

Here's what keeps the construction sector's financial directors awake at night

By [Mark Snow](#)

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Like many other industries, the construction sector is particularly sensitive to economic cycles, technological advances, and the global political climate. The industry as a whole operates in a highly complex and diversified risk landscape which in recent years has been characterised by numerous economic headwinds - the results of which continue to pose threats to the stability and sustainability of the industry.



Source: Gallo/Getty

The construction sector over the past two years has undergone a trial by fire, given the emergence of the 'Black Swan' event that was Covid-19. As a direct result of the pandemic, construction projects were delayed and disrupted by postponements and cancellations. The effect of the pandemic was all-encompassing and put the industry under an unprecedented level of pressure that exposed it to risks which reverberated through the project stages of estimating, contractual clarifications, execution and project close-out.

Major risks facing the global sector

The sector has faced challenges in the supply of materials, labour and management shortages, as well as workforce mobility issues between the various projects being executed. The stop-start nature of lockdown restrictions meant that the efficiency of the project management process was difficult to maintain. Now, in the aftermath of the pandemic, the ripple effects of the disruption have put the sector in a challenging position as it begins to rebound to its pre-Covid operating levels.

According to the Aon 2021 Global Risk Management Survey, the top 10 risks facing the global construction sector are as follows:

1. Economic slowdown
2. Commodity price risk, scarcity of materials
3. Cashflow/liquidity
4. Business interruption
5. Accelerated rates of change in market factors
6. Cyber risk/data breach
7. Workforce shortage
8. Capital availability
9. Damage to reputation/brand
10. Pandemic risk/health crises

In the South African context, a review of the JSE-listed companies that form part of the heavy construction sector is illustrative of similar risk trends as well as the following specific risks affecting the local sector:

1. Industrial action
2. Community unrest
3. Compliance with complex regulatory frameworks

A look at South Africa's unique position

Apart from the aforementioned risk factors, the majority of JSE-listed companies also noted cashflow/liquidity issues and the loss/shortage of critical skills as being of high significance. While economic factors continue to be the major contributors to a slower rebound in the sector, aspects such as the spate of looting and civil unrest that broke out in early 2021 continue to paint a more nuanced picture of what the future of construction will be within South Africa's unique socioeconomic environment.



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A forecast on what lies ahead for the sector

The future of the construction industry will rely heavily on the global climate as well as a number of localised socioeconomic forces in tandem with the political will to release infrastructural projects going forward.

With the global move from in-office working to remote work culture, the great reduction in office space requirements will serve as a compelling force for property and construction companies to pivot and adapt their growth strategies and operational processes to thrive in the 'new normal'.

On the retail front, where digitisation has been felt acutely, the move away from brick-and-mortar retail into the e-commerce

space has necessitated a new way of thinking about the spatial needs of civil society and what this means for construction.

In healthcare, an industry in which there has been a definitive upswing, lies a myriad of opportunities to innovate and devise new ways of finding solutions that can be solved by the construction industry. The increased demand for products in the pharmaceutical, technological and logistical sectors could also provide the construction industry with the boost it needs to regain its pre-Covid stature as an essential contributor to the GDP of the country.

Labour-related issues will continue to come under close scrutiny with the risk of community unrest and tension still bubbling under the surface. Taking a proactive stance to managing these issues will become the key to minimising disruption and maintaining stable profit margins.



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Risign risk of cyber-attacks

In terms of emerging technology and its rapid rate of advancement, the increasing risk of cyber-attacks and the resulting loss of intellectual property will mean that construction companies need to keep a keen eye on cyber security. The use of new technologies such as BIM modelling and the use of drones will provide the potential to enhance efficiency across the board.

Overall, the major challenge that firms across the sector will face relate to the selection, pricing and execution of projects in the most efficient and profitable way possible within a relatively unstable global climate.

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