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MECHANISMS FOR IMPROVING THE PROFITABILITY OF CONSTRUCTION ORGANIZATIONS IN THE CONTEXT OF ECONOMIC REFORMS

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Abstract

In recent years, the Republic of Uzbekistan has been implementing large-scale economic reforms aimed at modernizing the national economy, including the construction sector. This article examines current issues related to improving the profitability of construction organizations under conditions of market transformation. Methods for efficiency analysis are presented, factors influencing the profitability of construction activities are assessed, and recommendations for optimizing business processes are provided. The proposed mechanisms are based on the reform practices carried out in Uzbekistan, taking into account the specifics of the construction market and macroeconomic policy.

Keywords: Profitability, construction organizations, economic reforms, Uzbekistan, investments, efficiency, construction sector.

Introduction

The construction industry is one of the key sectors driving sustainable economic growth in the Republic of Uzbekistan. In the context of ongoing socio-economic reforms, the importance of identifying effective management tools for construction organizations aimed at increasing profitability is growing. Particular relevance is given to the development of an adaptive model for the functioning of construction enterprises amid economic liberalization, private sector development, and the attraction of foreign investment.

To assess and improve the profitability of construction organizations under economic reforms, data from JSC "Tashneftegazstroy" (a construction company in Uzbekistan) were analyzed.

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Table 1. Comparative Table of Key Indicators of Profitability and Financial Stability: The Case of JSC "Tashneftegazstroy"

Indicator	2023 (Actual)	2024 (Actual)	Planned Standard	Industry Average (2024)	Deviation (2024)
1. Product profitability (%)	8,4	7,0	≥ 9,0	7,2	–2,0 п.п.
2. Return on Assets (ROA, %)	5,1	4,2	≥ 5,5	4,6	–1,3 п.п.
3. Return on Equity (ROE, %)	9,2	8,1	≥ 10,0	8,5	–1,9 п.п.
4. Financial Independence Ratio	0,92	0,88	≥ 1,0	0,91	–0,12
5. Current Ratio	1,2	1,1	≥ 1,5	1,3	–0,4
6. Share of material costs in production cost (%)	56,3	58,1	≤ 55,0	57,5	+3,1 п.п.
7. Fixed Assets Wear Ratio	0,68	0,71	≤ 0,5	0,65	+0,21
8. Labor Productivity (mln UZS/person)	195,3	210,4	—	188,0	+22,4

To assess the performance efficiency of a construction organization under the economic reforms in Uzbekistan, a detailed analysis of the financial indicators of JSC "Tashneftegazstroy" for 2022 and 2023 was conducted, comparing them with planned benchmarks and industry averages.

Product profitability, which reflects the efficiency of the enterprise's production and economic activities, amounted to 8.4% in 2023, but decreased to 7.0% in 2024. This indicator did not reach the planned target level (≥ 9.0%) and was slightly below the industry average (7.2%). The decline may be attributed to rising construction costs, increased prices for materials, and intense competition in tender procedures, which requires a more flexible pricing policy and a revision of cost items.

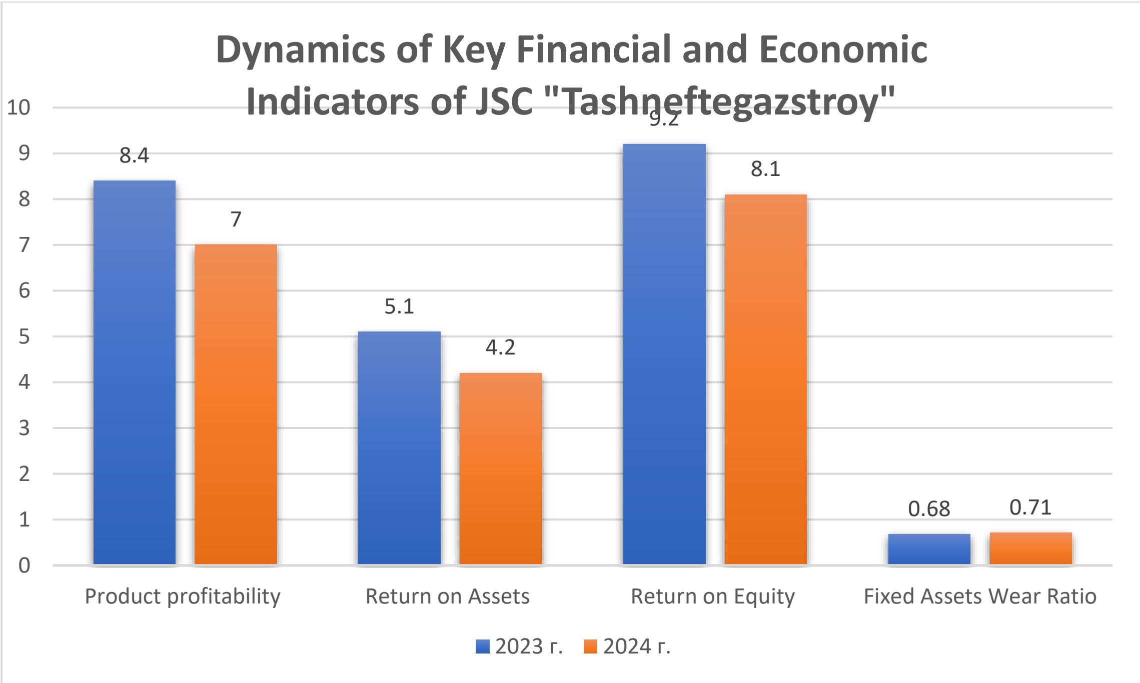

Рис .1. Financial and Economic Performance Trends of JSC "Tashneftegazstroy"

The return on assets (ROA), which characterizes the return on invested capital, also showed a negative trend: decreasing from 5.1% in 2023 to 4.2% in 2024. This is below both the established benchmark (5.5%) and the industry average (4.6%). Such a trend indicates a decline in the efficiency of asset utilization and highlights the need to improve the return on investment in fixed and current assets.

Return on equity (ROE) in 2024 amounted to 8.1%, compared to 9.2% in 2023. This indicates a decline in profitability relative to the funds invested by shareholders. With a benchmark of 10.0% and an industry average of 8.5%, the company demonstrates moderate but insufficient profit capitalization rates, which also calls for improved efficiency in management decisions.

The financial independence ratio in 2024 was 0.88, falling short of the planned value (≥ 1.0). This suggests that the company is increasingly dependent on borrowed sources of financing. A similar situation is observed with the current liquidity ratio, which stood at 1.1 (with a benchmark of ≥ 1.5).

Reduced liquidity may limit the company's ability to meet its short-term obligations promptly and indicates the need for more effective working capital management.

The share of construction material costs in the total production cost increased from 56.3% in 2023 to 58.1% in 2024, exceeding the allowable threshold of 55.0%. This indicates a significant increase in the cost of material resources, particularly considering inflation and currency risks when purchasing imported components.

The rising cost of materials highlights the need to develop local supply chains and establish long-term contracts to stabilize prices.

At the same time, the depreciation rate of fixed production assets reached 0.71, significantly exceeding the normative level (≤ 0.5), which indicates a high degree of physical and moral wear and tear of equipment. This condition of fixed assets reduces overall productivity and increases operating costs.

Despite the above-mentioned shortcomings, it is worth noting the positive trend in labor productivity. In 2024, this indicator amounted to 210.4 million UZS per employee, which is 7.7% higher than in 2023 and 12% above the industry average (188.0 million UZS). This reflects sound personnel policy and effective labor process organization.

Overall, the analysis of indicators shows that JSC "Tashneftegazstroy" demonstrates moderate stability and limited profitability, remaining within industry averages but falling short of strategic performance targets. The main challenges are related to:

- high material costs and increased production expenses;
- low liquidity and reliance on borrowed funds;
- significant depreciation of fixed production assets.

At the same time, the continued positive trend in labor productivity and growth in work volume indicate the potential for improving profitability.

To achieve stable financial results, it is necessary to implement a set of measures, including: equipment modernization, cost optimization, diversification of funding sources, and strengthening financial control.

Table 2. Strategic Steps to Achieve Stable Financial Results

Translation	Specific Actions
Financial Recovery	Financial audit, debt restructuring, implementation of management accounting
Technological Modernization	Leasing of equipment, software modernization, transition to BIM
Government Programs	Participation in national housing and infrastructure projects, use of preferential loans
Investment in Personnel	Advanced training courses, professional retraining, performance-based salary growth

Implementation of the above recommendations, as outlined in Table 2, lays the foundation for stabilizing and gradually increasing the profitability of construction organizations in the Republic of Uzbekistan amid ongoing economic reforms.

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The modern challenges faced by the construction sector include rising production costs, shortage of working capital, strong market competition, and deterioration of production assets. However, with competent management of these risks, companies can not only maintain stability but also significantly improve their economic performance.

Key Measures Aimed at Ensuring Financial Stabilization:

1. Financial stabilization through restructuring and control

The first step should be strengthening internal financial control. The implementation of managerial accounting, regular analysis of liquidity, turnover, and profitability ratios will allow early identification of problematic areas. Conducting financial audits and subsequent restructuring of debt obligations will reduce short-term budgetary pressure and increase the financial independence ratio, which remains below the normative level in most construction organizations.

Comprehensive cash flow planning and effective management of accounts receivable will improve current liquidity, while reducing dependence on bank loans will help maintain stability even amid macroeconomic fluctuations.

2. Increasing efficiency through digitalization

Special attention should be paid to digitalizing business processes. The introduction of modern IT solutions—such as construction management systems (e.g., BIM – Building Information Modeling), ERP systems (SAP, 1C:ERP), and cost control platforms—can enhance the transparency and accuracy of managerial decisions.

Digital transformation enables:

- reduction of design and construction timelines;
- minimization of design-phase errors;
- accurate budgeting and prevention of cost overruns;
- increased labor productivity without expanding the workforce.

The state, in turn, supports this process through tax incentives for equipment purchases, digital tendering platforms (e.g., portal.d-xarid.uz), and enterprise modernization programs.

3. Cost optimization and reduced dependence on imports

Amid the rising cost of construction materials—especially imported ones—active participation in localization and import substitution programs is recommended. State support in the form of preferential loans, subsidies, and tax holidays for

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domestic manufacturers creates favorable conditions for establishing partnerships with local suppliers or launching small-scale in-house production.

Companies should also develop internal cost control regulations—at every stage, from design to project completion. This will not only optimize production costs but also increase profit margins, especially in the face of growing competition.

4. Investment in human capital and production infrastructure

Increased labor productivity in the construction sector is possible only with an appropriate level of training and staff motivation. Current realities demand workforce retraining, implementation of "lean construction" methods, and improvement of technical competence among specialists. Establishing corporate training centers or partnering with vocational colleges is a crucial step in this direction.

It is also essential to address the high wear and tear of fixed production assets. Without equipment modernization, sustainable cost reduction and profitability growth are unachievable. The use of leasing, public-private partnerships (PPPs), or direct investment can accelerate equipment upgrades and enhance the mechanization of construction work.

Thus, implementing the proposed measures can ensure not only short-term financial stability but also build a solid foundation for the sustainable growth of construction organizations in the medium and long term.

Amid the large-scale economic reforms underway in Uzbekistan, adaptability, digital transformation, and efficient resource management are becoming decisive factors for survival and growth.

Support from the state, investment activity, participation in national programs, and the transition to modern management tools (such as BIM, KPIs, and financial planning) collectively form a comprehensive strategy that enables construction organizations to significantly enhance their operational efficiency and market position. State support often provides essential financial resources, regulatory facilitation, and policy frameworks that create a stable and favorable environment for business growth. Active investment fuels innovation, infrastructure development, and the adoption of advanced technologies, ensuring companies remain at the forefront of industry trends.

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