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Key aspects of corporate strategy in international construction

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Abstract

In view of increasing market competition, construction and engineering firms are forced to seek new business activities in foreign countries since their domestic markets disable their further growth. Many construction firms have already entered foreign markets in order to diversify their production, gain access to the new bids and expand the shareholders' value. The application of the right strategic approach on the company's way to internationalization plays a crucial role. The export know-how is possessed by a limited number of construction firms successfully competing on international markets, whereas other companies fail in their attempts. Recent academic literature is inconsistent in several aspects of company's strategic behavior in international construction in relation to formation of joint ventures and export financing. This research attempts to address these issues. On the basis of perceived business needs, six research statements were outlined. These statements were analyzed and evaluated through quantitative survey. Research findings were derived from empirical evaluation collected through structured questionnaires. Respondents were represented by corporate executives, project managers and trade finance specialists. The outcomes of this research provide resolution and deeper understanding of analyzed aspects. The research findings may serve as a valuable input for the composition of the corporate strategy and building competitive advantage in international environment.

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1. Introduction

Many construction and engineering companies are searching for their expansion possibilities in foreign markets, since their domestic market shows shortage of business opportunities compared to underinvested economies missing their basic infrastructure. When entering foreign markets, companies are facing entry barriers. Porter [13] dealt with competitive strategy and defined six major sources of barriers to entry. Construction firms are forced to cope various market entry strategies including entry into strategic alliances in order to overcome these barriers. Strategic alliances have been widely discussed in the context of international business over the past two decades since interim collaboration has become an important component of creating competitive advantage [15]. A strategic alliance is an agreement between two or more companies to work together to achieve an objective. Joint ventures (JVs), a special type of strategic alliance, offer a unique opportunity to combine distinctive competencies and complementary resources of participating firms [10]. This form of alliance provides an opportunity to share the costs and risks, acquire knowledge, enter new markets and gain economies of scale or rationalize operations [2]. Although establishing international construction JVs is a widely used strategy in the construction industry, the majority of current literature and research is limited to manufacturing industry. International construction JVs are usually formed on single project bases, with limited duration. These alliances are affected by complex and multidimensional factors regarding partner compatibility, interworking relationships between the firms, host country conditions, project characteristics and by the JV structure itself. Theories of international joint ventures (IJVs) in the construction industry have not been investigated, except for a small number of studies which have concentrated on the risks of IJVs [1] [3] [14] and factors affecting the performance of IJVs [6][9]. Several studies in the literature have also examined the influence of culture on forming and on the performance of IJVs [5][7]. When coping strategies for international expansion, particular attention should be paid to export financing and cooperation with export credit agencies, which may facilitate foreign market entry. Recent academic literature [11][12] addresses this issue.

Based on the perceived business needs, there is a clear need for a strategic framework for construction companies considering their international expansion. Driven by this motivation, the following research statements were outlined:

- S1: An International Joint Venture is an appropriate tool for the foreign market penetration in order to overcome barriers to entry.
- S2: Joint Venture formation is an alternative way of how to examine the partner company before a potential merger or acquisition.
- S3: Formation of an International Joint Venture is not a suitable strategic alternative for the application of the buyer's credit scheme.
- S4: Mutual trust and clearly declared control among Joint Venture partners is a necessary precondition for successful cooperation.
- S5: Securing project financing results in the exporter's crucial competitive advantage when penetrating developing markets.
- S6: Strategic character of the project and the support of the foreign country government are essential for a successful project execution.

2. Methodology

2.1. Questionnaire Design

The questionnaire was designed to assess the outlined research statements. The respondents made their evaluations based on their professional experience. The outlined statements were evaluated through a Likert scale survey [8]. For

the purposes of this research, the respondents were asked to specify the level of their agreement with each statement on the symmetric agree-disagree scale ranging between 1 and 5, whereas 1 stands for strong disagreement with the statement and 5 stands for strong agreement with the statement. Five ordered response levels are used, although many psychometricians advocate using seven or nine levels, see an empirical study performed by Dawes [4]. The five ordered scale was applied in order to give the respondents the option to make a neutral evaluation in the case they were unsure in their choice.

In order to increase our level of understanding, the respondents were enabled to write down their comments and reasoning to their evaluation, which became an additional and valuable source of qualitative data. Based on good knowledge of both countries, including their business environment, the authors believed there were no significant differences in the perceptions of Czech and German respondents.

2.2. Data Collection

The targeted group of the respondents consisted of Czech and German top managers from large construction firms focused on exporting, structured export trade finance specialists, representatives of national ECAs and development banks. In total, 100 respondents were addressed with an anonymous self-administered research questionnaire. All questionnaires were distributed by post and by e-mail. The responses were returned via post or email during the first quarter of 2016. In total, 76 completed questionnaires were included in the analysis of the data, which equates with a high response rate of 76 %.

2.3. Data Analysis

The statements were tested through empirical study that comprised a study of literature and an empirical questionnaire distributed to experts and practitioners from the business sector. These experts were asked to rate each statement, using the Likert scale of 1 to 5 in terms of their agreement or disagreement level. The threshold for the statement acceptance and rejection was drawn on the 50% level of support or agreement with the statement. The research findings result from a questionnaire-based empirical survey with a limited number of respondents, the results could be subject to a sampling error.

For the calculation of the mean score (MS) the following formula was applied:

$$\bar{x} = \frac{\sum_{i=1}^N x}{N} \quad (1)$$

where $\sum_{i=1}^N x$ is the summa of all samples

N is the number of values in the dataset

The standard deviation (SD) was calculated according to formula:

$$\sigma = \sqrt{\frac{1}{N} \sum_{i=1}^N (x_i - \bar{x})^2} \quad (2)$$

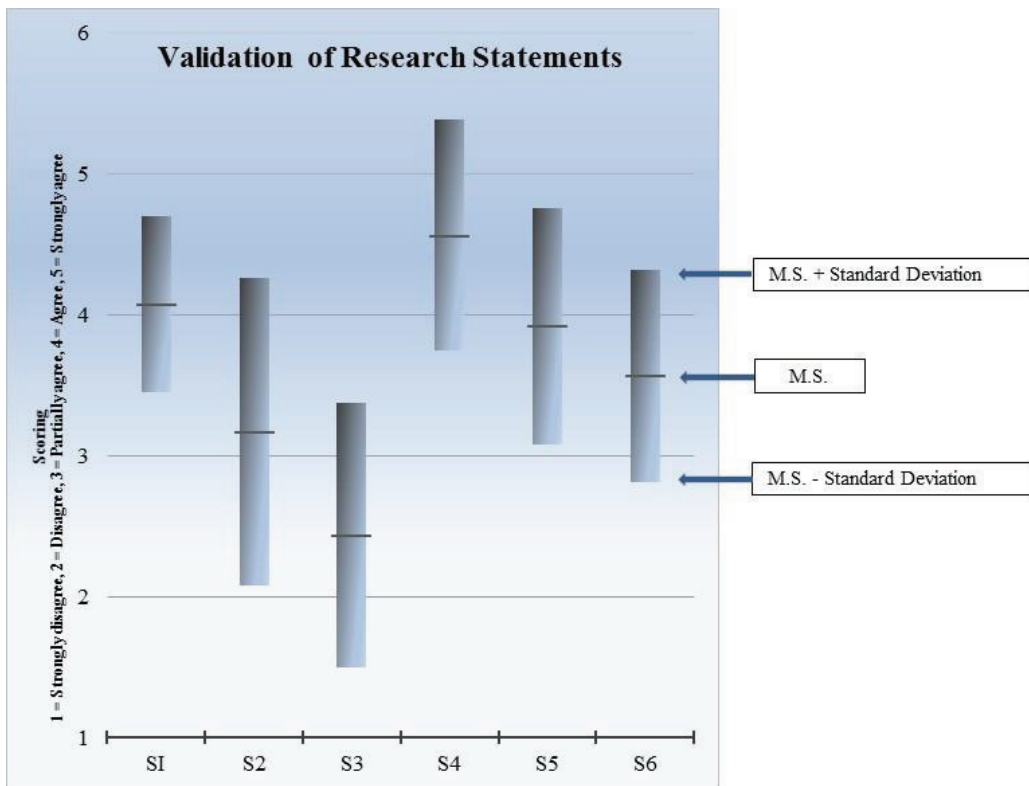


Fig. 1. Validation of research statements (Source: Author)

3. Results

Statement 1: An International Joint Venture is an appropriate tool for the foreign market penetration in order to overcome barriers to entry

About 84% of the survey respondents expressed their agreement with the application of an international joint venture as a tool for the foreign market penetration. About 61% partially agree and 24% of the respondents fully agree with the statement. Only 16% of the respondents made a neutral evaluation, none of the respondents showed any level of disagreement, which consequently results in a very strong acceptance level of Statements 1.

Strategic alliances are primarily applied for different reasons such as risk sharing, access to additional resources, technologies or know-how. An increasing number of companies enter into joint ventures in the initial stage of their presence on the foreign market. A crucial role is played by the foreign partner, which may take over the agenda in relation to foreign authorities and foreign project stakeholders, whereas the exporter may concentrate on other project issues.

Evaluation:

ACCEPTED

Statement 2: Joint Venture formation is an alternative way of how to examine the partner company before a potential merger or acquisition

Getting to know the partner company is a positive side effect of cooperation on a common project, on the other hand, mutual cooperation still remains its primary purpose. About 24% of the respondents disagree with this statement.

In contrast to that, 46% of the respondents agree with it, thereof only 11 % strongly agree. In addition to that, more than 30% of the respondents made a neutral evaluation. The dataset shows a very high level of dispersion. The contradiction between the above statistics points out the fact that there is no single alternative that can fit all cases.

In the light of such a contrast, there is no place for the acceptance or non-acceptance of this statement. Based upon that, it has to be stated that Statements 2 cannot be determined on the basis of the collected dataset since there is no sufficient evidence for the statement rejection or its acceptance. The statement resolution thus remains unclear and will be subject of potential examination in the future.

Evaluation:

N O C O N C L U S I O N

Statement 3: Formation of an International Joint Venture is not a suitable strategic alternative for the application of the buyer's credit export financing concept

There is a significant disagreement with the statement. The majority representing 54% of the respondents disagree with the statement to some extent. Thereof about 37% of the respondents disagree and 17% strongly disagree. Around 32% showed their partial agreement, which may also be the sign of their indecisiveness when answering the question. The statement received only minor support represented by 14% of the respondents expressing their agreement.

In line with the above mentioned findings, Statement 3 may be rejected. Despite the high complexity and structuring related to the buyer's credit scheme, the statement rejection clearly underlines the continuing importance of strategic alliances in relation to export financing.

Despite the resolution of Statement 3, there are numerous aspects such as risk sharing and joint responsibility in export financing which deserve further attention and continuing academic research.

Evaluation:

R E J E C T E D

Statement 4: Mutual trust and clearly declared control among Joint Venture partners is a necessary precondition for successful cooperation

The spectrum of responses to such a statement is clear and allows the acceptance of Statement 4. Above 92% of the respondents agree with the statement at some level and thereof 70% of the respondents strongly agree that securing project financing is a crucial competitive advantage when penetrating developing markets. Only above 5% partially agreed in their evaluation and negligible 3% of the respondents demonstrated their disagreement.

The trust and clear declaration of control thus results in a necessary precondition for the successful cooperation of several companies in a Joint Venture-based project similarly as the controlling mechanisms strengthening ties of the strategic alliance. Mutual trust has to be maintained and continuously strengthened through controlling tools in order to avoid any doubts that one party benefits at the expense of its joint venture partner.

Evaluation:

A C C E P T E D

Statement 5: Securing project financing results in the exporter's crucial competitive advantage when penetrating developing markets

The statement gained a significant support of 71% of the respondents, whereas 45% agreed and 26% expressed a high level of their agreement with the statement. About one-fourth (24%) partially agreed and only 5% expressed their disagreement. The research outcomes provide a sufficient basis for the acceptance of Statement 5, which emphasized the significance of bringing project financing together with export know-how and production capacities to the foreign investor.

These perceptions fully correlate with the growing demand for government-backed export credits and export insurance. Such a subsidized state support often remains the exporter's only option when pursuing international expansion, since there are mostly significant barriers to their market entry. The role of the government thus remains crucial for domestic exporters and their activities in perspective developing markets.

Evaluation:

A C C E P T E D

Statement 6: Strategic character of the project and the support of the foreign country government are essential for a successful project execution

The majority of the respondents represented by 54 % agree with a significant impact of the strategic character of the project and the support of the foreign country government on the project success, whereas only 4% showed their partial disagreement. About two-fifths (41%) of the respondents partially agree. The reason for such a high level of partial agreement remains very significant. It was emphasized by a number of respondents that political support of the foreign country government is mostly crucial in public projects, whereas private projects do not need much attention of public institutions. Similar comments were attributed to projects' strategic character.

Among others, these factors are substantial preconditions for granting export insurance by ECA, which may also consequently contribute to the project success as well. Overall, the responses indicate a strong support level for the statement acceptance.

Evaluation:

A C C E P T E D

Conclusion

The objective of the research is to establish the state of strategic management practices in export-oriented construction companies in the Czech Republic. The outlined research statements were tested via an empirical study. The results represent part of the scarce know-how possessed by market leading exporters and trade finance practitioners. The respondents contributed their long term experience gained through a large number of export projects. Many respondents demonstrated their high awareness and understanding of the latest trends in strategic management, whose tools are frequently applied in international construction.

The economic environment is changing rapidly. There is clear evidence that exporters are permanently forced to adjust their strategic approach and maintain their competitive advantage in order to succeed in the international marketplace. Construction companies will be further innovative in coping with their strategies in order to survive in a fast changing economy.

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