

Review Article

# Effect of COVID -19 and Strategic Response: A Review on Sri Lankan Construction Industry

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**Abstract** - Covid-19 virus was first identified in Wuhan, China, in December 2019, and it has been spreading out all over the world by having a huge impact on the world economy. Meanwhile, the World Health Organization (WHO) announced this as a pandemic situation, and no one could find a permanent solution so far. Sri Lanka is also fallen into a crisis situation, and many industries were seriously affected by its direct impact, including export-driven firms. Empirical studies are yet trying to confirm the effective solutions for the social and economic impacts of Covid-19. This paper attests to reviewing the contemporary views shared by formal information sources on the crisis caused by the Covid-19 pandemic situation whilst specific attention was made to Sri Lankan practices. The paper has discussed how the economic impact was attributed in Sri Lanka whilst a special review is done on the construction industry. The Paper was fully based on a literature review, and the author used observational pieces of evidence found in the industries to extend the discussion. This study brings attention to how Sri Lanka should be alert on economic measures and the role required by the management of the construction industry after the Covid-19 pandemic situation. The author attempts to contribute practice related thoughts for the managerial implications on how business firms and society need to respond to such crisis situations.

**Keywords** - Covid-19, Construction Industry, Pandemic Situation, Strategies.

## I. INTRODUCTION

The year 2019 was a time that turned the world upside down from an unstoppable virus that created chaos. It is the biggest challenge that mankind is facing in the 21st century (El-Erian, 2020). Sources said that the Coronavirus was first identified in Wuhan, China, in December 2019, and later it was named COVID - 19 by the world health organization. China was the first country to lockdown its cities to stop the spread of the disease, and later on, it was detected in the European region as well. Italy, Spain and many more

countries suffered from the virus, causing those thousands of deaths. On the 11th of March 2020 world health organization (WHO) has announced that the virus is prevalent all over the world. The economic impact resulting from the pandemic is a crucial challenge to almost all countries, including small and emerging economies (IMF, 2020).

COVID - 19 is so dangerous than any other virus in the world ([www.WHO.int](http://www.WHO.int)). The WHO has identified this virus is more effective than other viruses because a single person who carries the virus can easily influence more than five other persons. Also, this virus will cause more fatal results on elderly people, and still, the world is struggling to find a solid vaccination for fighting COVID - 19. However, COVID - 19 has infected South East Asia as well, and countries like India, Pakistan, and Bangladesh are facing the challenge of COVID -19 cases increasing significantly. The first COVID - 19 case was detected in Sri Lanka on 27th of January 2020, and after that, The Government has taken drastic and very effective action to prevent this virus, and the current situation in Sri Lanka was identified as one of the countries which controlled the virus successfully in the world ([www.WHO.int](http://www.WHO.int)). However, the social and economic impact caused by the pandemic is a serious challenge for the Sri Lankan economy ahead. It was noted that responsive strategies are extensively encouraged by the government to protect the industries.

### A. Impacts of the COVID - 19 to the Sri Lankan Economy and Local Construction Industry.

The Local economy mainly consists of exports, tourism, foreign employment and the Industrial sector. Amongst them, the industrial sector contributes 27% of the GDP ([www.treasury.gov.lk](http://www.treasury.gov.lk): Mid-Year Fiscal Position Report-Ministry of Finance, 2019). The COVID - 19 virus has struck the Sri Lankan economy more than what was expected in many ways. Exports, tourism, foreign employment and Industrial sectors are heavily affected by the pandemic. The unpredictable rapid pace of the virus has



restricted all the human involvements in those industries and crippled them in a short time of period. Many industries in Sri Lanka have been making responsive strategies to survive the businesses as it notices in the international economy.

Most of the countries have closed their Airports and Harbors to prevent the arrival of the virus. Also, they have locked down either the entire country or certain states and kept them isolated to stop the spread of the virus (CRS, 2020). Basically, starting from the local street market business to worldwide exports and imports, transactions were limited except for essential needs and even most of the share market locations were shut down. The entire tourism industry was shattered by the pandemic, and tourist destinations like Europe, China, Eastern Asia, USA were totally unvisited (Larry Elliot, 2020). Political instability was shown in most of the countries, and most governments were put into great difficulty by showing the inability to control the spread of the virus (Ozili & Arun, 2020).

Many industries found Sri Lanka is also responding to the pandemic situation, but some firms seemed to get panic with the given business scenario. The constructions related infrastructure like roads, irrigation, electricity, health was slowed, and constructions related to leisure, manufacturing, and condominiums were stopped temporarily. Sri Lanka was totally shut down except for essentials on the 23rd of March 2020, and the construction industry also went under the full shutdown. The Sri Lanka government health authorities came up with an excellent method of controlling the situation, and they have joined with the Sri Lankan three forces and Police for the execution. The three forces and the police are the most trusted party in the Sri Lankan community, and during the pandemic, they have done a tremendous duty to overcome the problem.

## **II. RESPONSIVE STRATEGY OF SRI LANKAN GOVERNMENT AND CONSTRUCTION INDUSTRY**

The political stability of a government is important to impose new regulations on crisis situations like this. The current government has taken proactive measures in controlling the spread of the virus in a very effective way, like establishing quarantine centres which were introduced for the first time in the world. Isolating suspected patients and first contact personnel in quarantine center under the overall supervision and care was the main duty of the centres. The national intelligence network was occupied with tracking down the suspects based on the intergraded plan, and a special task force was formed for the entire operations.

The government has imposed a curfew at the beginning for the infected areas, and gradually it has been imposed on the entire country. Also, trespassing from the district to the district was strictly prohibited, and those who were self-quarantined at their houses were also monitored. The government has invested in many areas, such as modifying

hospitals into COVID - 19 related affairs and constructing new centres to monitor the suspected people as quarantine centres. Also, the government has put up a fund to support the virus prevention actions, and a special COVID - 19 TASKFORCE CENTER was established to coordinate all activities(www.pmdnews.lk). The national intelligence was used by the government to track down the infected people and the people who got contacted with the infected people. To streamline the process, it developed an Android Application for quick access (www.defence.lk).

The economic impact caused by the pandemic situation to Sri Lanka was alarmed with the significant drop of the local currency against the American dollar. In fact, many industries were seriously affected in Sri Lanka as it remains common to the world. This paper highlights how industries were affected and reactive strategies were taken to respond to it. Accordingly, the construction industry has mainly opted for the review. Most of the construction workers get their wages on a daily basis or twice a month. According to sources, there are 188,877 workers who are engaged in the construction field in Sri Lanka, and 680,000 people are directly and indirectly dependent on the sector. The construction industry contributes 9% to the national GDP. There is no confirmation on their wages, whether they have been paid or not ( www.srilankabusiness.com).

The industry of construction is a field that is not based on an upfront payment system. By looking at the crisis, the central bank of Sri Lanka has granted a series of facilities to small and medium scale companies, such as working capital loan schemes and investment purpose loan schemes. In the construction industry, most of the payments are made after a certain time of credit period. The total value of the construction industry in Sri Lanka is worth Rs. 397.77. Billion and from this more than 50% of the work has been completed without getting paid by the Client to the Contractor, and most of the payments are still not settled by the contractor to the Supplier (www.srilankabusiness.com). But overall, construction sector companies and product manufacturers should come up with a holistic plan to make it successful.

## **III. ECONOMIC SHOCK RESULTED BY COVID-19 AND STRATEGIC RESPONSE OF SRI LANKAN CONSTRUCTION INDUSTRY**

Within the financial year of 2020, the Sri Lankan government has given a considerable percentage of tax concession to the taxpayers and consumers as a motivation to boost the investment in the local economy. On the other hand, the government has expected an Rs. 500 billion in revenue for the year 2020. But, as per the pandemic situation, there is a question mark to the government whether it will experience the expectation in time (ICRA Lanka simulations, 2020). According to Asian Development Bank, Sri Lankan Economy is forecast a 2.2% growth during the

year 2020 and with the effect of the COVID - 19 impact, it is expected to slow down the growth of the economy in the mid-year. However, it is also predicted that the growth will be regained at the later part of the year. Meanwhile, it has also predicted a 9% depreciation of the local currency against the USD (Asian Development Outlook, 2020). Additionally, 25% of exports for the USA and 36% for Europe had been temporarily held up due to the crisis, and a very low percentage of exports were executed during the pandemic period (www.mckinsey.com).

This paper makes special attention to the Sri Lankan construction industry as it contributes to the local economy in a significant way, including indirect impacts like job opportunities. The seriousness of the Covid-19 and its aftermath on the construction industry is connected to different matters. Most of the related sectors of the construction industry like types of cement, paints, building materials, cables, electronic items and chemicals depending on the raw materials imported from China and India. Thus, depreciation of the local currency against foreign currency is a negative impact as it costs extra for the industry (Asian Development Outlook 2020). Most industrial product manufacturers in Sri Lanka should revise their pricing strategies due to the extra risk of currency fluctuation; for instance, the cement industry is one of the critical sectors that face this type of risk when importing raw materials like gypsum ([www.srilankaimporter.com](http://www.srilankaimporter.com)). In addition, most of the construction projects were going on an upward trend after the presidential election, and the sectors like road infrastructure, industrial factories, leisure sector, housing apartment sector were booming on a massive scale. But due to the COVID - 19 issue, all the projects were shut down, and most of the workers were stuck inside Colombo city. Most of the construction companies found difficulty in maintaining their carder due to the restricted crossing over the district. Paying wedges fulfilling basic needs was a huge issue that the contractors faced. When it comes to the hospitality and condominium sector, those sectors are always interconnected and contribute a lot to the construction sector. World-class condominium companies started their projects in Sri Lanka, Such as PORT CITY, The One by Ritz Carlton, Shangri-La Hotel by Shangri-La group, ITC by Indian Tobacco Company, and some local projects like Waterfront, Marine Drive Hotel Project, 606 towers, Vinil City hotel are also some highlights. All these projects are held up due to the situation, and contractors and suppliers are facing issues when recovering their investments on time. Thus, it looks like there will be very slow growth of the industry for the next three months.

#### **IV. DISCUSSION: HOLISTIC READINESS OF SRI LANKA ON POST COVID - 19 SCENARIO**

The COVID - 19 virus has changed the entire lifestyle of every social class category, and people need to transform their lifestyle according to the situation (Financial Times,

2020). All social gatherings are prohibited, and hotels are not allowed to receive any guests. All the shopping malls were closed down, and small and medium-scale restaurants and fast food outlets were closed or operated under strict regulations ([www.defence.lk](http://www.defence.lk)). People are forced to stay at home, and even basic needs are supplied to the doorstep. It seems that local or foreign tourists will come back to their previous lifestyle and spend money on the above-mentioned areas after a time. Sri Lanka needs to revitalize strategic thinking to regain normalcy as a base for growth via holistic preparation. Sri Lanka is a service sector driven economy (Koththagoda&Dissanayake, 2017), but it requires a long term focus on other sectors. As this paper contributes practice related discussion on the construction industry, it has reviewed some strategic challenges followed by a few sectors which operate in the domain of the construction industry. The construction industry has been affected by the Covid-19 pandemic situation in terms of back-end activities and client perspectives. The contractor, material supplier and the client play a major role in the industry, and the current situation made all three parties face issues like completing projects on time, expecting supplies on time at the correct price, and the most important fact is the final product or the finished project targeted on set objectives. Thus, the country needs a form of institutional strategies to mitigate the risk for all three parties, including financial perspective as one of the serious matters.

Since COVID - 19 has grown as a global pandemic, most of the imports and exports are limited and have been executed in a restricted manner (WTO,2020). The Domestic construction industry relies heavily on locally manufactured finished goods such as cement, steel, power cables, ceramic etc., and the industrial sector is attributed with a strategic focus on branding and business development strategies (Munasinghe&Dissanayake, 2018). Due to the scarcity of raw materials in Sri Lanka, most of the manufacturers depended on foreign imports. But current exchange rate impacts directly increase the cost of materials and parts produced by different local industries, which act as integrated partners of the construction sector. Therefore, clients of construction projects should be convinced of the real picture of the construction projects in terms of pricing and project completion time. For instance, Power cable producers import their Cu, Aluminium, XLPE, PVC and PE from India, China, South Korea, South Africa and Dubai. Most of the countries are affected by the Corona outbreak, and these countries are in difficulty manufacturing them and exporting raw materials to their clients. On the other hand, the local government has imposed restrictions and limitations on imports, and this may create a huge impact on manufacturers and those who make supplies to the construction field. This impacts directly on construction-related goods and services providers and indirectly to contractors as well. However, industries need to go back to basics and find alternatives or substitutes for the supplies. In

order to make these materials or services more price competitive with global suppliers, they should lobby the government to make new regulations and tax policies to help the local suppliers.

In future, the companies should plan to go with more automation of the production, and the workforce can be trained to perform new tasks which will be productive to the company in many ways. In the meantime, the company can practice job rotation in future so that they will be able to utilize their carder whenever needed in such a situation. In this process, any semi or fully manufactured product should be distributed to the end-user or to the contractor within the expected time frame by the relevant party. Sri Lankan has experienced constraints in outbound logistics domestically due to the imposed curfew island-wide and mainly within the western region. Getting mobilized in construction worksites with finished goods and skilled labour were restricted for more than two months, and this has caused billions of financial losses to the entire industry. Also, it highlights how the household, small scale and medium scale construction got affected by the restriction imposed on getting mobilized inside the country. By looking at the current situation, companies may decentralize and establish their warehouses in strategic points, and some companies have already taken the initiative ([www.kelanicables.com](http://www.kelanicables.com)).

Marketing and sales are the ultimate elements of any company or in any industry. Building and maintaining customer relationships, introducing product ranges to the market, creating the competitive advantage and sustaining the business momentum are the main characteristics of sales and marketing, including industrial sector businesses (Dissanayake, 2015). With the current situation, most of the activities related to sales and marketing have been limited, and it is high time to find new avenues. Since those are the key elements in the process, new planning and revolutionary thinking should come into action, namely use of new technology to get connected with clients, utilization of online payment methods, monitoring sales carder through new technologically advanced systems (Siriwardane & Dissanayake, 2019).

Any industry or company has always been supported by firm infrastructures such as finance management, line management and administration. As per the current situation, all the operational activities were affected by the Corona outbreak, and this has made many impacts on the construction field. Paying employee wedges, supplier wedges, other financial liabilities like loan instalment settlements are some of the critical matters faced by the construction field. Thus, it requires financial management strategies, including cost efficiency methods. One of the most important functions in the construction sector is human resource management (HRM) which strives all the other elements together. In the district of Colombo, there are more

than 188,877 workers related to the construction field, and out of them, 40,000 are foreign employees, and 90% of the construction has been temporarily held up due to COVID - 19 virus. Practising the given health guideline from the WHO and from local health bodies. Also, most of the companies were established more than three decades back, and their uniqueness or the competitive advantage is the skilled labour force. So it is very important not to do any penalization on their wages or any other allowances. Anyway, this hit will remain for a short period of time, and major companies should absorb the impact and forecast for a sustainable future. ( [www.srilankabusiness.lk](http://www.srilankabusiness.lk)).

## V. CONCLUSION

Sri Lanka has been able to face many natural disasters and insecurity conditions during the last few decades as a nation. Thus, the community of Sri Lanka has a significant strength of regaining the outcome provided leadership and policy-related infrastructure is established. The construction industry of Sri Lanka also needs to make the decision not being panic due to the pandemic situation currently experienced. Especially, management of those companies should focus on micro-level matters rather than responding to the whole impact with ad-hoc decisions. This is where it requires proper integration of strategies and operational decisions. Companies need to be focused on the strategy in line with the merged contexts rather than limiting to the inward policies. The change of strategic thinking is a must whilst companies focus on value-adding activities to be maintained without mitigating them due to the cost pressure. Therefore, the construction sector of Sri Lanka needs to be alert on the future growth determinants of the sector and act accordingly rather than synchronizing the strategies at once.

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