the end user by the buyer in question. This might give birth to the situation where the buyer is price sensitive – especially when he seeks to lower input costs;
- If the industry's products that form part of the buyer's input component do not save the buyer in question any money. Where the product and / or service in question can pay for itself, a buyer is rarely price sensitive and would consequently be interested in quality, thus seeking the best deal in terms of quality;
- Buyers pose a credible threat of integrating backwards to make the industry's product that forms part of their input components themselves. This might be in terms of possible savings in input costs and quality standards that the industry supplying these components is unable to meet; and
- Miller *et al.* (1996:680) add that if a buyer has accurate information about the cost structures of the supplier, the buyer in question has the ability to exercise better control when negotiating prices with suppliers.

Buyers that buy infrequently or in small quantities, coupled with high costs in switching brands, typically have little bargaining leverage. High switching costs keep a buyer locked to a present brand and not all buyers of an industry's products have equal degrees of bargaining power with sellers. Some may be more sensitive than others to price, quality or service differences among competing sellers (Thompson *et al.*, 2001:92).

The developer in the affordable housing should be sensitive to these nuances. Applying this knowledge will stand to benefit the developer in that informed decisions might assist the developer in procuring goods and / or services at the best possible price.

Thompson *et al.* (2001:92) hold that the strategic significance of the five competitive forces in the task environment comes to the fore in that it exposes the true nature of competition in any given market in terms of the following:

- The stronger the collective impact of the competitive forces, the lower the combined profitability of the market peers in the relative task environment; and
- To contend successfully, the developer in the affordable housing sector must craft strategies that shield the organisation as much as possible from the five forces and that might ultimately lend itself to being a sustainable competitive advantage (that may be to the benefit of the developer and all stakeholders associated with the developer).

5.2. Step 2: Conducting a SWOT Analysis

The next step would be to embark on a **SWOT analysis**. Maya (2001:52) holds that SWOT is an acronym for strengths, weaknesses, opportunities, and threats. It is a method used to evaluate an organisation's internal strengths and weaknesses, as well as to identify any external opportunities or threats that may impact business operations.

Kroon (1990:177) shows that a SWOT analysis aids comparison of the organisation's opportunities, threats, strengths and weaknesses in a systematic analysis of all the organisation's activities. Within the parameters of the organisation's mission, goals, social responsibilities, expectations of role-players (interest groups) and policy, priority is allocated to all alternatives. When the most important opportunities, threats, strengths and weaknesses, as depicted in figure 2.2, have been ranked in terms of priority, a strategy will be chosen that best capitalises the organisation's competitive advantage (strengths) to exploit any opportunity that presents itself. At the same time the strategy will aim at overcoming threats and weaknesses that present themselves in the task environment and ultimately indicating how threats may be turned into opportunities that the organisation may capitalise upon in the near future.

Opportunities: • Uncultivated market (segment); • Technological change; • Market segment that is growing at a fast pace; • Demand for a product line or item; • Diversification; • Diminishing amount of competitors in the task environment.	Threats: • Entry of new competitors to the task environment; • Economic recession; • Technological changes; • Change in consumer demand (tastes); • Demographic changes; • Shrinking markets.
Strengths: • Good and sound management; • Knowledgeable personnel; • Market leader; • Economics of scale; • Advanced technology; • Quality products; • Price competitiveness.	Weaknesses: • Weak financial position; • Absence of clear strategy; • Outdated production techniques; • Insufficient research and development; • Insufficient stock control; • Weak organisation image; • Insufficient marketing know-how.

Figure 2.2: Important considerations for compiling a SWOT analysis (Source – Kroon, 1990: 178)

A SWOT analysis is based on the premise that strategy-making efforts must aim at producing a good fit between an organisation's resource capability – in terms of the balance between resource strengths and weaknesses – and its external situation – in terms of the industry's competitive conditions, the organisation's own market opportunities and specific threats to the organisation's profitability and market standing (Thompson *et al.*, 2001:117). *For the developer in the affordable housing sector to measure his / her organisation's strengths and weaknesses and its external opportunities and threats in terms of a SWOT analysis, a good overview will be gained whether or not the organisation's business position is fundamentally healthy.*

In order to grasp the significance of a SWOT analysis, one needs to understand what each of the quadrants in the SWOT matrix represents. Knowing the basic meaning of the word is not enough.

Based on the perspective that Pearce *et al.* (1988:292) offer on the subject, the following in-depth investigation on the subject should aid the reader in grasping the significance thereof:

- **Opportunities:**

Represents a favourable situation in the organisation's environment that may be exploited to the benefit of the organisation and all stakeholders (Pearce *et al.*, 1988:292). This is quite an important factor in shaping a company's strategy in that a manager can't properly tailor strategy to an organisation's situation without first identifying each organisation opportunity and appraising the growth and profit potential that each holds (Thompson *et al.*, 2001:125).

Depending on the prevailing circumstances, an organisation's opportunities may be plentiful or not – and may range from extremely attractive to marginally interesting on the attractiveness scale. In evaluating opportunities, managers should be careful not to view every industry opportunity as an organisation opportunity due to the fact that not all organisations within the industry are equipped in terms of resources to successfully pursue every opportunity in the industry (Thompson *et al.*, 2001:125).

The significance for the developer in the affordable housing sector is that market opportunities most relevant to an organisation are those that offer avenues for profitable growth, those that lend themselves best to the potential of competitive advantage within the origination and those that match up best with the organisation's financial and resource capabilities. The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

- **Threats:**

Represents a major unfavourable situation in the organisation's environment that is a key impediment in the organisation's current and / or desired future position (Pearce *et al.*, 1988:292). The entrance of a new competitor, slow market growth, increased bargaining power of key buyers and suppliers and major technological change are some of the factors that could threaten an organisation's future success (see figure 2.2).

Thompson *et al.* (2001:127) further show that threats might pose no more than a modest degree of adversity or they may be so imposing as to make an organisation's position and outlook quite tenuous on the intensity scale. It is management's job to identify threats to the organisation's future well - being and to evaluate the strategic alternatives that will best neutralise or lessen the impact thereof.

The significance for the developer in the affordable housing sector is that the ability to understand the key opportunities and treats that face an organisation will enable the developer to identify realistic options from which to choose the most appropriate strategy. This understanding will enable the developer to find the most effective niche in the market. Tailoring strategy to an organisation's situation entails pursuing market opportunities well suited to the organisation's resource capabilities and taking action that will defend the organisation against threats to its business. The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

- **Strengths:**

Represents a resource, skill or other advantage relative to market peers and the needs of markets that an organisation serves or anticipates serving. Strength is thus a distinctive competence that gives the organisation a competitive advantage in the marketplace that may be capitalised upon in the task environment against market peers. Financial resources, image, market leadership and buyer / supplier relationships are amongst many, as depicted in figure 2.2 (Pearce *et al.*, 1988:293). A strength may come in many guises and is depicted as follows by Thompson *et al.* (2001:117):

- *A skill or important expertise:* Low-cost manufacturing capabilities, strong e-commerce expertise, technological know-how, proven track record in defect free manufacture, expertise in providing consistently good customer service, excellent mass merchandising skills or unique advertising and promotional talents are among many skills and / or expertise that a organisation may capitalise upon as competitive advantage;
- *Valuable physical assets:* State-of-the-art plants and equipment, attractive real-estate locations, worldwide distribution faculties, ownership of valuable natural resources, cutting-edge computer networks and information systems, or sizeable amounts of cash and

marketable securities are amongst many assets that an organisation may capitalise upon as competitive advantage;

- *Valuable human assets:* An experienced and capable workforce, talented employees in key areas, motivated and energetic employees, cutting edge knowledge and intellectual capital, astute entrepreneurship and managerial know-how, or the collective learning embedded in the organisation and built up over time are among the human assets that an organisation may capitalise upon as competitive advantage;
- *Valuable organisation assets:* Proven quality control systems, propriety technology, key patents, mineral rights, a base of loyal customers, strong balance sheet and credit rating, cutting edge supply chain management systems, a well functioned company intranet are among the organisation assets that a organisation may capitalise upon as competitive advantage;
- *Valuable intangible assets:* Brand name image, company reputation, buyer goodwill or a motivated and energised and motivated workforce are among the intangible assets that an organisation may capitalise upon as competitive advantage;
- *Competitive capabilities:* Short development time in bringing new products to the market, strong dealer network, strong partnership with key suppliers, R&D organisation with the ability to keep an organisation's pipeline full of innovative new products, high degree of organisational ability in responding to shifting market conditions and emerging opportunities, state-of-the-art systems for doing business over the internet are among the competitive capabilities that a organisation may capitalise upon as competitive advantage;
- *An achievement or attribute that puts the company in a position of market advantage:* Low overall costs, market share leadership, superior product, wide product election, strong name recognition, state-of-the-art e-commerce technologies and practices or exceptional customer service are among the attributes or achievements that a organisation may capitalise upon as competitive advantage; and
- *Alliances or cooperative ventures:* Fruitful collaborative partnerships with suppliers and marketing allies that enhance the organisation's own competitiveness are among the ventures that an organisation may capitalise upon as competitive advantage.

The implication for the developer in the affordable housing sector is that strengths have diverse origins that (when taken together) determine the complement of resources with which they compete. The calibre of these resources and the degree of ability to mobilise them in a manner calculated to result in a competitive advantage are by far the biggest determinants of how successful the organisation will perform in the light of current industry and competitive conditions. The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

- **Weaknesses:**

Represents a limitation or deficiency in resources, skills and capabilities that seriously impede organisation performance (Pearce *et al.*, 1988:293). An organisation's internal weaknesses may be attributed to:

- Deficiencies in competitively important skills or expertise or intellectual capital of one kind or another;
- Lack of competitively important physical, organisational or intangible assets; and
- Missing or weak capabilities in key areas (Thompson *et al.*, 2001:120).

Marx *et al.* (1998:776) show that the weaknesses of any given organisation are mostly internal issues that are determined by the environment in which they operate, i.e. the industry or task environment. This thought is echoed by Thompson *et al.* (2001:120) who show that internal weaknesses are the result of shortcomings in the organisation's complement of resources. A weakness may or may not have the ability to competitively cripple an organisation – depending on the importance of the weakness in the task environment and whether it could be counteracted by the resources and strengths at the organisation's disposal. Determining the organisation's complement of resource strengths and weaknesses is like compiling a strategic balance sheet where resource strengths represent competitive assets and resource weaknesses represent competitive liabilities.

The ideal situation is obviously where the organisation's strengths / competitive assets outweigh the weaknesses / competitive liabilities by an acceptable margin. A 50/50 balance is obviously unacceptable seeing that it allows the organisation to (barely) survive but does not enable it to

compete in the task environment on even footing with market peers. Once organisation resource strengths and weaknesses have been identified, the two compilations have to be carefully evaluated regarding their competitive value and strategy making implications (Thompson *et al.*, 2001:120).

The implication for the developer in the affordable housing sector is that some resource strengths and competencies are competitively more important than others, seeing that they add greater value to the organisation's strategy, strong market position or profitability. Organisation weaknesses are not to be overlooked: some may prove fatal if not remedied. The influence of some weaknesses might be so trivial that they are inconsequential, easily corrected or offset by organisation strengths. Organisation resource weaknesses suggest that the resource base might be renewed and answers to the following questions might be sought:

- *What existing resource deficiencies need to be rectified?*
- *Does the organisation have important resource gaps that need to be filled?*
- *What needs to be done to augment the organisation's resource base?*

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

5.3. Step 3: Identifying Organisation Competencies and Competitive Capability

In order to be truly competitive in the task environment, an organisation must go beyond the basic understanding of what a strength is (as depicted in Porter's five forces model). True organisation competencies and capabilities need to be identified and capitalised upon in the organisation's never-ending battle in the task environment. Thompson *et al.*, (2001:120) hold that the identification and assessment of what an organisation excels in and what capabilities it has that enable it to compete in the given task environment in which it operates are important factors in assessing an organisation's situation.

Kreitner *et al.* (1998:139) hold that the concept of competencies encompasses more than abilities and skills. It includes "cluster of knowledge, attitudes and skills needed to perform various jobs". This concept is further elaborated upon by Thompson *et al.* (2001:120) who identify an

organisation competence as nearly always the product of experience representing the sum total of learning and the build-up of real proficiency over time. Competencies are the result of premeditated effort in that they are built, developed and nurtured over time, instead of being the result of an unconscious evolution. An organisation competence originates from deliberate efforts to develop the organisational ability to do something, however imperfectly or inefficiently. These efforts entail selecting people with the required knowledge and skills, upgrading and expanding individual abilities as needed, then moulding the synergetic summation of the knowledge and ability pool into a cooperative whole that stands to benefit the organisation and all role-players. As experience builds, the organisation in question will reach a level where the activity will be performed consistently well at an acceptable cost as to translate itself into true competence. Organisation competencies usually amount to "bundles of skills, know-how, resources and technologies as opposed to a single discrete skill, resource or technology".

Hitt *et al.* (1999:112) show that one of the characteristics of an organisation's core competence is that it tends to become more valuable with increased use. This is due to the fact that it is largely knowledge based in that knowledge is shared across people, jobs and organisational functions. This every so often results in the expansion of knowledge in competitively relevant ways. The value of core competencies should never be taken for granted; neither should the assumption be made that the competitive advantage that a core competence provides will last forever. The reason for this warning is that a core competence may give birth to "core rigidity" where a factor that is now a core competence becomes a liability due to the fact that it evolves into a weakness. Where the factor in question used to be a source of competitive advantage, it is now a weakness due to the fact that – if emphasised when it is no longer relevant – it gives rise to organisational apathy.

Thompson *et al.* (2001:121) hold that an organisational competence becomes a meaningful competence when consumers deem the competence to be valuable and beneficial, when it helps to differentiate the organisation from market peers and when it enhances competitiveness. It should be noted that not all competitive capabilities are equal in that some might only aid survival due to the fact that they are common to most market peers. For a competence to be truly able to change the base of competition, they need to be unique, proprietary and able to deliver tremendous value to the customer. An organisation is essentially a culmination of capabilities;

some are so entangled with others that they are not easy to distinguish whereas others are stronger and more competitively valuable.

As mentioned previously, core competencies are paramount for an organisation's ability to compete in the task environment and have the following significance to any organisation as depicted by Thompson *et al.* (2001:122):

- **Core competencies are a valuable organisation resource:** One of the most valuable resources that any organisation can possess is the ability to perform a competitively relevant activity very well. An activity that an organisation performs better than other competitively important internal activities that are central to an organisation's competitiveness and profitability is termed a core competence. The competence in question may relate to any of several aspects of its business such as client service, skills in manufacturing high quality products, etc. An organisation may have more than one core competence in its portfolio, but is seldom that an organisation can lay claim to two or three core competencies. In essence it may be said that a core competence gives an organisation competitive capability and thus qualifies to be labelled a certified company strength and resource. Often an organisation's core competencies reside in its people and its intellectual capital and not in its assets as listed in the balance sheet. Core competencies tend to be listed in cooperation between various departments that fulfil the various functions within an organisation in terms of skills, resources and technologies. Knowledge and intellectual capital – more than physical assets and tangible organisational resources – are the key ingredients of a core competency and an organisation's competitive capability; and
- **Distinctive competencies are a superior organisation resource:** Thompson *et al.* (2001:122) hold that the question of whether an organisation's core competencies represent a distinctive competency depends on how good the competence is in relation to what market peers are capable of. Is the competence competitively superior to that of market peers or is the competence a core competence in that the activity is done better than other internal competitively internal activities? A core competence only becomes a basis for competitive advantage when it is a distinctive competence. The importance of a distinctive competence to the strategy making process is that:

- It gives the organisation valuable competitive capability;
- It has inherent potential for being the cornerstone of strategy; and
- It possesses the ability to produce a competitive edge in the task environment.

Distinctive competencies are therefore the mainspring of an organisation's success if more powerful resources of market peers in the task environment do not counteract them.

In **determining the competitive value of an organisation resource** it should be kept in mind that no two organisations are identical in terms of their resources (Thompson *et al.*, 2001:123). As is the case with people they are unique in their skill sets, assets, competitive capabilities or market achievements, a predisposition that is the result of different organisation strengths and weaknesses. Differences in organisation resources account for the fact that some organisations are more profitable and competitively successful than others. An organisation is more likely to succeed when it has access to appropriate and ample resources. Shrivastava (1994: 90) holds that these resources in question should provide unique ways to reduce costs, achieve efficiencies and capture market share, thus adding to the competitive resource advantage of the organisation in question. (Thompson *et al.* 2001:124) hold that for a specific organisation resource to qualify as the basis for sustainable competitive advantage, it should adhere to the following criteria:

- **Resource should be hard to copy:** The more difficult and expensive it is to copy a resource, the greater the potential for competitive value;
- **Life span of the resource:** The longer the resource lasts, the greater its competitive value;
- **Competitive superiority of the resource:** Organisations should guard against unconditionally believing that their resource that is currently being utilised as competitive advantage is the best. There is no guarantee for this and a market peer might possess a superior resource able to counteract the competitive advantage of the organisation in question; and
- **Resource resistance to the different resources / capabilities of market peers:** For a resource to be resistant to the competitive onslaught of market peers in the task environment, it should be able to counteract / resist said advances.

The vast majority of organisations are not well endowed with competitively valuable resources, much less competitively superior resources that fit the criteria listed above (Thompson *et al.*, 2001:124). Most organisations have a mixed portfolio of resources ranging from one or two are quite valuable, some that are good and many that are satisfactory to mediocre. Few companies, usually the market leader or up and coming challengers in the task environment possess a competitively superior resource. Nearly all organisations have competitive liabilities that may be labelled internal weaknesses due to resource, expertise and capability deficiencies.

Shrivastava (1994:90) also shows that organisations may use internal characteristics to create a competitive advantage by means of the following:

- Pre-emptive moves by being the first mover in a particular industry / task environment;
- Product leadership in being the first organisation in the relevant task environment to introduce a new product or differentiated products to the consumer public;
- Patents and technology by means of getting a patent over new technology in a specific industry / task environment;
- Cost containments in being able to contain input costs, thereby establishing advantageous cost position; and
- Financial structuring in being different from the market norm in structuring the inherent financial structures of the organisation in question.

The relevance for the top structure developer in the affordable housing sector is that a single factor or a combination of factors should be used in line with the following guidelines:

- *Be the first to market that unique product and / or service that captivates the attention of consumers;*
- *Cut costs where possible by conducting an audit on all cost structures to establish an input cost advantage; and*
- *Financial structures within the traditional top structure developer organisation should be reassessed in order to find new methodologies that lend themselves to creating competitive advantages.*

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

It comes to mind that not all organisations have access to competitively superior resources, the required strengths and resources around which to craft a unique strategy, or the knowledge to select the competencies on which to concentrate. The significance for the developer in the affordable housing sector, based on the insights of Thompson *et al.* (2001:124), is that:

- **All is not lost if an organisation does not possess a competitively superior resource.**
The potential for competitive advantage is not lost due to the fact that the organisation in question might utilise a portfolio of good to mediocre resources with the ability to jointly give the organisation a significant competitive vitality. It might even grant the organisation a competitive advantage in the task environment;
- **Strategy needs to be matched to the organisation's strengths and resources.** *Should the organisation not have adequate resources and competitive capabilities around which to craft an attractive strategy, decisive remedial action should be taken to upgrade existing organisational resources and capabilities, to add others as needed and to correct competitive weaknesses that make the organisation vulnerable, hold down profitability or disqualifies it from an attractive opportunity. The developer in the affordable housing sector should build strategies around exploiting and leveraging organisation capabilities and avoid strategies that place heavy demands on areas where the organisation is at its weakest or has unproven ability. Its should further be noted that a distinctive competence or other competitively superior resource will be eroded due to the passage of time and competition, so attention should be paid to building a strong resource base for the future and to maintaining the competitive superiority of an existing competitive competence; and*
- **In selecting the competencies that should be concentrated on,** *developers in the affordable housing sector should concentrate on those factors that their consumers value more than that of their rivals. For an organisation to succeed in the competitive task environment over time, the essence of astute strategy making is the ability to select the competencies and capabilities to concentrate on and to use said factors in underpinning the strategy. Often the organisation has existing competitively valuable competencies and capabilities in place and sometimes it has to be proactive in developing and implementing new competencies to complement and strengthen its existing resource base. From time to time the desired competencies and capabilities need to be developed internally and*

sometimes have to be acquired through partnerships or strategic alliances with organisations possessing the required expertise. Time and circumstance will dictate which alternative to pursue.

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion

5.4. Step 4: Determining the Task Environment's Driving Forces

The economic features and competitive structure of a task environment say a lot about its fundamental character but give little insight, if any, into ways in which it might be changing. All industries / task environments are characterised by trends and new developments that initiate change from being gradual on the one side of the spectrum to being quite quick in the time that is associated with the change in question on the other side of the spectrum. These changes might be so profound as to warrant strategic response from market peers in the relevant task environment. The popular approach of explaining the changes that an industry goes through in terms of the life-cycle metaphor (where terms such as rapid growth, early maturity, saturation and decline are used to describe the stages) helps to explain industry change but does not address all causes of industry / task environment change (Thompson *et al.*, 2001:93).

The **concept of driving forces** in the task environment comes to the fore in that industry conditions change because important forces are driving industry participants (market peers, customers or suppliers) to alter their actions. The driving forces are the major underlying causes of changing industry and competitive conditions (Thompson *et al.*, 2001:93). While it is important to judge in which growth stage an industry finds itself, there is more analytical value in identifying the specific factors that cause fundamental industry / task environment and competitive adjustments. These conditions change due to the fact that forces are in motion which create incentives or pressures for change. The most dominant of these forces are the so-called driving forces.

Driving force analysis consists of two phases: the driving forces need to be identified and their impact on the industry / task environment must be assessed (Thompson *et al.*, 2001: 94).

The Identification of Industry / Task Environment Driving Forces Phase

- *The Internet and e-business:* The birth of the Internet has given rise to opportunities and threats that alters the parameters of commerce as we know it. New and different kinds of businesses come into being that challenges popular perceptions of business practice that mandates change in the task environment;
- *The global village and the industry / task environment:* Industries / task environments move toward globalisation for one of several reasons:
 - Prominent international organisations may launch hostile long-term strategies to become globally dominant in a given task environment;
 - The demand for a specific task environment's product and / or service might be on the increase in various countries;
 - Governments might decide to lift trade barriers and open up markets to foreign concerns that used to be kept out by the measures in question;
 - Economies of scale on a international basis may be available to organisations as opposed to economies of scale on a national basis;
 - International organisations with the ability to transfer their production, marketing and management expertise from country to country at very low cost can sometimes gain a significant competitive advantage over local competitors.

This results in global competition shifting the patterns of competition among the players in an industry / task environment, favouring some and placing others at a disadvantage.

Globalisation is most likely to be a driving force:

- Where economics of scale demand international exposure to be effective;
- Where low-cost production is a critical consideration in that it is imperative to locate production facilities in countries where the lowest cost can be achieved;
- Where organisations with global aspirations aspire to make its presence known in as many attractive country markets as possible;
- Where governments are privatising once state-owned enterprises and opening their once closed markets to the global village, i.e. competition, and
- Where crucial natural resources and raw material supplies are spread all over the world.

- *Shifts in the long-term growth rate of the task environment:* Shifts in the growth rate (up or down) are a driving force in industry / task environment change that affects the equilibrium between supply and demand, entry and exit and the nature and potency of the competition;
- *Changes in consumer demographics and the way it which the product and / or service is utilised:* Changes in consumer demographics and the ways in which a product is used may alter the circumstances of rivalry in the task environment by initiating changes in the portfolio services that a organisation offers a client in terms of credit, technical assistance, maintenance and repair. This facilitates the marketing of a task environment's products and / or services through a mixture of dealerships and retail outlets and encouraging organisations to adjust the spectrum of their product offerings (extending or restricting). This is dictated by circumstances that pave the way for future developments thus bringing different marketing methodologies into the equation;
- *Product advances:* Product advances or innovations have the ability to alter the rivalry (competition) structure within a given task environment. This is accomplished by the expansion of a task environment's consumer base, revitalisation of industry growth and the amplification of the level of product differentiation between rivals in the given task environment. The successful introduction of new products in a given task environment reinforces the competitive position of the innovating organisations. This usually comes at the expense of those organisations that stick with their old products or are too slow to follow with their own versions of the new products;
- *Technological transformation:* Transformation in technology that comes in the guise of advances has the ability to alter circumstances in the task environment. This lends itself to facilitating the production of fresh and improved products at lower cost and it opens up new opportunities in the relevant industry / task environment;
- *Marketing methodologies:* When organisations are successful in introducing new marketing methodologies to market their products, renewed interest may be sparked that increases consumer demand, increases product differentiation and lowers unit costs. This may contribute to altering the competitive position of organisations in the task environment, but this is however not guaranteed;

- *The entrance and exit of major players in the task environment:* When one or more foreign or major organisations from another task environment enters a industry that has up to now been dominated by domestic organisations, competitive conditions in the market is almost surely to be severely influenced. The opposite also holds true, when a major contender exists the market a rush is initiated to capture the market share of the exiting concern;
- *Dispersal of technical expertise:* During the last couple of years, the transfer of technology across national boundaries has lend itself to being one of the major driving forces in the global village. As organisations across the world have gained access to technology, they have improved their manufacturing capabilities in order to compete on a equal footing with established organisations over the long term;
- *Efficiency and input costs:* The widening and shrinking differences in the input costs and efficiency among key rivals tend to significantly alter the state of competition in the task environment;
- *Mounting consumer preferences for differentiated products instead of commodity products:* Increased demand for differentiated products instead of commodity products is initiated by sellers that win a bigger and more loyal consumer base by offering custom-made products, introduction of new features in their products, style changes, offering options and accessories and changing the image of the product through changes in the packaging and marketing methodologies. When this shift occurs, the driver of change is the rivalry in the relevant task environment in the arena of differentiation. The opposite is also true, consumers might want a "budget" product therefore opting for a more standardised product. Rivalry in the task environment is thus partly driven by a increase or decrease in product differentiation;
- *Shifting societal concerns, mindsets and way of life:* Up -and-coming social concerns, changing mindsets and way of life may act as commanding initiators of change in the task environment. This usually alter the pattern of rivalry in favour of those that respond quickly and creatively with products and / or services targeted at the new trends and conditions;
- *The influence of regulatory and governmental bodies:* Changes in government regulatory actions may force significant changes in industry / task environment practices and strategic approaches. This change has manifested itself in the domestic arena in a proscriptive and regulatory way and in the international arena through host governments driving competitive

forces by opening domestic markets to foreign participation or closing them to protect domestic organisations / business concerns;

- *Decrease in ambiguity and risk associated with commerce:* Budding industries / task environments are often characterised by untried cost structures, ambiguity about the potential of market size, time and money needed to overcome technological problems and what distribution and consumer sector to emphasise. Budding industries / task environments tend to attract only risk-taking entrepreneurial concerns. Over time, however, as the commerce model of industry founders proves to be profitable and market demand for the product / service in question proves to be resilient, more conservative minded business concerns (would-be market peers) are usually enticed to enter the task environment. These late-comers are often large financially strong concerns that are on the lookout for investment opportunities with attractive growth prospects. The same holds true for the international arena, i.e. for organisations wishing to participate in the global market.

Determining the forces that drive the affordable housing sector is of key importance to a top structure developer. Knowledge of these forces will assist the developer in question to determine which factors is likely to present itself as a threat or opportunity that needs to be dealt with as such. The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

The Determination of Potential Influence of Industry / Task Environment Driving Forces Phase

The potential influence of the various potential driving forces as listed above demonstrate why it is too simplistic to view industry changes in isolation in terms of the so-called life cycle model. In order to gain full understanding of the dynamics of the situation it is imperative to incorporate all possible factors that might influence the relevant industry / task environment at hand.

It is highly unlikely that all the listed driving forces will be active in driving competitive change in any given industry / task environment. The consequence is thus that the strategic analyst should resist the temptation of labelling everything that might vaguely relate to change as "a major determinant in change". Three or four factors at most might contribute to change and should thus be identified

in order of severity in that the major ones should be separated from the minor ones and should be incorporated as such in strategic planning (Thompson *et al.*, 2001:99).

The developer in the affordable housing sector should have a keen understanding of the affordable housing sector's driving forces seeing that it is a prerequisite for sound strategy making. Without suitable insight into the external forces that will produce the biggest change in the task environment (and, for that matter, the impact on the developer's organisation) in the short to medium term, the developer will be ill-equipped to craft strategies tailored to meet changing conditions head-on. This inability to contend on equal footing with market peers will be to the detriment of the developer in question seeing that he / she will not be equipped to deal with conditions as dictated by circumstance.

A further consideration to contemplate is **incorporating environmental scanning techniques** to determine driving forces in any given task environment. Thompson *et al.* (2001:99) hold that environmental scanning involves "studying and interpreting the sweep of social, economic, ecological and technological events" that give birth to factors that are depicted as driving forces in the task environment, i.e. the "effort to spot budding trends and conditions that could become driving forces".

The purpose of environmental scanning is thus to raise the conscience of managers (*and per se the developer in the affordable housing sector*) to the potential of developments that could have an important influence on the task environment in posing new opportunities or threats. This is accomplished by systematically scanning and studying current events, constructing scenarios and employing the so-called Delphi technique. Kroon (1990:205) holds that the Delphi technique may be utilised to conduct economic forecasts and to anticipate technological innovations and new products and / or services that might be introduced to the consumer public. The appeal of environmental scanning (although speculative in nature) is that:

- It helps to lengthen a strategist's planning horizon;
- It translates indistinct possibilities of future opportunities and threats into clearer strategic issues; and

- It assists the manager in question to think strategically about developments in the surrounding environments (macro-, micro- and task environments).

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

5.5. Step 5: Determining the Organisation's Competitive Position

The next issue that will be attended to is determining the market position of the various market peers in the task environment. This is done by what is known as strategic group mapping (Thompson *et al.*, 2001:100). This is utilised to compare the market positions of each organisation separately or to group them into like positions when the task environment has so many competitors that it is not practical to examine each one in depth.

Shrivastava (1994:62) shows that structural analysis of an industry / task environment includes the underlying assumption that all organisations in a specific task environment are homogeneous in that all structural industry forces have more or less the same effect on all of them and that they inherently compete with each other. The reality is, however, more complex since organisations differ with regard to size, resources, skills, abilities, products and / or services, technologies applied in production, cultures and numerous other attributes. Organisations do not necessarily compete with each other – every task environment has clusters of closely competitive organisations, i.e. strategic groups.

Thompson *et al.* (2001:100) show that strategic groups consist of rival organisations with similar approaches to competition and positions in the relevant task environment. Organisations in the same task environment can resemble one another. The following are examples of such similarities (Shrivastava, 1994:63) and (Miller *et al.*, 1996:73):

- *Characteristics of their products and or services* in that they have similar depth in their product ranges, features, functions, quality and an emphasis on brand identity;

- *Organisational characteristics* in that organisations belonging to strategic groups may display similarities in size, goals and objectives, level of integration among the various departments / divisions of the organisation, and culture;
- Organisations might display similarities in *production methodology* in terms of systems, i.e. applied technology. Size of operations, automation levels, cost structures and degrees of vertical integration;
- *Market characteristics* in that marketing elements of the organisations within a strategic group might be similar. For example with regard to customer segments being served, price ranges, distribution channels utilised and promotional / advertising methodologies;
- The *patterns of ownership* might be similar in that organisations within a industry may serve similar functions within the portfolio of their parent company;
- *Financial aspects* within organisations may display similarities in the degrees of financial management and approaches to financial management;
- *Association with local and / or host governments* in that said affiliation might dictate membership to strategic groups. Policies and regulations of the regimes in question might place differential strategic constraints and grant differential access to resources of strategic importance to various organisations. The similarities imbedded in these factors might establish the strategic group(s) in question;
- *Geographical distribution* that comes into play when looking at the fact that an organisation might be deemed to be regional, national or international; and
- *The profit orientation* of organisations in being either profit or non-profit organisations.

Thompson *et al.* (2001:100) further postulate that on the spectrum of strategic grouping you may find that there is only one group in the sense that they (all industry rivals) pursue fundamentally the same strategic methodologies and have similar positions in the task environment. On the other extreme there might be as many strategic groupings as there are rivals in the market – seeing that each market peer pursues distinctly different competitive approaches and occupies a considerably diverse competitive position in the relevant task environment.

The methodology and recommendations applied in constructing a strategic group map are relatively straightforward as are evident in figure 2.3. Miller *et al.* (1996:73) and Thompson (2001:101) suggest the following steps:

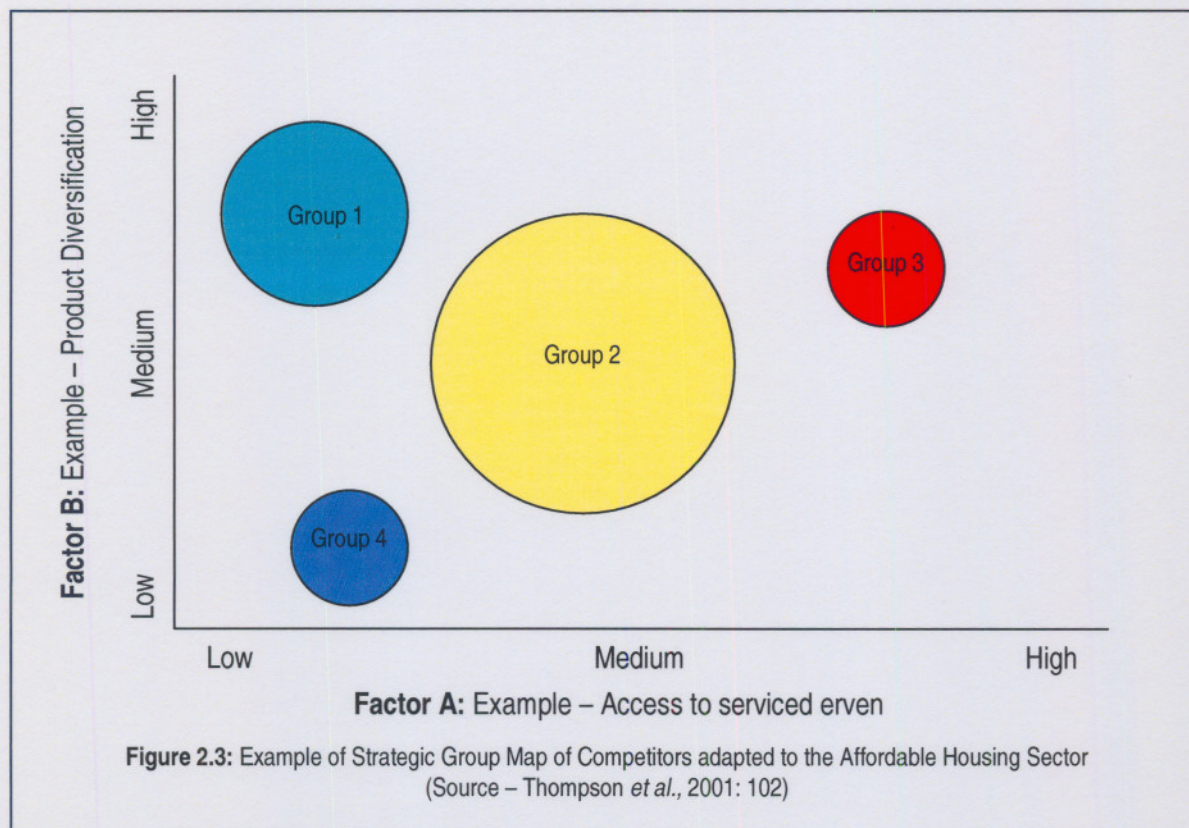
- *Identify the competitive dimensions / characteristics* that differentiate organisations in the relevant task environment. Examples of what may be utilised include profit orientation, geographical distribution, financial aspects, market characteristics, attributes of the product and / or service, production methodology and organisational characteristics. The two selected variables / factors as axes for the map should not be highly correlated, i.e. if they are, the circles on the map will fall along a diagonal and strategists will learn little about the positioning of rivals in the relevant industry / task environment. This would amount to the same insights from considering one of the factors in isolation;
- *Plot the organisations* on two variable maps using pairs of these differentiating characteristics. The factors should expose huge differences in how competitors position themselves to compete in the relevant task environment. Factors do not have to be either quantitative or continuous, i.e. they may be discrete variables or defined in terms of distinct classes and combinations;
- *Assign organisations* that fall in more or less the same strategic space to the same strategic group;
- *Circles should be drawn around each strategic group* by making the circles proportional to the size of the group's respective share of the total industry sales revenue. Drawing the circles on the map in proportion to the summation of sales of the group members to the industry, allows the map to reflect the relative size of each strategic group; and
- If more than two factors exist that can be used as alternative variables (i.e. axes for the map), several maps can be drawn to give different viewpoints, or reference points, to the competitive positioning relationships present in the task environment's structure.

The question to be asked is: "What can be gained from strategic group maps *in terms of application by the developer in the affordable housing sector?*" Thompson *et al.* (2001:101) offer the following insights:

- *Industry driving forces and competitive pressures favouring a limited number of strategic groups to the detriment of others:* This comes to the fore in that firms in adversely affected

strategic groups may try to shift to a more favourably situated group. The effort that will be required to effect such a move will greatly depend on whether entry barriers for the target strategic group are high or low. Attempts by competitors to enter a new strategic group almost always increase competitive pressures;

- *Profit potential for different strategic groups vary due to the strengths and weaknesses in each group's market position:* Differences in profitability may occur due to differing degrees of bargaining leverage or collaboration with customers and/or suppliers, differing degrees of exposure to competition with substitute products outside the industry, differing degrees of competitive rivalry within strategic groups and differing growth rates for the principal buyer segments served by each group; and
- *The closer strategic groups are to each other on the map, the stronger competitive rivalry between the member organisations tends to be:* Although organisations within the same strategic group tend to be closest rivals, the next closest rivals are the immediately adjacent groups.



The value of strategic mapping comes to the fore in that a strategist (top structure developer in the affordable housing sector) will be able to plot the organisation's position in terms of predetermined factors in relation to that of other market peers. This assists the developer in question to identify strengths and weaknesses that have to be addressed as such in the strategic planning process.

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

5.6. Step 6: Determining the Task Environment's Key Success Factors

Key success factors (KSFs) are those aspects that an organisation has to excel at in a specific task environment in order to be able to compete and to ultimately excel in the said environment (Kroon, 1990:175). These factors are determined by means of an environmental audit that gives a comparison between the favourable and unfavourable activities of the most important organisations within a specific task environment.

Marx *et al.* (1998:776) show that a particular industry / task environment asks for certain capabilities, abilities and expertise of organisations competing in it to be taken seriously as rivals. A limited number and range of skills, abilities and expertise are required for profitable survival and growth in the applicable industry. Therefore it is necessary for the organisation to possess these as key success factors. Thompson *et al.* (2001:106) hold that KSFs are factors such as strategy elements, product attributes, resources, competencies, competitive abilities and business outcomes. This signifies the difference between profit and loss and ultimately between success and failure in competitive terms within a given industry / task environment. KSFs are so important that all organisations within the relevant task environment must pay close attention to them. See figure 2.4 for a compilation of the most common KSFs.

The basic premise behind the importance of KSFs is the fact that they are the prerequisites for industry success – they determine whether a specific organisation within a given task environment will be financially and competitively successful or not. Thompson *et al.* (2001:106) and Marx *et al.*

(1998:777) further show that there are certain questions that will help to identify a given industry / task environment's KSFs. These are:

- What are the strategic internal and external key factors that have an important influence on the future performance of the organisation?
- Are the present vision, mission and goals adequate and suitable – seen in the light of key strategic factors?
- What is the basis that determines customer preference in terms of competing brands in the marketplace?
- Which product attributes are crucial?
- Which resources and competitive capabilities should an organisation (seller) possess in order to be competitively successful?
- What will it take to grant an organisation (seller) sustainable competitive advantage?

Determining the task environment's KSFs (given the prevailing and anticipated industry and competitive conditions) must be a top priority in analytical consideration (Thompson *et al.*, 2001:108). At the very least managers need to grasp the basic premise behind a KSF in order to know what is more important to competitive success and what factors / issues to omit. The following factors are highlighted and managers should fully appreciate their significance:

- Knowledge of the competitive value of resources;
- Ability to diagnose the industry factors crucial for long-term competitive success in that misdiagnosis greatly increase the possibility of misguided strategy;
- An organisation with a perceptive understanding of industry / task environment KSFs stands to gain a sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than market peers on one or more of these factors; and
- Being better at one or more KSF as cornerstone of an organisation's strategy forms a fruitful competitive strategic approach that lends itself to being exploited as a sustainable competitive advantage.

KSFs vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change (Thompson *et al.*, 2001:108). An industry rarely has

more than three or four key success factors at any given time. These factors compete with each other for a place in the importance rankings. Managers should therefore be careful not to include factors of minor or insignificant importance when compiling a list of KSFs. The purpose of compiling such a list is to determine which factors are most important to competitive advantage, thus enabling managers to concentrate on those factors that do indeed contribute to a sustainable competitive advantage and consequently to long-term competitive success.

The following table is a compilation of the most common key success factors:

<u>Classification:</u>	<u>Examples:</u>
Technology-related KSFs	• Scientific research expertise • Technical capability to make innovative improvements in production process • Product innovation capability • Expertise in a given capability • Capability to use the internet for all kinds of e-commerce activities
Manufacturing-related KSFs	• Low-cost production efficiency • Quality of manufacture • High utilisation of fixed assets • Low-cost plant locations • Access to adequate supplies of skilled labour • High labour productivity • Low-cost product design and engineering • Ability to manufacture or assemble products that are customised to buyer specifications
Distribution-related KSFs	• A strong network of wholesale distributors / dealers • Gaining ample space on retailer shelves • Having company-owned retail outlets • Low distribution costs • Accurate filling of customer orders • Short delivery times
Marketing-related KSFs	• Fast, accurate technical assistance • Courteous customer service • Accurate filling of buyer orders

	• Breadth of product line and product selection • Merchandising skills • Attractive styling or packaging • Customer guarantees and warranties • Clever advertising
Skills-related KSFs	• Superior workforce talent • Quality control know-how • Design expertise • Expertise in particular technology • An ability to develop innovative products and product improvements • An ability to get newly conceived products past the R&D phase and out into the market very quickly
Organisational capability	• Superior information systems • Ability to respond quickly to shifting market conditions • Superior ability to employ the internet and other aspects of electronic commerce to conduct business • Managerial experience
Other types of KSFs	• Favourable image or reputation with buyers • Overall low cost • Convenient locations • Pleasant, courteous employees in all customer contact positions • Access to financial capital • Patent protection

Figure 2.4: Common Types of Key Success Factors (Source – Thompson *et al.*, 2001:107)

The relevance of the various KSFs to the top structure developer in the affordable housing sector comes to the fore in that possession of these factors is not enough. Having a sound understanding of these factors and being able to apply them in the task environment are of great importance – should some of these factors be identified as KSFs in the affordable housing sector.

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

5.7. Step 7: Compiling a Generic Strategy

Bringing everything together in a holistic whole will be the final challenge that faces the developer in the affordable housing sector. It should be noted that although this segment might seem to be the final step in the proposed methodology, it should be remembered that strategy is not a static entity that, once developed, will stay unchanged forever. A strategy needs to be viewed as a living organism that has to react to changes in the environment in order to survive – adapt or die. It is therefore up to the developer to constantly update and adapt his / her strategy to meet the changing world that influences the task environment.

The first consideration in compiling a strategy is that of incorporating the findings of a SWOT analysis in the strategic planning process. This will be the first indication to the strategist as to which route to take in compiling a workable strategy for the organisation question.

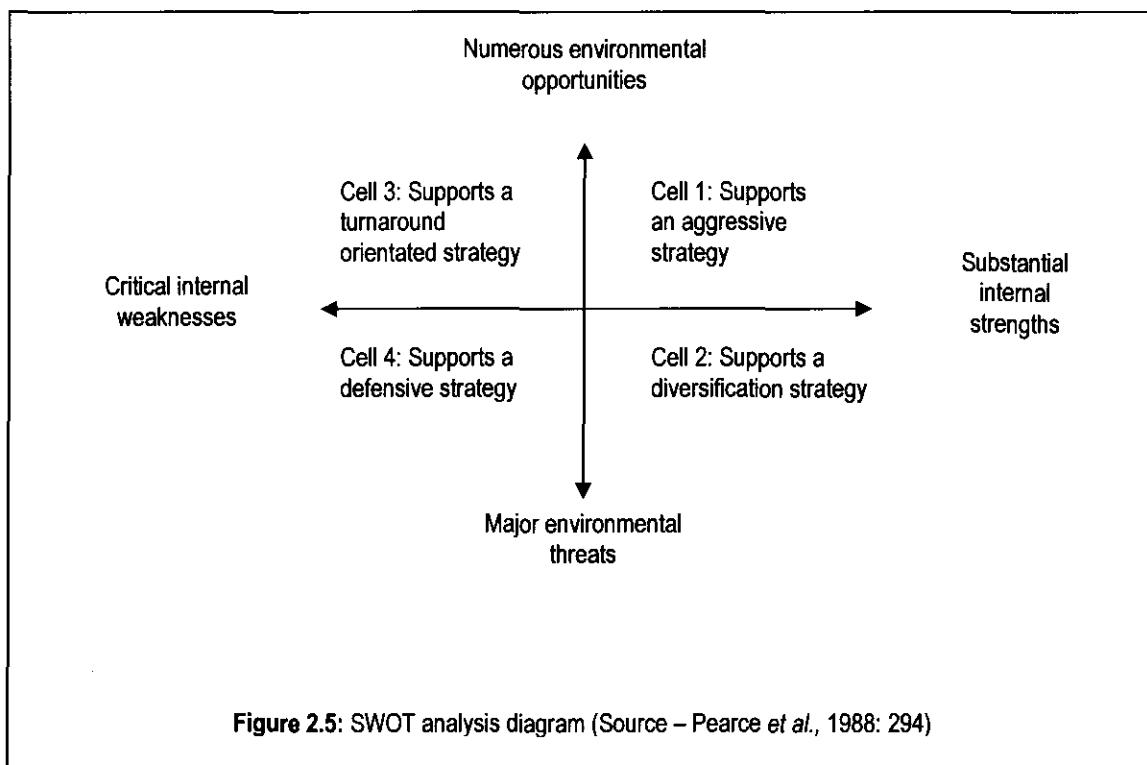
The Value of a SWOT Analysis

When compiling a strategy, it is wise to incorporate the insights offered by Pearce *et al.* (1988:293) in terms of the application of a SWOT analysis that provides a useful framework for making the best strategic choice by means of the following:

- Understanding the key strengths and weaknesses of the organisation that assists the top structure developer to narrow down the choice of alternatives in selecting the appropriate strategy; and
- Distinct competencies and critical weaknesses are identified in relation to the key determinants of success for different market segments.

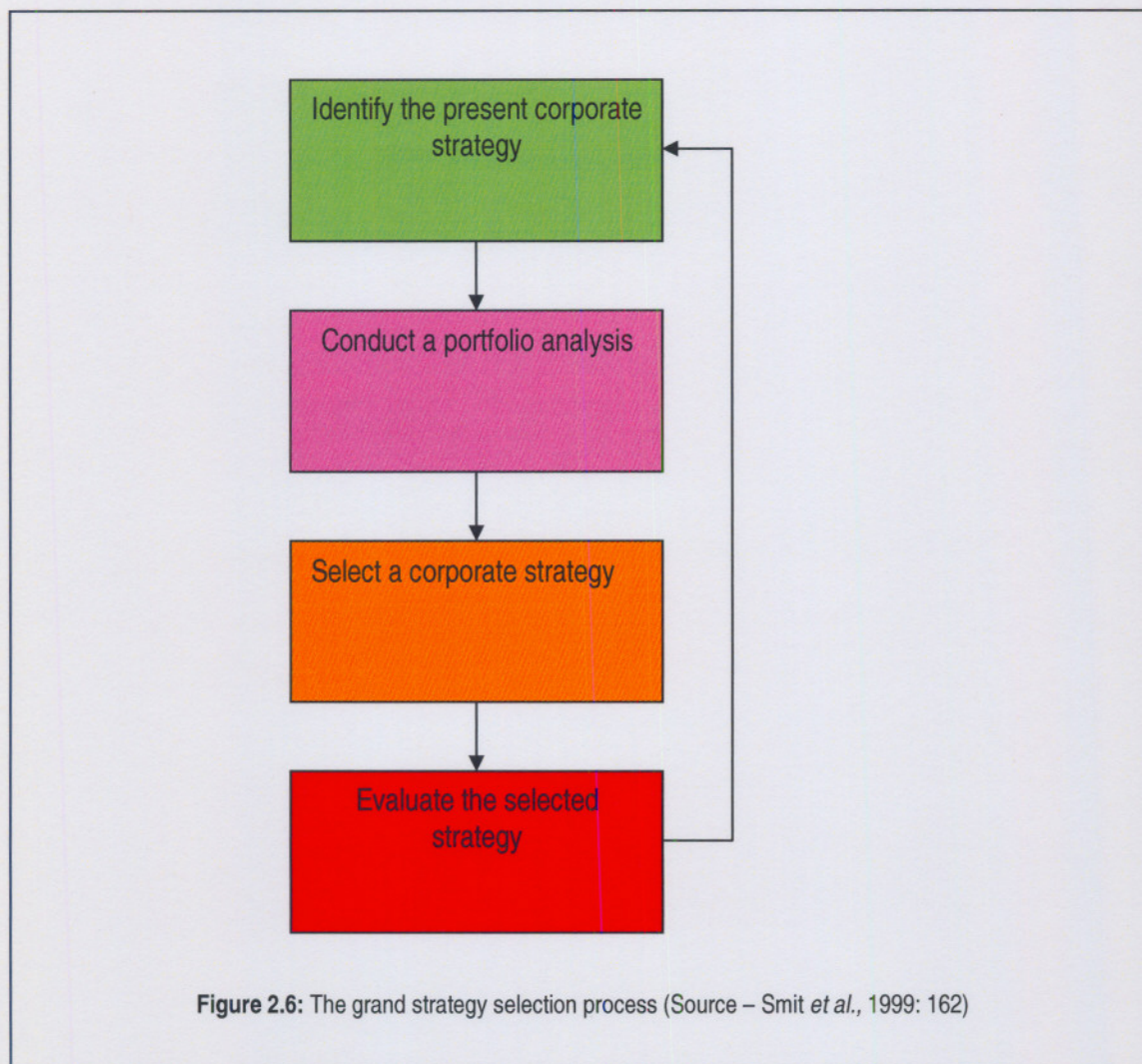
It should be noted that a SWOT analysis assists strategic choice (Pearce *et al.*, 1988:293). Figure 2.6 provides a diagram that compares key external opportunities and threats systematically to internal strengths and weaknesses. The objective of this structured approach is to identify one of four distinct patterns that matches the organisation's internal and external situations. The value of this approach is not careful placement of the organisation in any of the cells but rather in aiding the strategist to visualise the overall position of the organisation in terms of relevant task environment conditions for which a strategy is being considered. The following should therefore be taken into consideration in deriving an applicable strategy:

- Cell 1 is the most favourable position seeing that the organisation in question faces several environmental opportunities and has numerous strengths that encourage the pursuit of said opportunities. *Growth-oriented strategies are being proposed to exploit the favourable match that lends itself to being exploited for the good of all role-players;*
- Cell 4 is the least favourable situation in that the firm faces major environmental threats from a position of relative weakness. *This situation calls for strategies that reduce and / or redirect the organisation's involvement in the applicable task environment;*
- Cell 2 postulates a firm that faces an unfavourable environment. *This calls for strategies that use current strengths to build long-term opportunities in other task environments; and*
- Cell 3 suggests an organisation that faces tremendous market opportunity but is constrained by several internal weaknesses. *The strategy being called for in this situation is to eliminate internal weaknesses in order to pursue market opportunity more effectively.*



The Selection of a Strategy

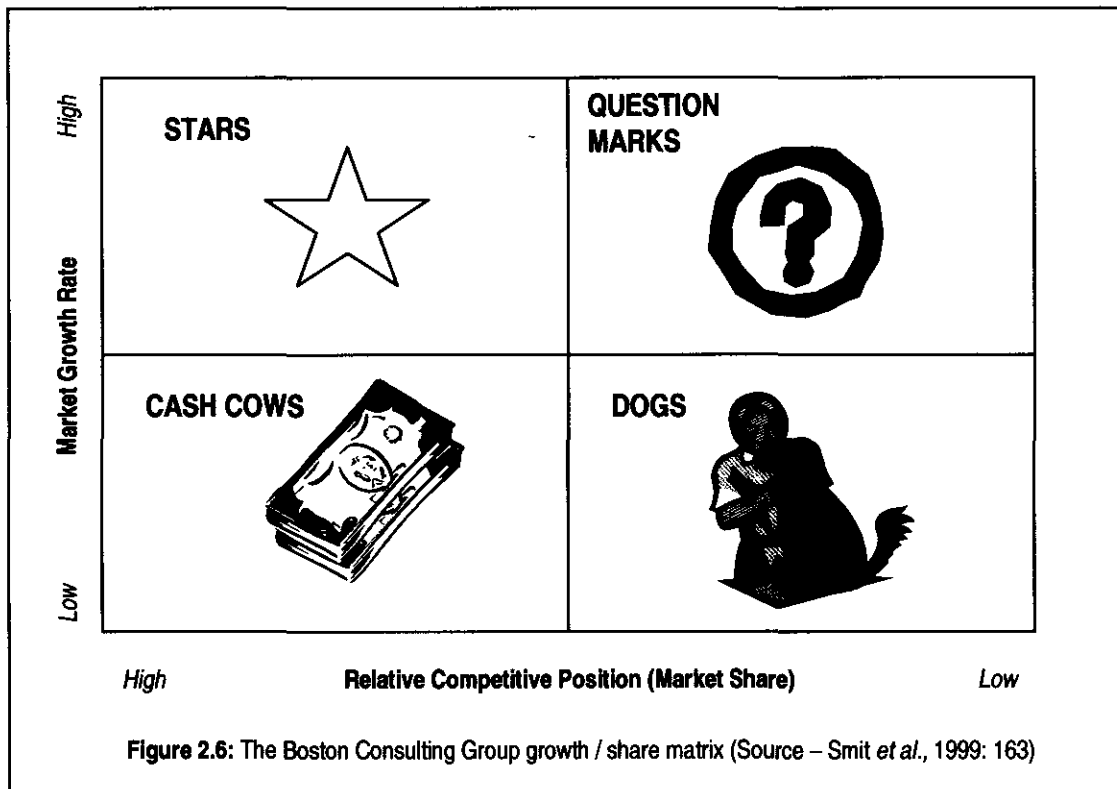
The goal in selecting the appropriate strategy is to maximise the long-run effectiveness of the organisation (Mescon *et al.*, 1988:289). The Boston Consulting Group (BCG) Matrix is proposed as a simplified technique for choosing the appropriate strategy for the organisation in question (Mescon *et al.*, 1988:290). Smit *et al.* (1999:163) echo this thought in stating that the BCG Matrix is part of the selection procedure that is conducted at the hand of a methodology that consists of four steps. This methodology is depicted in figure 2.6, the selection of a grand strategy.



Smit *et al.* (1999:161) hold that there are four distinct steps in this methodology. These are as follows:

1. **The current strategy scenario:** Identification and understanding of the organisation's current strategy are called for. External factors, which include the organisation's attitude towards external threats, and internal factors, which include the organisation's mission, corporate and business objectives and behavioural considerations. Mescon *et al.* (1988:290) and Smit *et al.* (1999:165) identify these factors as:
 - *Attitude towards risk*, i.e. how much risk is deemed appropriate by management. Risk is part of corporate life and should therefore not be shunned, but too much risk might ruin a organisation;
 - *Knowledge of past strategies*, in that strategists are inadvertently influenced by past strategic choices, whether the influence is of a conscious or an unconscious nature;
 - *Response to the owners / shareholders* of the organisation in that this might restrict the flexibility of the strategist / management in selecting the appropriate strategy alternative;
 - *Timing*, in that the timing of a decision may contribute to organisational success or failure;
 - *External factors*, in that some organisations are extremely dependent on entities such as suppliers, customers or competition. Strategist might be forced to pursue a strategy they would not have chosen under normal circumstances, but circumstance dictates an avenue that ensures continued relationships with specific external factor(s);
 - *Personality of the strategist* in that the personality of this individual has a direct influence on the choice of strategy, the corporate culture and even the structure of the organisation; and
 - The mission objectives and culture of the organisation exert a certain amount of pressure in that they influence the strategic choices the strategist would make.
2. **Portfolio management:** This step in the methodology provides a visual way of identifying and evaluating alternative strategies for the allocation of organisation resources (Smit *et al.*, 1999:162). Mescon *et al.* (1988:289) echo this thought in suggesting that the Boston Consulting Group (BCG) Matrix is the appropriate vehicle with which to conduct this

analysis. The BCG matrix as depicted in figure 2.7 suggests that the market share of its products and / or services should be compared to the overall business growth rate, i.e. the industry growth rate. The use of the BCG matrix comes to the fore in that organisations are classified as stars, cash cows, question marks and dogs.



Organisations are assessed in terms of their market growth rate and relative competitive position, i.e. market share. When looking at the matrix, the following should be noted:

- *Stars* represent organisations in rapidly growing markets with large market shares. These organisations promise to be highly profitable and substantial investment is required for them to maintain their dominance in the market place. This need for investment is generally higher than what can be generated internally;
- *Cash cows* are those organisations that find themselves a position of low market growth but high market share. Organisations being labelled as such are cash generating assets that can be used to support and start other business ventures;

- *Question marks* are those organisations that have high growth in terms of market growth rate coupled with a low market share. They generally require a lot of cash to maintain and it should be decided if additional cash should be supplied or if the organisation in question should be closed down; and
 - *Dogs* are those organisations that have a low market share and a low market growth rate. This organisation is generally a candidate for divestiture or liquidation. Organisations such as these find themselves in saturated and mature markets with intense competition for survival, and low profit margins.
3. **Selection of a strategy:** Smit *et al.* (1999:164) hold that an appropriate strategy should be pursued based on the findings of the portfolio management. Coupled with the findings of the SWOT analysis, strategists may choose a strategy or combination of strategies that fits their unique circumstances. Mescon *et al.* (1988: 286) and Kroon (1990:181) suggest that one may choose one or a combination of the following strategies:
- *Maintaining the current status quo:* Management / the strategist is happy with the current success that the organisation and wishes to pursue the current strategy. This a low-risk strategy and is especially relevant to organisations that concentrate on one industry / task environment that is characterised by a stable internal and external environment;
 - *Limited growth strategies:* This strategic alternative is frequented by most organisations. This strategy calls for goal setting in terms of past achievements / targets that have been adjusted for inflation. Organisations that find themselves in a mature industry pursue this strategy seeing that technology is stagnant and the organisation is basically comfortable with its position. Generally speaking one could say that organisations pursue this avenue seeing that it is the easiest, most comfortable and less risky avenue to pursue;
 - *Growth Strategies:* This strategy is pursued by organisations that wish to expand their turnover in the short, medium and long term with a significant factor as opposed to the previous year(s)' performance. Strategists who wish to diversify their organisations out of stagnant markets or organisations that find it in industries with rapidly changing technologies usually pursue a growth strategy hoping to reap the benefits that a

successfully grafted strategy will bring to the organisation. Examples of growth strategies are concentration on one product line, market development, product development, innovation, horizontal and vertical integration, joint ventures and diversification;

- *Retrenchment strategies:* This strategy amounts to setting performance objectives below what has been achieved previously. The retrenchment strategy is the least favoured strategy and is often held back as a last option. Examples of retrenchment strategies are liquidation, and cutbacks and turnarounds; and
- *Combination strategies:* Large organisations are more likely to pursue this kind of strategy where a combination of the above-mentioned strategies is pursued. This is all the more true for organisations with more than one product line and more than one business unit.

4. **Evaluations of the selected strategy:** This amounts to the organisation asking questions such as whether the chosen strategy will bring with it aligned commitment. The concept of aligned commitment suggest that the chosen strategy should be able to assist the organisation in question to reach its set goals and objectives.

The relevance of this topic for the top structure developer in the affordable housing sector amounts to the following:

- Firstly, the developer should be able to assess his situation in terms of determining the current standing of his organisation in the task environment;
- Secondly, the developer should be able to match up his current status within the given task environment in terms of strengths, weaknesses, threats and opportunities to the organisation with the complement of resources at his disposal;
- Thirdly, the developer should know which available strategic alternative will have the best chance of success (based on his current scenario);
- Fourthly, the developer should be able to implement and monitor the chosen strategy; and
- Lastly, all decisions should be based on information as to which alternative might work the best. No strategy alternative comes with a guarantee that it will work.

The practical application of this topic is to follow in chapter 5, the recommended methodology and conclusion.

6. Conclusion

Having developed a conceptual framework of what the terms competitiveness and strategy encompass, the top structure developer in the affordable housing sector should be suitably enlightened to adopt a strategic and competitive mindset. A conceptual framework or model has been developed by the author, based on the insights of various scientists. The aim is to enlighten the developer as to a possible methodology that may be applied in order to become more competitive, thus being able to bridge the competitive divide in the affordable housing sector.

Please take note that the author has not been able to find any research in relation to segment 5.4. Step 4: Determining the Task Environment's Driving Forces, other than what has been offered by Thompson *et al.* (2001). This then will serve to suffice that this paper is the first attempt to apply this concept to the affordable housing sector.

Now that the literature study has been concluded, the next part of this academic voyage will be undertaken in conducting the empirical research segment to this paper.

Chapter 3 - Research Methodology

1. Introduction

The empirical research component of this study is aimed primarily at testing the concepts of competitiveness and strategy amongst various top structure developers in the affordable housing sector. Having tested the concepts, the next step would be to develop a conceptual framework or management model based on the insights of top structure developers that have been interviewed as part of this study. The focus of “bridging the divide in the affordable housing sector” is to assist top structure developers in developing a strategic and competitive mindset with which to utilise the management model to level the playing field in the affordable housing sector. This study is therefore dedicated to assisting top structure developers to become more competitive – rather than developing a foolproof methodology that comes with a success guarantee.

This chapter is dedicated to the empirical research component of this study and encompasses the following:

- Deciding between a quantitative or qualitative research methodology in this study;
- Describing the rationale behind choosing a qualitative approach as research methodology in this study;
- Describing why an interview has been chosen as vehicle for conducting the qualitative research in this study;
- Describing the types of interview methodologies that may be utilised by a researcher;
- Describing the types of interview questions that a researcher may utilise;
- Describing the process of preparing for an interview and the process of conducting the actual interview;
- Describing the process of developing the interview schedule;
- Presenting the interview schedule that was utilised during the interview process;
- Presenting the population sample that was consulted in the empirical research component of this study; and
- Describing the methodology that was utilised to analyse the data collected during the empirical research component of this study.

So begins the next part of this journey: developing the research methodology of this study.

2. Qualitative vs. Quantitative Research Methodologies

Berg (2001:2) holds that in many social sciences, quantitative techniques are often valued higher than qualitative techniques. This is reflected in the general public's inclination to regard science as related to numbers and, therefore, implied precision. Qualitative techniques are, however, able to offer a greater depth of understanding on a research topic that might have been brought on by quantitative research techniques.

Qualitative techniques might not have predominated the social sciences in that qualitative research is more time-consuming, requires greater clarity of goals during design stages and cannot be analysed by computer programs. Berg (2001:2) illustrates that qualitative research has left its mark conceptually and theoretically in the social sciences in that contributions of numerous social thinkers are clearly visible and significant in the social science genre. Sogunro (2002:7) confirms that there are situations in which questionnaires or laboratory experiments, as examples of quantitative instruments, offer the best way of collecting data. This is contrary to situations when interviews or observations, as examples of qualitative instruments, offer the most appropriate way of collecting data. The conclusion is thus to let circumstances dictate the most appropriate methodology or instrument to use for collecting data for empirical research.

In order to differentiate between quantitative and qualitative approaches, Berg (2001:2) utilises the notion of **quality** as essential to the nature of things and the notion of **quantity** as essential to the amount of something. Quality refers to the what, how, when and where of a thing, thus focusing on its essence and ambience. Qualitative research, in essence, refers to the meanings, concepts, definitions, characteristics, metaphors, symbols and the descriptions of things. In contrast, quantitative research refers to counts and measures of things. Not all experiences can be meaningfully expressed by numbers – therefore it stands to reason that qualitative research methodologies can provide perspectives on abstract, often immeasurable, concepts. Sogunro (2002:5) echoes this thought in postulating that there are distinct differences between qualitative

and quantitative research methodologies that vary in attributes from data, sample populations, research variables, the interpretation of data, research tools utilised and research traditions that are upheld as the empirical portion of a study progresses.

According to Berg (2001:3), qualitative research includes methodologies such as participant observation, **interviews**, observation of experimental natural settings, photographic techniques, historical analysis, document and textual analysis, sociometry, social drama and similar ethno-methodological experimentation, ethnographic research and a number of unobtrusive techniques.

3. Qualitative Research Methodology Orientation

Berg (2001:6) holds that a simplistic explanation of qualitative techniques might lead to the misconception that any procedure resulting in nominal rather than numerical data is adequate. It should be kept in mind that the theoretical implications of qualitative research and the basic purpose of scientific research in general are not to amass data, but to discover answers to the questions through the application of systematic procedures. Qualitative research therefore seeks proper answers to questions by examining various social settings and the individuals that inhabit these settings. Qualitative researchers are thus more interested in how humans arrange themselves in their settings and how the inhabitants thereof make sense of their surroundings by the utilisation of symbols, rituals, social structures, social roles etc.

“Qualitative techniques allow researchers to share the understandings and perceptions of others and to explore how people structure and give meaning to their daily lives.” (Berg, 2001: 7.) This unbiased procedure provides a methodology of accessing unquantifiable facts about the actual people that researchers observe and talk to. This technique then examines how people learn about and make sense of themselves, their peers and others.

The following should be kept in mind according to Berg (2001:7):

- Methods used by social scientists fall on a continuum varying from totally uncontrolled in natural settings to totally controlled techniques of observation;
- Researchers should choose their procedures keeping in mind the problems that might arise due to circumstances in and out of the researchers control;

- Analysis of qualitative data offers researchers the opportunity to engage in detailed discussions as to the various social contours and processes that human beings utilise to create and maintain their social realities; and
- Good qualitative research is rigorous and has to be systematic so that subsequent researchers will be able to reproduce it if necessary.

Wisker (2001:137) states that the nature of one's research will dictate the kind of methodology to be utilised to underpin one's work and also the methods to be utilised in the collection of data. Should one wish to collect quantitative data, the goal is mostly the measurement of variables, the verification of existing theories or hypotheses and the questioning of said theories or hypotheses. Often the collection of statistics and the interpretation of numerical data are not the answer to understanding meanings, beliefs and experience. These are better understood through the interpretation of qualitative data. The following should be kept in mind:

- **Quantitative data (and research)** are collected in accordance with certain research vehicles and underlying research questions. The production of numbers is guided at base by the kinds of questions posed to the subjects and is therefore essentially subjective – though it appears to be less so than with qualitative research data.
- **Qualitative research** is carried out when one wants to understand meanings, to look at, describe and understand experiences, ideas, beliefs and values. In essence, intangibles such as the objective of this study.

4. Why an Interview as Qualitative Methodology?

An interview was chosen as the qualitative methodology of this paper. Greenfield (1996:169) states that the purpose of an interview is to find out what is in and on a person's mind. People are thus interviewed in order to discover those things / phenomena that one cannot directly observe.

According to Greenfield (1996:169) the rationale for interviewing may be considered in terms of the strengths and weaknesses of this form of data collection. For that reason the strengths and weaknesses will be discussed next:

4.1. Strengths

- Face-to-face encounter with informants;
- Obtains large amounts of expansive and contextual data quickly;
- Facilitates cooperation from research subject;
- Facilitates access for immediate follow-up data collection for clarification and omissions;
- Useful for discovering complex interconnections in social relationships;
- Data are collected in natural setting;
- Good for obtaining data on nonverbal behaviour and communication;
- Facilitates analysis, validity checks and triangulation;
- Facilitates discovery of nuances in culture;
- Provides for flexibility in the formulation of hypotheses;
- Provides background context for more focus on activities, behaviours and events; and
- Great utility for uncovering the subjective side, the native's perspective of organisational process.

4.2. Weaknesses

- Data are open to misinterpretation due to cultural differences;
- Depends on the cooperation of a small group of key informants;
- Difficult to replicate;
- Procedures are not always explicit or depend on researcher's opportunity or characteristics;
- Data are often subject to observer effects: obtrusive and reactive;
- Can cause danger or discomfort for researcher;
- Reliant on the honesty of those providing the data; and
- Dependent on the ability of the researchers to be resourceful, systematic, honest and unbiased.

The strengths obviously demonstrate why the interview is depicted as a preferred method among social scientists for gathering data. The emphasis is placed on the cooperation with research

subjects and on the “natives perspective” that are important elements for the social scientist (Greenfield, 1996:170). The other side of the coin should not be neglected either, i.e. the natural scientist’s concerns with objectivity and hard facts as depicted as one of the weaknesses of the interview as qualitative methodology. When interviewing, some of the problems of working with accounts of people’s subjective experiences become apparent.

Wisker (2001:164) holds that in capturing people’s opinions, feelings and practice, their experiences and the kind of atmosphere and context in which they respond, qualitative research methodology (such as the interview) will form part of one’s exploration and research. The interview comes to the fore as a contender in that when the outcomes that one seeks / desires for one’s purpose of research will be better served by directly approaching the people that will respond with in-depth comments.

Interviews grant the researcher the opportunity to meet the subject of the research (Wisker, 2001:165). This may provide the researcher with both detailed information in line with the purpose of research and some fascinating and contextual information that the researcher might not have been privy to if any other qualitative research methodology was used. An interview might be the vehicle to facilitate qualitative research when the researcher is looking for:

- Information based on emotions, feelings and experiences;
- Information based on sensitive issues; and
- Information based on insider experience, privileged insights and experiences.

4.3. Rationale Behind the Interview as Qualitative Research Methodology

The rationale behind the interview as qualitative research methodology that has been applied in this study is the following:

- The aim of the empirical research is to find out what is in and on the mind of a top structure developer, erven developer and representative of a financial institution (this is in line with this study’s research focus); and

- There are aspects that cannot be directly observed such as the possible insights that the author might gain from interviewing top structure developers, even developers and representatives of financial institutions;

This methodology will therefore grant the author the opportunity to capture the respondents' opinions, feelings and practice and their experience. This then culminates in the author being able to get information based on sensitive issues, insider experience, privileged insights and privileged experiences offered by respondents – information that might otherwise have eluded him.

5. Types of Interviews

Wisker (2001:167) holds that there is a continuum of interviews – which ranges from the informal and the conversational interaction that flows with the thoughts and feelings of both the interviewer and interviewee, to the much tighter, more structured interview. There are pros and cons to all interview types and these will consequently be discussed under separate headings.

5.1. Informal Conversational Guide

Questions emerge from the immediate context and are asked in the natural cause of things with the underlying notion of no predetermined question topics and wording (Greenfield, 1996: 170).

- **Positive aspects:** Increases the salience and relevance of questions; and
- **Negative aspects:** Different information collected from different people with different questions.

5.2. Interview Guide Approach

The topics and issues that are to be discussed / covered are specified in advance in an outlined form. The interviewer decides on the sequence and wording of questions in the course of the interview (Greenfield, 1996:170).

- **Positive aspects:** The outline increases the completeness of the data and makes data collection systematic for each respondent; and.
- **Negative aspects:** Important and salient topics may be inadvertently omitted.

5.3. Standardised Open – Ended Interview

The exact wording and sequence of questions are determined in advance. All respondents are asked the same basic questions in the same order (Greenfield, 2001:171).

- **Positive aspects:** Respondents answer the same questions thus increasing the comparability of responses. The data is therefore complete for each person on the topics covered in the interview; and
- **Negative aspects:** There is little flexibility to relate the interview to particular individuals and circumstances.

5.4. Closed Quantitative Interviews

The questions and response categories are determined in advance. Responses are fixed in the sense that the respondents have to choose from fixed responses (Greenfield, 2001:171).

- **Positive aspects:** The analysis of the data is simple in that the responses can directly be compared and easily aggregated; and
- **Negative aspects:** Respondents have to fit their answers (experiences and feelings) into the researcher's categories. This then may be perceived as being impersonal, irrelevant and mechanistic.

5.5. Other Considerations

The different types of interviews that have already been discussed offer a wide range of options for the researcher (Greenfield, 2001:171). The researcher might choose to use the informal conversational research methodology at first and later progress to the more structured / standardised forms of interview as the focus of the research becomes more refined over time.

It is possible to utilise more than one type of interviewing when conducting research. Circumstance will most likely dictate which type to use. The interview type utilised must be appropriate for the research being conducted. The structured nature of the closed quantitative interview might not be appropriate for interviewing a senior person in an organisation whereas it might be suitable for comparing the views of 50 employees of an organisation.

According to Greenfield (1996:171) there are three permutations that are worth considering when selecting the most appropriate method for one's particular research. These are:

- **Telephone interviewing:** This method of interviewing keeps the cost down if respondents are dispersed over a wide geographical area. It may, however, be difficult to develop a rapport with the respondent over the telephone;
- **Group interviewing:** Might be used when the respondents are part of a group or when the collaboration of the respondents is an objective; and
- **Elite interviewing:** This interview consists of the specialised treatment of interviewing that focuses on a particular type of respondent. The elite are considered to be the influential, the prominent and the well-informed people in an organisation or community.

5.6. Application to the Study

The author has opted for an approach that includes various aspects of the aforementioned pointers and is as follows:

- **Standardised open-ended interview methodology:** The exact wording of the interview has been determined in advance and all respondents have been asked the same basic questions in the same order. This has been done in order to ensure that all respondents have answered the same questions seeing that this enhances the researcher's ability to compare responses; and
- **Elite interviewing:** A particular type of respondent has been focused on such as the CEO, Managing Director or a representative of Senior Management that has been interviewed in the scope of this study. By focussing on these individuals, the opinions of influential, prominent and well – informed individuals would have been gained.

6. The Interview Questions

6.1. Question Types

(Greenfield, 1996:172) holds that the content of an interview is basically dependent on the focus of the particular research and the interview type. There are, however, six types of basic questions that may be utilised in conducting an interview:

- **Experience / behaviour** questions, which ask what a person does or has done;
- **Opinion / value** questions, which are asked in order to understand the cognitive and interpretative processes of people;
- **Feeling** questions, which are asked to understand the emotional responses of people in their experiences and thoughts;
- **Knowledge** questions, which are asked to discover the factual information that a respondent has;
- **Sensory** questions, which are asked about what is seen, heard, touched, tasted and smelled; and
- **Background / demographic** questions, which are asked to identify characteristics of the interviewee.

Any of these questions might be asked in the present, past and future tense. Not too much emphasis should be placed on asking in relation to the future, seeing that this will place the emphasis on predicting the future (which has obvious limitations in that no individual is capable of predicting the future). Trying to do so will be pure speculation or "informed" speculation at best. An interview is a process rather than a single event and this should be kept in mind (Greenfield, 1996:172).

Wisker (2001:170) states that the various types of questions have different uses and relevance when utilised in interviews:

- Asking **open-ended questions** enables the interviewer to expand with prompting and follow-up with questions, which refine an area if there are misunderstandings. The negative side is that they are often misleading and provide a lot of useless information;
- **Closed questions** can limit interaction and the creative exploration (the opening up of the interview) and thus access to the richness of information that might have surfaced had the interview been approached differently.

6.2. When Preparing For and Conducting the Interview...

Wisker (2001: 171) also states that there are certain issues that one should keep in mind **when conducting / preparing questions for an interview**:

- There are certain **areas that a respondent will and won't discuss**, areas that they are aware of and areas that they hide or are not aware of. There are some issues that people are willing to discuss openly (i.e. issues that they know about and can reveal) and there are issues that people are unaware of or that they are unwilling to reveal. One might suspect it but the interviewer cannot ask about them and might need to use "what if?" questions, choices between scenarios and other methods of information gathering to really get to the crux of the matter;
- **Honesty** is cardinal in the interview process. The researcher / interviewer should not make any promises that he / she cannot keep. The interviewee should not be misled about how, when and where the information will be utilised. Agree to let the interviewee see a transcript if at all possible. Sum up and check notes with the interviewee if the topic of discussion has been complex. This will ensure accuracy and will put the interviewee at ease that no misrepresentation of the facts is in the offing (whether intentional or unintentional).
- Being **polite and pleasant** while conducting the interview will facilitate the smooth running of an interview. One should always remember to thank the interviewees for their time and willingness to participate. (This will make them more likely to participate in the event of any follow-up interviews.)

6.3. Questions and Behaviours

The following questions and behaviours should be avoided in the course of conducting an interview (Wisker, 2001:172):

- The interviewer should not appear to be threatened or bored;
- Questions not to ask:
 - Excessively long questions – respondents may only remember a part of the question and respond accordingly;

- Multiple questions packed into one – this might confuse respondents and cause them to answer only one part or run several parts into such a union as to be of no use to the researcher;
- Questions that utilise excessive jargon or technical terms – keep questions simple so that the respondent will be able to respond; and
- Questions that lead to or suggest bias and prejudice. Question should be phrased to capture a range of possible responses that will not lead to a preset / predetermined biased answer in line with the researcher's own personal agenda. Researchers should keep integrity, impartiality and a quest for factual information in the forefront of their minds when conducting an interview.

The following questions and behaviours should be kept in mind whilst conducting an interview (Wisker, 2001:172):

- Stay in control and appear friendly and responsive to respondents;
- Use prompts and probes when conducting an interview, this will help facilitate a successful interview;
- Probing questions or behaviours might be as simple as smiling and nodding with an indication that the interviewee should go on and say more, or "mm?" or repeating back part of what the respondent has said in order to get the respondent to divulge more information on the topic at hand; and
- It should be kept in mind that responses to interview questions are affected by age, gender, ability, ethnicity, religion, class and a number of cultural differences. One should be careful and, if in doubt, it is advisable to seek advice from others with a similar cultural background.

6.4. Application to this Study

The question types that will be utilised to compile the interview schedule are as follows:

- Questions that have been designed to evoke a combination of experiences, opinions, knowledge and sensory insights from respondents pertaining to the focus of this study;

- Open-ended questions that give respondents the opportunity to express views and insights after which the interviewer may prompt expansion of the views or insights expressed by asking follow-up questions.

7. The Interview Process

Greenfield (1996:172) points out that the interview is a tool to be utilised for the collection of data in the context of the research focus in that the interviewer and the interviewee interact on a set of propositions to achieve the aims of scientifically collecting verbal data. In essence, the interview is a process and should be construed as such. The process may vary depending on the interview type and setting but it should be kept in mind that a successful interview involves a series of linked activities rather than a single event.

7.1. Stage 1: Preparations

Access to respondent is likely to influence interviews. Respondents are likely to start forming impressions about the interviewer when they are first approached and introduced to the research topic (Greenfield, 1996:172). So the interview process starts before the first question is asked. Wisker (2001:169) confirms this by postulating that the interviewer should take care in preparing for the interview beforehand by giving attention to the following details:

- Gather background information on host organisations;
- Check interview guides;
- Check tape recorders;
- Have maps to locations; and
- Arrive on time.

7.2. Stage 2: Introductions

Variables such as age, race, gender and social class have been identified as having a significant influence on interviews and therefore on the success of an interview (Greenfield, 1996:173). The closer an interviewer is to the respondent in terms of the aforementioned factors, the greater the

chance is for conducting a successful interview. This is an ideal situation but not a prerequisite for interviewing respondents.

Body language plays a vital role in conducting an interview. The respondent will observe the body language of the interviewer and the interviewer will respond in kind. It is therefore imperative that at this stage friendly smiles should be forthcoming to alleviate any fears of a possible inquisition.

At the start of the interview it is not necessary to establish the purpose of the interview. This will probably have been done when the respondent was approached and introduced to the research. This non-threatening element can make a good neutral starting point. It will be worth the while of the interviewer to get the respondent to agree to the format of the interview. Respondents almost always agree to the format – nevertheless it is courteous to ask.

7.3. Stage 3: The uneven conversation

The conventional rule that applies to social interaction of (“you speak, then I speak”) is suspended as the interviewer’s role is that of a listener. The purpose of an interview is to gather information and not to exchange views (Greenfield, 1996:173).

From time to time respondents give a misleading impression that is not necessarily intentional. There are three possible explanations for this, being ulterior motives, a desire to please the interviewer and idiosyncrasy. Respondents occasionally give answers to questions that might challenge the interviewer in the course of the conventional conversation. However, part of the uneven conversation is to listen to the respondent’s views, which entails a need for neutrality. Wisker (2001:170) further states that one should follow up with additional questions if there are any misunderstandings. Care should be taken with these follow-up questions as they can be misleading and might provide a large amount of information that is, for all intents and purposes, useless.

Neutrality is a stance with regard to the content of what a person says, whereas rapport is a stance regarding the person being interviewed. Such an attitude towards the interview by the interviewer

lays the foundation for establishing the required rapport with the respondent without introducing personal bias into the equation (Greenfield, 1996:173).

7.4. Stage 4: The ending

It might seem straightforward to end an interview, however, the situation might arise where sufficient rapport develops during the course of the interview and an abrupt end to the interview becomes impossible and, quite frankly, undesirable (Greenfield, 1996:173). Questions might send out covert signals. Something to contemplate is to ask the respondent if there are any questions that he / she might want to ask at the end of an interview. This signals the end of the interview but might also facilitate the extraction of additional information from the respondent.

7.5. Stage 5: After the interview

The collection of data is of great significance since great emphasis is placed on field notes, particularly those notes that are made immediately after the interview. Contact summary sheets and data accounting sheets provide a vehicle for a summary of the main points on interviews and to check that research questions have been addressed (Greenfield, 1996:174).

Interviews can be intense experiences that require complete attention and quick thinking. The fact that respondents disclose their innermost thoughts and personal information to the interviewer can leave one feeling emotionally exhausted after an interview. This exhaustion coupled with a feeling of unease might not seem rational but could be contributed to the fact that the interviewer is left with a burden that is a considerable responsibility – almost as if the interviewer has become the confidant of the respondent (Greenfield, 1996:174).

After the interviewer has opened up what might be termed sensitive areas to the respondent, he leaves – often never to be seen again. A letter of appreciation, thanking respondents for their willingness to participate in the research, will not only end the project on a positive note but will also pave the way for future research (Greenfield, 1996: 174).

8. Developing the Actual Interview Schedule

8.1. Collecting and Analysing Data

The methodology that has been employed is that of an interview as qualitative data collection vehicle. The following factors have been included in preparing the interview schedule and are important to take note of:

- **Recording the data:** A combination of note-taking and tape recording was decided on for the sake of being as thorough and as accurate as possible. It should be noted that not all people feel comfortable talking to a tape recorder. It is thus necessary to obtain respondents' permission before using a tape recorder. Another drawback of using a tape recorder is that respondents might not be as candid as they might have been if they could talk "off the record". One should thus let circumstances dictate whether it would be wise to use a tape recorder in conjunction with note-taking to form the basis of the data collection methodology (Greenfield, 1996:174); and
- **Analysing the interview data:** Greenfield (1996:175) suggests that data analysis and interviewing be interwoven. This will make it possible to test the effectiveness of the interview and to make adjustments to the interview / data collection as one goes along. There are five main stages to qualitative data analysis and it is up to the researcher to determine when to apply the range of options available in conducting the applicable stage.

The stages are as follows:

1. Collection of data;
2. Data reduction;
3. Data display;
4. Drawing conclusions; and
5. Verification of findings.

8.2. Preparation Pointers for the Interview Schedule

Berg (2001:72) states that researchers must have clear ideas about the type of information that they access and about the aims and purpose of their research. This notion is embedded in the necessity of collection of accurate information that is of paramount importance in an unbiased

scientific study in terms of the focus area. The interview is therefore an especially effective method of collecting information for certain types of research questions and for addressing certain types of assumptions as is prevalent in this paper. This is of particular importance when the researcher is interested in understanding the perceptions of participants or to learn how participants come to attach certain meanings to phenomena or events.

The specific ordering, phrasing, level of language, adherence to subject matter and the general style of questioning depend on the educational and social level of the subjects as well as their ethnic or cultural traits and age. Berg (2001:74) holds that in order to gain access to the most in-depth and complete level of data in terms of the various subjects and/or situations under investigation, **four types of questions and wording** need to be included in the interview as qualitative survey instrument:

- **Essential questions:** Concern the central focus of the study. They may be placed together or scattered throughout the interview but they are to be geared towards eliciting specific desired information;
- **Extra questions:** These are those questions that are roughly equivalent to certain essential questions but are worded slightly different. These are included to check the reliability of responses through the examination of consistency in response sets or to measure the possible influence that a change of wording might have;
- **Throw-away questions:** Throw-away questions are frequently found at the beginning of an interview schedule. These questions may be essential demographic questions or general questions. They are used to achieve certain ends and have the following significance:
 - Develop rapport between interviewers and the respondents;
 - May be scattered throughout the interview to set the pace or to allow for a change in focus;
 - Are incidental or unnecessary in gathering important information in the study;
 - May be of importance to draw out a complete picture from the respondent; and
 - May serve the purpose of cooling off the respondent if a sensitive area has been touched upon by another question.

- **Probing questions:** Provides interviewers with a way to elicit more complete stories from respondents. Probes often ask people to elaborate on certain issues already touched upon in previous questions. Interviewers often incorporate a structured series of probes triggered by some or other type of response to an essential question;
- **Wording of questions:** In order to acquire information while interviewing, researchers should phrase questions in such a way that they are sure to provide the necessary data. The following guidelines are suggested by Berg (2001:77):
 - Questions should accurately convey meaning to the respondent;
 - Should motivate the respondent to become involved and to communicate clearly their attitudes and opinions;
 - Should be clear enough so that the interviewer can easily convey meaning to the respondent;
 - Should be precise enough to exactly convey what is expected of the respondent;
 - Any specific question should have as a goal the discernment of response a pattern that clearly fits the broad contents of the investigation; and
 - If questions raise the possibility of the respondent lying or fabricating facts, care should be taken to include questions that catch up to the respondent and to alert the interviewer that the respondent's earlier answers have been incorrect.

8.3. The Actual Interview Schedule

The goal of this interview is to assist top structure developers to bridge the divide in the affordable housing sector. The questions have therefore been designed to gain insights from respondents based on their views, knowledge, experience and possible predictions of what might happen in the future. The issues that will be focused on are competitiveness, strategy and developing a conceptual framework or management model that is in line with the focus of this study.

It should be noted that this interview schedule has been designed with the top structure developer in mind. There are, however, issues that have a bearing on the secondary populations (refer to section 9.1 of this chapter, i.e. the primary and secondary population samples) and that facilitate a

more in-depth understanding of the topics in question. The following schedule is therefore proposed for the actual interview and is in line with guidance gained from literature:

Introductory Questions:

1. Which organisation do you represent? (*Throw-away question*)
2. Your full name and title (area of responsibility) in the organisation? (*Throw-away question*)
3. What would you say has been your defining moment as developer or what has been the defining moment for the organisation that you work for – that is to say the moment that has identified you or the organisation as a developer to be reckoned with? (*Throw-away question*)
4. Where do you see yourself or the organisation that you work for as developer in the short to medium term? (*Throw-away question*)

The rationale behind the various questions 1 to 4 is to establish a rapport between the researcher and the respondents being interviewed. These questions are therefore designed to break the ice and to identify the respondent being interviewed, i.e. name and organisation he/she represents.

General State of Affairs in the Industry:

5. What challenges have you or your organisation faced in your tenure as developer? (*Essential question*)
6. Tell me more? Or how come? (*Probing question*)

The rationale behind the various questions amounts to the following:

- *Question 5 has been designed to establish the existence of areas or factors in the affordable housing sector that challenge the ability of top structure developers to be competitive. Two main issues have been identified in the course of the empirical research component of this thesis (chapter 4), being the availability of serviced erven and the availability of mortgage finance for clientele. These two areas will therefore form the foundation of exploring the strategic and competitiveness issues that are part of this study's focus; and*

- Question 6 has primarily been designed to assist the researcher in gaining an in-depth understanding of the issues that have been identified in question 5.

The land / erven issue (focus):

Access to serviced erven was the first issue to have been identified. The questions have therefore been designed to investigate this issue in terms of this study's focus.

7. Define the role of landowners / erven developers in the affordable housing sector. *(Essential question)*
8. How do you see the availability of serviced erven in the affordable housing sector at present? *(Essential question)*
9. How does this affect you as developer? *(Essential question & Probing question combined)*
10. *Negative answer:* What do you think can be done about the situation? *Positive answer:* How so? Could you tell me more about that? *(Thus using probing question to facilitate the collection of more in-depth and complete data)*
11. What are your views about the procurement of serviced stands in the near and distant future? *(Essential question)*
12. Tell me more? Or how come? *(Probing question to facilitate the collection of more in-depth and complete data)*
13. Define the term "strategy" in your own words. *(Throw-away question)*
14. STATE WHAT STRATEGY IS IN TERMS OF THIS STUDY. *(Statement is being made to the respondent by the interviewer)*
15. How do you think your strategy may be combined to this? *(Probing question).*

The rationale behind the various questions amounts to the following:

- Question 7 has been designed to establish the role of erven developers in the affordable housing sector;
- Question 8 has been designed to establish the current status quo in terms of the availability of serviced erven;
- Questions 9 to 10 have been designed to establish the effect that this has on the top structure developer being interviewed;

- Question 11 has been designed to investigate what could be done in the future to facilitate the procurement of serviced erven. This was done to steer the respondent towards the issues of strategy and competitiveness that are researched;
- Question 12 has been designed to facilitate a better in-depth understanding of question 11;
- Question 13 has been designed to introduce the respondent to the concept of strategy that is researched and to get the respondent's insight into the issue of strategy;
- Statement 14 has been designed to introduce the respondent to the concept of strategy as it is being developed in this study; and
- Question 15 has been designed to gain the respondent's insight into how their concept of strategy may be combined to the concept of strategy that has been developed in this study.

Financial Institution issue (focus):

The second issue to have been identified was that of access to mortgage finance for clientele. The questions have therefore been designed to investigate this issue in terms of this study's focus.

16. Define the role of financial institutions in the affordable housing sector. *(Essential question)*
17. How does this affect you as developer or the organisation that you work for? *(Essential question & Probing question combined)*
18. What are your views about the procurement of mortgage bonds for clientele in the affordable housing sector? *(Essential question)*
19. Tell me more? Or how come? *(Probing question to facilitate the collection of more in-depth and complete data)*
20. How do you think this study's concept of strategy and your strategy may be connected to the procurement of mortgage finance? *(Probing question)*

The rationale behind the various questions amounts to the following:

- Question 16 has been designed to establish the role of financial institutions in the affordable housing sector;
- Question 17 has been designed to establish the influence that financial institutions exert in the affordable housing sector;

- Question 18 has been designed to establish the availability of mortgage finance for clientele in the affordable housing sector;
- Question 19 has been designed to facilitate a more in-depth understanding of question 18;
- Question 20 has been designed to gain the respondent's insight into how their concept of strategy, coupled with the concept strategy concept as developed in the study may be combined to the procurement of mortgage finance.

Competitiveness

21. Tell me in your own words what the term competitiveness means to you. (*Essential question*)
22. STATE WHAT THE TERM COMPETITIVENESS ENCOMPASSES IN THIS STUDY.
23. How does this affect you as developer or the organisation that you work for? (*Essential question*)
24. Tell me more? Or how come? (*Probing question to facilitate the collection of more in – depth and complete data*)
25. How can any organisation become more competitive? (*Essential question*)
26. How would you apply this to the affordable housing sector? (*Probing question / essential question*)

The rationale behind the various questions amounts to the following:

- Question 21 has been designed to introduce the respondent to the concept of competitiveness that is being researched and to get the respondent's insight into the issue of competitiveness;
- Statement 22 has been designed to introduce the respondent to the concept of competitiveness as it is being developed in this study;
- Question 23 has been designed to gain insight into the respondent's view of what it entails to be competitive in the affordable housing sector;
- Question 24 has been designed to facilitate a better in-depth understanding of question 23
- Question 25 has been designed to gain the respondent's general view on how to become more competitive; and

- *Question 26 has been designed to gain the respondent's insight on applying their views of competitiveness on becoming more competitive in the affordable housing sector.*

Concluding Remarks and Questions

27. How would you define the term "affordable housing"?
28. How would you define the term "serviced erven"?
29. How would you define the term "landowner / developer of serviced erven"?
30. Any questions that you, as the respondent would like to pose to me, the interviewer?
31. Conclude by thanking the respondent for his / her willingness for participating in this study and for his / her contribution.

The rationale behind the various questions amounts to the following:

- *Questions 27 to 29 have been designed to compile an industry account of the various terms seeing that no definitions for the various terms could be found in literature;*
- *Question 30 has been designed to answer any question that the respondent wished to put to the interviewer; and*
- *Statement 31 has been designed to thank the respondents for their contribution to the study and their willingness to participate. This will facilitate easier access to the respondents in the event of follow-up research that might be undertaken on the same or similar topics.*

9. The Population Sample

Newbold (1995:223) postulates that in an attempt to say something about the properties of a large group of objects (make inferences about the parent population), given the information about a small subset of them, the larger groups are called the population and the subset of the population members is the sample. The following issues / factors come to the fore that need to be kept in mind when contemplating the issue of sampling (Wisniewski, 1997: 195; Newbold, 1995: 224):

- One might be interested in learning about **specific characteristics and / or attributes** of a population. The major motivation for examining a sample rather than the whole population is that the cost of doing so might be prohibitively expensive;

- Even if sufficient resources were available to contact the whole population, it **might be preferable** to devote one's time and resources to **one subset** of the population in the hope that such a concentration will produce more accurate measurements;
- If a sample is to be taken from a population, the eventual aim is to make statements that have some validity for the population at large. The sample should therefore **be representative of the population at large**. Should this not be the case, the subgroup will be unlikely to reflect the whole spectrum of views of the population at large seeing the views in question might be heavily weighted toward one end of the spectrum in question;
- To avoid the aforementioned scenario and to allow valid inference about the population based on a sample, it is imperative that the **principle of randomness** be embodied in the sample selection process;
- A **mechanism** should therefore be designed that every sample of the same size is likely to be chosen in the methodology applied in choosing the members of the sample population;
- The **application of the principle of randomness** in the selection of sample members provides some form of protection against the sample's being unrepresentative of the population. On average, should the population be repeatedly sampled in this way, no particular subgroup will be "over represented"; and
- On the basis of sample information, the objective is to make inferences about the parent population. It should be noted that it would be too ambitious to describe the whole population in terms of sample findings, but one would be able to **make quite firm inferences about the characteristics of the population distribution**.

9.1. The Primary and Secondary Population Samples

In terms of the Housing Consumers Measures Protection Act (95/1998) it is noted "No person shall carry on the business of a home builder or receive any consideration in terms of any agreement with a housing consumer in respect of the sale or construction of s house unless the person is a registered home builder."

The consequences of this Act comes to the fore in that:

- All top structure developers (although not builders themselves in that they employ contractors (builders) to do the actual construction of structures on their behalf) should be enrolled as members of the National Home Builder Registration Council (NHBRC);
- This ensures that the interest of housing consumers are protected in that all residential dwellings constructed are required to adhere to minimum specifications and requirements;
- No financial institution will grant a mortgage bond in the favour of a housing consumer if the unit in question is not enrolled with the council. The unit will only be enrolled if the builder / developer in question has received accreditation by being accepted as a member to the council; and
- It should be noted that mortgage finance is the primary source of finance for affordable housing developer clientele and it is therefore imperative that developers be accredited as such to procure finance for their clientele. Should this not be the case a developer would not be able to pursue the business of being a developer in the affordable housing sector.

The register of the NHBRC members has been utilised as the population of developers in the Gauteng province and a sample that represents the developer population has been chosen in terms of guidance obtained from literature. As previously noted, all builders and related concerns should be registered with the NHBRC. By just taking the membership roster of all concerns in the Gauteng province, it would not have been possible to make any clear delineation of organisations that carry on the primary business of being top structure developers in the affordable housing sector. Databases have thus been obtained from financial institutions and even developers of top structure developers that frequent them in order to narrow down the NHBRC members that actually fit the description of being top structure developers in the affordable housing sector – being the focal population of this paper.

If a sample is to be taken from a population, the eventual aim is to make statements that have some validity for the entire population. It will therefore be imperative for the sample to be representative of the population at large. Should this not be the case, the subgroup will be unlikely to reflect the whole spectrum of views of the population at large, seeing that the views in question might be heavily weighted toward one end of the spectrum in question (Wisniewski, 1997:195; Newbold, 1995:224). Respondents have thus been chosen based on this insight gained from

literature and on the following methodology that has been ratified by Dr. S.M. Ellis at the Statistical Consultation Services at the P.U. for C.H.E.:

- A random sample of 11 **top structure developers** (who represent the **primary focal population** of this study) has been obtained from the population pool of registered builders that was supplied by the National Home Builders Registration Council (NHBRC), a body to which every home builder / developer must belong in terms of current government legislation. Seeing that all builders must be registered as members with the NHBRC and that all builders are not developers (by definition a top structure developer as defined in this paper), the population pool of developers has been refined by comparing it to the databases of erven developers and a financial institution. The erven developers are Township Realtors and Nu-Way Housing, which are frequented by top structure developers in terms of the procurement of serviced erven. The financial institution is ABSA Bank, which is frequented by top structure developers in terms of procurement of mortgage bonds for their clientele. The total population that has thus been identified amounted to 39 top structure developers. Dr. Ellis confirmed that this sample is deemed to be representative of the population in question;
- There are a total of 4 organisations that fulfil the role of being **erven developers** in the affordable housing sector in the Gauteng province, i.e. first of the **secondary focal populations**. Their core business is that of servicing erven for clientele in all market segments of the residential property market. This includes projects aimed at the affordable housing sector. The organisations are Township Realtors, Nu-Way Housing, NEWHCO and Johannesburg Securities. Seeing that Township Realtors is currently subject to a judicial investigation, and therefore jeopardised as a potential respondent, the author has only interviewed representatives of the remaining 3 organisations as a sample of the identified population. Dr. Ellis confirmed that this sample is deemed to be representative of the population in question; and
- As mentioned previously, **financial institutions** provide the mortgage finance required for the clientele of top structure developers. The institutions that are currently active in granting mortgage finance in the affordable housing sector are ABSA, First Rand Bank (FNB), Standard Bank and Nedcor. Financial institutions are the **second and last part of the secondary focal populations** that form part this study. The population of financial

institutions consists of 4 members. A representative of ABSA has been interviewed together with a representative of a bond originating company called Bond Assist that specializes in the procurement of mortgage bonds for affordable housing clientele. This organisation's main function is to act as an intermediary between affordable housing clientele and the four financial institutions that have been identified. They are therefore up to date with contemporary trends in mortgage finance procurement and said institutions' attitude towards and vision for affordable housing. Dr. Ellis has expressed the opinion that the 2 respondents that have been interviewed as a sample of the population constitute a fair representation of this secondary focal population based on the fact that a representative understanding has thus been gained from the financial institution population.

The following respondents have been interviewed:

Respondent Name	Organisation	Role Type in Task Environment	Job Description
Johan Pasch	Whippet Construction CC	Top Structure Developer	Managing Member
Colin Winter	Nation Housing Gauteng (Pty) Ltd.	Top Structure Developer	Managing Director
Riaan Campbell	Ccelgro Projects CC	Top Structure Developer	Managing Member
Anton Biehler	Qualiplan CC	Top Structure Developer	Managing Member
Pixie Pascou	Capitol Hill Marketing	Top Structure Developer	Pretoria Branch Manager
Jaco Olivier	Cosmopolitan Projects	Top Structure Developer & Erven Developer	Chief Project Manager
Rudolph Du Plessis	Trustgro	Top Structure Developer	Managing Director
Brian Wright	PP Finance	Top Structure Developer	Manager – Affordable Division
Andrew Hofmeyer	Johannesburg Securities	Erven Developer	Chief Executive

			Officer
Dirk Botha	Nu-Way Housing	Erven Developer	Chief Project Manager - Affordable
Cornel Mulder	NEWHCO	Erven Developer	Managing Director – Gauteng Region
Derek Steyn	Calgro	Top Structure Developer & Erven Developer	Managing Director
Norman Pringle	ABSA	Financial Institution	Home Loans Manager – Emerging Markets
PW Grobbelaar	Bond Assist CC	Bond Originator	Managing Member

10. Analysing the Data

Berg (2001:102) holds that analysis of the data is without question the most difficult aspect of any qualitative research project – but also the most creative. Due to the imbedded creativity, it is impossible to establish a complete step-by-step operational procedure that may consistently be applied in practice (thus resulting in qualitative analysis).

Qualitative analysis does not have the same imbedded certainty that quantitative analysis possesses since one cannot pull out numbers thus operationally reducing responses from interviews and then expect to plug them into a qualitative analysis computer program. Such software exists only in Utopia (Berg, 2001:102). Cummings *et al.* (2001:122) further shows that qualitative techniques are often easier to use due to the fact that they do not rely on numerical data.

Quality qualitative research is inherently based on calculated strategies and methodological rigor as opposed to the perception that qualitative research lacks the precision that is to be found in quantitative research. Insights obtained from qualitative research not only add texture to an analysis but also demonstrate meanings and understandings about problems and phenomena that would otherwise not have been identified (Berg 2001:102).

The methodology applied in qualitative analysis cannot be undertaken lightly, quickly or neatly. This should never be viewed as a limitation or liability in that this characteristic of qualitative analysis is perhaps its greatest strength. When qualitative research is undertaken, certain priorities must be established, assumptions made during the design and data collection phases must be clarified and a particular research course must be set. Interviews are essentially a symbolic interaction from an interactionist point of view implying therefore that the social context of the interview is essential in order to understand the data that where collected (Berg, 2001:103).

Berg (2001:103) and Cummings *et al.* (2001:123) states that the following methodology might be considered as guidelines in qualitative data analysis:

- **Beginning an analysis:** Cannot be done in a completely straightforward way. It is imperative, however, to understand what should be done when one reaches this stage in research. The most obvious way to conduct analysis is that of *content analysis*, a popular technique that attempts to summarise contents into meaningful categories.
- **Systematic filing systems:** The establishment of some sort of filing system is of paramount importance, i.e. establishing some form of physical means of maintaining and indexing coded data and sorting data into coded classifications. This should preferably be done as the data is collected (Wisker, 2001:246). In essence, one needs to look systematically for similarities and dissimilarities – patterns – in the data and consequently index them as such;
- **Short answer sheets:** In addition to creating a comprehensive filing and indexing system, researchers might want to create a quick response or short answer sheet to include in their files. This is, in essence, a short summary of questions and answers that are included in the files; and
- **Analysis procedure (concluding remarks):** The collection of qualitative data is often so extensive that researchers feel that their job must be nearly complete when they have gathered all the applicable data. This is, however, only the beginning of the actual job. Researchers must closely examine potential patterns to see what findings and actually directly emerge from the data whereas researchers, whilst conducting the interviews, develop interesting (sometimes unreliable) impressions about possible patterns. Such

grounded findings that might have gone unnoticed during the data collection process are frequently among the most interesting and important results gained from the research and should thus definitely not be omitted from the research project.

11. Conclusion

This chapter has addressed the methodology that has been applied in conducting the empirical research component of this study. This was followed by the development of the interview schedule describing the rationale behind the various questions. The primary and secondary focal populations have been identified and the chapter has been concluded in explaining the methodology that was utilised to analyse the data that have been collected in the scope of this study. Chapter 4 that is to follow will be dedicated to the interpretation of the data and findings.

Chapter 4 - Interpretation of Data and Findings

1. Introduction

Having interviewed various developers in the affordable housing sector, the author was surprised by the scope of answers received from the respondents. The answers varied from absolutely positive to absolutely negative.

Whereas some respondents have displayed the ability and determination to survive in this dynamic and often “unfair” environment that is the affordable housing sector (in that they act proactively in a premeditated manner to meet the challenges head-on), other respondents seem to be oblivious to current trends and realities. This obliviousness is reason for concern in that it shows a clear lack of methodology to compete in this task environment, i.e. strategy that the developer in question is obviously not applying.

Various topics have been discussed in interviews with role-players in the affordable housing sector. The views of these respondents will consequently be discussed under separate headings.

2. Introductory Questions

Questions 1 to 4 have been utilised firstly to identify the respondents and secondly to establish a rapport with the respondents. The questions elicited the following information from the respondents:

2.1. Question 1

1. Which organisation do you represent?

This question established the name of the organisation and the role that the organisation fulfils in the affordable housing sector represented by the respondent. The names of the various organisations represented by the various respondents have been presented in chapter 3, section 9.1. “The Primary and Secondary Population Samples”.

2.2. Question 2

2. *Your full name and title (area of responsibility) in the organisation?*

This question established the names and job descriptions of the respondents. The names of the various respondents have been presented in chapter 3, section 9.1. "The Primary and Secondary Population Samples".

2.3. Question 3 & 4

3. *What would you say has been your defining moment as developer or what has been the defining moment for the organisation that you work for – that is to say the moment that has identified you or the organisation as a developer to be reckoned with?*
4. *Where do you see yourself or the organisation that you work for as developer in the short to medium term?*

The main function of these questions was to establish a rapport with the respondents, thus to "break the ice". These questions extracted no information of value to this study. This was done intentionally and the responses have consequently been "thrown away".

3. General State of Affairs in the Industry

3.1. Question 5 & 6

5. *What challenges have you or your organisation faced in your tenure as developer?*
6. *Tell me more? Or how come?*

This question was designed to establish the existence of areas or factors in the affordable housing sector that challenge the ability of top structure developers to be competitive. Upon asking the question regarding challenges that have been faced in the past, the following issues were highlighted:

- **Interest rate hikes in 1998:** Almost all respondents (top structure developers) have indicated that this unprecedented interest rate hike (to 25%) has had a detrimental effect on their organisations. Survival was the paramount concern seeing that consumers were finding it difficult to afford the monthly bond instalments – and to qualify for mortgage finance in the first place. (They qualified for much less than before the interest rate hike in

terms of the monetary value of said mortgage bonds.) With mortgage bonds being the major source of finance for clientele in the affordable housing sector, the turnover of top structure developers showed a severe decline that added to the struggle for survival during this period;

- **Availability and access to serviced erven:** Respondents (top structure developers and erven developers) have indicated that there is currently a dire shortage of serviced erven. Although new projects are in the offing, demand will still exceed supply due to the fact that erven developers are not as willing as before to service erven for the affordable housing sector. Coupled with the fact that access to prime serviced erven in particular are often reserved for a select few, the situation is set to worsen for the small to medium-sized developer. This issue will be discussed in more detail under the heading, "The Land Issue"; and
- **Access to mortgage finance:** Respondents (top structure developers) have indicated that access to mortgage finance is of paramount importance in the affordable housing sector. There seems to be no continuity in access to mortgage finance and this issue will be dealt with under a separate heading, "The Financial Institution Issue".

Two main issues have been identified, being the availability of serviced erven and the availability of mortgage finance for clientele. These two areas will form the foundation of exploring the strategic and competitiveness issues that is part of this study's focus.

4. The Land / Erven Issue

4.1. Question 7

7. *Define the role of landowners / erven developers in the affordable housing sector.*

This question has been designed to compile an industry account of the term landowners / erven developers seeing that no definition could be obtained from literature. This question further served the purpose to introduce respondents to the first issue that has been identified that challenges the ability of top structure developers to be competitive, i.e. the **availability and access to serviced stands**. The role of landowners / erven developers has therefore been defined in terms of the following:

- Being those individuals / organisations in the affordable housing sector whose core business it is;
- To supply top structure developers in the affordable housing sector with erven suitable for resale to consumers;
- In terms of being part of a “housing package” that has the amenities needed / required by the consumer to facilitate successful habitation inside the inhabitable top structure that is part of said “housing package” (erf and house); and
- That is being sold to the housing consumer by the top structure developer.

4.2. Question 8

8. *How do you see the availability of serviced erven in the affordable housing sector at present?*

The availability of serviced stands in the affordable housing sector is investigated by this question. Respondents (top structure and erven developers) have indicated that *demand exceeds supply* of serviced erven irrespective of location in terms of consumer needs (such as being close to transport, places of employment, access to schools and shops).

Stock seems to be at an all-time low – that is the availability of stands that are being allocated to developers in order to sell with a top structure building package, which is the primary business of a developer in the affordable housing sector.

4.3. Question 9 & 10

9. *How does this affect you as developer?*
10. *Negative answer: What do you think can be done about the situation? Positive answer: How so? Could you tell me more about that?*

Question 9 investigates the impact of the current availability of stands on the top structure developer, whereas question 10 was designed to gain a better in-depth understanding of this issue. Respondents (top structure developers) have indicated that this impacts negatively on the top structure developers in that they have nothing to offer affordable housing consumers. This has a negative impact on developers in that their turnover has decreased in certain instances and that

the battle for survival was complicated even further. Respondents (top structure and erven developers) had many different opinions as to why there is such a shortage of land at the current moment. They offered the following insights as possible reasons:

- ***Developers of erven no longer find it worthwhile to service erven:*** It is a fact that the financial institutions granting mortgage finance for aforementioned properties, govern the prices that top structure developers charge. In the event of a developer charging more than the currently “accepted” market rate as dictated by the financial institutions, the financial institution will not grant the bond. The rationale behind this is that should the outstanding capital on the bond be higher than the current market value of the property, they will not be able to recover their losses. These losses originate from financial institutions having to repossess properties (and having to resell) where the mortgager did honour his / her financial obligation towards the institution in question. This trend of the financial institutions to “artificially” control the prices in the market has led to the fact that a ceiling has been placed on the price that erven developers may charge for their product, i.e. a serviced erf. The yearly price adjustments that financial institutions allow has not kept up with increasing input costs, thus resulting in the profit margin of erven developers shrinking to such an extent that it is no longer viable for them to service erven that may be allocated to top structure developers. The main contributor to input costs surpassing the valuation of financial institutions in terms of serviced erven seems to be contributed to the excessive and unreasonable level of services that town councils of late wish developers to render (as opposed to the level of services in the early and mid-1990s). Erven developers are increasingly opting to service erven for the higher end of the market where prices are dictated solely by supply and demand. As a consequence, stock in the affordable housing sector has fallen to the current levels where demand exceeds supply; and
- ***Interest rate hikes in the late 1990s:*** The late 1990s have seen a tremendous hike in interest rates that has adversely affected the property market, especially the affordable housing sector. The early to mid-1990s have been characterised by numerous erven developers being part or wanting to become part of the affordable housing sector due to the attractive profit margins. Many developers depended on development bonds from

financial institutions to finance their projects. It was at that time the accepted norm to include development bonds as part of the finance required to get projects off the ground. The tremendous hike in interest rates has made the holding costs of erven so high that erven developers barely broke even and in some instances had to sell erven at a loss. This phenomenon has caused numerous erven developers to withdraw from the affordable housing sector, no longer willing to partake in the servicing of erven due to the perceived risk that is associated with the servicing of erven, particularly in the affordable housing sector.

As mentioned previously, **certain developers**, especially the bigger top structure developers, for their own use, **hoard available erven**. The next question (question 11 and 12) that needs to be asked is what could be done about the procurement of serviced erven in the future.

4.3. Question 11 & 12

11. *What are your views about the procurement of serviced stands in the near and distant future?*
12. *Tell me more? Or how come?*

Question 11 as essential question and question 12 as probing question pose the question of what could be done in terms of the procurement of service erven in the future. The answer to this question was to be found in how it came about that developers started to hoard erven. The following insights have been offered by respondents (top structure and erven developers) as possible reasons for top structure developers hoarding erven and as possible methodology to address this issue in the future:

- Some top structure developers in the affordable housing sector have foreseen the current dilemma of erven being in short supply and have acted accordingly by **dealing proactively** with the issue;
- Role-players in the affordable housing sector as a result of premeditated measures have formed **strategic alliances** among themselves to counteract said phenomenon seeing that their primary line of business depended on the constant supply of erven in the affordable housing sector;

- These **role-players** include top structure developers whose primary business is the supply and marketing of building packages (dependent on the availability of erven) to the housing consumer, lawyers that do the conveyance work associated with the transfer of property and the registration of bonds on the aforementioned erven and engineering companies that are contracted by erven developers to service erven for various housing projects;
- Should erven developers omit to service erven, top structure developers will have no stock to market, lawyers will have no conveyance work and engineering companies will have no land to service;
- The function of this strategic alliance between top structure developers, lawyers and engineering companies is thus to **protect their primary line of business** by ensuring through their own endeavours that stock of serviced erven (**for their own use**) is provided to the housing consumer in the affordable housing sector; and
- Although their main aim is not that of making a profit on the servicing of erven, they do attempt to do so at a profit.

The next insight offered to the author by respondents is that certain **top structure developers** have entered into **strategic alliances** with the small number of **erven developers** still willing to service the affordable housing sector. The basic premise behind the alliance is:

- All parties to the alliance must be prepared to bear some of the risk associated with the development in question in a predetermined ratio;
- That the erven of the project in question will be placed at the disposal of the top structure developer(s) party to the alliance with the erven developer;
- Top structure should provide the erven developers with performance guarantees and / or monetary guarantees in accordance with the alliance agreement; and
- This then ensures that the top structure developers part to the alliance have access to erven in the short to medium term, thus ensuring that they will be able to ply their primary trade.

The next issue that came to the fore as a natural extension of the interview thus far is that **not all top structure developers in the affordable housing sector have access to erven**, especially in sought-after areas where consumers are more likely to exercise their consumerism in procuring

residential property. The question that was posed, although not being cited as such in the interview schedule, was why should developers that have access to these erven, share the spoils with top structure developers that:

- First of all, did not have the foresight to counteract the current shortage of erven;
- Secondly, are not prepared to take risks by partaking in strategic alliances;
- Do not have / are not willing to commit resources (not even a performance undertaking, seeing that within a specific time they have to act on their undertaking, thus committing themselves) to the development of serviced erven;
- Often “demand” access to erven even though they had no part in securing / developing erven. This phenomenon often occurs with new players that introduced themselves into the market and thus have little or no stock in terms of serviced erven to offer consumers in the affordable housing sector; and
- The developers in question are newcomers in the affordable housing sector and expect to participate in the current spoils of available erven. They pose the threat of being new entrants into the market, thus competing for the same stock of erven as existing developers.

4.4. Question 13 to 15

13. *Define the term “strategy” in your own words.*

14. *STATE WHAT STRATEGY IS IN TERMS OF THIS STUDY.*

15. *How do you think your strategy may be combined to this?*

The next item on the menu is that of **strategy**, one of the **focus areas of this study**. Question 13 as a “throw-away” question was asked to introduce the respondents to the concept of strategy. Little useful information has been gained from this question; the author has therefore opted to omit this question’s responses from this study. Statement 14 was designed to introduce the respondents to the concept of strategy that was developed in this study. The respondent’s thought patterns have thus been aligned with the issue of strategy that will form the next part of this empirical study. Question 15 was designed to extract information from respondents (top structure and erven developers) in terms of which strategy/strategies may be utilised in the procurement of serviced erven.

Various respondents (top structure and erven developers) have offered the following insights:

- **Diversification:** This comes to the fore in that developers feel that they should embark on a course of vertical and/or horizontal diversification. In terms of *horizontal diversification* various respondents have already embarked on a course of action where other segments of the residential property market (such as high-cost housing projects in the upper echelons of the residential property consumers) will be attended to. This option seems to be viable in that the return (profit) per unit is much higher, enabling the developer to survive and increase turnover. In terms of *vertical diversification*, top structure developers embark on projects to service erven themselves by means of joint ventures with other top structure developers, entering into strategic alliances with suppliers of serviced erven (erven developers and land brokers);
- **Joint ventures:** Seeing that service erven are in short supply, top structure developers are starting to combine resources to service erven for their own supply. By doing so (the risk being shared by the developers party to the joint venture) they are able to capitalise on economics of scale, seeing that the cost per erf decreases as the number of erven being serviced increases. They can also get access to a greater pool of resources (capital required, skilled human capital, surety when investors or financial institutions need to front development capital, should the developers not be able to inject enough capital on their own etc.);
- **Strategic alliances with suppliers of erven:** This basically entails going into strategic alliances with erven developers in that agreements (with specific performance targets) are reached so that it becomes worthwhile for erven developers to service erven. The following are the principles behind these alliances:
 - Top structure developers are given a guarantee of access to a percentage of serviced erven in current and future projects;
 - Top structure developers pay non-refundable deposits on a erven allocation as a show of commitment to the project and / or top structure developers make a capital contribution / investment in current and future projects as it is required;
 - Top structure developers are tied to performance guarantees that basically entail that they will loose their allocation of erven should they not manage to sell the

erven to consumers and / or pay the holding cost associated with unsold erven in their allocation within a certain time period; and

- That other top structure developers will be given access to the supply of erven in relevant projects (to sell to consumers) should the original parties to the agreement not perform in accordance with preset conditions.
- **Get to know other top structure developers:** The basic premise behind this insight is that top structure developers should enter into alliances with each other in giving others access to their pool of erven on the basis that erven are traded as needed. This basically entails that erven of "equal" value are traded as needed. Should a developer not be able to offer a suitable erf in another area in exchange for an erf required in a specific area, no transaction will be concluded.
- **Getting to know land brokers:** Another supply of erven in the affordable housing sector is land brokers, entities that specialise in the sale of serviced erven and land suitable for servicing. Stock usually originates from:
 - Individuals who bought serviced erven for an investment and who would like to sell;
 - Developments that have not been sold (forgotten stock); and
 - Financial institutions that repossessed projects if the developer has not been able to meet his financial commitments in terms of the agreement.

5. The Financial Institution Issue

5.1. Question 16

16. *Define the role of financial institutions in the affordable housing sector.*

Upon asking respondents (top structure developers, erven developers and representatives of financial institutions) for their views on the role of financial institutions in the affordable housing sector, they offered these insights:

- **Primary function:** Provider of end-user finance (mortgage bonds) to the clientele of top structure developers in the affordable housing sector. This is due to the fact that cash buyers of properties in the affordable housing sector are almost unheard of, necessitating consumers to utilise mortgage bonds as the primary source of finance of their houses; and

- **Secondary function:** That of granting development bonds to developers wanting serviced erven might be obtained for resale to top structure developer clientele.

5.2. Question 17 to 19

- 17. How does this affect you as developer or the organisation that you work for?*
- 18. What are your views about the procurement of mortgage bonds for clientele in the affordable housing sector?*
- 19. Tell me more? Or how come?*

Question 17 was designed to establish the influence that financial institutions exert in the affordable housing sector. Question 18 was been designed to further investigate the availability of mortgage finance coupled with question 19, which was designed to gain a better in-depth understanding of the issue at hand.

Respondents (top structure and erven developers) pointed out that financial institutions, being major role-players in the industry, have the ability to influence the affordable housing sector to such an extent as to make or break a top structure developer. The focus of this paper is on the top structure developer in the affordable housing sector. This segment of the paper will therefore be dedicated to what respondents perceive as the primary function of financial institutions, i.e. the procurement of end-user-finance for clientele. The following insights have been offered:

- **Credit criteria:** As mentioned previously, consumers in the affordable housing sector have almost no choice but to make use of mortgage finance as primary means of financing their need for housing. In order to minimise their risk of non-payment of mortgage bonds, financial institutions have a set of credit criteria that they utilise to screen potential clients. The basic elements of these criteria are as follows:
 - *Gross salary* (before deductions such as tax, UIF, medical aid, pension, etc.) as determinant of the maximum bond that a client may qualify for;
 - *Net Salary* (after deductions such as tax, UIF, medical aid, pension etc.) as determinant of client's ability to afford the monthly bond instalment; and

- *Client credit rating* provided by consumer credit bureaus as determinant of the willingness and commitment to meet monthly credit instalments / payments as dictated by the agreement between the consumer and the organisation providing the credit.

Respondents (top structure developers) have also indicated that scoring a potential client in terms of a set of credit criteria is understandable but that the lack in consistency is not understandable. It is accepted practice in the affordable housing sector to assist clientele in obtaining mortgage finance and, as a consequence, respondents have pointed out that financial institutions do not apply credit criteria consistently. It is accepted that institutions differ in their interpretation of credit criteria but what is disturbing is that a client that would qualify today might not do so tomorrow. It is understandable that interest rate fluctuations affect the affordability of obtaining credit but what is worrying to developers is the scoring component of consumer credit bureaus: the scoring of the relevant bureaus stays the same. What is different is the interpretation of financial institutions in what they deem as being an acceptable score. The perception amongst top structure and erven developers exists that when financial institutions wish to obtain clientele, they are willing to be more lenient; and when they have reached their targets, they have a much stricter interpretation of said scoring. Respondents indicated that they would like to see a more consistent interpretation of credit criteria by financial institutions so that the uncertainty this causes in the industry might be minimised. This would save time and money in pursuing clientele that no longer qualify (unbeknown to the relevant developer);

- **Area preferences:** Financial institutions, once again wanting to minimise their risk exposure (explanation provided courtesy of Norman Pringle – ABSA Home Loans Manager (Emerging Markets) for the Gauteng Province), display a preference for areas that they are willing to consider in terms of granting mortgage bonds:
 - Area acceptability: some areas are more acceptable than others, ranging from highly acceptable to not acceptable at all;
 - This acceptability is influenced by factors such as supply and demand that dictate the willingness of people to stay in particular areas, which are, in turn, dictated by factors such as locality (proximity to schools, shops, transport, recreational

facilities, medical facilities, etc.), local crime rate, life style, resale value, and concentration of people; and

- Should the area be highly acceptable, financial institutions are normally willing to grant 100% mortgage bonds (willing to finance the whole property) and as the acceptability of the area declines, only to grant 90% to 80% bonds or nothing at all.

Financial institutions seem to forget that clientele; especially those in the market for affordable housing, do not always have a deposit of 10% or 20% (own contribution) to finance the purchase of their properties. This tendency, not wanting to grant 100% bonds in especially affordable housing areas deter many would-be consumers from purchasing a property of their own, thus making it difficult for top structure developers in the affordable housing sector to conduct their primary business. Respondents believe that financial institutions lose sight of the fact that what may be seen as a barely acceptable (Higher end: C class) area in the higher end of the market, is seen by consumers in the affordable housing sector as a highly acceptable (Affordable: A class). Area. This gives it the same attributes in the eyes of the affordable housing consumer as that of a consumer in the higher end of the residential property market in terms of areas that they term as being highly acceptable. This distinction should be kept in mind when granting mortgage bonds for clientele in the affordable housing sector, especially 100% bonds. Financial institutions do indeed seem to grasp this distinction from time to time and do grant 100% bonds, but the perception is once again that as soon as targets are reached, institutions seem to frequently grant 80% bonds, thus in effect showing potential clientele the door. The truth is, as soon as the percentage of defaulters in a specific area rises above an acceptable percentage, financial institutions tend to withdraw from areas in order to minimise their risk until the risk is under control again, i.e. until the percentage of defaulters is again within acceptable parameters.

The rational behind the concern of respondents is that there seems to be no consistency behind the methodology of financial institutions in granting mortgage bonds in terms of credit criteria and area rating. This inconsistency makes it difficult for top structure and even developers to incorporate consistent access to mortgage finance into the planning equation as a given factor.

This complicates the planning process for the construction of houses, thereby increasing the risk associated with the affordable housing sector. What might be acceptable today might not be so tomorrow. All they ask for is consistency or warning of pending “red-lining” of areas.

5.3. Question 20

20. How do you think this study's concept of strategy and your strategy may be connected to the procurement of mortgage finance?

Upon asking respondents what could be done about this phenomenon, it became apparent that there is no real solution to this problem and that it could best only be managed. It is thus a polarity that should be assessed as such. The following insights have been given as to how the situation could be managed:

- Establish a top structure **developer forum** that may represent all developers that wish to partake in this forum as a unified front with financial institutions. The collective bargaining power of the developers in terms of finance for consumers in the affordable housing sector should cause financial institutions to become a bit more lenient and obliging;
- Develop “**personal**” **working relationship** with representatives of financial institutions in that this might facilitate leniency (thus negotiating better deals) towards affordable housing consumers. It should be noted though that this should occur within ethical and legal parameters – not placing the institution representative and developer at risk. This should possibly be focussed on the communication of new developments in terms of scoring, security, finance and other mutual requirements;
- Top structure developers should be willing to **assist financial institutions** with individuals not honouring their obligations. This should occur especially in the first year after the sale has been completed as part of the after-sales service that a top structure developer provides to its clientele. This should serve to lessen the risk that financial institutions take in granting mortgage bonds to consumers in the affordable housing sector;
- Building on the previous factor in getting financial institutions to issue **warnings of pending “red-lining”** of areas; and
- Getting financial institutions to **understand the difference in nuances** between the different segments of the residential property market.

6. The Competitiveness Issue

Questions have been asked on strategy in order to put respondents in a “strategic” state of mind – these questions have been throw-away questions for the most part. This was done so that respondents may spontaneously connect strategy and competitiveness with each other.

6.1. Question 21

21. Tell me in your own words what the term competitiveness means to you.

Question 21 was addressed to respondents (top structure and erven developers) as an essential question in order to put them in a competitive frame of mind. Upon asking respondents how they define competitiveness, the following perspectives were offered:

- Outperforming market peers;
- Meeting the challenges that the affordable housing poses; and
- Being able to survive profitably in the often dynamic environment that is the affordable housing sector.

6.2. Statement 22

22. STATE WHAT THE TERM COMPETITIVENESS ENCOMPASSES IN THIS STUDY.

This statement was addressed to respondents (top structure and erven developers) in order to introduce them to the concept of competitiveness that was developed in this study so that they may apply it to the remainder of the questions on this topic.

6.3. Questions 23 to 26

23. How does this affect you as developer or the organisation that you work for?

24. Tell me more? Or how come?

25. How can any organisation become more competitive?

26. How would you apply this to the affordable housing sector?

Questions have been asked to get respondents to reveal how they think a top structure developer in the affordable housing sector may be competitive. Three dominant themes have come to the fore and will consequently be discussed.

Respondents seem to feel that **marketing and exposure** of the organisation in the market place per se are indispensable tools that should be utilised in order to be competitive in the affordable housing sector. Respondents have therefore suggested the following methodologies:

- **Target marketing:** Under this term it is implied that certain portions of the consumer populace should be targeted in order to make the best of one's often limited marketing budget. The first issue is that of focusing on a certain *income bracket* - in the case of the affordable housing sector those earning a gross household income of at least R5 000,00 (dependent on the current interest rates as determined by the Reserve Bank) per month. This is the minimum income that consumers should earn in order to qualify for an entry-level house in the affordable housing sector. The second issue is that of focusing one's market attempts on those *individuals in close proximity to areas* in which developers have erven available. This basically entails that one needs to focus on those potential buyers who live close to the erven in question and on "centres" employing qualifying buyers that are likewise in close proximity to the erven;
- **Meeting the ever-changing needs of the market:** The needs of especially the emerging black middle class should be met in terms of locality (proximity to schools, shops, transport, recreational facilities, medical facilities, etc.), incidences of crime, life style, resale value, concentration of people, etc. Should a top structure developer not be able to meet the changing needs of the market, consumers will frequent developers that are able to do so; and
- **Investing in competent human capital:** The majority of the respondents hold that the main asset of any top structure developer is to be found in its people. There are no tangible assets to be held except for maybe office equipment, an office building (if not rented), a motor vehicle or two and maybe a piece of land. The true source of a top structure developer's ability to compete in the affordable housing sector is to be found in its people. The following advice was offered:

- *Competent people should be retained* in that they should be looked after in e.g. motivational and monetary terms so that they may stay with the organisation and not be tempted by offers from other developers;
- *Employees should be developed* in order to reach the pinnacle of their potential, thus financially benefiting the developer in question by being productive and resourceful members of the organisation;
- *All employees should be treated as associates* rather than mere workers, thereby creating aligned commitment by getting them to “buy into” the organisation. If they have a sense of ownership, they will be more willing to go the extra mile, which will benefit the top structure developer in question; and
- *Attracting competent human capital* by making it worth their while to join the organisation.

7. Concluding Remarks and Questions

Various other issues have been dealt with whilst interviewing respondents and will consequently be discussed under separate headings.

7.1. Questions 27 to 30

- 27. How would you define the term “affordable housing”?
- 28. How would you define the term “serviced erven”?
- 29. How would you define the term “landowner / developer of serviced erven”?
- 30. Any questions that you, as the respondent would like to pose to me, the interviewer?

The following questions have been included in the interview schedule due to the fact that no definitions could be found in literature for the concepts under scrutiny. The accounts have been presented in chapter 2, section 2 under the heading of “Terms and Definitions”

- Question 27 was addressed to respondents (top structure and erven developers) in order to obtain an **industry account of the concept affordable housing**. The following account was presented by respondents:
 - Affordable housing is a specific segment in the residential property market;

- That focuses on the specific needs of the emerging home owners (predominantly emerging black middle class) market;
 - Priced in the region of R100 000,00 to R250 000,00 as at September 2003. Prices gets adjusted every 6 months thus compensating for increased input costs thus making these prices valid for this period only;
 - The household income of a consumer is R5 000,00 per month (in terms of financial institution policy during this period) in order to qualify for mortgage finance that will in most instances finance said consumer's purchase;
 - In predominantly former township and areas that are currently being redefined as "grey areas" that boast a mixed makeup of races, cultures and creeds in their population;
 - That may thus be defined as an economic solution to affordable housing needs that nestles between the continuum that is RDP housing (government sponsored / subsidised housing for mostly the unemployed in terms of the Reconstruction and Development Programme) and the traditional housing segment of the economically active middle class population; and
 - Where the emphasis is placed on developing / building new habitable structures as opposed to the trade in existing (old) property that is the core business of real-estate agents.
- Question 28 was addressed to respondents (top structure and erven developers) in order to get an **industry account of the concept serviced erven**. The following account was presented by respondents:
 - Unimproved land that has been altered to be fit for human habitation in that;
 - The land has been subdivided into portions (erven);
 - That has been supplied with services such as a water connection point, electrical connection point and sewerage connection point by an erven developer; and
 - Is thus been prepared for the construction of a habitable top structure that may be occupied by a housing consumer.

- Question 29 was addressed to respondents (top structure and erven developers) in order to get an **industry account of the concept landowner / developer of serviced erven**.

The following account was presented by respondents:

- Being those individuals / organisations in the affordable housing sector whose core business it is;
 - To supply top structure developers in the affordable housing sector with erven suitable for resale to consumers;
 - In terms of being part of a "housing package" that has the amenities needed / required by the consumer to facilitate successful habitation inside the inhabitable top structure that is part of said "housing package" (erf and house); and
 - That is being sold to the housing consumer by the top structure developer.
- Question 30 was addressed to respondents to answer any questions they might have wanted to pose to the interviewer. No questions have been asked apart from the notion that various respondents indicated that they wanted to peruse the thesis on completion of this study.

8. Conclusion

This chapter has been dedicated to the empirical research component of this study. The issues that have been covered range from strategy to competitiveness and practical problems that have been identified as being:

- The erven issue, i.e. access to and the availability of serviced erven for top structure developers to sell to consumers in the affordable housing sector; and
- Access to mortgage for affordable housing clientele, i.e. the financing of properties that consumers wish to purchase in the affordable housing sector. The service that financial institutions offer these consumers is subjected to volatility seeing that there seem to be no consistency in the application of the criteria that these institutions set.

These problems have been utilised as practical points of reference to test the concepts of strategy and competitiveness in the affordable housing sector. Chapter 5 will conclude this study and will be dedicated to recommendations that will be made in line with this study's focus areas.

Chapter 5 - Recommended Methodology and Conclusion

1. Introduction

Competing in the affordable housing sector as top structure developer seems to be fraught with challenges, most of which are beyond the control of most market peers. This is indeed the case, but only to a certain extent. Respondents that have been interviewed have shown the author that, with proactive planning and proper strategy implementation, it is possible to manage this polarity (dilemma) to a great extent.

The aim of this chapter is therefore to devise a methodology (in line with the literature study that was conducted in chapter 2 and in conjunction with insights gained from respondents in chapter 4) that may be implemented as a broad guideline for top structure developers to get on a more equal footing with market peers. This methodology will therefore be discussed in the remainder of this, the last chapter of this study.

The recommended methodology consists of two separate yet intertwined parts, being a competitiveness frame of mind and a practical step-by-step methodology that may be altered by the relevant top structure developer to suit his / her individual needs.

2. Competitive Frame of Mind

The concept of competitiveness has been explored in chapter 2 and a definition has been derived for what competitiveness should constitute in the affordable housing sector. This then will form the basis of the discussion to follow.

Competitiveness in the affordable housing sector may be defined as the ability of a top structure developer to outcompete market peers in terms of addressing the wants and needs of consumers in the affordable housing sector. This holds that a top structure developer should adapt an encompassing philosophy (frame of mind) of competitiveness that addresses the following issues:

- **Free and fair market conditions in order to facilitate the production of goods and services:** This adds up to the developer in the affordable housing sector acknowledging

that there are factors in the respective environments within which the organisation functions that may fall beyond their scope of control. Being able to distinguish between factors that the organisation can control and factors that the organisation cannot control will most probably be the dividing line between those being able to survive in this dynamic environment and those not being able to survive. Most factors are polarities at best, thus being dilemmas to manage and not problems to solve. *Free and fair market conditions* come to the fore in that the prevailing conditions in the task environment should be conducive to promoting competitiveness. This is not always the case in the affordable housing sector as it was confirmed by respondents that role-players in this task environment continuously attempt to sway conditions in their favour (see chapter 4). This is not conducive to competitiveness seeing that not all top structure developers have access to the same opportunities. This phenomenon presents itself as a polarity / dilemma that needs to be managed. By adopting the same frame of mind, a small to medium-sized top structure developer could embark on the same voyage of influencing the market on a limited scale in line with present capabilities / resources. This will then gradually build up momentum as circumstances dictate in line with methodologies that have been discussed in chapter 4, i.e. methodologies / strategies that top structure developers utilise to counteract the shortage of serviced erven, to stabilise access to mortgage finance and the ability to be competitive. This will be coupled with recommendations to follow in the remainder of this chapter.

- **That meets the test of the market in maintaining and expanding the real income (wealth) of all stakeholders:** The bottom line is *meeting the test of the market*. This holds for the top structure in the affordable housing sector that he / she should be able to run and maintain a profitable business that is able to *maintain and ultimately expand the wealth* of role-players associated with the organisation in terms of real (monetary) terms. Running and maintaining a profitable business that is able to meet the test of the market requires somewhat of a visionary that is capable of steering the organisation in question in the right direction of profitability. This will ensure survival in the short term (maintaining role-players) and growth in the medium to long term (expanding wealth) that will enable the top structure developer to meet the test of the market by providing consumers with goods

and / or services in line with their wants and needs that will entice affordable housing consumers to exercise their consumerism in his / her favour.

- **That is not based on a sole reliance on any one factor, but rather on economic growth that impacts on a far broader range of beneficiaries than a strategically placed few:** Reliance on one factor comes to the fore as the *reliance on one specific resource, characteristic or competence* that is exploited as a competitive advantage in the task environment. It has been noted in chapter 2 that a competitive advantage is easily eroded thus losing its edge as a "tool" that has been exploited by the party concerned in the relevant task environment. The relevance for the top structure developer in the affordable housing sector is that the adopted frame of mind should encompass a strategy that is based on more than one competence and that is continuously searching for something new to be capitalised upon as competitive advantage in the knowledge that the current status quo might change at any given moment. The *beneficiaries to the wealth created by an organisation should not be limited to a strategically placed few*. This comes to the fore in that all role-players associated with the top structure developer (whether internal or external) should be equitably rewarded for their effort in terms of contributing to wealth creation. By doing this, the role-players in question will be enticed to continue their association with the relevant top structure developer, standing to benefit not only themselves but the top structure developer as well, thus cultivating a mutually beneficial relationship.
- **That is inherently based on generating more value through improved productivity, quality, service and innovation:** *Value creation, improved productivity, quality, service and innovation* form the core philosophy in terms of not being dependent on one specific resource, characteristic or competence. This needs to form part of the continued search for the next new thing that may be utilised in the task environment by top structure developers as competitive advantage against market peers. Should current and future competitive advantages be based on improved productivity, quality, service and innovation, the top structure developer will stand a better chance to be recognised (by market peers) as a serious contender in the task environment.

Now that a “competitive state of mind” has been reached, the next phase to enter is that of applying the management plan.

2. Management Plan / Generic Model

Once the required state of mind has been entered, the following step-by-step methodology is proposed as guideline for being “hands-on” as a competitive entity in the affordable housing sector.

2.1. Step 1: Conducting a Environmental Audit

Porter’s five forces model was postulated as a candidate to conduct an environmental audit due to the fact that the model’s emphasis is on the five forces that shape industry competition. The nature and intensity of the competition within the task environment hinge on the five forces and will consequently be discussed based on the affordable housing sector industry. Based on the insights gained from chapter 2, the literature study, the following might be considered by a top structure developer in line with empirical study findings:

1. Rivalry among market peers

This being the strongest of the five forces, rivalry among market peers gets birthed out of a myriad of factors within the task environment such as those listed in chapter 2. The top structure developer in the affordable housing sector should therefore:

- **Compile a list of possible factors contributing to rivalry:** The following factors have been identified and are based on the insights gained from respondents in chapter 4:
 - The demand for serviced erven that is currently exceeding supply among top structure developers;
 - Competitors (top structure developers) in the affordable housing sector that are continuously vying for a better market position / standing;
 - The potential benefits associated with a strategic move to get access to serviced erven and being among the first in the market to offer consumers innovative new products such as security villages.

- **Gauge the level of rivalry:** The level of rivalry seems to be moderate at times, seeing that respondents have indicated that they make acceptable profits on projects. However, this is not the case when it comes to access to serviced erven. Here competition seems to be strong, seeing that top structure developers initiate frequent moves and countermoves to get access to serviced erven; and
- **Compile a list of competitors:** A list of competitors should be compiled in the relevant task environment (i.e. the affordable housing sector) and a level of importance should be attached to them – as will be shown later in this chapter under the heading “Step 5: Determining the Organisation's Competitive Position”.

2. The potential entry of new competitors

The threat of the potential entry of new competitors is determined by two factors as set out in chapter 2. This factor is a very real threat in the affordable housing sector as indicated by respondents in that top structure developers tend to enter and exit the affordable housing sector at an alarming rate. The top structure developer in the affordable housing sector should take note of that and should consequently incorporate the following gained from the insights of respondents in chapter 4 in strategy formulation:

- The **barriers to entry** have been determined as being:
 - *Cost and resource disadvantages:* Existing organisations / top structure developers in the affordable housing sector have access to resources not available to potential entrants. These resources include access to serviced erven and competent human capital well versed in the dynamics of the affordable housing sector and; and
 - *Capital requirements:* New entrants are often subjected to excessive capital requirements, especially in gaining access to serviced erven. Capital is for example required to service erven for own consumption (use for own clientele) seeing that newcomers often have limited or no access to serviced erven.
- The **attractiveness of profit prospects** should be noted for potential entrants. Respondents have indicated that they are making acceptable profits at this point in time on

projects (return on investments for example). This is likely to entice outsiders to enter the affordable housing sector as top structure developers.

3. Competitive pressures from substitute products

The threat of substitute products is something to be reckoned with seeing that those products are in competition with the products of an organisation in the task environment. In this instance, based on the insights gained in chapter 2, the top structure developer in the affordable housing sector should take note of any possibility of substitute products lending themselves as viable alternatives for the consumer.

There are no apparent threats in this arena. This factor – although not significant at the moment – should not be left out of the equation. The threat of substitute products should therefore be taken into consideration for incorporation into strategies, based on the following:

- Whether attractively priced substitutes are available – *nothing is currently available*;
- Whether consumers view the substitutes as being satisfactory in terms of quality, performance and other relevant attributes – *nothing is currently available*;
- Whether consumers are able to switch to substitutes easily – *nothing is currently available*;
- The rate at which their sales and profits are growing – *nothing is currently on the cards*; and
- The market inroads that they are making and the plans of substitute producers to expand production capacity – *nothing is currently on the cards*.

4. Competitive pressure from supplier bargaining power and supplier-seller collaboration

The top structure developer in the affordable housing sector should take special notice of this factor. The supply of serviced erven and the collaboration between the suppliers and certain top structure developers tend to be problematic as highlighted by respondents. The top structure developer should therefore take special notice of this in terms of the insights gained from chapter 2 and 4; the following should be incorporated in strategies:

- Whether suppliers can exercise sufficient bargaining power to influence the terms and conditions of supply in their favour – *indeed they can: the suppliers of service erven have*

the ability to dictate the terms and conditions of supply in their favour seeing that demand exceeds supply; and

- *The extent of the supplier-seller collaboration in the industry – it does exist seeing that sellers and buyers enter into strategic alliances in terms of top structure developers and erven developers that enter into mutually beneficial relationships pertaining to the supply of serviced erven in the market place.*

5. Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration

The consumer / buyer in the affordable housing sector has no real bargaining power seeing that the majority of consumers are one-off buyers that exercise their consumerism once or twice in a lifetime (possibly a bit more often) by purchasing one product – a house to satisfy their base need for housing. This factor should, however, not be left out of the equation and the top structure developer should incorporate this factor based on the following insights from chapter 2 and 4:

- Whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favour – *as mentioned previously, buyers do not have the ability to exert pressure; and*
- The extent and competitive importance of seller – buyer strategic partnerships in the industry – *nothing exists at this point in time.*

2.2. Step 2: Conducting a SWOT Analysis

Conducting a SWOT analysis would be the next recommended step in the methodology. For this purpose the following matrix (based on the insights gained from chapter 2, coupled with the insights gained from respondents in chapter 4) was devised for use of top structure developers in the affordable housing sector.

Opportunities: • The emerging black middle class that has the potential need for housing products of R250 000 to R350 000,	Threats: • The lack of serviced erven that might cause top structure developers to go out of business due to the fact that
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which falls between the traditional boundaries of affordable housing and the more affluent market, thus lending itself for exploitation in terms of horizontal diversification; • Servicing own erven for own consumption at first, and later for resale to other top structure developers, thus lending itself to be capitalised upon as a means of vertical diversification; • A developer forum might be established that will give top structure developer a bigger voice in dealings with financial institutions, land owners, etc.; • Innovative new products such as "security villages" that are currently being developed as a new product on offer to affordable housing clientele;	there is no stock of erven to sell to would-be housing consumers; • Interest rates spiralling out of control again as was the case in 1998; • Lack of mortgage finance for housing consumers, i.e. the lack of end user finance for top structure developer clientele; • The potential entry of new competitors as conditions in the affordable housing sector improve – brought on by a drop in interest rates and increased availability of serviced erven;
Strengths: • Marketing expertise that might serve a top structure developer in procurement of clientele, i.e. outperforming market peers (competitive advantage / core competence); • Customer service in terms of offering clientele a "one-stop shop" that takes care of all needs associated with buying a "new" house, i.e. arranging mortgage finance, liaising with architects, builders, etc. This might serve a top	Weaknesses: • Weak management practices and methodologies; • Weak financial positions / lack of finance; • Inability to adapt to changing market conditions, i.e. changing needs and wants of consumers, etc.; • Lack of marketing know-how; • Lack of customer service-oriented organisation culture;

structure developer in obtaining clientele, i.e. outperforming market peers (competitive advantage / core competence); • The ability to offer innovative new products such as the concept of "security villages" that has been set up to present an unknown entity in the affordable housing sector that might serve a top structure developer in obtaining clientele, i.e. outperforming market peers (competitive advantage / core competence); • Sound project management methodologies that are in place, i.e. the ability to have houses built in the shortest possible time whilst adhering to national building regulations as underwritten by the NHBRC,	• Lack of project management prowess needed to manage the actual construction of the houses in the affordable housing sector • Inability to offer new and innovative housing products that meet the changing needs and wants of affordable housing consumers
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2.3. Step 3: Identifying Organisation Competencies and Competitive Capability

This step should preferably be conducted at the same time as step 2, the SWOT analysis. The rationale behind this recommendation is that this ties in with the strengths of the organisation as depicted in the SWOT analysis.

When looking at the strength quadrant of the SWOT analysis conducted in the previous section, the following comes to mind as organisation competencies:

- **Marketing expertise** that might serve a top structure developer in obtaining clientele, i.e. outperforming market peers (competitive advantage / core competence);

- **Customer service** in terms of offering clientele a “one-stop shop” that takes care of all needs associated with buying a “new” house, i.e. arranging mortgage finance, liaising with architects, builders, etc. This might serve a top structure developer in procurement / of clientele, i.e. outperforming market peers (competitive advantage / core competence);
- The **ability to offer innovative new products** such as the concept of “security villages” that has been up to present a unknown entity in the affordable housing sector that might serve a top structure developer in procurement of clientele, i.e. outperforming market peers (competitive advantage / core competence); and
- **Sound project management methodologies** that are in place, i.e. the ability to have houses build in the shortest possible time whilst adhering to national building regulations as underwritten by the NHBRC.

These organisation competencies serve to enhance the competitive ability of a top structure developer in the affordable housing sector. They are to be used as a single factor or combination of factors of competitive advantage depending on the portfolio of competencies that the organisation in question possesses. Top structure developers should therefore strive to incorporate as many of these competencies as possible seeing that addition of each factor improves the top structure developer's chance of being considered a serious market contender.

2.4. Step 4: Determining the Task Environment's Driving Forces

Based on the insights gained from the literature study in chapter 2, coupled with the insights gained from respondents in chapter 4, the following driving forces have been identified for strategy incorporation by top structure developers in the affordable housing sector:

- **Product Innovation:** Customers in the affordable housing sector are not simply offered a basic house anymore. Top structure developers and erven developers have started to give consumers the choice of area, house designs and security villages that have previously been reserved for consumers in the higher echelons of the residential property market;

- **Changes in buyer demographics:** The rise of the up and coming black middle class has been identified as a driving force of which special note needs to be taken. This force is no longer satisfied with just buying a house: coupled with the product innovation factor as listed above, they demand quality, locality, security, choice in terms of product characteristics and value for money. Based on the aforementioned characteristics, they shop around for the best deal that they can find.
- **Marketing Innovation:** There are top structure developers that are changing the way in which they are enticing consumers to exercise their consumerism in their favour. New and innovative ways of marketing, previously reserved for the higher echelons in the residential property market, are starting to be utilised by top structure developers.

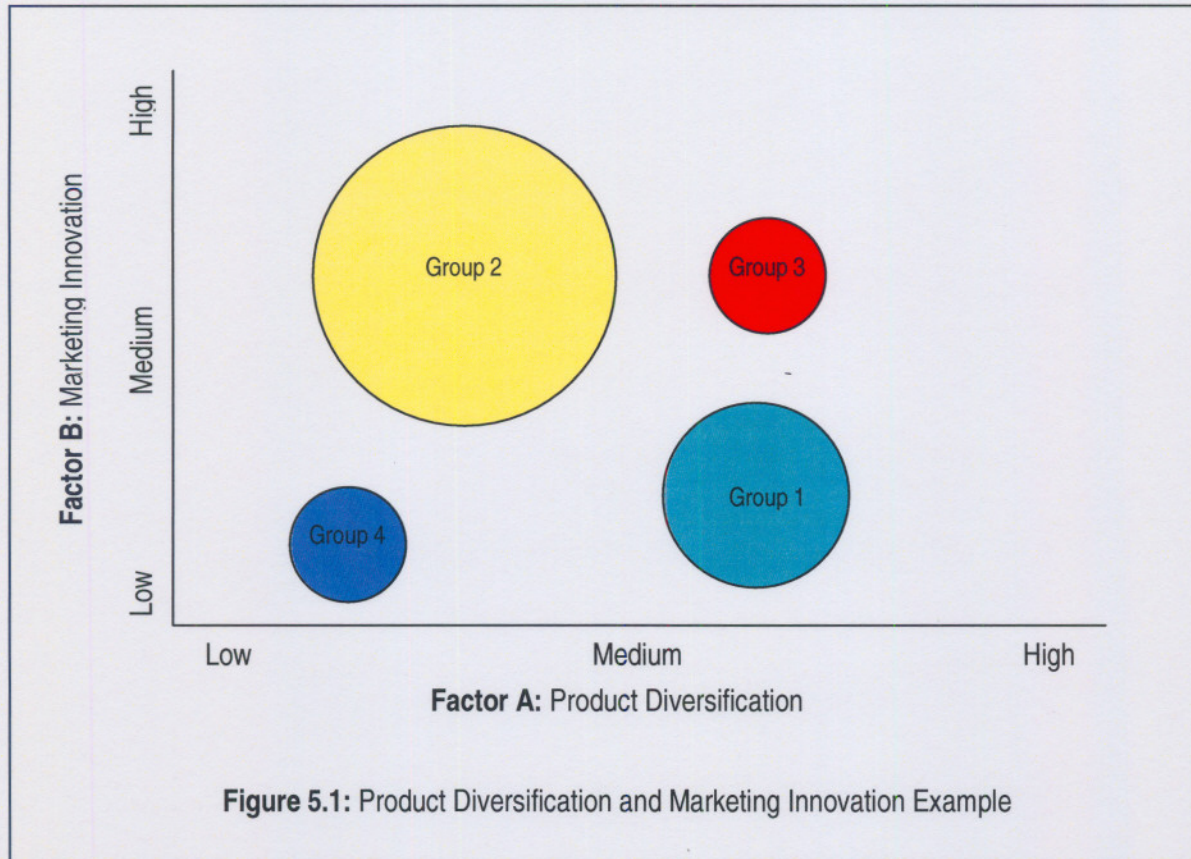
2.5. Step 5: Determining the Organisation's Competitive Position

The following example of determining the organisation's competitive position is proposed for top structure developers to determine their competitive position in the task environment. These are based on insights gained from chapter 2 (literature study) and chapter 4 (insights from respondents).

Combinations that might be considered are the following:

- Product diversification and marketing innovation (see figure 5.1);
- Product diversification and access to serviced erven;
- Access to serviced erven and marketing innovation;
- Financial strength and marketing innovation; and
- Financial strengths and access to serviced erven.

Having placed the organisation in question (top structure developer) on the matrix in terms of the variables on the x- and y-axis, the competitive position of the organisation can be determined. The organisation is therefore ranked in relation to market peers against the variables used as factors of concern in the affordable sector. This will enable top structure developers to identify shortcomings where remedial action needs to be taken.



Knowing the organisation's competitive position will assist the top structure developer in achieving the following:

- Identifying the position of his / her organisation in terms of certain factors in relation to that of market peers;
- Identify any strengths / core competencies or weaknesses / that might be present, i.e. strengths that may be capitalised upon as a competitive advantage and weaknesses that needs to be remedied that may be exploited by market peers;
- Incorporate the knowledge thus gained in the strategy making process; and
- Thus being able to determine what direction the organisation is likely to take in the near future.

2.6. Step 6: Determining the Task Environment's Key Success Factors

Based on the insights gained from chapter 2 and 4, and noting the fact that any given task environment rarely has more than three to four key success factors, the following factors have been identified for strategy inclusion by top structure developers:

- **Technology-related KSFs:** Product innovation has been determined as a major factor to be reckoned with;
- **Marketing-related KSFs:** The ability to come up with innovative marketing strategies has been identified as a factor to be reckoned with;
- **Organisational capability:** The ability of an organisation / developer to employ managerial know-how and the ability to adapt to changing market conditions (for example to address the erven issue and financial institution issue) have been identified as factors to be reckoned with;
- **Access to financial capital:** Though not the least of the factors mentioned, respondents have indicated that those individuals with access to financial capital has a great advantage over those less fortunate developers in especially the arena of servicing erven for own consumption.

2.7. Step 7: Compiling a Strategy

The final step in the proposed management model is that of deriving a strategy that suits the relevant top structure developer in the affordable housing sector the best. The following pointers should therefore be taken into consideration:

- **The SWOT analysis:** Once the SWOT analysis has been conducted, the organisation should be placed on the SWOT analysis diagram (figure 2.5) as presented in chapter 2. The position that the organisation might occupy includes the following:
 - A position that supports a aggressive strategy;
 - A position that supports a diversification strategy;
 - A position that supports a defensive strategy; and
 - A Position that supports a turnaround-oriented strategy.

- **The Selection of a Strategy:** The selection of a strategy is based on 4 steps that are depicted on the grand strategy selection process (figure 2.6) as presented in chapter 2.

The process includes the following steps:

1. Identify the present corporate strategy;
2. Conduct a portfolio analysis of the current organisation resources, liabilities, strengths, weaknesses, opportunities and threats;
3. Select an appropriate strategy based on the portfolio analysis and present corporate strategy that has been determined previously; and
4. Continuously evaluate the selected strategy and make adjustments where needed.

Deciding on the appropriate strategy is subject to the top structure developer being informed on the appropriate methodology to be utilised, coupled with knowledge of strategic alternatives at his / her disposal. There are no guarantees that a chosen strategy will work, only the knowledge that the strategist who has possibly made the decision has done so to the best of his / her ability.

4. Conclusion

Life holds but two certainties: death and taxes. There is no recipe that guarantees success. The top structure developer who applies the management plan that has been developed stands a better chance to succeed in the affordable housing sector than those wishing to ignore a common sense approach.

Having been introduced to the notions of strategy and competitiveness and adapting the mindset that has associated with these concepts in this study, one thing is for certain: an interesting career as top structure developer awaits those individuals who embrace the concepts developed in this study.

The author is of the opinion that this study is limited so far as the themes of strategy and competitiveness of top structure developers goes in the affordable housing sector. The practical

problems that have been identified in chapter 4, the empirical research component of this study, poses interesting avenues of research that might be investigated being:

- Shortage and access to serviced erven in the affordable housing sector for top structure developers; and
- Access to stable mortgage finance for affordable housing sector consumers.

Although respondents have offered various insights into possible solutions to these dilemmas, these issues have to be researched in order to come up with a medium- to long-term program that will manage these polarities.

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