Institutional risks impact on the growth potential of construction entrepreneurship organizations

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Abstract. Theoretical approaches to the concept of “growth potential” of entrepreneurial organizations were researched. A hypothesis is put forward about the objective presence of institutional risks in the organizations activities in the form of ineffective norms and rules that reduce the growth potential of organizations in the construction industry. The institutional norm of “contribution to the infrastructure development” in construction entrepreneurship and its impact on the activities of developers in Russia and Bulgaria are studied. The conclusion is made about the instability of this norm and the lack of unification of its application in the regions, which creates institutional risks for the construction business and consumers of construction facilities. Institutional risks are directly related to administrative barriers in the entrepreneurs’ activities, and their interaction reduces the investment attractiveness of facilities, increases transaction costs and reduces the growth potential of organizations.

1. Introduction
The problem of institutional risks impact on the growth potential of construction business organizations is extremely urgent in the medium and long term. The purpose of the article is to determine the role of institutions in the social and economic practice of entrepreneurs, as well as the impact of institutional risks on the economic potential of construction business organizations. Social institutions play an important role in society: they are fundamental factors in the economic systems functioning in the long term. But the opposite effect may arise when a large number of formal norms will impede the development of economic entities and lead to a decrease in the growth potential of such entities. A successful solution to this problem is a necessary prerequisite and a guarantee that, through the application of effective norms and rules, the construction complex of Russia and Bulgaria can become a locomotive of growth and development of the economy as a whole. Achieving this urgent strategic target is possible only as a result of the formation and functioning of such social institutions that would be effective for the development and functioning of entrepreneurs in construction. The more effective is the norm governing the activities of the construction process participants, the less institutional risks it bears.

2. Literature Review
Before researching the issue of institutional risk impact on the activities of entrepreneurial organizations, we will find out which approaches in the scientific and educational literature are applied to the concept of “growth potential”. There is currently no single theoretical approach to the interpretation of this
concept. The authors of the monograph Fedoseev et al. (2018) hold a view that the initial process of economic growth of organizations in the construction industry and the condition for the formation of their potential is the process of construction production concentration, which is caused by the impact of factors of the external and internal environment. At the same time, the concentration process, reflecting the potential of organizations enlargement, leads to an increase in the volume of work on the market, thereby exerting an influence on the change in its capacity.

The article by Yakovleva and et al. (2019) researched a methodological solution for applying semantic modeling to the enterprise potential research, which includes the systematization of existing indicators used in traditional financial analysis.

The point of view of Chepachenko, Yudenko and Palicki (2018) is correct, according to which the growth potential is associated with the economic capabilities of the organization. Economic potential represents the opportunities that an organization can show in its field of activity, and it does not matter if they were actually realized or only hypothetically possible. Not always all possible resources are involved simultaneously and with the necessary efficiency. This is why potential is determined by equally important factors: the availability of resources; the ability to apply them effectively; the degree of available resources involvement in production.

Scientists from India, Nandeeswaraih and Ramana (2018) analyze labor potential, as an independent important direction in the development of small and medium-sized businesses. Scientists write that moreover, Shri. Manmohan Singh ji, former prime minister of India, once announced that the success of the enterprise depends on how able the enterprise utilizes the potential of skilled force for them. And it should be noted that the problems of the development of small and medium-sized businesses in India have much in common with problems in Russia.

A number of researchers consider the concepts of growth potential and development potential to be equivalent. But, taking into account that the concepts of growth and development of economic entities are not identical economic categories, it is necessary from a methodological point of view to more clearly distinguish between these concepts in order to productively research, measure and justify the method of assessing the growth potential and development potential of entrepreneurial organizations.

The concepts of “growth” and “development” of economic entities, including construction organizations, being important economic categories, have long received great importance and attention in economic theory. The role and significance of these processes is evidenced by the decisions of economists, owners, who hold the opinion of an acceptable annual increase in sales at the level of the annual growth rate of the real estate market, and in other cases not less than 2-3%. How acceptable is this economic growth potential to ensure the livelihoods, growth and development of any business? The answer is due to taking into account the key factor of time affecting the processes of growth and development. So, in Russia, at a constant annual growth rate of product sales of 2.5%, the total volume of product supply will double in 28 years and 8 months (by 2046), and at 5% per year, doubling will be in 14 years (by 2032). Such is the price of the time factor and the potential annual growth rate of product sales. Therefore, for each production organization, a time factor is important, affecting the implementation of its economic growth potential, which is largely derived from the process of building up and implementing the potential of its economic development, which allows not only to ensure higher production rates, but also to increase its competitiveness potential, increasing market share.

Chepachenko, Yudenko and Palicki (2018) consider that the need to build up capacity through competitiveness encourages owners and senior management of organizations to increase the production capacities of organizations in an effort to obtain higher performance results, which is impossible outside of building the potential for the development of their construction business in a competitive environment and in the face of risk.

A scientist from Bulgaria Chaparov (2012) connects the growth potential of a construction enterprise with its sustainability, noting that considering the program of a construction enterprise from the point of view of its financial sustainability, four key aspects of activity can be identified, namely: financial activities, relations with consumers of the manufactured construction product, organization of internal business processes, growth and development.
3. Objectives
The objectives of the study were listed below:

- To research the concepts of “growth potential” and “development potential” of entrepreneurial organizations.
- To confirm the hypothesis about the institutional risks impact on the activities of organizations in construction towards reducing the growth of the business’s potential.
- To substantiate the assumption about the impact of institutional risks on the appearance of excessive administrative barriers in entrepreneurial activity.

4. Methodology for determining the enterprise sustainability
The article considers the generally accepted macroeconomic approach in that the economic growth of the national economy is the goal of development of any economy, whatever its nature, and development management is a key factor in sustainable economic growth. Oparin, Chepachenko and Yudenko (2017) are you sure that to study institutional risks from the point of view of their impact through social institutions (norms, rules) on the growth of the economic potential of organizations in the field of construction.

It should be observed that institutional risks closely interact with administrative barriers and transaction costs. For a more complete cover of the stated topic, it is necessary to identify the relationship between factors affecting the economic growth of the organization and indicators that determine this economic growth. This is, first of all, the coefficient of sustainability of organization economic growth. This coefficient is calculated as a relative indicator, in the numerator of which is net profit reduced by the size of the dividend fund, and in the denominator is the equity of the organization. Given the savings in transaction costs from the reduction of institutional risks, the coefficient will be calculated as follows.

Coefficient of sustainability of economic growth is defined as:

\[ K = \frac{(NP - DF + \Delta TA)}{AE} \times 100, \]  

where:  
- \( K \) is the coefficient of sustainability of economic growth, \%;  
- \( NP \) – net profit of the organization, rubles;  
- \( DF \) – dividend fund of the organization, rubles;  
- \( AE \) – the average annual amount of equity, rubles;  
- \( \Delta TA \) – savings in transaction costs from the reduction of institutional risks, rubles.

Table 1 shows the options for the financial condition of organizations with different values of this coefficient.

Table 1. The dependence of the financial condition on the coefficient of sustainability of economic growth

| Coefficient value | Financial condition of a construction organization |
|------------------|---------------------------------------------------|
| QR ↑             | Economic growth of the organization, increase of solvency, liquidity, expansion of production capacities, reduction of transaction costs |
| QR ↓             | Economic downturn of the organization, a decrease in solvency, liquidity, a reduction in production capacity, an increase in transaction costs |

Construction, including housing construction, is the "engine" of economic development. Iliev et al. (2018) research the problematic issues of construction and make proposals for the development of construction until 2020 using the example of Bulgaria.

In an article by Bormpotsialou and Rovolis (2019), it was noted that in many economies, residential building activity is at the heart of economic growth, either boosting or weakening Gross Domestic Product (GDP), linking the housing market with economic structural components such as labor mobility,
consumer expenditure, inflation rates as well as with other components with important effects on economy, such as the banking sector. Structural components may represent structural risks that accompany the development of housing construction in the following five Balkan countries: инфляция, Labor Mobility Inflation Rates, banking distress (Bormpotsialou and Rovolis, 2019, p.35).

A researcher from Belarus, Babina (2005) conducted research on the formation of a favorable climate to attract foreign investment. The author considers that one of the effective tools to guarantee the rights of foreign investors is to comply with the rules of immutability of legislation for investors on the date of their registration, which reduces institutional risks in business. According to the Organization for Economic Cooperation and Development (OECD), in some countries, overcoming administrative barriers at the stage of business organization increases costs. On average, globally to create a new company it is necessary to go through 10 procedures, which will take the entrepreneur 63 business days (if passing through these procedures is not delayed).

Below is an example of the implementation of the “deductions for social infrastructure” institutional norm in the construction complex of St. Petersburg. In 2013, in St. Petersburg, the Construction Committee introduced a formal norm of “deductions for social infrastructure”. The Construction Committee has prepared a special account for donations from developers constructing residential buildings for up to 100 people. Developers were advised that making contributions would speed up the process of approving documentation for their projects. Developers were asked to deposit amounts calculated on the basis of the current standards for providing residents with social infrastructure facilities. Thus, the Committee calculated that on average one place in a school costs 1,044 thousand rubles, and a place in a kindergarten costs 1,200 thousand rubles.

Since 2018, a new initiative has appeared - housing developers will deduct 11 thousand rubles from each square meter for the development of social infrastructure. It is expected to receive a total amount of fees in the amount of 30 billion rubles. In this regard, it was planned to create a fund of social obligations – the initiative to create the fund belongs to the builders themselves. Developers calculated that if they would pay 3-4 thousand rubles to the fund from each square meter, then this amount will be enough for the construction of 40 kindergartens and the social problem will be solved in a few years, and the fund can be disbanded. It is about creating a norm that would help make contributions to the social structure transparent for all builders. But the opinions of builders are already emerging that the fund will not be disbanded. Covered by the fund, the authorities of St. Petersburg will solve other infrastructure problems of the city. Thus, the issue of the construction of social and engineering infrastructure is still not resolved at the legislative level. And in this case, the risks are borne by Smolny officials and city developers. And ultimately, additional financial investments are borne by consumers. The first time consumers pay taxes, and the second - when buying a new apartment. Opinions are expressed about the construction of social infrastructure at the expense of the city, and that the cost of square meters of housing for consumers of the residential accommodation is “out of reach”, etc. Such a suspended state of developers is precisely the kind of institutional risk when there is no deduction rate for social infrastructure and it is not clear to developers how contributions will be made and whether they will be made in principle. As for construction, currently, builders do not have a unified approach for determining the costs of building social infrastructure facilities and how to transfer property to municipal and city authorities. Unification of rules and norms is required, which ultimately leads to stability in the construction market. Any government initiative should be considered in relation with long-term planning, and not be a search for a momentary solution to the problem on which it is necessary to report.

5. Conclusion

Previous considerations lead to the following conclusions.

The economic growth potential of the construction complex organizations is formed under the impact of risks:

- Institutional risks resulting in transaction costs associated with overcoming administrative barriers, most of which affect the cost of construction products.
• Production risks that affect the decrease in the efficiency of the use of available resources and the sustainability of economic growth of organizations.

Assessing direct losses from overcoming institutional risks is a complex and time-consuming process that is not performed at the micro or macro level. The inefficiency of state regulation through existing institutions in construction leads to institutional traps, the creation of new administrative barriers and the growth of institutional risks.

The stability of excessive administrative regulation leads to a decrease in the steady growth of the potential of construction organizations, which can be explained by the existence of officials who preserve and support such a mechanism in part for the purpose of enrichment. The abundance of regulations, ineffective norms and their weak impact on the economic and financial condition of entrepreneurial organizations in construction, leads to the logical question - why are so many institutional reforms (including those quite reasonable in design) that do not always lead to the expected result? And why do so many seemingly effective institutions not only not lead to economic growth of organizations, but also sometimes reduce it? From a methodological point of view, one of the reasons for this situation is the lack of a sense of institutions, which consists in the constant underestimation of the institutional systems complexity.

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