

Determinants of Glocal Success in International Construction

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Abstract

Globalization is triggering construction companies to act in multinational markets. Although, it is a major resource for the growth of companies, understanding the factors (opportunities, threats) that influence international construction is also compulsory for the successful accomplishment of projects. Besides, in order to focus solely on the core business, companies should have the capability to manage those factors by eliminating the threats of the factors such as strategic fit, cultural fit, host country conditions (e.g. political, macro economic, legal system) which are not project related but differ depending on the partner and the host country, in which the project is executed. Herein a compromise is proposed to be the term "glocal" as a concurrent combination of the international business activities (global experience) with local adaptations (local know how). "Glocal" is a new definition of a known concept for the strategic aliening of an international company with a local partner. In this research; definition, benefits, risks, problems and probable determinants of success in glocalization was investigated by an in-depth literature review as well as having the experiences of the practitioners.

Keywords

Glocal, International construction, Globalization

1. Introduction

Globalization and increasing competition between the companies are forcing companies to merge into foreign markets. The need in developing countries provides new opportunities to specialized contractors from different industrialized countries. Motivation of globalization of construction activities in different countries may be explained either by saturation of domestic construction demand, or survival strategy of contractors in newly industrialized countries due to instability of domestic construction market. Still, international construction is much riskier than domestic construction. The environment of an international project is interacted by several variables that can never be encountered in a domestic market. It is easily affected by the conditions related to politics, finance, culture and legal system.

Construction companies in advanced industrial countries play an important role in the global construction market as they provide high technology and know-how to international projects. However, while positioning in a different country, structuring a strong globalisation strategy is essential for all internationally working companies. Therefore, understanding the opportunities and the threats associated with the international markets is crucial for the growth and survival of the contractors (Gunhan and Arditi, 2005). In order to create competitive advantage, many companies are allied with a local company in the host countries in which they do business. This is one of the very well known strategies which companies adopt in international business.

Within the context of this study, glocalisation strategy which can be considered as a new approach with a different name to strategic aliening concept was investigated by considering the major threats and opportunities associated with international construction. To achieve this purpose, the discussions held in an international meeting named Global Real Estate (GRI, 2009) (at which, one of the discussion themes being “glocal concept”) were considered as the base of the study. In the light of a bunch of invaluable acquisitions attained from GRI meeting furnished with an in-depth literature review, international construction was reconsidered emphasizing the importance of partnering, culture and integration; the term “glocal” was defined and the interaction of factors affecting the success of glocalisation was designed as a tentative model.

2. International Construction

The determinants of success in international construction have extensively been studied by many researchers such as Ofori (2003), Pheng *et al.* (2004), Dikmen and Birgonul (2006). The definition of international construction changed from, “an enterprise outside its home country” to “projects in any country but involving foreign firms as competitors” (Ofori, 2003). Howes and Tah (2003) define five elements that comprise the construction ‘work’ on an international scale, which are design consultancy, contracting, equipment supply, construction products/materials and facility management. To survive and prosper in the global economic system, construction companies need to develop special strategies.

2.1 Strategic Decisions of an International Construction Company

The literature on strategic decision-making is spread over a wide range from an individual strategist’s perspective to strategic management techniques, to the implementation of these techniques in real situations (Globerson, 1985; Letza, 1996; Warszawski, 1996; Neely *et al.*, 1997). The strategies selected for this study represent the values of the international construction industry where companies are project-based organizations.

Differentiation strategies refer to the differentiation of products or services that provides competitive advantage and allows a company to deal effectively with the threat of new entrants to the market (Porter, 1979). *Market, project, client and partner selection strategies* are related to characteristics such as market conditions, the location and complexity of the project, the financial stability of the client, and the reliability of potential partners that have capabilities that the company does not possess. *Project management strategies* involve the managerial functions of a project including planning, cost control, quality control, risk management, safety management, to name but a few. In order to achieve project goals, adequate strategies have to be set up relative to these functions. *Investment strategies* occur along several dimensions such as the capabilities of the company (resources), pricing (financial decisions), product (construction project related factors), and finally research and development (Spence, 1979). *Organizational management strategies* involve decisions pertaining to the company’s reporting structure, planning, controlling and coordinating systems, as well as the management of the informal relations among the different parties within the company (Barney, 1991). The strategic decisions of an international company (as measured by its constituent variables mentioned above) may be impacted by several threats or opportunities.

2.2 Importance of Strategic Partnering in International Construction

Partnering has become an important component of creating competitive advantage. Accordingly, a construction company’s decision to expand into international markets must be based on a good understanding of the opportunities and threats associated with international business, as well as the development of company strengths relative to international activities. Opportunities associated with international construction can be summarized as; increased profitability, ability to maintain shareholders’

return, ability to take advantage of globalization and openness of markets, availability of new service areas, availability of beneficiary international agreements, take advantage of privatization programs in emerging economies and increased chances for technological advancement. Besides, the threats associated with international construction can be summarized as; shortage of financial resources, cultural fit, strategic fit and host country conditions (Gunhan and Arditi, 2005).

International construction offers new opportunities but also brings many threats. Therefore, to conduct business in international markets, construction companies should develop specific strengths and strategies such as depicted in the previous part. These major strengths and strategies which should be developed were related to organizational memory, differentiation, project management capability, technological advantage, financial strength, equipment, material and labor support. At this point, the importance of strategic partnering which will be explained in detail and covered under the name of “glocalisation” should be well emphasized above the others.

A company’s external environment, investment and business strategy problems should be solved in accordance with a defined strategic perspective. The objectives, strengths and strategies of a construction company should integrate to the competitive rules of the market (Dikmen and Birgonul, 2003). A successful adoption of “glocalisation” affects the success of the project positively and long-term strategies of the company directly. It is not a new method to cover the threats of international construction but looking at the companies working internationally, it is seen that, there is a gap in the accomplishment of “glocalisation” process though. This is why, in this study, particular importance of “glocalisation” is emphasized and investigated thoroughly, extenuating other factors affecting international construction.

3. Glocal Concept and its Implementation in Construction Industry

Glocalisation process has already been maintained through joint ventures in the construction industry for years. Considering the rate of ineffective international alliances, the investigation of factors effecting the adoption of a glocal strategy needs further research.

3.1 Definition of Glocalisation in Construction

Glocal is a new definition of a known concept for the strategic aliening of an international company with a local partner. It is a concurrent combination of the international business activities (global experience) with local adaptations (local know how). The glocal strategy approach reflects the aspirations of a global strategy approach, while the necessity for local adaptations and tailoring of business activities is simultaneously acknowledged. It differs from the global strategy approach, since it explicitly recognizes the importance of local adaptations and tailoring in the marketplace of business activities. In addition, it comprises typically international and multinational strategy issues.

In the performance assessment of construction business activities, a local strategy approach emphasizes the necessity of considering locally related issues. The global strategy approach has an emphasis on the standardization and homogenization of business activities across existing markets all over the world. However, the global strategy approach to manage worldwide business activities appears to be a managerial utopia. Therefore the concept of glocal strategy is introduced to provide an improved accuracy of the present usage of the global strategy approach among scholars and practitioners. The glocal strategy approach also recognizes that there has to be a balance and harmony between the standardization versus the adaptation, and the homogenization versus the tailoring of business activities. The harmony is achieved since the concept explicitly comprises the spectrum from local strategy issues to global strategy issues through the “glocalisation” of business activities. Accordingly, the focus on balance and harmony is crucial in a company’s glocal strategy approach and its glocalisation activities (Svensson, 2001).

3.2 Drivers of Glocalisation in Construction

Richins (2007) asserts that, in international business, certain aspects of company strategy can be standardized and other aspects can be adapted. Essentially, companies can and should pursue globalization and localization simultaneously.

Construction companies interested in exploring foreign markets may participate in overseas trade missions in order to establish international contacts. Trade missions enable participants to have first-hand knowledge of the operating environment in a foreign land and where appropriate, allow business contacts to be made (Gunhan and Ardit, 2005). Construction companies may also contract with non construction related companies from their own country to build in foreign locations. This arrangement can be realized easily if overseas investors, having dealt satisfactorily with a particular contractor in their domestic market before, indicate a preference for their foreign development to be built by the same contractor (Pheng, 2004). It follows that an effective marketing network should include not only foreign parties but also local parties interested in investing and/or constructing overseas.

Besides, competitive positioning of a construction organization is affected directly by the strategic behavior. Glocalisation as a strategic behavior can be in one of three forms such as corporation, partnership, or contractual consortium (Kwok *et al.*, 2000). According to Norwood and Mansfield (1999), some drivers for glocalisation are to participate in international projects, to maintain an international presence particularly when the market was low in the domestic market, to spread financial risk, to bring in outside expertise, to make use of existing geographical or regional base, and to access greater manpower from local partner.

3.3 Process of Glocalisation in Construction

The smooth operation of glocalisation process in construction is mainly dependent upon the interaction between the partners in making strategic and operational decisions (Sridharan, 1997). In order to survive, parent companies should find a way to work together; they must be able to agree on goals and policies and to renegotiate them in response to changes in the environment (Doz, 1996).

There are three phases in the life of glocalisation in which it is started, operated and dismantled. The start-up phase is the period from initial contacts between parent companies to glocalisation start-up, including negotiation and a signing agreement. The operation phase refers to the period of construction work being implemented. The dismantle phase is the period when most construction tasks have been completed, the project is in the clean-up stage, and the participants start negotiating the ending matters (Bing *et al.*, 1999).

Therefore, not very different from the manufacturing industry, the motto “think global, act local” is also valid for the operations of construction companies. The construction company merges into the foreign market by partnering with a local company, integrates into the culture, adjusts its strategy according to the country and the partner and puts forth its technical and managerial competency in the operational level of the project.

3.4 Benefits of Glocalisation in Construction

As well as the strategic objectives of the companies entering into glocalisation process, there are many other benefits of which the companies are expected to achieve by utilizing glocalisation. Primary benefit can be stated as facilitation of merging to foreign markets. Additionally, acquiring and learning new skills and technologies, greater access to local markets and engineering consultants, improved capabilities in terms of size and scope of work carried out, broadened expertise, an ability to select and obtain suitable staff relatively easily as opposed to recruiting from the external market, access to new areas of the world

without having to carry all the risk, and an ability to take on and maintain an international workload can be stated as the other benefits of glocalisation (Norwood and Mansfield, 1999).

3.5 Risks and Problems of Glocalisation in Construction

Multinational participants from different political, legal, economic, and cultural backgrounds constitute the structure of glocalisation. Therefore risks and problems associated with partner and host country related factors occur during glocalisation. These risks and problems can be summarized as inheriting a partner's financial problems, having disagreements about accounting standards, distrust between partner employees, policy changes in parent companies affecting the project, lack of management competence, disagreements about staff allocation and positions in the project team hierarchy, disagreement on allocation of work to be done, and technology-transfer disputes (Bing *et al.*, 1999).

The strength of relationships of the selected partner with the host government is also an effective measure while considering the mitigation of risk in the operation of glocalisation. Besides the relationship between the partners has to be well designed and managed. In order to achieve success, project management competencies should be utilized efficiently as well as the gaps in the competencies of the partners are determined. The fulfillment of the lacks by the matching competencies of the other partner would eliminate the risk of failure (Walker and Johannes, 2003).

Ostler (1998) identifies major host government-related risks encountered by construction organizations operating in the international arena. These include political, economic, structural, policy, environmental, market, and production factors. A review of the literature reveals a wide range of these risk factors, such as changes in law, corruption, delay in approval, expropriation, and reliability and creditworthiness (Mohamed, 2003).

3.6 Determinants of Glocal Success and the Proposed Model

Failure rate in international projects is probably higher than the domestic projects. It is mainly due to the variety of challenging parameters affecting the project. For example, a contractor in a foreign host country, operating a new project has to face with problems associated with the legal system, geography and cultural difference of the host country as well as the project itself which constitutes technical and managerial risks.

Many factors have been suggested in the literature as potentially important determinants of success in glocalisation. These include mainly "partner and project" related factors, "company and industry" related factors and "managerial and host country" related factors. The variables of these main factors can be stated as the "experience of the partners in the host country", "financial size and strategic, cultural fit of the partners"; "economical, political conditions and geography of the host country"; "accordance of the relationship between the partners such as communication level and conflict resolution" (Glaister and Buckley, 1999).

Based on an in-depth review of the literature and the experiences of the construction practitioners; a tentative cause and effect model for glocal success in construction is proposed as shown in Figure 1. The model is influenced by strategic management, organizational and learning theories. Research on acquisition of success has shown that success is the outcome of strategic, organizational and learning variables. (Larsson and Finkelstein, 1999). The variables which are most commonly depicted in the literature from these three perspectives (previous experience, local conditions, partner integration, cultural integration, strategic integration, and focus on core business) were selected as the critical determinants of glocal success.

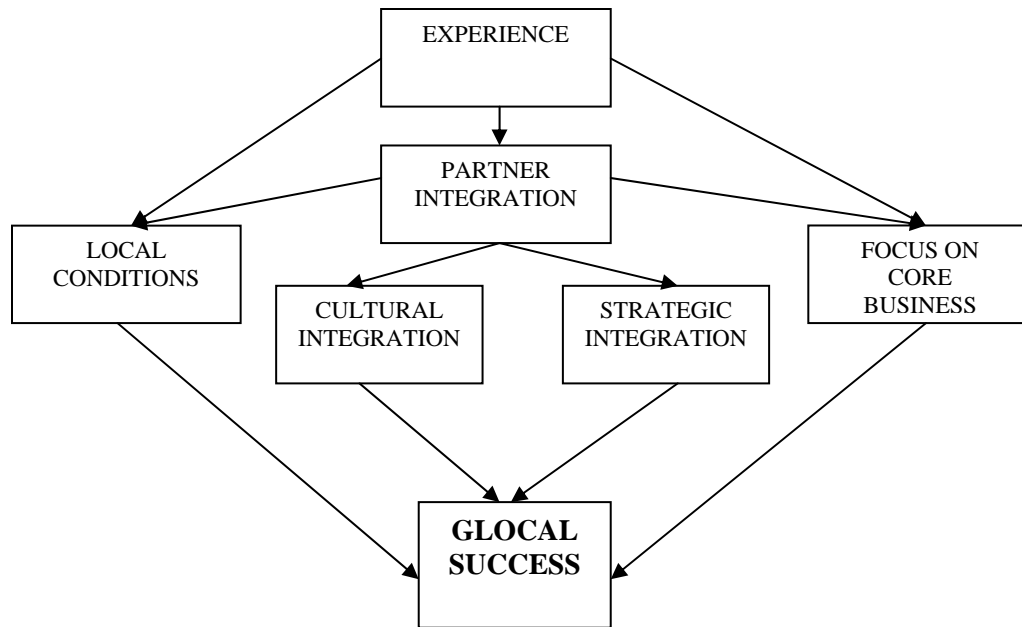


Figure 1: Determinants of Glocal Success

An international company's *previous experience* with the same partner and/or in the same host country can be identified as a factor for success. Companies will be more knowledgeable about issues taking place in the host country if they had a similar previous experience. This factor leads to the roots of learning theory. Many of the processes are recurrent and the company will have key skills through previous experience (Larsson and Finkelstein, 1999).

The *partner integration* process is key to achieve success in glocalisation. It is argued that value cannot be created unless two partners come together and fit well. The integration of two distinct companies with separate cultures is challenging. Partnering companies should recognize and deal with the problems such as coordination and control (Haspeslagh and Jemison, 1991; Neves and Bugalho, 2008).

Local conditions refer to the macro-economic, political and legal system of the host country in which the project is executed. The environment in which the project is operated effects the performance of a project. Technical competency and global based managerial strategies of an international company cannot cope with the risks related to the conditions of host country. The most effective way of eliminating those risks is to ally with a local partner which has the capability to manage risks while the international company focuses on the core business.

Cultural integration emerges from a common need called understanding. Every nation has the characteristics of its own in means of language, religion, attitudes, and tradition. Value judgments vary depending on the culture of the nation. It is a deep subject which cannot be overcome just by learning the language or the rituals of the host country. However, international business requires interaction of people from different cultural environments and problems associated with international projects often find their roots in the difference between the cultures of the foreign contractor and the other parties (Gunhan and Arditi, 2005).

Strategic integration of an international company refers to the aligning of its organizational, managerial and operational strategies with the conditions of the host country and the local partner. In an empirical

context, a global strategy approach for an internationally working company is a managerial utopia since any kind of global strategy will not achieve success on a worldwide basis (Svensson, 2001).

Focusing on core business is an important element of integration (Duncan and Mtar, 2006). For an international company, it is the efficient utilization of its technical and operational competencies in a host country. In order to focus on core business, the risks of the factors related to the host country, cultural differences and strategic integration should be eliminated and to eliminate those factors a successful integration with the local partner should be provided.

4. Final Remarks and Conclusion

Combining the up to date information attained from literature review with the arguments raised at the GRI Istanbul meeting (GRI, 2009); it can be concluded that, success of glocalisation is highly affected from the previous experience of foreign international company working in the host country with the same local partner. Thus, experience, can be considered as an advantage and also it can be used as an important factor while selecting the market and the partner. Nevertheless, in order to achieve success without the advantage of experience, the risks associated with the host country conditions, cultural integration and strategic integration can be overcome with the successful integration of partners. The attitude of the partners should be well optimized in order to ignore the probable risks of conflicts. Therefore, partner companies should pay attention on the recognition of problems related to coordination and control as well as the development of skills such as communication, cooperation, commitment, trust and conflict resolution (Haspeslagh and Jemison, 1991; Neves and Bugalho, 2008; Ozorhon *et al.*, 2008).

Glocalisation is an interactive, two-way relationship; during which the foreign international company has to show the appetite to listen and understand the local partners' concerns and in return the local company should have the capacity and capability to accommodate and respond foreign company's needs and requirements.

Glocalisation is an optimization process. A delicate balance has to be established among the ratio of global and local activities. This ratio is sensitive to many subjective attributes such as cultural distance between host country, religion, traditions, availability of local materials, workers, machinery, geology, geography, laws and regulations.

Finally, there is not a universally accepted single recipe for the success of glocalisation process. It is an open ended relation and success/failure of this kind of a partnership is affected from so many input parameters; such as the type of project, host country related conditions such as politics, geography, and cultural difference both at the organizational level and the country level, and the successful integration of the partners.

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