Global economy and the construction industries of developing countries

Welcome to the first issue of the *Journal of Financial Management of Property and Construction* for 2020. We release this issue against a global economic backdrop where the global construction industry expenditure is expected to reach US$14tn within the next few years, with an expected annual growth rate around 3 per cent (Wang, 2019). It is expected that this will have a strong positive impact on the global economy. While the global construction statistics show an overall growth in the industry in the last few years, as the history proves, construction industry is sensitive to the volatility of regional and global economies created by political, environmental, health and social challenges.

Within this context, the Zekri and Razali, the authors of the first paper have evaluated the volatility dynamics of Malaysian listed property companies during the past 18 years, paying particular attention to the global financial crisis experienced during the last decade. Using an improved statistical model (Markov-switching Exponential Generalised Autoregressive Conditional Heteroscedasticity), they concluded that the Malaysian listed property market, indeed behaves differently under different volatility conditions, especially under extreme market conditions.

As one of the fast growing developing economies within the African continent (World Bank, 2019), Ghana is focusing on infrastructure investments. Through the 2019 budget the Ghanaian government prioritised infrastructure investment, particularly to build and improve roads, railways and social infrastructure through public sector projects (Oxford Business Group, 2019). However, despite these investments, within the second paper of this issue, the authors, Coleman, Nooni, Fianko, Dadzie, Neequaye, Owusu-Agyemang and Ansa-Asare argue that the public sector infrastructure projects in Ghana need to focus on attaining quality, particularly through proper contracts management. They observe that the executing agencies’ failure to apply appropriate contract management processes is to be blamed for mismatches between stakeholders’ expectations and actual results. They further concluded that, factors such as contractors’ engagement of unqualified supervisory staff, lack of proper projects monitoring practices, and lack of proper evaluation by executing agencies contribute to the poor quality of work.

Productivity of the construction industry has been at the forefront of the global economic challenges debate. Significant time and cost overruns of construction projects are often attributed to productivity issues and in some cases to the inefficiencies of the traditional cost estimation processes. Since early 90’s, advocates of performance improvements in construction argue that the capability maturity of construction organisations and the adoption of Information and Communication Technologies can play major roles in overcoming such issues and contribute positively to the performance of the global construction sector. In particular, the advent of building information modelling (BIM) increased the excitement of such advocates, who believe that automation and technology can play a major role in eradicating the inefficiencies of construction processes. Within the context of the Nigerian construction industry, Babatunde, Perera, Ekundayo and Adeleye, the authors of the third paper argue that such efficiencies can be attained through proper integration of BIM capabilities to the detailed cost estimation process. Their research also reveals 21 drivers that can encourage BIM uptake in Nigeria. Those drivers are categorised into five main categories, namely, improved whole life cycle/design quality; enhanced
decision and visualization; cost and timesavings; marketing and support for quantity surveyor tasks; and government and client pressure.

While better technology adoption can contribute to enhanced construction productivity, trust and better collaboration between construction stakeholders also contribute significantly to the betterment of construction industries worldwide. Within the fourth paper of this issue, the authors Tawalare and Laishram contribute to this view and praise Partnering Agreements as an effective way of promoting collaboration within construction projects. They note that the public sector construction projects in India do not subscribe to Partnering as a formal procurement strategy, however they observe that some of the current projects do display certain characteristics of Partnering. Within their research, they have explored the effectiveness of such informal Partnering practices and identified 14 factors hindering the same.

Despite its significant contribution to the national/global economy, the composition of the construction industry worldwide ranges from very large multinational construction companies with multimillion pounds turnover to small scale, family run businesses. Singla, the author of the fifth paper have conducted an interesting research to evaluate the profitability of such family run businesses and in particular, focused on the link between the family ownership and level of profit attained by construction and real estate firms in India. They conclude that the family owned construction and real estate firms are slightly more profitable compared to non-family owned construction and real estate firms in India. However, interestingly they also have observed that the family firms have comparatively a low valuation in the market.

The sixth paper focuses on the impact of contractors’ opportunism on construction project transaction costs. As the authors of this paper, Ikuabe, Oke and Aigbavboa contend the view that construction project transaction costs can be estimated through rational costing approaches, and they argue that such transaction costs have a high dependency on contractors’ opportunism. Through their study they conclude that there is a high correlation between project transaction costs and contractors’ opportunism and they highlight “Unclear scope of work” as the most significant factor influencing contractors’ opportunism that affects transaction cost.

Perera, Samarakkody and Nandasena, the authors of the final paper have studied the high-rise residential market in Sri Lanka with particular emphasis on financial and economic risks. The findings of this paper subscribe to some of the outcomes presented within the second and third papers, where it concludes that “errors in estimating” is the most significant financial and economic risk factor faced by the property developers, while “poor contract management” is the most significant financial and economic risk factor faced by the contractors of these projects.

As one may notice, the seven papers presented within this issue provide strong insights to the construction practices in developing economies and present different viewpoints through which the impact of such practices on the global economy can be observed.
References

