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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

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