A COMPARATIVE STUDY OF CONSTRUCTION INDUSTRY SIZE AND STRUCTURE BETWEEN THE UK AND AUSTRALIA AND THE SIGNIFICANCE OF INDUSTRY FRAGMENTATION

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Abstract
While comparing both the size and structure between the UK and Australian construction industries, this study reveals that the UK construction industry is about two and a half times larger than the Australian construction industry, and both industries are dominated by the proportion of small firms. The issue of fragmentation is characteristic of the construction industries in these two countries, and beyond. This study then develops a self recruiting-subletting cost indifference point model to explain why fragmentation occurs. Although the high proportion of small firms in the construction industry has been criticised as it prevents the exploitation of economies of scale, the self recruiting-subletting cost indifference point model theoretically proposes that subletting is usually profitable for construction firms. Thus the size distribution of the construction industry has a propensity to skew towards small firms.

Key words
Construction, industry size, industry structure, international comparison, cost indifference point

INTRODUCTION

The construction industry makes a significant contribution to the economic and social welfare of a country. This is observed not only in the UK (CFR, 2003; Ive, 2004), but also in other countries (Ofori, 1990; Low and Chan, 1997; Shen, et al., 2002; Ding, 2005). While describing mainly UK construction, the Pearce Report (2003) brings together in one place the key facts and data for the industry. Nigel Griffiths, the Minister of Construction in the UK, comments that the Pearce Report (2003) provides an excellent basis for both a better understanding of the industry and opportunities for future collaboration between the construction industry and its UK clients (p.i). As such, to put the main focus of that report - namely the UK - in a wider context, international comparisons between the construction industries of other countries are warranted.

The UK construction industry has been the subject of a number of reviews in recent years, notably including Latham (1994) and Egan (1998; 2002). The Centre for Constructing Excellence is an attempt to improve construction productivity and practice in the UK and arose following the emerging industry reform agenda. Its objectives are to improve performance through increased productivity and competitiveness, improve industry image by taking action to create a step change in culture, in the development of people, and enhance engagement with the community and the industry’s customers, and to more generally engage and take action with individuals, businesses, organisations and industry associations (http://www.