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## A development strategy for the construction industry in Uzbekistan: organizational aspects of implementation

The mid-term programme that oversees the development of the construction industry in Uzbekistan is entitled “The Strategy for the steadfast and innovative development of the construction industry in Uzbekistan in 2021–2025” (“the Strategy”), adopted on 27 November, 2020. The implementation of this programme requires a set of actions to be taken not only at the government level, but also at the level of construction companies to streamline the organisational activities, initiated by construction companies themselves. The article addresses organizational problems that accompany the modernization of construction organizations against the background of the main approaches, specified in the Strategy.

**Keywords:** construction, strategy, construction organization, organizational framework, consolidate, modernization

### INTRODUCTION

In Uzbekistan, the construction industry gained momentum in 2017, when the President of Uzbekistan initiated the Strategy for the steadfast development of the country in five priority areas in 2017–2021 [1]. Drawbacks in the administration of the construction field were analysed; the State Committee on Construction and Architecture was reorganised; the main objectives of the Ministry of construction were determined; fundamentals of urban planning regulations were substantially amended; construction quality assurance procedures were improved; digitization of the construction field was considered [2–6]. The extent of concern, expressed by the head of the state over the development of the construction field, confirms the relevance of problems in the field. One of important acts, that determines the development of the construction industry in long term, is the Presidential Decree “On approval of the modernization strategy for the steadfast and innovative development in the construction industry of the Republic of Uzbekistan in 2021–2025” [7]. This act determines the priority areas in the field of construction, i.e.:

- a) urban development of territories and effective public involvement in this process;
- b) improving the quality and safety of urban planning activities;
- c) ensuring the transparency and rationality of administrative procedures in the field of urban planning activities, as well as increasing the efficiency of corporate activities in the construction industry;
- d) digitalization of urban planning activities; introduction of modern information and communication technologies into the industry;
- e) improving the system of training, retraining and advanced training of personnel; developing the research potential in the urban planning activities.

The implementation of these plans requires all business entities to develop effective measures to improve their performance. Of particular importance for the construction complex is the third direction of modernization of construction, an

increase in the efficiency of organizations, in particular “... stimulating the use of modern project management methods by private business entities performing the functions of the customer”<sup>1</sup>.

It should be noted that over the last four years there have been positive changes in the industry, which is the result of the recent measures. Statistics indicate the accelerated development of the investment and construction sector (Table 1).

These data allow us to investigate the state of the investment and construction sector in several directions. First, during the period under review, there was an increase in the share of construction in the total gross domestic product (from 5.7 % in 2017 to 9.2 % in 2020). For comparison, in 2018 the share of construction in the GDP of Kazakhstan was 6.0 %, Kyrgyzstan — 10.1 %, Azerbaijan — 8.6 %<sup>2</sup>. This trend indicates positive changes in the structure of the country’s macroeconomic indicators. Secondly, investments in fixed assets have increased. Over the recent years, the value of this indicator has reached about 177 %, and machinery, being a highly efficient investment, has taken up a substantial share in this amount. Equipment investments have outperformed construction work and other investments.

The analysis shows that the quantitative indicators of construction work as the subject of investments and construction work performed by the contractor do not coincide (85,402.1 and 87,823.8 billion soms in 2020). We can explain it by the fact that part of the construction work is conducted within the framework of investment projects without the involvement of contractors.

In our opinion, the share of small businesses in the total number of operating construction organizations is quite big. According to the statistics, there are only 222 large construction companies operating in

<sup>1</sup> Official site of the State Committee of the Republic of Uzbekistan on Statistics. URL: [www.stat.uz](http://www.stat.uz)

<sup>2</sup> Share of construction in GDP. URL: <https://w3.unece.org/PX-Web/ru/CountryRanking?IndicatorCode=8>

Table 1. Key indicators of the investment and construction sector in the Republic of Uzbekistan in 2017–2020

Indicator	Years			
	2017	2018	2019	2020
The share of construction in the total GDP, %	5.7	6.1	6.4	9.2
Total investments in fixed assets, billion soms, including	60,719.2	107,333.0	189,924.9	202,000.1
buildings and structures	36,613.7	53,344.5	82,339.0	85,402.1
machines, equipment, inventory	19,126.5	42,611.2	93,367.7	104,524.1
other	4,979.0	11,377.3	14,217.6	12,073.9
Construction, billion soms	34,060.8	47,260.7	68,854.4	87,823.8
The number of operating construction organizations, thousand units	25.5	30.4	36.2	40.9
Including small businesses	23.8	29.0	27.3	40.7
The number of people employed in the construction sector, thousand people	1,480.2	1,205.5	1,238.1	1,348.5
The average number of employees in a construction organization, people	58	39	45	45

the country. In our opinion, the construction industry needs to study this market segment, since the implementation of construction work by small businesses cannot ensure the necessary transparency of the economic activity, the introduction of modern technologies and the quality of construction facilities. In addition, the analytical table includes indicators that give an idea of the size of construction companies. The data indicate a small number of employees in construction organizations (45 in 2020), which is a constraining factor in the innovative development of the industry.

## DATA AND METHODS

The study of trends in the development of the construction industry is closely linked with the analysis of statistical data. In this connection, the co-authors used the materials of the State Committee of The Republic of Uzbekistan on Statistics<sup>1</sup> and the data of the Ministry of Construction of the Republic of Uzbekistan<sup>3</sup>.

The electronic rating of construction organizations characterizes the problems of construction organizations. In accordance with Resolution No. 699 issued by the Cabinet of Ministers of the Republic of Uzbekistan on November 9, 2020 "On measures on introduction of the procedure for determining and maintaining the register of design, surveying and construction organizations", starting from January 1, 2021, the Ministry of Construction of the Republic of Uzbekistan has maintained an electronic rating of construction organizations.

The electronic rating accumulates the data provided by construction organizations, and statistical data. In total, there are seven groups of assessment indicators: the personnel policy, the financial performance, competitiveness, work experience, material and technical base, occupational safety, production efficiency. Construction and installation companies are divided into four groups based on the approved estimates (A — high, B — medium, C — satisfactory, D — low), each of which, in turn, has three levels of reliability (first, second and third). As a result, the electronic rating identifies only 12 hierarchical levels of construction and installation organizations.

At the beginning of 2021, a rating of 38,630 construction organizations was compiled, and as of September 10, the electronic rating had 44,489 organizations (Table 2)<sup>3</sup>.

As the table shows, there have been no major changes in the ranking of construction companies over the past months. The overwhelming majority of organizations are rated as "Satisfactory" and "Low". The share of organizations with a "low" rating has significantly increased. A slight increase in the share of organizations at the "medium" level cannot serve as the basis for a positive assessment.

## RESULTS AND DISCUSSION

The studies also indicate the availability of extensive unused reserves in the construction sector, which hinder the economic reforms in the industry. These include the low production potential of design and construction organizations, outdated materials and construction technologies, the lack of qualified personnel, poor urban planning standards, and many other factors. Many of these problems are of an organizational and economic nature; they require a proactive policy of economic entities in the field of construction.

The main feature of the current state of affairs in the construction industry is the role of small and very small firms in the performance of construction work. Table 1 shows an increase in the share of small businesses in the construction industry in 2020. Despite all the advantages of small businesses and entrepreneurship in the market economy environment, this situation is extremely bad for the construction industry. Small enterprises are significantly inferior to large businesses in terms of the development strategy and construction machinery.

High-quality management is one of important problems of small businesses in the construction industry. We have conducted a survey of construction sites in the city of Samarkand and contractors employed there.

The results of our survey of construction projects of the beginning of 2021 show that 60 out of 83 construction projects are being implemented by limited liability companies (72 %), 10 are implemented by private construction companies and firms (12 %), and 13 are being implemented by private entrepreneurs (16 %).

<sup>3</sup> Official site of the Ministry of Construction of the Republic of Uzbekistan. URL: <http://mc.uz/qurilish-pudrat-tashkilotlari-elektron-reytingi/>. (Accessed September 15, 2021).

Table 2. The analysis of the rating of construction organizations in the Republic of Uzbekistan

Level of rank	As of 1 February, 2021		As of 10 September, 2021		Difference +, –	
	Number of organizations	Share, %	Number of organizations	Share, %	by numbers	by share
AAA	0	—	0	—	0	—
AA	0	—	0	—	0	—
A	0	—	1	—	+1	—
Total highest	0	—	1	—	+1	—
BBB	2	—	4	0	2	—
BB	27	—	551		524	—
B	276	—	762		486	—
Total medium	305	0.79	1,317	2.96	1,012	2.19
CCC	4,078	—	7,035	—	2,957	—
CC	9,647	—	8,214	—	-1,433	—
C	5,313	—	1,108	—	-4,205	—
Total satisfactory	19,038	49.29	16,357	36.77	-2,681	-12.52
DDD	10,698	—	12,957	—	2,259	—
DD	193	—	1,796	—	1,603	—
D	8,396	—	12,061	—	3,665	—
Total low	19,287	49.92	26,814	60.27	7,527	+10.33
Total	38,630	100	44,489	100	5,859	100

Hence, we can make a conclusion that the construction capacity of the city is quite high and it consists of private entities.

Limited liability companies and private construction firms use their own equipment and have strong material resources at their disposal, which cannot be said about individual entrepreneurs in the construction industry. Almost all equipment at such facilities is rented or owned by a subcontractor.

The survey shows that only 8 facilities are constructed by organizations that have over 30 workers. The construction of the overwhelming majority of facilities (54 %) is performed by organizations having the workforce potential of up to 10 workers, 23 % — up to 20 workers, and 13 % have 21 to 30 workers. This also indicates a large number of small business entities on construction sites.

The next stages of the research is a study on the management of construction organizations (Table 3). We proceed from the assumption that the availability of more than four managers means the availability of a formal organizational structure in a construction organization.

The data show that the majority of urban construction organizations have management teams of three managers; 13 % — two managers, and 18 % of them have one manager. Only 17 % of construction organizations have enough managers to ensure the formal distribution of management functions.

The next object of analysis is the study of the degree and quality of education of leaders. As shown by the survey, 81 % of managers have higher education. At the same time, 16 % do not have good quality education, which hinders the development of their competitiveness. As for the managers who have higher education, 26 % have degrees in civil engineering, 33 % have

degrees in other technical sciences, and 24 % have higher education not related to construction. A survey of managers showed that only 15 % of managers have 15+ years of work experience in construction, 12 % — up to 15 years, 20 % — over 5 years, and 36 % have experience of up to 5 years. This suggests that leadership skills in construction are still inadequate.

The survey revealed a number of objective factors that have a negative impact on the improvement of the rating indicators of construction organizations in the city of Samarkand. One of the main factors is the inadequate stimulation of the activities of small and large construction organizations. Creation of a favourable environment for small businesses impedes the growth of construction organizations and makes large businesses economically uncompetitive.

The second organizational factor is the widespread use of subcontracting agreements in the field of construction. Given the current position of the general contractor in relation to a construction organization, it is absolutely not necessary to have a strong

Table 3. Construction companies and their management teams

Number of managers	Number of organizations, units
1 person	15
2 persons	11
3 persons	43
4 persons and more	14
Total	83

material and technical base. It is enough to enter into a subcontract agreement with specialized small firms. As a result, the quality of construction decreases, and innovative development in the construction industry decelerates.

At the same time, various models of the small business involvement in the construction industry are successfully implemented worldwide. Production capacity and competitiveness improvement is the basis for regulating small businesses. Given the international experience in managing small businesses in the construction industry, we can assume that there are two methods of improving the organizational environment in the construction sector of the Republic of Uzbekistan [8].

The first one is associated with the creation and development of the industrial infrastructure of small businesses. This practice is widespread in processing industries. The purpose of this solution is to create a network of commercial service enterprises, which solve certain issues of production support on a contractual basis. Given a large number of similar small organizations and a large number of contracts, the effectiveness of external infrastructure can eliminate the shortcomings of small enterprises. We propose to use production outsourcing tools as production infrastructure. For example, at present, the rental of construction machinery is a traditional form of construction mechanization. The establishment of strong companies, that own enough machinery, can make it possible to solve the problem of small construction organizations in terms of construction machines and raise the level of comprehensive mechanization of labour-intensive processes. The outsourcing of the personnel is another important area to be improved. The involvement of accounting, design and other outsourcing companies could significantly improve the management quality at construction organizations. The attempts, made by the Chamber of Commerce and Industry of the Republic and its regional branches to assume the functions of the personnel to be outsourced, have not yet yielded the desired result due to the excessive bureaucratization of this structure. We believe that these special-purpose companies should be established in response to the challenges on the construction market.

The second method is associated with the increase in the number of large organizations in the construction industry. High investment attractiveness of the construction industry motivates big businesses to establish modern high-tech construction organizations, but, unfortunately, this process is very slow and rather difficult. In the near future, one should not expect a boom in the sphere of big businesses in construction. Therefore, it is necessary to create the necessary market mechanisms for the conversion of small construction organizations into new production facilities. Economic interests are the most important driving forces behind the merger processes. This practice is known as business mergers and acquisitions in a competitive marketplace. By pooling capital and increasing capacity, companies intensify innovation processes and boost the production efficiency. If there is a real opportunity in the construction market to increase the return on capital investments through mergers, this chance will be taken

by entrepreneurs. This method is typical for highly developed market regulation mechanisms. Therefore, it is necessary to limit the preferences and benefits offered to small businesses in the construction sector.

## CONCLUSION

The studies on the development of organizational and economic mechanisms in construction show that at present the industry mainly relies on small businesses. The need to dramatically improve management in construction is confirmed by a large number of decrees and resolutions issued by the President of the country.

Small businesses in construction have some disadvantages, such as the inability to bring enough machinery to a construction site and ensure the efficiency of construction work, the low quality of construction work and management. We believe that the industry should create conditions for the development of companies with powerful material and technical base and qualified personnel.

The growth of small construction organizations should be provided with the necessary organizational and legal framework. We believe that the time has come for the economic legislation to define such concepts as "a construction company", "a design and construction organization", "a production and construction association", "a production and construction holding company". Other types of partnership relations can be offered to small construction organizations to ensure the accelerated development of the economy of the Republic of Uzbekistan.

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### Организационные аспекты реализации стратегии развития строительной отрасли Узбекистана

Программным документом развития строительства в Узбекистане на среднесрочный период является «Стратегия модернизации, ускоренного и инновационного развития строи-

тельной отрасли Республики Узбекистан на 2021–2025 годы», принятая 27 ноября 2020 г. Реализация данной стратегии требует разработки комплекса действий не только на уровне государства, но и в рамках низовых структур строительной отрасли, причем совершенствование организации этих действий должно инициироваться самими строительными организациями. В настоящее время стимулирующим фактором развития

строительных организаций является внедрение электронного рейтинга подрядных организаций и соответствующий этому порядок участия в тендерных торгах. Чем выше рейтинг подрядной организации, тем больше шансов получить договор на строительство крупных объектов. Вместе с тем, данный порядок значительно ухудшает конкурентные позиции малых и средних строительных организаций. Учитывая тот факт, что большинство действующих подрядных организаций относятся к субъектам малого бизнеса, возникает актуальная задача ускоренной их модернизации. Авторами проведено исследование стратегических возможностей малых строительных организаций, по результатам которого сделаны соответствующие выводы. Данная статья посвящена изложению полученных результатов, анализу и особенностям решений организационных проблем модернизации отрасли по основным направлениям Стратегии в строительных организациях.

**Ключевые слова:** строительство, стратегия, строительная организация, организационные отношения, укрупнение, модернизация

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