

# Individual Housing Construction as an Element of the Diversification Strategy of Companies of the Investment and Construction Complex

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**Abstract:** The prospects of using diversification strategies in the investment and construction complex have been identified. The concept of strategy as a unified polycentric system has been clarified. The restrictions on the use of diversification strategies for the structural units of the investment and construction complex have been formulated. Based on the business analysis development trends of the investment organizations and construction complex, a promising direction of the diversification strategy, such as individual housing construction, has been identified.

## 1 INTRODUCTION

This work is aimed to study the strategic opportunities for the structural units development of the investment and construction complex through the use of diversification strategies. Risks and uncertainties in the construction business are increasing in the absence of stability in economic development, increased concentration of production in the investment and construction complex, resource constraints. In this regard the sustainable and competitive construction companies development can be achieved through the development and implementation of business diversification strategies.

In most sources diversification means diversity in business development. Moreover, this diversity can be both a variety of activities, i.e. a variety of products, and a variety in the choice of markets in which the company operates or is going to develop. A.M. Aronov and A.N. Petrov draw attention to the fact that "from an economic point of view, diversification is expressed in the development of the distribution of capital between various investment objects, which may or may not be related to each other" in the work "Diversification of Production: Theory and Strategy of Development" (2000).

Business diversification usually focuses on reducing risks in the distribution of capital between various types of activities, manufacturing different products, and the expansion of the market presence."

We can consider the construction sector as one of the promising areas of diversification in the context of an unstable economic environment. The modern investment and construction complex and its individual elements (structural units) have a high potential for the formation of strategic areas by diversified construction companies and industrial enterprises.

## 2 MATERIALS AND METHODS

Currently, the strategy is an integrated enterprise development model which defines its main principles, goals, and objectives, priorities, and directions for the medium and long term as well as effective mechanisms for improving competitiveness and reducing operational risks.

The research method uses qualitative and quantitative factors analysis and trends in the investment development and construction complex and its elements. The generally accepted terminology

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allows us to consider the investment and construction complex as a socio-economic system with the corresponding interrelated elements; to clarify generalizing concepts and definitions related to the theoretical aspects of the interpretation of strategy and development diversification; identify the features of diversification processes in the area under consideration. Statistical information from official sources allows us to identify trends and directions in development (for example, the volume of individual housing construction in the Russian Federation).

The first scientific approaches to enterprise management were formed at the beginning of the twentieth century as a part of the management school (F. Taylor, G. Gant, H. Emerson) and were further developed in a number of scientific works of the classical school of management (A. Fayol, M. Weber, C. Bernard), where scientists identified planning as the main function of enterprise management but it was short-term in nature and postulated the stability of the external business environment and the internal potential of the enterprise.

The second half of the twentieth century is characterized by a steady increase in the dynamics of the business environment and constantly increasing competition, which makes changes in the conceptual provisions of enterprise management, where planning becomes targeted and long-term, and a set of strategic development alternatives is drawn up in accordance with the projected dynamics of the external environment.

A model based on the world-famous SWOT analysis procedure is considered to be one of the first strategy formation models. In the context of this strategy concept the enterprise development is based on the interaction of the potential organization capabilities within the identified threats to the external environment and the advantages of its internal resource potential, which can contribute to its further development.

I. Ansoff proposed a fundamentally different model of strategy formation based on the formalized goals concepts and presenting strategic planning within an extremely formalized process.

The model "product/market" presented by him and called the "vector of growth", in turn, contains four basic strategies to ensure the integrity of strategic planning: financial, administrative strategies as well as strategies for diversifying and expanding the market. A significant difference of the concept proposed by him is considered to be the presence of feedback which ensures the degree of interaction between the formation procedure and the continuity of the implementation process.

From the point of view of M. Porter, each industry includes a limited number of strategies with certain competitive advantages within which an enterprise can carry out economic activities. That is why the author lays special emphasis on competitive analysis, which final result is the choice of one of the typical strategies of competition. The general competitive strategies outlined by the author are still considered to be particularly successful tools in terms of practical application in the modern enterprises activities.

From the middle of the last decade of the twentieth century to the present the leading role in strategic planning has been played by the "resource concept", which is based on the theory of key competencies developed by G. Khamel and K. K. Prahalad, and expressed in the art of effectively identifying and combining the internal resources of an enterprise.

In 1998 Russian strategic planning theorists made their contribution to the strategic planning theory by using logical schemes to reflect the formation of a strategy in the strategic management contour form.

The strategic management contour and the previously studied models significantly differ in criterial principles of construction:

- A. the sequence of the *chain of actions*: analysis - goal setting - choice - specific actions;
- B. building an enterprise strategy based on hierarchy, i.e. a plurality of strategies within one enterprise in accordance with structural divisions, whose strategies are adjusted among themselves on the one hand, and "absorbed" by a single strategy of the enterprise as a whole on the other hand;
- C. a strategy is a continuous process that does not end with the formation stage and makes sense only if it is implemented.

Therefore, it is possible to assume that the principle of the hierarchy of strategy formation allows us to speak about the polycentricity of the very essence of the strategy.

From the authors' point of view, many strategy formation models confirm the polycentric nature of its essence, since 75% of the total number of existing models are diversification strategies which are based on "the penetration of the capital of this corporation in industries that are not directly related to the main sphere of its activity".

In a general sense the term "polycentricity" is expressed as the unity of a form in the diversity of its elements, and in a literal sense indicates that a certain spatial unit has several centers but it does not specify what types of centers are meant and how these centers are connected with each other.

The concept of "spatial unit" allows us to give a new impetus to the development of economic science which studies the spatial characteristics of economic relations and determines the most important thing - the nature and efficiency of individual economic processes.

Within this work the authors propose to clarify the conceptual framework of the very essence of the strategy, since it has quite a lot of definitions.

It should be noted that this paper considers diversification as a strategy which means a certain direction of the organization's development to achieve goals in the long term. In this regard the authors have developed a definition of the strategy which reveals in more detail the essence of the concept, its goals, and functions from the point of view of polycentric development:

The strategy is a unified polycentric system that organizes a dynamically changing spatial environment of the enterprise's operation which has several "centers of gravity" built on optimal combinations of competencies and creates value for achieving long-term competitive advantage.

In this regard the diversification strategy for companies in the investment and construction complex is presented as a substantive variety of projects being implemented, the territorial business expansion, as well as the expansion that ensures the effective implementation of projects through the provision of engineering, design, and other services.

The work of M.V. Fadeev "Features of Diversification in Investment and Construction Companies" (2007) notes the advantages of the diversification strategy in the investment and construction complex (ICC). According to the author they include the following:

- "reducing risks by placing assets and resources in various spheres of economic activity, which very often are independent of each other. Due to the absence of a high correlation between these areas there is an effect of "smoothing" risks. If the market situation deteriorates in one area, such deterioration has no effect on the other area;
- cash flows optimization. Due to the fact that the dynamics of the company's activities in different markets are different, this allows us to redistribute cash flows between strategic business units operating in different markets;
- increase of innovation activity. Technological, managerial, or marketing solutions identified when entering one market can be used in other markets as well. The use of several

technological solutions increases the stability of the production and technological base;

- strengthening of competitive positions. In many cases diversification allows the company to strengthen its position in the market. For example, in the case of horizontal diversification it becomes possible to get more favorable conditions from suppliers and more rigidly dictate your price conditions to buyers;
- cost reduction. When diversification is accompanied by an increase in overall production, the prerequisites for capitalizing on economies of scale often arise. Diversification also often leads to the exploitation of diversity savings;
- additional revenue from the synergy effect. Diversification can create an additional synergistic effect from combining the activities of various enterprises."

Based on an extensive global review of sustainable assessment systems in various industries and organizations the authors (Lua, Zhang, 2016) consider the positive impact of transition strategies of investment and construction enterprises on the sustainability and competitiveness of their development.

Having studied and summarized the international and industry potential for real estate portfolio diversification, Candelona, Fuerstb, and Hasse (2021) confirm the high importance of the diversification tool for investors and offer a statistical test for comparing the potential for diversification at the country and sector level.

Research (Garrido-Prada, Delgado-Rodriguez, Romero-Jordán, 2018) confirms the importance of the interaction between a product and geographic diversification to determine the overall product of diversification for the company's performance. The authors have developed comprehensive models confirming the effectiveness and value of a diversification strategy in an economic downturn.

Based on the study of the role of new products on the capacity building and macroeconomic development of countries and sectors the authors (Dosia, Mathewabc, Pugliesede, 2020) in the study "Products of the Company Matters: Processes of Diversification, Coherence, and Efficiency of Indian Manufacturing Companies" consider the individual characteristics of different products, trying to determine the synergy of the product line in relation to the overall product basket of the company. The analysis confirms that the future performance of companies depends crucially on the interaction between the products they produce.

Economic Policy Uncertainty (EPU) is positively associated with corporate diversification in China. The diversification of companies with a large number of equity analysts and equity reports increases during a period of high EPU. Diversification actively reduces the risks associated with economic policy, increasing the efficiency of the company. (Hoanga, Nguyenb, Zhangc, 2020)

Based on an in-depth analysis of the historical evolution of research over the period 1970-2017, the authors (Guerras-Martin, Ronda-Pupa, Zuniga-Vicente, Zuniga-Vicente, 2020), show the need to develop a comprehensive theory of corporate diversification.

At the same time diversification strategies may also have limitations when used in the investment and construction sector. These restrictions are associated with the features inherent in the system of the investment and construction complex. According to the authors we should pay attention to the following:

- locality of construction markets which may have their own specific features and trends inherent in this territory;
- construction projects with a high investment value and uniqueness in space-planning and technological solutions, as a rule, are erected by specialized construction companies;
- industrial units of the ICC have a limited market for the sale of products and its territorial expansion will lead to an increase in transport costs etc.

### 3 RESULTS AND DISCUSSION

However, in the modern conditions of world economic development, the existing conceptual approaches do not provide a universal response to the challenges of the present time. In the context of declining global economic growth - the spread of the coronavirus pandemic (COVID-19) in Russia and the world, the Russian Federation's withdrawal from the OPEC+ deal, lower oil prices, and the devaluation of the national currency the investment and construction complex of the Russian Federation has to solve difficult tasks. The current business environment is characterized by the suspension of construction of individual facilities, interruptions in the materials supply and equipment, the emergence of financial problems, a decrease in the number of employees, and, as a consequence, a sharp significant weakening of final demand and a high risk of bankruptcy.

One of the acute problems facing the participants of the investment and construction market is the lack

or insufficiency of investment financing for the implementation of construction projects which forces construction companies to look for new directions for the development of their areas of activity.

From our point of view participants in the investment and construction complex of the Russian Federation can solve the problem of reducing entrepreneurial activity and strengthen their competitive position in the construction market with the help of a diversification strategy by creating a portfolio of individual housing construction in their assets.

For a long period of time one of the fundamental issues of the social policy of the Russian Federation is the need to provide citizens with decent housing that meets modern requirements and standards on a par with Western European indicators. However, the level of provision of housing for the population of the Russian Federation in recent years has significantly lagged behind the level of a similar indicator in economically developed countries. Usually, this is due to the constant increase in housing prices and the low rate of development of individual housing construction (hereinafter "IHC").

According to the Federal State Statistics Service 250-270 thousand private sector objects with a total area of 30-36 million square meters are sold annually in the Russian Federation, which is about 43% of the total volume of housing commissioned at the expense of citizens' own funds.

At the same time about 40% of the total volume of housing commissioned within individual housing construction is concentrated in 10 regions:

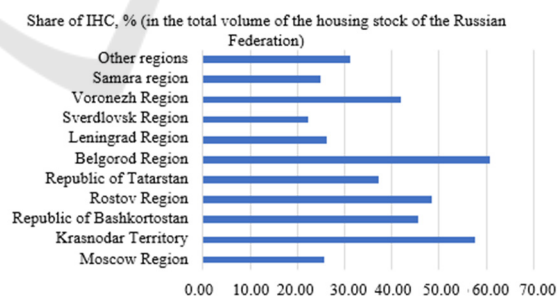


Figure 1: The share of IHC by regions of the Russian Federation, %

It is worth noting that a significant increase in the volume of housing commissioning in the regions of the Russian Federation has been achieved in recent years precisely due to the development of residential housing. Consequently, individual housing construction can become an element of the diversification strategy of construction organizations

in the current economic conditions of market development.

According to the official data of the ERZRF.RU portal, the volume of commissioned housing in the Russian Federation amounted to 80.6 million square meters in 2020, which is 1.8% less than a year earlier. However, the share of IHS in the total volume of housing commissioning increased by 2.1%, since at the end of 2019 this indicator was 45.9% (+13.6 points by 2018), and at the end of 2020, it reached 48% (+2.1% by 2019), which is 38.7 million square meters of the total area of residential housing or 289.2 thousand private sector objects.

According to the official data of the All-Russian Center for the Study of Public Opinion and the estimates of a sociological study conducted for DOM.RF JSC, the total demand of the population of the Russian Federation for individual housing construction within the five-year perspective is about 450 million square meters (or 3 million houses). This demand can be met in 19 years at best considering current construction volumes. At the same time about 300 thousand families would like to implement individual housing projects annually with the involvement of financing funds within mortgage lending mechanisms. Accordingly, the IHC market in the Russian Federation subject to state support can become one of the main incentives for the development of the investment and construction complex.

However, there are a number of key problems that hinder the development of this segment:

- the implementation of IHC projects in most cases is made by the citizens themselves without the participation of construction organizations;
- the lack of provision of land plots with engineering and transport infrastructure or provision by the owners of the plots themselves, which leads to an increased risk of non-compliance with construction standards, as well as to an increase in the costs of the population;
- the lack of development and accessibility of mortgage lending instruments in the IHC market which is 1% of the total volume of loans secured by housing in apartment buildings due to the low liquidity of individual houses and land plots (due to the lack of construction standards and infrastructure provision);
- increased risks of assessing the pledged object due to the lack of methods for correctly assessing the cost of completion of construction and the absence of hidden defects;

- high costs of controlling the intended use of funds during construction;
- high risks of non-compliance with construction deadlines.

Consequently, the main constraint on the IHC market is the lack of existing mechanisms and tools for specialized preferential mortgage lending, while transactions for the purchase and sale of real estate in apartment buildings as of 2020 are carried out by more than 50% using credit mortgage programs.

## 4 CONCLUSIONS

Summarizing the provisions outlined in this article the authors came to the following conclusions:

- strategy is a unified polycentric system that organizes a dynamically changing spatial environment of the enterprise's life, which has several "centers of gravity" built on optimal combinations of competencies and creates value for achieving long-term competitive advantage;
- in conditions of instability of the external environment, diversification strategies in the activities of the structural units of the investment and construction complex suggesting a variety of business development have rather high prospects for application;
- when developing diversification strategies it is necessary to allocate strategic management zones, which are built on the basis of available resources and the presence of strategic niches in the construction market;
- as the advantages of using diversification strategies, first of all, attention should be paid to reducing risks in the activities of companies, optimizing cash flows, reducing costs per unit of production, and others;
- the use of diversification strategies in the investment and construction complex has limitations related to the specifics of construction products which must be taken into account in a diversified strategy;
- considering the development trends in the investment and construction complex, the most promising direction of diversification is individual housing construction, which is confirmed by statistical data.

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