

How to make the Construction Charter work for your company

 By [Alon Raiz](#)

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Everybody knows that the construction industry has been reeling for a number of years, a casualty of an economy that seems to be going backwards and the lack of spending on infrastructure. A number of larger players have had to reposition themselves.



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For a number of companies, too, complying with a broad-based black economic empowerment (B-BBEE) charter that is highly prescriptive is seen as another burden. This is particularly true when it comes to supplier development. The charter is a technical document which provides a formula that generates a specific amount that any given company is obliged to spend on supplier development.

Typically, companies put this on the back burner and then there is a mad rush to comply as their year-end approaches. This is perfectly understandable because construction is a difficult environment at present and its human resources are overcommitted, to say the least.

As a result, though, the money that must be spent on supplier development is arbitrarily assigned to any Black-owned company just to comply. This is wasted expenditure as it benefits construction companies only minimally, if at all, and also contributes to the view that B-BBEE is a bit of a deadweight.

The charter clearly intends something very different – and that is to fast-track the number of Black contractors in the industry. This is obviously in everyone's interests; the more "transformed" an industry is, the more convincing its social licence to operate and the more effectively it can compete for big tenders. At the same time, a greater pool of properly skilled Black contractors who can add value to a project is a huge potential plus in an industry where small contractors are often the weak link.

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Give yourself room

To make the supplier-development element of the Construction Charter work, the key is to start planning early so that promising contractors who could contribute to the principal company's value chain are identified and mentored to reach the desired level of business expertise.

It's also worth accepting that most construction companies have neither the workforce nor the expertise to undertake this process internally. In fact, in-house supplier development can be detrimental as it dilutes management's focus on the core business. Working with a development partner makes sense because highly specialised skills are needed to identify and then guide entrepreneurial companies to greater stability. And it doesn't need to involve additional expenditure as the total project budget is aligned with the amount determined by the charter's formula.

The benefits of this more strategic approach can be substantial.

For example, smaller contractors often place projects in jeopardy because they lack the cash-flow needed to buy the materials needed to honour their commitments. Because their accounts are typically in a poor state, they cannot access loan finance and so rely on the principal contractor for bridging finance which, in turn, places its cash-flows under pressure.



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Genuine partnership

By contrast, an effective supplier-development partner has the ability to help such contractors get their accounts in order so that they can apply for the necessary loans. The principal contractor therefore gains not only the necessary B-BBEE points, but also a genuine partner who can add value.

Not only will projects run more smoothly, from both a work and finance point of view, but the principal contractor will be in a better position to bid for large tenders that require a minimum Level 4 B-BBEE rating. They can also be confident that their B-BBEE partners will be effective contributors.

A final point is that the charter goes beyond specifying the amount of money that principal companies are obliged to spend on supplier development. Companies must also submit documentary proof that they have spent their supplier-development money wisely to achieve the stated goal. Again, reputable supplier-development partners are able to produce the necessary verification documentation which further reduces the burden of compliance for principal companies.



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Strategic, effective approach

Construction companies have no option but to fulfil their obligations outlined in the Construction Charter. But they do have an option when it comes to how they will go about complying. Taking a more strategic and effective approach will make their money really work for them, and make the industry, as a whole, much stronger and more viable.

The Master Builders Association North and Raizcorp are jointly presenting a webinar on this topic, facilitated by Allon Raiz, on 23 February 2021 at 1pm-2.30pm. For more info, go to www.mbanorth.co.za/training.

ABOUT ALLON RAIZ

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Said Business School.

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