

Slowdown of the development speed in the construction industry: problems and their solutions

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Abstract

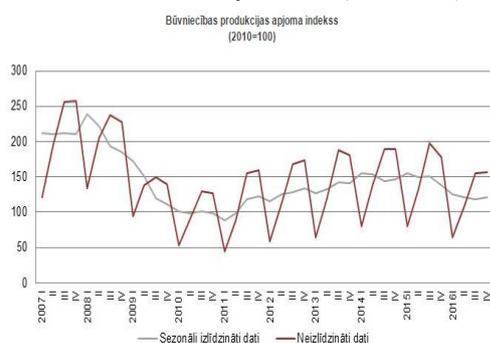
Speed of construction growth in recent years has substantially decreased, by showing significant fall in certain segments. Construction industry data outlines slowdown in the industry trends, and it is a signal for potential challenges in the future. Article aims to examine causes and problems of existing companies' deceleration trends in construction industry and to draw conclusions on possible solutions of the problems. For this purpose there is carried out a study on the assessment of the Latvian construction industry, as well as SWOT analysis about internal and external factors that influence the industry. It also forms the base for conclusions and proposals for more rapid development of the industry in future.

Keywords: construction, production, SWOT analysis

1 Introduction

Speed of construction growth in recent years has substantially decreased. Data compiled by the Central Statistical Bureau of Latvia (CSB) show that, compared to 2015, in 2016 construction output declined by 17.8 %, according to calendar adjusted data [1], and in 2016 the volume index still were below 2007 (see Figure 1).

Construction volume output index (2010=100)



Sezonāli izlīdzināti dati - Seasonally adjusted data;
Sezonāli neizlīdzināti dati - Seasonally unadjusted data
FIGURE 1 Construction output index

The construction industry is diverse, it includes not only construction works, but also electric installation, water and gas supply works, engineering network installation, road and motorway construction, thermal insulation. According to the statistical classification of economic activities NACE Rev. 2, although construction has only three sub-sectors - Construction of buildings, Civil engineering, Specialised construction activities - it covers twenty two types of activities. Value Added Tax Law adds to construction services also putting in order and improvement of a

construction site [2].

According to this classification, construction output reduction was significantly affected by decline in amount of engineering construction (40.7% of the total construction volume) by 33.3%. Decline was almost in all engineering areas: decline in construction of ports, waterways, dams and other hydraulic engineering buildings by 31.3%, construction of bridges, overpasses and tunnels - by 29.9%, construction of motor roads, streets, roads, airfield runways and railways - by 29.5%. Significant reduction was experienced also in construction of piping and cables of local importance - by 11.5% [1].

2 Summary of SWOT analysis of construction industry

2.1 STRENGTHS

As strengths of the industry are considered number of positive trends in the arrangement of legal environment - modern legislation that is based on the fight against the shadow economy activities:

- reverse VAT implementation;
- improvement of Construction Law;
- adoption of new Public Procurement Law (since 01.03.2017)

One of the industry's strengths is also professional associations defending industry interests:

- Partnership of Latvian Construction Entrepreneurs;
- Latvian Builders Association;
- Latvian Association of Power Engineers and Energy Constructors.

2.2 WEAKNESSES

Whereas, industry's weaknesses are seasonality, shortage of

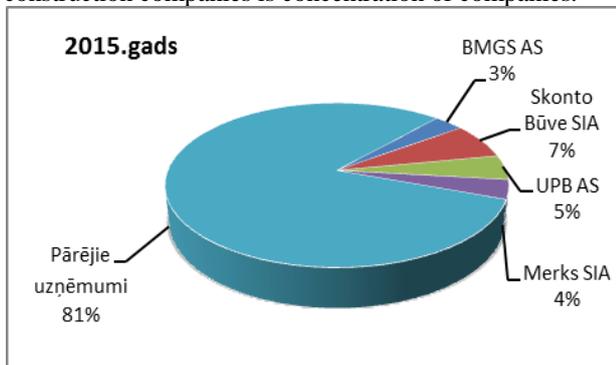
skilled labour, frequent rotation of labour [3], sharp competition in the industry, increased level of injuries in the workplace [4].

Companies have big challenge to keep specialists during *empty* season because due to labour shortage, it is financially difficult to provide them competitive wages.

As weakness of construction industry may be mentioned also deficiency of current assets [5] – very often provision of construction process requires credit line in the bank or other financial instruments. Consequently, there is a lack the necessary financial resources to enhance the skills of employees and to invest in further development of the company.

2.3 OPPORTUNITIES

One of the most important opportunities for ensuring sustainable competitiveness for small and medium-sized construction companies is concentration of companies.



Pārējie uzņēmumi – Other companies

FIGURE 2 Distribution of work performed in construction industry by own resources. Source: CSB, Lursoft

Given that concentration ratio of four companies in construction industry during past three years comprises 21% - 19% - only 80% of the Latvian construction market is

References

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being left for competitiveness of small and medium-sized construction companies. Competition is very sharp, and in addition also foreign builders, such as from Poland, Lithuania, Estonia, Italy, Germany and other EU countries are fighting for important objects.

The largest Latvian construction companies already for several years are using merger strategy for participation in public procurement procedures - for example, the largest construction companies have joined together in several general partnerships.

Whereas, Latvian small and medium-sized companies mostly work individually, with the high level of fragmentation.

2.4 THREATS

All kinds of studies and surveys carried out during recent years show that the greatest threat to small and medium-sized construction companies is a shadow economy.

According to the data of study “*The shadow economy index in the Baltic States from 2009 to 2015*” [6], amount of shadow economy in the construction industry is 40.0%, its proportion in the construction industry in Lithuania and Estonia, compared to Latvia, is almost half the size.

3 Conclusion

Construction industry is not homogeneous and includes several mutually related activities. In conditions of modern large uncertainty insufficient centralization and concentration of them forms one of the main causes for deceleration of development speed in the construction industry. At present, it is also is one of the most discussed ones.

Hypothesis of the authors: one of potential partial solution for the problem could be development and implementation of sustainable competitiveness model in Latvian construction industry.