

## Associations as a New Form of Institutional Interaction within Civil Engineering Industry of Saint-Petersburg



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**Structural abstract:** This article enunciates a scientific theory related point of view on the association genesis and evolution of the forms of its activities. It examines current trends and prospects of development and strengthening the role of associations in the field of civil engineering in St. Petersburg. The article proves institutional viability of the professional association of organizations, which position themselves as technical employers. It offers a development potential analysis of the institute of technical employer in the field of civil engineering as a result of the formation of a specialized professional association. Four areas of activity are identified and the structure of interaction of the association of technical employers in the field of civil engineering is described.

**Keywords:** association, technical employer, civil engineering, branch consolidation, specialism, balance, self-regulation.

### Introduction

The role of associations in the development of subjects operating in the field of civil engineering and value of the Institute of technical employer may be disclosed in the context of discussing the nature (genesis) of unification of the investment and construction process subjects into professional unions. In the most general sense the word "Association" (from Latin *associa*, uniting) means an amalgamated union, a club, a partnership – a form of association, established by agreement between the organizations themselves, in order to coordinate activities and to represent and protect their collective interests. Neoclassical economic theory is limited to the study of associations as an element of market infrastructure: their functions and interactions, i.e. associations are described as an element of the system. Moreover, the proposed point of view, in which "... the state should initiate development of market infrastructure," "... to initiate industry associations, to actively participate in their activities..." [1] This interpretation brings associations in their activities to the role of the inner and external controller of industry, industry liaison to the external environment (the state), which excludes the understanding of such as a subject of the main technological process. While discussing the role of associations the author discloses his position from a different

\* In the scientific and journalistic contexts, this term is used synonymously to the terms "industry branch union", "professional association", "nonprofit association of industry participants".

perspective – institutional. In the works of D. Nort [2], O. Williamson [3], T. Eggertson [4] associations (as well as other elements of industrial infrastructure) are considered as elements of natural self-organization of industry or complex. Disclosure of institutional perspective on the role of associations in the development of interaction of subjects of investment and construction process, including civil engineering is suggested in relation to the processes of specialization and consolidation of regional investment construction complex [5].

### Strategy

Within the context of this article discussion about the forming of associations of technical employers on the one hand demonstrates the institutional status of the technical employer, but on the other hand, confirms the views on the development of professional associations within the industry consolidation.

Research of the institutional nature of technical employer clearly demonstrates that this subject has a well-established integrity functions within the civil engineering, it is expressed as the discipline of interaction where the bounds of its economic activity are delineated as an independent business entity. However, in modern day Russia the practice of self-positioning of such activity is just emerging, which is welcomed at the initial stage of consolidation (see Fig. 1). This determines the primary purpose of the association – a positioning of the technical employer as an institute of civil engineering.

At this stage, the institutional development of the investment construction sector has a trend of separating technical employer services into independent management units. The structure of the Association of technical employers (ATE) members is institutional, because the totality of construction companies is clearly positioned by their activity. As such, they can be divided into [6]:

- private engineering companies with narrowly specialized functions of technical employer;
- public and private organizations that act as technical employer for the chief budget controllers in St. Petersburg and at the federal level, as well as for the engineering bodies of the city;
- investment and construction companies of St. Petersburg operating in the field of civil engineering and for which the functions of technical employer constitute only one part of their activities. In this case one should specifically state that the interests of the Association will be represented by a competent person directly engaged in the activities of technical employer.

The activity of the ATE can be divided into four main areas, which are relevant to the positional and functional (second) stages of professional associations development [7]:

- establishing a close cooperation between the organizations (services) of technical employer in St. Petersburg, which carry out their activity in the field of civil engineering, exchange of experience in resolving certain issues within the competence of the technical employer;
- providing a day-to-day relationship between the Association and government agencies, institutions and organizations that affect investment and construction processes in St. Petersburg, in order to receive timely information about current and projected changes in legislation, that might affect the work of the technical employers;
- implementing the measures aimed at improving the skills of organizations – technical employers operating in the field of civil engineering;
- developing proposals for the improvement of administrative regulation of investment and construction sector, submitting related proposals to the largest professional construction associations of St. Petersburg, which perform their activities in the area of civil engineering, and conducting a dialogue with their support at the highest professional level with city agencies and governing bodies.

ATE activity focuses on the expert coordination of subjects, functioning as a technical employer, in order to jointly position a technology service standards, the economic principle of creating added value, as well as strengthening civil activities in Russia.

## Solution

In order to elaborate on this statement the author is using a methodological approach, based on the interpretation of the Herfindahl-Hirschman index (HHI) ratio, developed by the consulting group AT Kerney. The method, which was proposed in the works of Graham Deans, Fritz Kroeger and Stefan Zeisel [8], is based on the allocation of four phases of industry consolidation.

O. Williamson [9] considers the trend growth of the infrastructure industry organizations (TA, Fig. 1), which also include associations, to the specialization and balance stages. He defines the nature of their appearance as self-organizing. At the specialization stage the subjects of investment and construction activity are concentrated within their primary activity (the specialization takes place). A strong pool of competitors is being formed, the economy of the activity is recognized, and this raises awareness of the common tasks of subjects in interaction with the environment.

## The formalization of association activities borders

The first stage of creation and development of associations (1, Fig. 1) is when a group of subjects is striving to position their activity in relation to the external environment, first and foremost, to the customers. The aim of positioning (within the association formed) is defined by the subjects as the formalization of their activities boundaries in order to “... secure in the mind of the consumer a consumption standard” [10], intercomparison of the content and price of goods (services, products). That means, than at the first stage the association is seen as a tool of professional self-determination of the subjects.

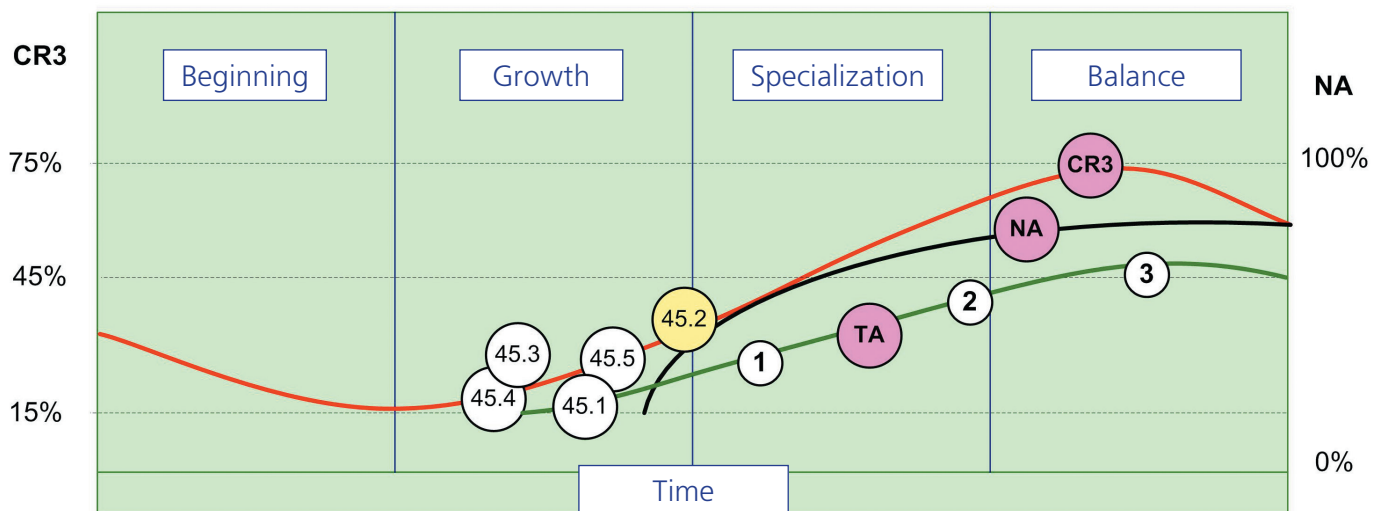


Fig. 1. Number of infrastructure development organizations (TA) and the involvement of subjects in the industry associations (NA) relative to the phases of industry consolidation.

Note: The designations comply with Section F, Construction of the Russian National Classifier of Economic Activities (OKVED)

45.1. – Construction Site Preparation

45.4. – Finishing works

45.2. – Construction of buildings and facilities

45.5. – Rental of construction machinery and equipment with operating personnel

45.3. – Engineering equipment installation in buildings and facilities

## Association as an infrastructure subject of the investment and construction complex in St. Petersburg

With regard to the activity of associations, the second stage is described as functional (2, Fig. 21). At this stage, the subjects are aware of the overhead functions defined by their specific activity – interaction with the authorities, protection of industry interests, maintenance of industry strategic prospects (substitutes, etc.), promotion of industry product, etc. The possibility of redistribution of overhead functions, which can be transferred to industry unions on the terms of equity financing, is conceptualized and implemented [11]. During the second stage the association becomes the subject of infrastructure investment and construction complex of St. Petersburg, demonstrating a strong institutional activity and functioning as a nonprofit organization (the way the law describes it). At this stage, subjects recognize “associations as an effective tool for interaction between industry participants with an environment” [3], which leads to a significant increase in the proportion of subjects included in the industry unions and associations (NA, Fig. 1). A characteristic feature of the association is the development of industry standards in accordance with the Federal Law No. 184-FZ “On Technical Regulation” (dated December 27, 2002). Attempts to implement the standards demonstrate the evidence of the associations readiness to realize their potential as self-regulatory organizations at the third stage [12].

### Institutional viability of the association subject

The third stage (3, Fig.1) is characterized by maturity of industry associations institute – within the industry consolidation it can be compared to the balance stage. Associations, as well as other subjects in industry, are upsized into confederations, nonprofit conglomerates. For instance, the Builders of Russia Union and associations (unions) of regional builders [13] consist of 85% of the associations and other forms of non-commercial partnerships. At this stage, the association is able to influence the industry to regulate the behavior of individual entities, provided that they have obtained respective legislative powers. Recently adopted Federal Law No. 315-FZ “On the self-regulatory organizations” and Federal Law No. 232-FZ “On Amendments in the Town-Planning Code of the Russian Federation and Certain Legislative Acts of the Russian Federation” provide such power to the associations. Many associations within the investment and construction sector, which previously acted as nonprofit partnerships, have become self-regulatory organizations. Abolition of licensing in the building sector and the transfer of appropriate rights to the self-regulatory organizations on the one hand demonstrate the recognition by the authorities of the formation of the construction industry, and institutional viability of the association subject, on the other. Delegation of authorities to regulate the industry is the highest form of evolutionary development of the association subject under the condition of institutional development of regional investment construction complexes.

### Search for new forms of institutional interaction

The scientific theory on the genesis of associations and their activities evolution, which was described above, gives grounds to consider current trends and prospects of development and strengthening the role of associations in the field of civil engineering of St. Petersburg and to discuss the institutional

viability of the professional association of organizations positioning themselves as a technical employer.

Not a single sector in the investment and construction industry can compete with the civil engineering, where there are associations of almost any type, including general and more specific, for instance associations on a particular construction product (bridge building associations, road builders associations, etc.). Before the crisis all associations in the construction industry were created as “positional” (stage 1) or as “functional” (stage 2) associations, whereas after the 2008 crisis the investment and construction industry “...experienced a boom in registration of nonprofit partnerships aimed at getting functions of self-regulatory organizations” [14]. The primary issue in industry publications of 2008-2009 concerned self-regulatory organizations (SROs). The growing competition between the SROs for new members has become the subject of widespread speculation. However, it’s not something unusual – a new significant flow of direct (fees and salary packages) and indirect (the ability to influence and control) financial resources always attracts those who would like to take advantage of this opportunity. This trend was especially negative against the backdrop of the construction industry crisis [15]. Those associations that during the crisis “...were seeking new forms of institutional cooperation, and integration of resources” [16], switched to outright struggle for leadership in the field of self-regulation. However, the fledging period is always characterized by similar trends. In general, the transition to self-regulation in the construction industry is due to both objective evolutionary trends and the unique features of “Construction” activity. (F45).

A positive trend would be the process of creating an association of technical employers in the area of civil engineering in St. Petersburg, the founders of which did not only immediately refrain from the obtaining the status of a self-regulatory organization, but also quite clearly outlined their objectives within the institutional situation on provided activity.

### Association of technical employers in the area of civil engineering in St. Petersburg

Solution of construction tasks defined at the establishing of the association of technical employers in the area of civil engineering relies on networking in the area of civil engineering. Communication with other professional associations and infrastructure elements is the foundation of such networking (see Fig. 2).

A significant factor in the creation of associations is to promote the establishment of proactive civil groups formed on the grounds of professional occupation and to involve these associations in the management of social processes, thus weakening state paternalism.

The structure of interaction of the association reflects the current cluster model of organization of investment and construction complex in St. Petersburg. ATE interacts with associations uniting investors and primary contractors in the field of civil engineering – the subjects which in the first place require creating a position of technical employer. Its mission is to position a managerial role of the customer towards investors, and, with respect to primary contractors – to divide competences. That is, the institutional

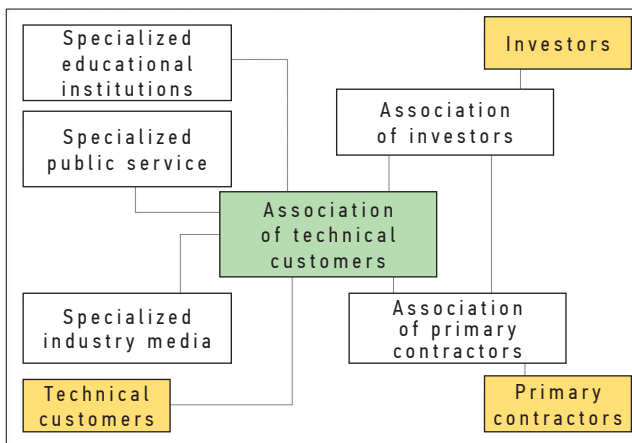


Fig.2. The structure of interaction within the association of technical employers in the area of civil engineering.

position of technical employer is formed primarily towards the investor, who must foresee and recognize the appropriate status of technical employer.

## Conclusion

"Association" as an element of information and communication infrastructure, develops proportionally in regards to the stages of industry consolidation, consistently solves problems of activity positioning, and problems of functional interaction with the external environment and regulatory bodies (in the status of a self-regulatory organization).

Implementation of this procedure involves the following steps on behalf of ATE:

- formalization of cluster model of the organization of investment and construction project at the technology standard level (business scheme), of business case, set of model contracts "investor – technical employer – primary contractor", and of project presentation;
- promotion of a new model of relationship in specialized industry media, in specialized civil services;
- creation and distribution of case studies for specialized educational institutions;
- indirect presentation of the model to primary contractors and investors through relevant associations, operating in the civil engineering sector.

Establishment and functioning of ATE can not only strengthen the cluster model of the relationship between investment and construction complex subjects of St. Petersburg, but also contribute to the establishment of the Institute of technical employer in the civil engineering sector.

Thus, associations as professional unions are a part of information and communication infrastructure of investment and construction complex and serve as a tool of internal relationship in the civil engineering sector, and, from a scientific standpoint, the purpose

of the "association" subject may be defined as an instrument of institutional formation of subjects, investment and construction complex, which operate in the field of civil engineering.

## Statements

The author described his vision of the purpose and content of the "association" subject in the investment and construction complex, as well as tasks of the Association of technical employers in the field of civil engineering. This allowed to make the following statements:

1. the subject of "association", as an element of information and communication infrastructure in the civil engineering field of St. Petersburg, is developing proportionally in regards to the stages of industry consolidation; it consistently solves problems of its activity positioning, and problems of functional interaction with the external environment and regulatory bodies (in the status of a self-regulatory organization);
2. the role of the "association" subject from a scientific point of view can be described as an instrument of institutional formation of entities, which are operating in the area of civil engineering;
3. "associations" might be considered as an effective tool of introducing new models of organizational and economic co-operation in the regional investment and construction sector, and in civil engineering, in particular;
4. the actual aim of the Association of technical employers in the field of civil engineering in St. Petersburg is determined by setting the appropriate institutional status and technical employer.

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