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Analysis of the Construction Industry in the Slovak Republic by Bankruptcy Model

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Abstract

Construction industry was included until 2008 to one of the key sectors in Slovakia, which together with the automotive industry formed the core of the Slovak economy. On the present we can notice the first signs of recovery in this sector, but the global financial and economic crisis tinged this sector so strong that the general recovery of the sector would take several years. Experts predicted that the first signs of recovery in construction could see in the previous year (2015). As we mentioned construction in Slovakia has slowly gained an increasing trend, what could be seen in quantity of orders, paid invoices, its staff, increasing capacity, the growth of sales etc. For the analysis is used the Altman Z-score bankruptcy model, which sets the likelihood of the bankruptcy in a business. In the analysis was used Altman Z-score for non-productive businesses and start-up businesses, Z-score for other businesses and Z-score by Neumaier, which should objectively reflect the conditions of Slovak businesses. The results from this analysis were compared with the development of solvency index by Creditreform, s.r.o.

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1. Introduction

The economic and the business performance and the quality of business environment are closely interconnected and are being influenced each other. The global financial and economic crisis has seriously long-term affected business environment and led to the economic recession (Jakóbič, 2011). A major risk factor for the businesses is

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mainly caused by a decrease in consumption. A persistent problem is also the debt risk, which is hidden in the form of delayed or unpaid invoices. This risk presents a long-term threat for businesses because the development of corporate insolvency indicator is showing itself in a long-term horizon (Czarniawska, 2012; Rybárová, Šagátová & Braunová, 2015).

The bankruptcy or predictive models are the early warning systems based on an analysis of selected indicators that have the ability to indicate a threat in the company's financial health. The models are based on the assumption that a few years before the bankruptcy it is possible to identify symptoms of future problems, which are characteristic for these companies (Braunová & Jantošová, 2015). They could detect the indicators of potential future problems whose early solution can prevent serious consequences for the company. From the multidimensional bankruptcy model was selected the most frequently used Altman Z-score and this model was applied for selected businesses in the construction industry in Slovakia. Construction is one of the industries, which is sensitive to changes in the business environment. For our research a year 2013 was chosen, in which the consequences of the second wave of the crisis escalated (SITA, 2015c).

2. Current situation in Slovak construction

The available analyses from 2014 and 2015 confirmed that the Slovak construction is been recovered. Construction businesses have mentioned that they have more orders and the extent of their utilization in capacity is substantially higher than during previous years (SITA, 2015d). These optimistic data of construction businesses are also confirmed by statistical data. The construction industry overcame very difficult period from 2008 to 2014, what is visible in the following table (Table 1).

Table 1. Indicators of construction industry (2008-2014)

indicator/Year	2008	2009	2010	2011	2012	2013	2014
GDP (million EUR)	68 155,7	63 799	67 204	70 159,8	72 184,8	73 593,2	75 214,9
Share of construction building on GDP (%)	9	9	8,3	8,1	8,1	7,7	7,5
Share of construction building on employment (%)	8,1	8,5	8,5	8	7,8	7,6	7,3
Average monthly wage (EUR)	723	744,5	769	786	805	824	858
Average monthly wage in construction building (EUR)	555,7	558,8	579	3	607	607	600
Building output (million EUR)	6 473,1	5 790,4	5 649,3	5 542,7	4 987	4 639,2	4 489,1
Incomes (million EUR)	10 333,8	9 120,9	8 649,3	9 026,2	7 707,2	7 249,7	7 161,7

Source: Own processing

In the table, all indicators show deteriorating value from year to year. The significant importance for the Slovak economics has a decline share of construction building on GDP (an interesting fact is that GDP was growing, but share of construction on GDP was decreasing). From 2008 to 2014 was this decline 1,5%, what is massive decline in this industry. Significant changes are showed in a value - building output, where is a notable decline between 2008 and 2014 in the amount of 1 984 million EUR, what represents 44% (CEEC Research, 2014).

Construction in the Slovak Republic reached positive results in the period of Slovakia's accession to the European Union (May 2004) until the end of 2008. In 2008 companies operating in this industry realized the volume of construction production at 6,473 billion EUR, what indicated the growth compared to 2007 at 18,0%. The global financial and economic crisis has most accurately expressed in this industry in 2009, when construction production fell by 10,5% to 5,790 billion EUR. In 2010, construction production fell by 2,4% to 5,649 billion EUR and in 2011 at 1,8% (5,543 bn. EUR) (Statistical Office of Slovak republic, 2015a). The year 2012 was a crisis year for the construction industry, when the construction production decreased by 10,0% to 4,987 billion EUR (Statistical Office of Slovak republic, 2015b). In 2013, construction production decreased by 7,0% to 4,639 billion EUR. In 2014, the construction industry continued in negative trend, although this year the real GDP grew by 2,4% to 72,840 billion EUR. That same year, the value of construction production reached 4,489 billion EUR and compared to 2013 it decreased by 2,9% (CEEC Research, 2015). In 2014, construction businesses have lost most of their contracts due to a reduction in demand for construction projects, lack of private investment and postpone the start of construction of transport infrastructure (Nejedlý, 2015). Other factors that did not support the growth of construction production

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