



Alleviating stress on small and medium-sized construction companies

People working in small and medium-sized enterprises (SMEs) in the construction sector were already under pressure before the COVID-19 outbreak. BRANZ investigated the sources of stress on construction sector SMEs before and during the pandemic. These were most frequently related to financial pressure and the day-to-day demands of running the business. Well-managed SMEs are generally more resilient workplaces. Targeted training in the basics of business management practice could improve the overall mental health and wellbeing of SME owners and their employees.

Previous research by BRANZ in 2018 and 2019 investigated mental health and wellbeing in the construction sector and found that around 7% of suicides in men of working age in New Zealand were by workers in the building industry.

The impact of COVID-19 will likely place more pressure on the mental health and wellbeing of SME construction companies in New Zealand, potentially further impacting morale and workplace behaviour and safety. BRANZ therefore investigated measures to support the future resilience of SME owners and employees and their mental health and wellbeing.

Approach

The original (pre-COVID-19) intent of the research was to gather primary data on the drivers of wellbeing within SME construction firms through surveys, interviews, focus groups and case studies. However, the appropriateness of these research tools in the context of COVID-19 and the need to produce time-relevant findings prompted BRANZ researchers to revisit and change the research objectives and approach.

The study was largely based on:

- review of current literature and research

published in the wake of COVID-19 to extract findings relevant to SMEs operating in the construction industry

- desktop review of the uptake by the construction sector of COVID-19-related financial support measures (mostly government led)
- interviews with SME builders and key stakeholders in the financial sector.

The research was focused on determining the level of impact of COVID-19 on the mental health and wellbeing of SMEs operating in the construction industry and identifying potential opportunities and solutions to enhance the mental health and wellbeing of business owners in general.

Observations

Earlier research in 2019 into the factors influencing suicide risk in people working in the construction sector showed that work-related factors such as job insecurity/uncertainty and work-related stress were common.

Before COVID-19, Stats NZ data showed that more than 12% of SMEs in New Zealand (65,799) were within the construction sector, making this the second-largest sector by number of SMEs.

BRANZ found that, although the construction sector was the largest benefactor of the government's COVID-19 business support measures, the general unavailability of cash flow lending from banks and other sources had the potential to impact the financial wellbeing of some SMEs. This weighed heavily on the minds of a large proportion of small and medium-sized construction firm owners.

Research by Xero on the impact of COVID-19 on the mindset of business owners in general found that nearly half of New Zealand SMEs had major concerns about cash flow. Personal income and the loss of customers were also primary concerns (Figure 1).

In November 2020, BDO found the most significant concern for construction sector SMEs was uncertainty about the future construction pipeline, followed by worries about cost pressures and falling margins as construction companies made lower bids to secure work.

If New Zealand's borders remain closed, declining net migration could see population growth falling from almost 2% pre-COVID-19 to approximately 1% over the next few years. This possible decline, combined with shifting demand, limited access to offshore skilled labour and operating conditions potentially constrained by further lockdowns, suggests uncertainty and unpredictable near-term conditions for construction SMEs and the wider New Zealand economy.

Going forward, the challenges undermining the wellbeing of SMEs in the construction industry could be grouped as follows:

- **Wellbeing challenges:** Various construction industry surveys showed that a key driver of concern or stress for owners was the financial wellbeing of their business.
- **Direct financial challenges:** These relate to a SME's financial position and subsequent access to competitively priced financial products, largely determined by security, debt, balance sheet strength, business performance, working capital and liquidity.
- **Operational challenges:** Broadly speaking, this concerns the management capability of the SME, including management of project timelines, client and supply chain relationships, project risk management, pricing practices and management of margins and client concentration.

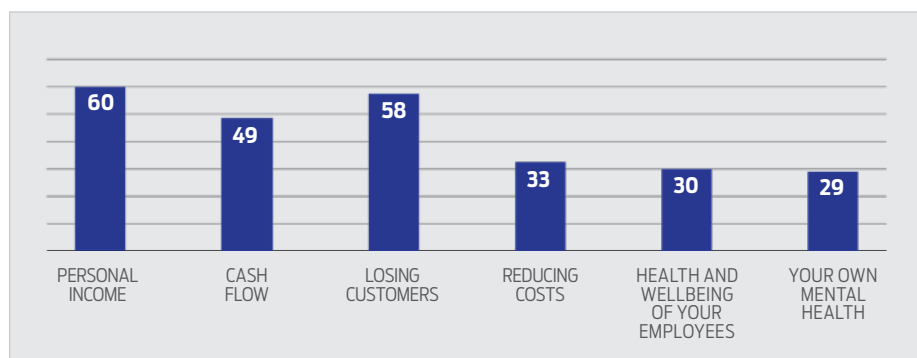


Figure 1. Areas of concerns raised by SME owners in New Zealand (percentage of survey respondents). Source: Xero.

Recommendations to improve SME resilience

The mindset of the owner of a construction enterprise is bound to have a direct downstream impact on the employees and subcontractors working for that company. Well-managed SMEs generally result in good mental health and wellbeing for the owners and employees involved.

BRANZ found that, although almost all respondents to a November 2020 construction industry survey were confident in their business management skills, around a third said they had not done any form of business management training.

Although not representing a quick fix to historical or current issues, the research showed that construction sector SMEs are more likely to be able to navigate uncertain market conditions successfully if they have key strengths in:

- cash flow management
- allocation of resources
- strategic planning
- overhead management
- project management
- human resource management
- increased use of technology to facilitate process improvements listed above, including cloud-based technology.

BRANZ recommends that construction SMEs revisit the basics of business management practice and adopt new ways of running their businesses. The highest-priority areas for improving business management are:

- professional financial planning, including cash flow management
- dedicated services for managing overheads, payroll and human resources.

Recommended improvements to processes in the longer term include:

- using project planning and timeline management tools

- streamlining supply chain and pipeline processes
- managing inventory and exposure.

The attributes outlined above support a sustainable business model for construction SMEs and significantly mitigate the operational risks that commonly lead to business failure.

Providing targeted education opportunities in construction business management and technology through a series of intensive short courses could support the development of these skills.

At the company level, each individual construction SME could help future-proof their enterprise through these improved business practices and enjoy the improved wellbeing and profitability levels that accompany a well-organised business. At the business community level, clusters of well-informed SMEs would create a more stable, healthy and prosperous building and construction sector across New Zealand, contributing to improved wellbeing, higher-quality outcomes and more-productive endeavours across the sector.

Future work

- Explore the remaining knowledge gaps about the real-world challenges facing SMEs in the construction industry.
- Investigate links between how SMEs perform and the decisions around setting up the company in the first place.
- Gain an understanding of how cloud-computing technology could impact and benefit the construction industry.

Further reading

BRANZ Study Report SR459 *The mental health and wellbeing of small and medium-sized construction firms in New Zealand*