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Strategy for small-medium scale contractor performance improvement in ASEAN competitive market

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Abstract

In facing current pressing sustainable issues and ASEAN Economic Community (AEC) where construction sector is on so-called 'free competition', national private construction industry players, i.e. consulting firms and contractors, must enhance their performance in order to improve their service, compete, and gain advantage. These players must apply the concept of strategic management in which environmental analysis and strategic alternative decision stage is involved. This study identifies the prevailing problems encountered by the Indonesian contractors firms. The case study focused on and collected data from small to medium contractors in Central Java. Data were analyzed and strategic decisions were formulated based on current baseline. The appropriate strategic alternatives for small contractor were market development by maintaining clients' trust, improving the human resources through certification, and implementing effective and efficient construction methods which minimize waste. For medium contractors, the attractive market development can be attained by optimizing the role of enterprise organizations, building teamwork, improving the control system, applying sustainable construction via efficient construction method.

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1. Introduction

Political and economic development, government policy on regional autonomy, world agreement on free market – marked by the ASEAN Free Trade Area (ASEAN Economic Community) – forces national construction industries to face an increasingly competitive market. The changes in market conditions drive contractors and consultants to

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observe their internal condition, their potential competitors as well as their position in industry landscape. In order to survive the competition, determining the appropriate strategy for the company is an important stage to carry out. The objective of this study is to formulate this appropriate strategy for small to medium contractors in facing ASEAN competitive market.

Delay in completion project, over budget, overusing resources, and construction waste are the most challenging problems of small to medium national contractors. Further, poor construction quality is also problematic. Many facilities and infrastructure which had just been built while still in the maintenance period were damaged and need serious improvements. These conditions are considered as barriers to be able to compete in the free market, which already started effectively in 2016 with the implementation of ASEAN Economy Community (AEC). Within AEC framework, there are wider possibilities that overseas construction companies penetrate Indonesian construction sector, making already competitive construction industry will be even more competitive.

Compared to another industrial sector, construction sector is very limited in adopting and developing long term business strategy. One of the major reasons is that many contractors, especially small – medium size contractors, only care about short term profit. There is quite obvious paradigm that contractors do not require strategic plan to make profit. Contractors tend to think that profits will come naturally as long as they can win the bidding process even though they must bid with the lowest price possible. Therefore they perform tight cost control and construction time that sometimes hampers final product quality. They are less concern with strategic management. This mode of operation may not be conducive for the national long-term development of construction sector.

2. Strategic management and its formulation

The internal and external environment of contractor's companies is very dynamic, forcing the contractors to make use strategic decisions in doing the business [1]. In the current market, the continuity of a contractor's company depends on their performances. It is achieved continuously by paying attention to economic, social, environment, law, and ethical aspects when carrying out the construction works [2]. Further their existence depends on its capability in seeing and anticipating the opportunities [3]. One of the ways to survive is using a specific strategy not only to win short term project bidding but also to rebuild long-lasting continuous competitive prominence [4].

Currently, small to medium contractors build up about 99% of Indonesian construction industry with 15% of market share. Meanwhile 1% of big contractors have 85% market share. This inequality shows the tight competition among small to medium construction industry player. In addition, small to medium contractors' performance is still low [5]. They need to improve continuously in order to attain higher competitiveness and maintain their continuity [6].

Performance – where a company achieves its goal and business targets – is seen as a perpetual process [7]. It is yielded from a process, products and services which can be evaluated and compared relatively with goals, standards, previous results and other organizations [8]. It involves performance of individuals within the company as well which depends on the competence, motivation, accepted support, and relation with the company [9].

In the modern practice of construction, sustainability becomes an emerging issue that needs to be implemented by contractors. The six principles of sustainable construction are Minimize resource consumption (Conserve), Maximize resource reuse (Reuse), Use renewable or recyclable resources (Renew/Recycle), Protect the natural environment (Protect nature), Create a healthy, non-toxic environment (Non-Toxics), and Pursue quality in creating the built environment (Quality) [10].

One of the comprehensive methods in formulating strategy is Rational Decision Model procedures suggested by David [11]. The procedures in developed with three stages; input, matching, decision, each is expressed in matrices consistent with the size and type of the organization. Thus, such a tool can help decision makers to identify, evaluate and choose the right strategy.

At the input stage, there are two kinds of matrix, i.e. IFE and EFE matrix. IFE matrix is used to acknowledge the internal factors of a company associated with the strengths and weaknesses that are considered important. EFE matrix is used to evaluate the external factors of the company. External data are collected to analyze matters relating to economic issues, social, cultural, demographic, environmental, political, government, law, technology, competition in markets where the company is located; and other relevant external data. At the matching stage, SWOT matrix and Internal-External matrix (IE) is developed. The first step is to fill in the SWOT items on the

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