IMPACT OF THE PRESENT DAY ECONOMIC RECESSION IN THE CONSTRUCTION INDUSTRY

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ABSTRACT

The construction industry is most significant sector for development of any country. The state of construction industry directly reflects the state of economy of the country and has substantial effect on GDP growth. This paper aims to study the consequences of economic recession on construction industry and to analyze various strategic initiatives taken by different construction firms to combat such times and to come out with remedial tactics in the form of conclusion which can be referred by construction firms to sail smoothly in the grave situation of economic recession. Also to study the impact of Government interventions like FDI with policy liberalisation play an important role to combat economic downturn.

Key words: Construction industry, GDP growth, Economic recession, FDI,

INTRODUCTION

Construction is an important sector in promoting economic growth. Who undergo a number of stages (design, construction, operation, maintenance, financial) using a number of materials and approaches? The current Economic Recession has affected the construction industry causing the loss. The research focuses on understanding how recession occur in construction rather than studying responses to them. The Money either holds the project together or allows it to fall apart. The success of any construction project depends on the cash flow. During the time of economic slowdown investors lose faith in economy and due to divestment the capitalisation of the construction firm declines. With less number of investors, the firm heeds to sell the property/flats at less value and thus their profit margin shrinks. The recession is part of natural economic cycle, the economy which expands for the span of 6-8 years experiences slowdown for the period of six months to two years. Construction industry is the most significant for the development of country. In India it is second largest economic activity after agriculture. The construction industry which witnessed robust growth from the period of 2004-05 to 2007-08, experienced massive slowdown from the third quarter of financial year 2008-09 and now on 2016-2017 About 31 million people lost jobs in India and construction industry experienced jittery due to slowdown.

Government initiatives like FDI play a key role in such testing time. The rational approach of the government can help attenuate this grave situation. Economic slowdown acts as a litmus test and the construction firms must brace up and formulate appropriate strategies. As it has been rightly said, business with right strategy and vision come out stronger from the times of depression although in theory, projects can be well planned in advance, there is always the possibility that unanticipated events and recession will disrupt plans, which will in turn affect the progress of the projects. These events may even have the propensity to significantly damage the company in today's complex and constantly changing business environment, recession are understood as the norm rather than the exception in organisations. Recession

can happen to any organisation and thus, recession management is crucial for all organisations. In general, recession events may result from various factors such as economic problems, unpredictable events, conflicts, uncertainty, accidents, threats and risks that a recession situation can affect the employment and income rate, bankruptcies may occur and corporate balance sheets are typically negatively affected. Furthermore, banks may become less liquid, or worse, insolvent. Credit usually becomes restricted and payments from households and businesses become more difficult. Although recession has been defined in various ways, the definitions broadly agree that it is a period of sudden change accompanied by considerable risk, uncertainty, threat, conflict, accident and instability, but also a period that offers opportunity.

BACKGROUND OF STUDY

Tudor Nistorescu and Cristiana Ploscaru [12] investigated an impact of economic and financial crisis in the construction industry at Europe. They identified the economic crisis of mortgage sub-crisis and economic downturn standstill with growth rate of meager + 0.2% for the financial year 2008-09 in USA and the crisis also had substantial effect on employment growth which contracted by 2.5% for year 2008-09 and further by 1.5% in both EU and euro area. They found most of the construction companies have completely insolvent to pay the annuities. Narendra Kothari [8] evaluated that, how FDI can revive the dangling economy. The paper assessed the impact of FDI in India and economic growth achieved through FDI flows. Trends on FDI flows from year 2002-2010 are studied. The construction industry which was unorganized, fragmented achieved certain degree of financial stability growth and development. The liberalized government policies made Indian economy conducive to carry out construction activity and thus attracted foreign investors. The policy liberalization was initiated by government to avert the effect of economic downturn. FDI in India's booming real estate jumped 80 times between years 2002-2010 which effectively revived economy. India was considered as dominant host country for FDI in Asia and Pacific region with inflows of INR 40205 crore from 2005 to 2011. Kaklauskas et al [7] reviewed from various countries engaged in the analysis of the crisis in construction and real estate and its separate segments in micro, macro, meso-levels in that project analysis method that was especially developed from this purpose. Section of "Macro-level global development trend identification" with in (CARE) "crisis management model". Observed the impact of economic and financial crisis in the construction industry. The construction industry witnessed the standstill with growth rate of meager + 0.2% for the financial year 2008-09. The crisis also had substantial effect on employment growth which contracted by 2.5% for year 2008-09 and further by 1.5% in both EU and euro area. Construction sector has a major pie of 10.4% of total EU GDP in 2008. Most of the potential stakeholders considered renovation. The measures taken by government saw the delayed effect and the expectations of the constructors were unattended. Sandeep R Sahu and Shreekumar Menon [9] observed that, how the global crisis in 2007 affected the whole world including India and its real estate business. The real estate business saw a decline in revenues, net profit and eventually property prices in India. This was all part of an economic cycle which was experiencing a recession. Consumers all over the India started losing confidence. Economic downturn proves to be a litmus test and companies with stronger fundamentals and ability to make quick strategic decisions continued to operate. Projects of the real estate developers in the time of recession have been stalled due to the lack of funds. Various companies were forced to sell their properties at lower value. Different strategies to cope up with such situations have been discussed in the paper. Developers were reluctant to take financial decisions in order to revive demand but eventually gradual slash down in prices was introduced. Recognizing the need of developing multiple streams of revenue, some cash-rich developers vertically diversified (or attempted to diversify) their

businesses into telecommunications, financial services, insurance, etc. Shweta Rai and Prateek Ghawate [10] observed the current infrastructure scenario in India and how it's been affected by recent slowdown. Development of infrastructure is the key to achieving GDP growth and it can present excellent opportunities. Slowdown in construction industry is observed due to delays in getting approvals, lack of new awards being made and lack of alternatives to fund new projects. GDP growth is held back to 1.5 to 2% due to the bottlenecks in infrastructure expansion. Indian construction sector suddenly lost steam in the last fiscal due to the global financial turmoil. It happened after spectacular growth of 12%. It also affected steel, cement, power, petroleum, aluminum, IT and ports industries. Private equity investments declined in oct-dec 2012 by 32%. Even orders from overseas firms dwindled. Biggest bottlenecks are clearances, dilatory procedures and troubleshooting with diverse stakeholders for infrastructure projects. Torres-Machi et al [11] investigated the temporary evolution of students. The current economic crisis has specially affected the construction industry. The number of unemployed students has significantly increased. This increasing number of unemployed student's contrasts with the fact that they expect to earn a higher wage salary. With questionnaires research method the problem has been detected based on background of age, gender, current job status, nationality, and resulted now a day's less important than in previous years. Emin Ocal et al [4] reviewed that is the subject of this article was to investigate the degree of crisis management applications by Turkish construction companies. Lack of systematic approach was mainly because most of the managers did not recognize that a crisis could turn out to be an opportunity if managed properly. It gives an experiences, perceptions and concerns of a number of construction professionals working with the NEC contract. Shrunkhal Bhagatkar et al [9] identified about the economic slowdown. Investors lose faith in economy and due to divestment the capitalization of the construction firm declines. With less number of investors, the firm heeds to sell the property/flats at less value. By survival strategy, strength weakness opportunities threats (SWOT), retrenchment strategy, entry in related business areas, aggressive growth, diversification, mergers and acquisitions, entry in emerging markets, divestiture strategy, innovation or technological upgrades, restructuring strategy through resource based view (RBV), such a key strategies used for firms to survive in economic downturn. Tara Brooks and John Spillane [3] reviewed about better understanding in academia and industry of situations where implementation of the NEC contract may be hindered, due to financial and resourcing constraints. It give an experiences, perceptions and concerns of a number of construction professionals working with the NEC contract. Preliminary conclusions and implications for practice can be identified from the research whilst indicating. Eleni Sfakianaki [5] investigation consists of two parts. First, it briefly examines the performance of the Greek construction sector over recent years against crises by means of a questionnaire survey. The survey undertaken in this study leads to similar conclusions. Preparing for an unforeseen event is crucial, but being ready to address it is equally, if not more, important.

OBJECTIVE

To identify the factors influencing the economic recession of construction industry in Indian scenario.

RESULT AND DISCUSSION

With a list of the target respondents on hand, the distribution of the survey was directed to the potential respondents in person. The questionnaire survey was conducted with owners', consultants', and contractors' from various construction industries. Prompt action was taken to ask for respondents' clarification of responses, after scrutinizing the returned responses for

any missing and abnormal data entries. The respondents who participated in this survey are presented Table 1

The questionnaire comprised of totally forty four factors for present day economic recession in the construction industry. The level of impact of each factor on the time overrun of construction projects is categorized, using the five point Likert's scale ranging from 1 to 5, corresponding to very low, low, moderate, high and very high. The construction professionals were asked to rate each of the factors on its level of impact.

To this forty four factors the descriptive analysis has scored (3.14 ± 1.40) higher value by ranking descending order properly in present day economic recession in construction industry. The means of responses for the forty four factors for present day economic recession in the construction industry and the standard deviation of their means are found. By the descriptive analysis ranking based on 44 factors the middle value (2.87) helps to separate the strength and weakness of factors. Totally twenty two causes for weakness were considered for this thesis. The most important and top ranking factors are identified and are shown in Table 2

The main factors are "Rise of interest rates" (3.14) ranked in the first position, with a mean, which indicates the high importance of economic recession. The rise of interest rates creates disputes between the parties of the project, and affects the sequence of project activities leading to the economic crisis. Similarly, table presented the important factors will lead to crisis of economy and the sequence of project activities will be affected. This result is identical in terms of order, with that the Owners', contractors', and consultants', which reflects the importance of these factors.

CONCLUSION

The important conclusions drawn from the perception analysis with respect to identifying and evaluation of factors affecting economic recession in construction industries, are to avoid rise of interest rates, requiring a well-positioned architects engineers, supervisors, and site planners to complete the construction project in regular interval of time, skilled labors for equipment and material handling. organizing various vocational training among workers with an experienced staffs to avoid accidents, evaluating and modifying the fall and down of GDP in the society as well as in construction industry, increase the level of monetary and fiscal policies among the construction industry. Above factors were given to organization and construction to avoid risk at recession period.

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Table.1 Demographic characteristics of respondents

Demographic characteristic	percentage
Age	
18-25	28.2
26-30	19.7
31-35	18.3
35-40	15.5
>40	18.3
Occupational level	
Project manager	40.8
Finance manager	21.1
Board admin	19.7
Sales executive	18.3
Working experience	
5-10	29.6
11-15	31
16-20	22.5
21-25	11.3
>25	5.6
Annual turnover (Rupees)	
<100 crores	46.5
100-200 crores	35.2
201-400crores	18.3
Types of stakeholders	
Owner	32.4
Consultant	35.2
Contractor	32.4

Table.2 Factor impact on present day economic recession in construction industry

Sl.No	Name of Factors	Mean	Standard Deviation	Rank
1	Rise of interest rates	3.14	1.40	1
2	Lack of income consumption	3.11	1.47	2
3	Labors performance affecting the construction process	3.04	1.43	3
4	Falling of real wages	3.01	1.41	4
5	Indirect effects through consumption	3.01	1.47	5
6	Lack of incentive scheme among workers	3.00	1.43	6
7	Underground economy	2.97	1.45	7
8	Evaluating and modifying the fall and down of GDP in the society as well as in construction industry	2.97	1.49	8
9	Expenses loans used in major construction project	2.97	1.52	9
10	Capacity overdue leading to dwindling investment	2.95	1.49	10
11	Occurrence of fatal death and major or minor injuries affecting the project	2.94	1.43	11
12	Inflation suddenly occurring in an aggregates required for construction	2.91	1.41	12
13	Increase the level of monetary and fiscal policies among the construction industry	2.91	1.42	13
14	Identifying market dynamics and external factors that impacting the construction sector	2.91	1.42	13
15	Reduction of necessary equipment's and materials	2.91	1.43	15
16	Inability to develop new infrastructure leading to GDP fall down	2.91	1.52	16
17	Construction business in an present economic condition	2.90	1.52	17
18	Unexpected tax	2.88	1.41	18
19	Lack of goods and services	2.87	1.42	19
20	Lack of time period in an completion of project	2.88	1.45	20
21	Providing unwanted extra wages and assets	2.87	1.45	21
22	Non-marketed(unpaid and unpriced services of construction materials)affecting GDP	2.87	1.52	22
23	Demand more than the supply	2.85	1.43	23
24	Period of deflation occurring in the time period of construction projects	2.85	1.50	24
25	Establishing an internal and external baseline	2.85	1.51	25
26	Lack of knowledge of recycling and recycling products	2.85	1.56	26
27	Organizing various vocational training among workers with an experienced staffs and teachers	2.84	1.41	27
28	Loss of benefits due to global financial turmoil	2.84	1.43	28
29	Unexecution of innovative construction based upon latest trends	2.84	1.45	29

30	Falling GDP due to the monopolistic speculation in land values using for construction	2.84	1.47	30
31	Requiring a well-positioned architects engineers , supervisors , and site planners	2.84	1.50	31
32	Due to the over growth of population	2.83	1.43	32
33	Direct effects through investment	2.83	1.44	33
34	Failure to fulfill the clients requirement	2.83	1.46	34
35	Leaning about the techniques and about the customers of weakest competitors	2.81	1.39	35
36	Excess of purchases and supplies	2.81	1.42	36
37	Non-availability of quality vendors for material supply	2.80	1.45	37
38	Overall demand of materials and equipment's used in construction	2.8	1.51	38
39	Failure due to failure of financial borrowing	2.77	1.44	39
40	Shortages of skilled labors affects the economic productivity	2.77	1.44	40
41	Ineffective use of funds altered by government to projects	2.76	1.35	41
42	Falling of housing prices and sales in construction industry	2.76	1.43	42
43	Migration of workers and peoples	2.73	1.39	43
44	Lack of confidence between client and contractor	2.63	1.36	44