

Was the construction industry wrong?

 By [Paddy Hartdegen](#)

25 Jul 2013

Many people in the commercial world, the media and the security sectors have been baying for the blood of the chief executive and directors of several major construction companies over their collusion.

Hefty fines have been paid by these companies - as an admission of guilt I guess - because they:

- Divided the market and then rigged their bids to suit the region;
- Agreed on profit margins;
- Paid fees to competitors to deliberately not get the job.

There are other allegations as well, but these are the main ones.

Unlike many people in South Africa I don't believe the contracting companies are at fault; I believe that the whole tendering system is wrong and, as a basis for undertaking major infrastructural development, is completely archaic and no longer workable. Let's look at some of the reasons for this.

Problems with the tendering system

Firstly, tender documents are put out and, at best, they are not nearly as detailed as they need to be because there can be many different ways of tackling a construction job. The design is an integral part of this but the specific ways that design can be converted into a finished article are many and varied.

Each company bidding for that work has to do all the research, investigation, pricing and implementation and planning in the hope that, just maybe, they will get the work and the others will lose out. That's all well and good until you start putting the prices together:

- Major infrastructural projects (such as building a stadium in Green Point, Cape Town) could cost hundreds of thousands if not millions of rands to thoroughly provide an accurate estimate of costs on which to base a tender. The costs are made up in man-hours (non-sexist ones) doing the work that takes specialist knowledge and expertise to execute. So a major tender might, for simplicity involve 1000 man-hours at say R1000 an hour. The cost: R1 million. If the company doesn't get the work, guess what: that R1 million goes up in smoke and is the equivalent of truly fruitless and wasteful expenditure.
- In every tender, there are a number of bidders and only one winner. So if seven companies bid for a job using the costing that I've set out above, then the total investment is R7 million in expertise, technical ability and engineering

know-how, However, six bidders lose, so R6 million is wasted and fruitless. Moreover the losing bidders have no way of recouping the money they have invested in preparing a losing bid.

Difficult decisions

In a country where skills are at a premium - particularly in the engineering field, where there is actually a worldwide shortage anyway - that human capital is valuable and yet it is being wasted alongside the enormous amount of money that it consumes to prepare losing bids. On a R4,5-billion stadium, the tendering cost alone could be worth tens of millions of rands and take hours and hours of time to complete. All of it wasted.

Multiply those figures again by ten stadia that needed to be built from scratch or need to be refurbished, expanded and modified and the potential waste of time and money for construction companies is huge and takes so much valuable expertise out of the market. Expertise that could better be spent in a more (forgive the pun) constructive way. Added to that are the very real time pressures that the country was under to put on an event such as the World Cup 2010 and, to my mind, it's hardly surprising that the construction industry got together to find a better way. Their mistake, perhaps, was not telling everyone about it at the outset and not proposing a solution that was tailored to meeting the deadlines without wasting tendering time.

For them the mistakes were twofold:

- Not coming out and saying that this archaic tendering system cannot work;
- Not paying their dues as they had agreed to. Concor, (one of the bidders) did not pay the losers' fees thus exposing the whole shady business. It was shady because it was done in secret.

For those mistakes, the companies are completely culpable. That's why they have been fined. But my own view is that the tendering system itself needs to be dumped (in today's day and age) and that a far more equitable design-build-operate (or maintain) must become the basis for major infrastructural projects.

Moving forward

Moreover, rather than having tenders adjudicated in public while the bids are submitted in secret is also questionable and, in my view needs to move directly into an open, public and transparent 'negotiated' basis where the client (say government) works openly with designers (architects and consulting, mechanical and civil engineers and other specialists) to fathom the right design and then negotiates with the 'implementers' (building and construction companies and other specialists) to not only do the work but operate and maintain it as well.

In other parts of the world more and more infrastructure projects are done on this basis and it's high time that South Africa moved down a similar path. We must use our limited expertise efficiently, stop wasting tendering time submitting bids that will never be used and stop condemning an industry that was trying its best to resolve the construction needs and save South Africa's face.

Their collusion may have been wrong - but the principle of splitting the work, using the limited resources effectively and preventing fruitless and wasteful expenditure wasn't.

ABOUT PADDY HARTDEGEN

Paddy Hartdegen has been working as a journalist and writer for the past 40 years since his first article was published in the *Sunday Tribune* when he was just 16-years-old. He has written 13 books, edited a plethora of business-to-business publications and written for most of the major newspapers in South Africa.

- ▀ Was the construction industry wrong? - 25 Jul 2013
- ▀ Do it once - and do it right - 4 Jul 2013
- ▀ Everyone at Eskom should be switching to gas - 9 May 2013
- ▀ The Durban bridge and other stories - 27 Jun 2012

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>