Experiential knowledge as decision-making factor in international construction business

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Abstract

Operating on the foreign market poses a significant effort for construction firm that cannot be over sighted. During the preparation period, standard data collected prove to be insufficient leaving experiential reasoning to be a main factor for making a decision. Authors examine to question experiential knowledge according to institutional theory guidelines. Institutional theory is used as theoretical base which authors recognize as most comprehensive characterization of market context to date. On basis of a survey results authors bring conclusion that help uncover the nature of the experiential knowledge as a phenomenon

Keywords: foreign market, decision making, experiential knowledge, institutional theory

Introduction

Foreign market counts 20% of the global output volume of the construction industry and by definition it encompasses all construction services that firms perform on other than the home market (Han et al., 2010). Rest of the construction market, 80% of it, are services performed in the context of the country of origin. As a consequence of globalization, construction markets are more and more available for foreign competition. In relation to the above, Barringer and Harrison(2000) state that level of market maturity is proportional with complexity and costs of market entry. This means that competitiveness focus now includes non-price factors.

Global projects, in which stakeholders are firms of international origin, represent organizational challenges that cannot be exercised in domestic projects. These challenges often leverage costs, create delays, project crises etc. and in general have negative influence on all stakeholders. Various authors recognize that institutional differences e.g. variations in social norms, rules and beliefs generate such problems. Every construction market is based on set of institutional values that frame organizational development. Firms develop knowledge and competences required by domestic market framework and heritage local market logic. This institutional heritage, when mixed in the fragmented industry as construction is, cause conflicts, extra costs, delay and influence quality.

Specifics of the market institutional framework are requirements firms need to adopt for unobstructed business development (Kogut and Singh, 1988.). Process of accommodation to these specifics is called internationalization (Eriksson i dr., 2000). Internationalization process is a complex undertaking of organizational learning and change management that brings a lot of risk in day to day business (Johanson i Vahlne, 1977). If we use institutional theory as a theoretical starting point, we should take conclusions of Lord and Ranft which states that recognition of market context specifics is a base for internationalization process (1999 & 2000). In search for market context description, three dimensions are described below according to W.R. Scott (2001):

- Regulative elements - include regulative set: laws, rules, penalties and motivation tools of formal structure of government. These elements are explicit and easily recognizable. To be more specific, for construction industry these are operative laws (business relations, ownership, tax, employment), government structure, professional societies' standards, ways of payment etc. (Javernick-Will i Scott, 2009).

- Normative elements – relate to proscribed and obligatory dimensions of society e.g. values and norms that society nurtures, common expectations etc. On global projects, important normative knowledge includes standards of business, professional code of conduct, expected productivity standards etc. (Javernick-Will i Scot, 2009).

- Cultural-cognitive elements– are explored by organizational theorists to describe deeper layers of culture that include individual perception of the society (cultural frame) and understanding cause and consequence link (societal logic). Such beliefs are sourced through cultural symbolism; they are cognitive because they frame the understanding and perception of the individual and influence analytical competence and decision making (Javernick-Will i Scott, 2009).

It is important to say that these three dimensions are defined for easier coping of the phenomenon, yet in real world these three categories act is complex combinations and influence each other.

Research

Conducting business on foreign construction market requires multidimensional comprehension of institutional characteristics. Such institutional context poses a challenge in a way of recognition, gathering, distribution of information and its utilisation. While good understanding of market context always means greater competitiveness, sometimes it can pose as a factor of elimination.

Research was conducted through a written inquiry that was dispatched to project managers and senior executives with substantial experience in international construction. The inquiry is designed as a two step process. Firstly, respondents were asked to choose suitable business strategy for market entry on seven markets namely Australia, Austria, Bangladesh, Croatia, Kosovo, Qatar, Russia and UK. Their choice was intuitive and based on their experience rather than factual logic. Along the choice of strategies, respondents were asked to name market based risks that have influenced their strategy choice.

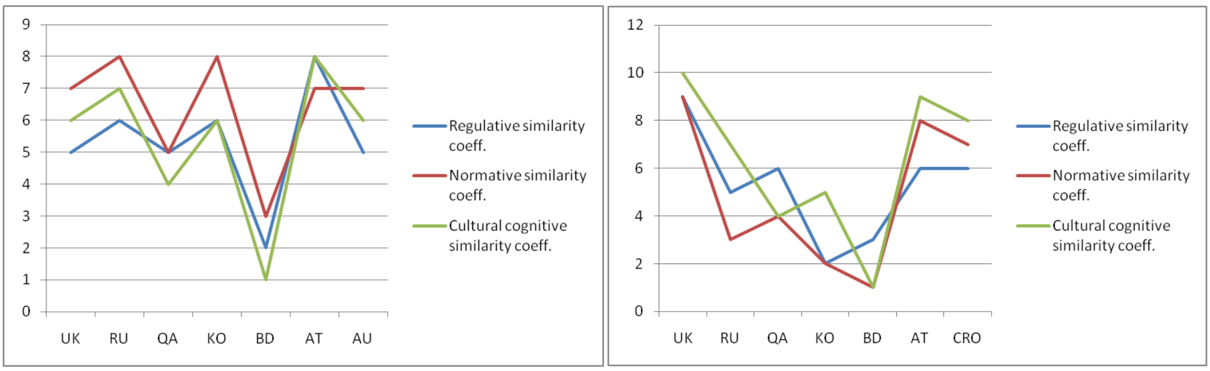
In the second part of the inquiry, after institutional theory and its descriptive elements were presented to the respondents, they have been asked to intuitively compare designated market and their organization through similarity coefficient (1 – highly different, 10 – highly similar).

Research was done with four respondents from Australia, Croatia and UK. Inquiry was dispatched via e-mail followed by telephone discussion. Choice of generic strategies was semi structured, meaning that examples were given while respondents had liberty to write what they want.

Results

Foreign market	Business strategy	Institutional risks	Business strategy	Institutional risks
	1st respondent from Croatia		2nd respondent from Croatia	
Australia	Joint venture	Expensive own resources deployment	Subcontracting	Contact numerous emigration for business processes adjustment
Austria	Subcontracting	Good knowledge of the market	Joint venture	Highly regulated and saturated market
Bangladesh	Local buyout	Lack of market knowledge	Local buyout	Lack of qualifications, questionable use of local regulation, international standards required
Kosovo	Local buyout	Troubled regulation	Sole tendering	Questionable regulation, good qualifications for recruiting
Qatar	Joint venture	Governmental lobbing is a must	Joint venture	Joint venture with European contractor that has substantial market experience
Russia	Subcontracting	Complex regulation for employment	Local buyout	Local lobbing for securing mineral resources, complex regulation
UK	Subcontracting	High regulatory barriers	Subcontracting	Only highly specialized services, demanding regulative barriers

Table 1. Strategy and risk choices provided by two respondents from Croatia

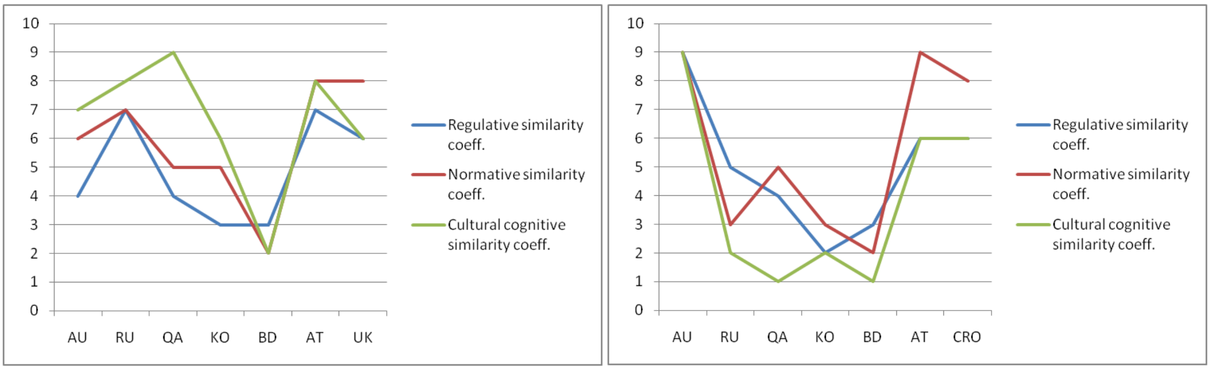


Graph 1 & 2 Institutional similarity coefficients according to two respondents from Croatia

Table 1 shows strategy choice and risk recognized by respondents from Croatia. Their point of view differs as first respondent is employee of croatian arm of regional construction conglomerate that has inherited processes and standards from its mother company. The second croatian respondent is an employee of a firm evolved in croatian setting. Similarity coefficients in graph 1 shows logic in the perception of different institutional elements of foreign markets; meaning that the elements influence each other. Normative coefficient has small amplitudes which can be observed that business and engineering logic is more or less generic. On both graphs, cultural cognitive element often makes extremes meaning that respondents give importance to that factor.

Foreign market	Business strategy	Institutional risks	Business strategy	Institutional risks
	Respondent from Australia		Respondent from UK	
Croatia	Sole tendering	Highly regulated market, logistic barriers	Sole tendering	High expenses of own resources, continental law and business logic
Austria	Sole tendering	Different regulative logic, saturated market with local firms, English language nonexistent in business	Sole tendering	Regulatory barriers, only specialized services
Bangladesh	Sole tendering	Logistic barriers, harsh climate, business conducted according to available local qualifications	Joint venture	Acceptable only international investors and government, lack of local qualifications, high logistic expenses
Kosovo	Local Joint venture	Small market, Effective regulation nonexistent, political instability, supporting industry is weak, local recruiting	Local buyout	Informal structures of power should be recognized prior to deployment, local recruiting is questionable
Qatar	Joint venture	Fluctuations in qualification availability, expensive logistics, no effective regulation, business logic specific to that part of the world.	Local Joint venture	Local Anglo expats are desired for recruiting to support business process
Russia	Joint venture	Business interest aligned with larger local organization, weather it is a client, bank or contractor	Joint venture	JV with larger local contractor/investor, competitiveness depends on availability of natural resources
UK	Sole tendering	EU market barriers, very competitive market		

Table 2. Strategy and risk choices provided by respondents from Australia and UK



Graph 3 & 4. Institutional similarity coefficients according to respondents from Australia and UK

Cultural cognitive element constitutes all minimal values in the graph 4. Which means that respondent is risk adverse in case of highly different cultural context. Further on, we are discussing indicators based on intuition therefore results show that respondents hugely rely on cultural cognitive similarities or in case of difference, sense high risk. Although, such conclusion should be tested on larger statistical population, this paper sets a model that relates decision making and perception of institutional elements.

On a matter of strategy, we can conclude that there is a weak connection between cultural cognitive similarity and generic strategies choice. When comparing strategy choices and designated market similarity, Subcontracting and Local buyout can be perceived as lower institutional risk strategies while joint venture and Sole tendering are perceived as higher institutional risk strategies. Taking such findings back in comparison with every one of three elements we can conclude that respondents are willing tolerate high regulative differences while the same cannot be said for normative or cultural cognitive differences where they choose less risky strategies.

Respondents have recognized nonsaturated markets. These are evolving markets where there is no significant domestic competition or a longer practice of international tenders. For such markets, that are institutionally highly different, they have chosen risky strategies of Buyout or Sole Tender. For saturated markets, respondents have chosen strategies of less risk.

Research limitations:

This research is part of a broader observation of institutional influence on constructions business in foreign environment. Respondents were chosen in respect of their relevant international business experience. When communicating with the authors, respondents have intuitively identified themselves with market they worked at the time of inquiry; they have separately perceived internal organizational processes (a heritage of the corporate origin) and external processes (interaction with the environment). This occurred as a consequence of electronic rather than personal communication. Other limitation is a respondent population. As stated above, this paper defines a model with conclusions that should be tested on larger population.

Conclusion

Term foreign market represents geographical and political area that heritages and develops institutional framework different than the one firm has evolved in. For the cause of adjustment to different environment, institutional theory defines elements that can be used to better understand similarities between organization and institutional context of foreign environment.

To understand decision-making based on experiential knowledge, authors have done a qualitative research among constructions professionals (project and corporate level) with relevant international business experience. Based on findings, authors conclude:

1. There is no relevant connection between generic strategy choice for foreign market entry and similarities with single institutional element, meaning there are various strategic scenarios that depend upon all inclusive institutional framework.

2. Countries different in regulative element and similar in normative and cultural cognitive, respondents are biased as risk taking.

3. Institutional similarity coefficients can be used as guidelines for drafting foreign market strategy as they take into account deeper layers of market determined factors.

4. Results have shown that market saturation plays an important role in strategy selection while in those situations institutional difference looses impact on decision making.

Authors conclude that research findings show the importance of experiential knowledge capacity due better perception of foreign market. Further on, authors recognize this research as a single milestone in uncovering complex relation of experiential knowledge and organizational success on foreign market.

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