

COMPETITIVENESS OF TURKISH CONTRACTORS IN INTERNATIONAL MARKETS

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After 1990, there has been a huge growth in the volume of international construction services of Turkish contractors which may be explained by the serious recession in the domestic construction market. As of 2000, Turkish contractors have been working in 49 countries in 4 continents. The aim of this paper is to present findings of a survey conducted to investigate mainly, the sources of competitive advantage and globalisation strategies of Turkish contractors in international markets. 61 construction companies, majority of which are members of the Union of International Contractors (UIC) responded the aforementioned survey. The survey results demonstrate that Turkish contractors have limited geographical diversification and they achieve competitive advantage by a focus strategy based on low factor costs. Cultural, lingual and religious familiarity also constitutes a major national comparative advantage in target markets. Their risk taking abilities and references based on prior success as well as low cost of labour constitute their major strengths. However, advantages due to basic costs are often easy to imitate and some innovative strategies are compulsory to sustain competitive advantage. Within the scope of this paper, better financial engineering, diversification and effective risk mitigation strategies such as forming strategic alliances are proposed as ways to differentiate construction services in international markets.

Keywords: competitive advantage, global construction, Turkish contractors, international market.

INTRODUCTION

The general trend towards the globalisation of markets with the elimination of trade barriers, adoption of international procedures and performance standards, opening of private and public national markets to foreign competition increase the feasibility of exporting construction services to foreign markets (Warszawski, 1994). Globalisation strategy becomes significant among construction companies as shifts in technology, buyer needs, government policy or country infrastructure create major differences in competitive position among firms from different nations (Porter, 1990). However, the extent of globalisation depends on the balancing of the benefits of globalisation against those of adapting to national market conditions (Grant, 1997). Motivation of globalisation of construction activities in different countries may be explained either by saturation of home construction demand in advanced industrial countries, or survival strategy of contractors in newly industrialised countries due to instability of domestic construction market. Construction companies in advanced industrial countries play an important role in the global construction market as providers of construction services requiring high technology and know-how but as Bon (1992) highlights "Global market in construction services is far from restricted to advanced industrialised countries."

Turkey started to export contracting services in the first half of the 1970s. Turkish contractors initially offered construction services in Libya by importing the necessary technology from European countries. Later on, Turkish contracting services extended to other international markets where a wide variety of projects have been completed utilising domestic technology, employing Turkish labour and using Turkish building materials (Directory of Turkish contractors 2000). Within the context of this paper, initially, a brief history and current situation of Turkish contracting services in international markets will be presented. Next, contents and findings of a survey administered to 61 Turkish construction companies offering construction services in international markets will be explained. In the remaining parts of the paper, following questions will be answered in the light of survey findings;

1. What is the scope of construction activities in international markets ? (Kind and volume of projects that are carried out by Turkish contractors etc.)
2. What are the reasons of international construction ?
3. What are the major strengths of Turkish contractors in international markets? How do they attain competitive advantage ?
4. What are their current strategies and adaptation methods in international markets ?

Finally, some global strategies to mitigate current risks and sustain competitive advantage will be proposed in the light of experiences in the past and opportunities that may occur in the future.

GLOBALISATION OF TURKISH CONSTRUCTION SERVICES

In mid 1970s, the crises in the general economy affected the construction industry adversely. With the slowdown of the domestic construction market, construction companies that had huge machine parks and work force could not get any jobs to finance the ownership cost of these expensive resources (Kaynak, Dalgic, 1992). Due to low construction demand in the domestic market, contractors had to seek jobs in international markets. At the same time, due to the rapid rise in oil prices, oil producing countries prospered considerably and these countries in North Africa and Middle East became attractive markets for Turkish contractors. Till 1990s, Libya, Saudi Arabia and Iraq had been the major countries where the Turkish construction services were most extensively offered. Construction services carried out in Libya accounted for more than 50% (76% during 70s and 57% during 80s) of overall international construction volume; however, as a result of delayed progress payments of Libyan government, this market started to lose its attractiveness in late 1980s (Directory of Turkish contractors 2000). Year 1984, is another milestone for international construction activities. Natural Gas Agreement signed between Turkey and Russia, initiated the penetration of Turkish contractors into the Russian Federation and Independent Republics. During 1990s, this region was ranked the first in the volume of projects carried out in different markets. As of 1998, total value of completed works in the Russian Federation and Independent Republics was around 6 billion US \$ and total value of ongoing works was around 3 million US \$ (Metin, 1998). Turkish contractors, initially, constituted their competitive advantage through cultural and lingual similarities. Lower labour costs compared to those in the EU countries were their major strength in winning contracts but as the market expanded, Chinese and South Korean contractors became their major competitors due to the same cost advantage. However, as a result of big economic crises in the Russian Federation that happened in August 1998, construction activities in these markets

suspended. Due to lack of domestic financial sources and drop in credibility of the Russian Federation, progress payments to the foreign contractors could not be made and most of the small Turkish contractors with weak financial resources went to bankruptcy. Most of the large Turkish firms stayed in the market although they decreased the number of employees and slowed down the construction rate. Most of the contractors could not foresee this big crises and could not prepare for it, but they had a comparative advantage as they were used to working under similar conditions in the domestic market. Delayed progress payments are not uncommon in domestic construction market and Turkish contractors have their own adaptation methods.

Currently, Turkish contractors are working in 49 countries and total volume of international construction between 1972 and 1999 adds up to nearly 40 billion US \$. Table 1 summarises the percentage of works carried out in different countries in the total value of international construction volume.

Table 1: Percentage of construction works carried out in different countries in total volume of international construction (Source: Directory of Turkish Contractors 2000)

Country	Percentage
Libya	33.30
The Russian Federation	20.87
Saudi Arabia	11.38
Kazakistan	4.74
Pakistan	4.37
Iraq	4.20
Turkmenistan	2.44
Uzbekistan	2.27
Bulgaria	1.77
Croatia	1.75
USA	1.74
Kuwait	1.58
Others*	9.60

* The countries with shares of under 1.5% grouped as “others” , in the order of importance are; Azerbaijan, Belarus, Germany, Jordan, Ukraine, Kyrgyzstan, T.R.N.C., Yemen, Egypt, Georgia, Iran, Israel, U.A.E., Malaysia, Romania, Chile, Moldavia, Ethiopia, Latvia, Syria, Ghana, Lebanon, Poland, Bosnia-Herzegovina, Tunisia, Morocco, Sudan, Armenia, The Philippines, Albania, Algeria, Mexico, Tajikistan, Malawi, Thailand, Indonesia and Lithuania.

THE RESEARCH METHODOLOGY AND FINDINGS

In order to collect necessary information about the current status of Turkish contractors, their major strengths and weaknesses as well as global strategies in international markets, a questionnaire has been prepared and sent to 105 construction companies working abroad (Metin, 1998). The target population of the survey was the members of the Union of International Contractors (UIC). Actually, 61 of the companies responded and return rate happened to be 58%. The survey was conducted before the Russian Crises (August 1998), so the survey findings should be evaluated accordingly.

Profile of respondents

Some of the survey findings on general information about respondent companies and construction projects being carried out by these companies can be summarised as follows,

- Age of the companies: 62% of the companies are operating in the domestic construction industry for more than 20 years. As contracting abroad requires experience and know-how, this result is not surprising. Besides, 27% of the

companies were founded during the last 10 years. This result can be explained by the fact that some of the big construction companies older than 20 years establish new construction companies which will operate in international markets only. Although these subsidiaries seem to lack enough experience, the expertise of the parent company gives them the courage to grow in international markets.

- Type of projects : 85 % of the companies are specialised in the construction of building type of structures (houses, hotels, hospitals etc.). Other types of construction works carried out by respondents in foreign markets are industrial plants (57%), transportation projects (38%), dams (32 %) and energy transmission/distribution lines (12 %). As building projects do not require high technology and specially trained personnel, Turkish contractors can achieve competitive advantage on basis of low factor costs. During 70s and 80s, housing projects constituted nearly 40% in the total volume of international construction, however this percentage decreased to 26% and the volume of infrastructure and industrial structures started to increase during 90s (Directory of Turkish Contractors 2000). It will not be misleading to note that, Turkish contractors initially focused on building type of projects by which they built their reputation in the foreign markets, but recently, they are trying to widen their field of activities by penetrating into sub-markets of infrastructure and industrial investments.
- Role of Turkish contractors: The total number of projects that have been carried out by the respondent companies in foreign markets is 637. In 74 % of the projects, they were general contractors, in 14%, subcontractors and in the remaining 12 %, they were partners in a Joint Venture (JV). High percentage of jobs that the companies have undertaken as general contractors is expectable as they are initially involved in low risk projects where they could bear all technical risks alone as a general contractor and subcontract some portions of work requiring specialised knowledge. However, when the cost of retaining all financial and technical risks alone is high and ability to be awarded in a project is low due to lack of necessary resources (mainly, financial resources), joint venturing is the most viable. It is expected that as the markets are shifting, forming strategic alliances like joint ventures in major construction projects will be more common.
- Volume of international projects : Survey results show that, 81.5% of the respondent companies have undertaken projects worth of 20 million US \$ or higher in the last 5 years (1993-1998). Nearly half of the companies operating in foreign markets carry out construction works worth of 20 million or higher every year which is a considerable amount when compared with domestic workload.
- Clients: Survey results demonstrate that; 32% of the respondents completed projects for public sector only, 18% completed projects for private sector only and remaining 50% completed projects for both sectors. However, at the time the survey was conducted, nearly 26% of the companies were involved in public sector projects only, while 44% were involved in only projects owned by private sector. This shows the tendency of shifting of customer profile towards private sector. This increasing trend in the jobs being carried out for the private sector implies changing rules of competition necessitating new strategies.

Reasons of internationalisation of construction activities

The willingness and ability of firms to compete globally is a function of determinants such as domestic market saturation, high domestic competition, pull through of

international demand and managerial attitudes of decision makers (Porter,1998). The survey findings reveal that, the most significant reason for internalisation of Turkish construction activities is recession in the domestic construction market. 62% of the respondents stated that, it is either the significant or most significant reason of internalisation. The second important reason of formulation of globalisation strategy is diversification of country risks (57% stated that it is either significant or the most significant reason). As a result of environmental scanning, companies can foresee major crises that can affect the domestic construction market and perceive internationalisation as a risk reduction strategy. Another major reason is attractiveness of carrying out jobs with a stable currency (mostly US \$). As the Turkish contractors usually receive their progress payments in Turkish Lira (TL) which usually devaluates with respect to US \$ so fast that any delay in progress payments can lead to serious loss of profit, working with a stable currency increase the attractiveness of international works for Turkish contractors. Survey findings demonstrate that high profitability of international construction projects is not a significant reason for internalisation decisions. This shows that primarily, domestic market conditions motivate Turkish contractors rather than attractiveness of international markets and they utilise globalisation strategy to decrease the sensitivity of firm's financial standing to domestic market conditions.

Attractiveness of potential markets

The attractive international markets in the order of the most attractive to least attractive are as follows, Russian Federation, Independent Republics (like Azerbaijan, Kazakhstan etc.), Germany, Iraq, Israel, Kuwait, Lebanon, Malaysia, Egypt, Pakistan, Romania and Saudi Arabia. Least attractive countries are found to be Syria and Libya. This result is expectable as the survey was carried out before the major Russian economic crises. Most important criteria used in testing the attractiveness of an international market are also stated to be the political and economical stability of the country, relations with Turkey, existing legal procedures and volume of construction market. It is interesting to note that Turkish contractors think that availability of domestic work force/machinery and geographical proximity are not significant in international market selection decisions.

In the light of the above listed information about companies and construction projects, the remaining parts of the paper will be devoted to investigation of sources of competitive advantage of Turkish contractors in international markets.

COMPETITIVE ADVANTAGE OF TURKISH CONTRACTORS IN FOREIGN MARKETS

General information on sources of competitive advantage

In his famous book entitled "The Competitive Advantage of Nations", Porter (1990) argues that firms can gain competitive advantage from conceiving of new ways to conduct activities, employing procedures, new technologies or different inputs, which is ultimately an act of innovation. Porter notes that companies can gain competitive advantage using either one of the following generic strategies: Cost leadership, differentiation or focus. The applicability of different strategies within the context of strategic management of construction companies has been investigated in numerous papers till now (Heney, 1985, Khan, 1987, Betts and Ofori, 1992, Warszawski, 1996). Although, at the first glance, low cost advantage seems to be the dominant strategy in the construction industry where the competition is mostly based on awarding a

contract to the party that offers the lowest bid, the increasing use of other criteria like experience, quality, technological and financial viability in the evaluation process implies the increasing importance of differentiation strategy. Using new construction techniques and latest technology, achieving the highest quality level both in services and products, providing specialised services like preparing financial packages and increasing innovations in design and construction are among ways to differentiate construction services. Focus strategy can be utilised by construction companies by offering services only in selected markets where differentiation or cost leadership advantages can be achieved. Although firms can achieve competitive advantage for a given time period, the dynamic forces of competition in an industry makes the sustainability of competitive advantage a major issue. There is a hierarchy of sources of competitive advantage in terms of sustainability (Porter,1998). Pure cost advantage due to low factor costs (labour, materials etc.) are frequently less sustainable than differentiation as cost advantages are easy to imitate.

When the strategic positioning of companies in the global market is considered, Porter (1990) summarises the determinants of national advantage in four broad categories; factor conditions, demand conditions, related/supporting industries and firm strategy. The role of national conditions in affecting the global competitive position of firms can be described by the “Theory of Comparative Advantage” and it can be argued that the comparative advantage from a global approach extends beyond the cost advantages from scale economics (Grant,1997). In the remaining parts of this section, sources of comparative advantage of Turkish contractors in global markets and how this comparative advantage turns into competitive advantage will be discussed based on the survey results.

Survey findings on major strengths of Turkish contractors

The respondents are asked to evaluate the following factors on a Likert scale (where 5 is the most important and 1 is the least important) in order to find the most significant strengths of Turkish contractors in global markets;

- S1. Cultural, lingual and religious familiarity,
- S2. High risk taking ability,
- S3. Low labour costs,
- S4. Good strategic management and planning,
- S5. Availability of skilled technical and managerial personnel/human resources,
- S6. Availability of financial resources/financial strength,
- S7. Rapid construction ability/timely completion of projects,
- S8. High quality of construction and services,
- S9. Good references/client relations built on prior success,
- S10. Relations between Turkey and foreign governments.

Figure 1 summarises the survey results on success factors. As it can be concluded from the Figure 1, respondent companies ranked the sources of success in global markets as; S1, S9, S2, S3, S7, S5, S8, S4, S6, S10 in the order of most to least significant one. Cultural, lingual and religious familiarity, high risk taking ability, low labour costs and good references are the most important sources of competitive advantage (importance scores are higher than 4) whereas good planning, financial

capability and political relations with Turkey can not be stated as sources of advantage (scores are less than 3).

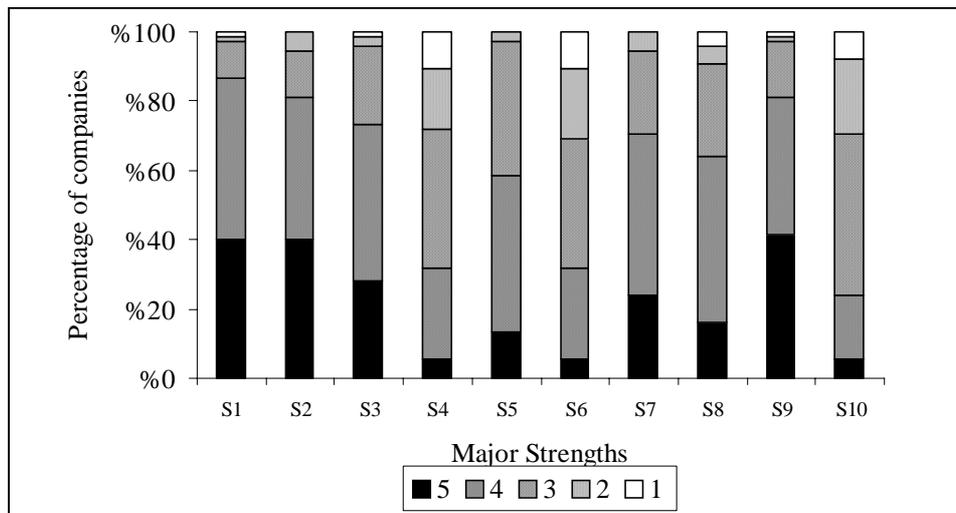


Figure 1: Sources of competitive advantage

It can be concluded that, Turkish contractors' competitive advantage in present markets is partly built on national comparative advantage due to cultural and lingual similarities. This explains the reason why the Turkish contractors are operating on a small geographical market (mainly former Soviet Union countries). They focus on markets where they can achieve competitive advantage primarily by their national comparative advantage and specialise in projects where they can achieve low cost advantage due to low cost of labour. Respondents stated that the average gross hourly earning rate of an ordinary Turkish labour is in the range of 2-4 US \$ which is significantly lower when compared with those in EU countries. Low mobility costs due to geographical proximity of countries like Russian Federation also lower overall cost of labour. According to Porter's specification, competitive advantage of Turkish contractors may be attributed mainly to "factor conditions".

In the time of the survey, Turkish contractors were not trying to differentiate their services and were focusing on projects that do not require very high technology where cost advantages are enough to survive in the market. Being early entrants with low costs, they were able to increase their workload and gain enough experience while their competitors (mainly South Korean and Chinese contractors) were on the learning curve. Although the low cost advantage is easy to imitate, experience and strong client relations can act as a differentiation advantage which takes time for the competitors to come to the same point. This fact applicable to construction industry (other service sectors as well) is similar to the "brand loyalty" concept in manufacturing sectors. Also, it is apparent that risk taking abilities of Turkish contractors played an important role in building a good image in risky environments and successfully completed projects reinforced the strength of Turkish contractors in dealing with risks. Rapid construction is a very important factor for most of the developing countries with high inflation rates and Turkish contractors are accustomed to offer services in similar conditions in the domestic market. Availability of experienced staff who are experts in management of risks in uncertain environments also constitute one of the basic strengths of Turkish contractors in global markets. Hiring qualified personnel in these projects turned out to be one of the most significant risk mitigation strategies of Turkish contractors and added success to global operations. Consequently, effective

“Firm Strategy” (as defined by Porter) formulated in the light of experience gained in domestic market constitutes another determinant of competitive advantage in global markets. Results of a similar research based on a survey carried out to test the strength of Turkish contractors working abroad also highlights the fact that low cost of labour, timely delivery of projects and good client relations are the major sources of competitive advantage (Ergelen, 1995). Moreover, lack of enough financial resources happens to be the major weakness of Turkish contractors according to the mentioned survey results which is also supported by current survey findings.

CURRENT STRATEGIES OF TURKISH CONTRACTORS IN GLOBAL MARKETS

The survey results demonstrate that 67% of the construction companies are members of holding companies. Furthermore, 25% of the holding companies have a financial institution within their organisational structure. Although an international finance institution's support is usually compulsory to secure loans for major international projects, having their own financial institution brings them the advantage of financing and insuring some projects in more favourable conditions as they can find low cost loans and get letters of guarantee much faster. As the major problem is to find necessary financial resources while carrying out jobs in developing countries lacking enough government funds, diversification of construction companies into financial markets may result in synergy in international construction works.

As it has been mentioned before, diversification into international markets is a risk mitigation strategy for construction firms in order to survive during periods of low domestic construction demand. Another strategy used by respondents was found to be diversification in sectors related and/or unrelated with construction. Backward integration (Manufacturing of forms, scaffolding etc.) and forward integration (operation and maintenance of hotels, hospitals etc.) into construction services are widely used strategies of Turkish contractors in the domestic market. Survey results reveal that they are also integrating services in foreign markets and some of the firms are managing harbours and shopping centres abroad. Moreover, around 67% of the companies are operational in sectors other than construction (tourism, mining, textiles etc.) and majority of international companies are diversified into foreign trade sector in order to export goods (related or unrelated to construction) to the countries that they offer construction services. After they penetrate into an international construction market and learn enough about country factors, they can easily analyse the attractiveness of potential markets and diversify in sectors related or unrelated with construction. Diversification gives them the ability to spread risks between different countries and sectors.

Other than the above mentioned corporate strategies; Turkish companies also have business/competitive strategies to increase their adaptation to the international markets. One of the most widely used strategies is hiring local subcontractors and forming partnerships with local contractors. In this way, they can easily solve bureaucratic problems, take permission and minimise risks due to unfamiliarity with foreign country conditions. Another competitive strategy is joint venturing with companies having high financial resources as financial issues is the key factor in winning contracts. Forming strategic alliances in international projects can be one of the critical success factors if parties can complement each other's different strengths and weaknesses. As the major weakness of Turkish contractors is difficulty to find loans to finance major construction works, it is expected that, in order to be involved

in major infrastructure projects, they have to eliminate this weakness by forming strategic alliances in the near future.

CONCLUDING REMARKS AND RECOMMENDED PROSPECT STRATEGIES

Due to instability of construction demand in the domestic market, globalisation of services is a widely used risk diversification strategy by Turkish contractors. Competitive advantage of Turkish contractors in current international markets (mainly Russian Federation and Independent Republics) is mainly due to low factor costs and national comparative advantage. However, the increasing competition in those markets showed that a competitive position due to a focus strategy based on low costs only can be unsustainable in the long run. Moreover, the recent collapse of Russian markets pointed out the importance of geographical diversification in order to minimise risks. Consequently, the recommended strategies for Turkish contractors can be summarised as follows;

Focus : They should focus on particular markets where their low cost advantage gives them a competitive advantage and try to differentiate their services in order to sustain their competitive advantage. Differentiation can be achieved by integration of services before and after construction, developing innovative design solutions and improving client relations by focusing on complete client satisfaction either by using effective management techniques (eg. value engineering) or cost effective construction methods.

Differentiation by better financial engineering: Success in overseas markets will be dependent on skill in financial strategy (Lansley, 1987). Turkish firms should be able to offer effective financial packages together with complete design, construction and management services in international markets. Their experience and technical capabilities may be enough to prepare the technical package but in order to provide attractive financial solutions they should form strategic alliances. This will lead to a successful “strategic diversification” (Betts, Ofori, 1992) and reinforce the position of each party’s position in the market.

Geographical diversification: Difficulties faced by Turkish contractors in some international markets (eg. former Soviet Union countries after the crises) should be a lesson for them and they should diversify country risks by increasing size of geographical diversification. They should improve their scanning capabilities throughout the whole world and build a strategic information system to aid country portfolio formation. They should identify potential countries, monitor progress in those countries, scan their economical and political environments and collect project information in these markets. They should build their competitive advantage on matching opportunities/threats in different markets with company strengths/weaknesses rather than using only the national comparative advantage.

Formulation of a “global strategy”: Although the competition is global, most of the Turkish companies are managed as multinational firms and do not have a global strategy. Companies operating in international markets should improve their organisational ability to better coordinate activities between different countries and increase efficiency by analysing value chains in different countries. A global strategy will set common rules and standards for all of the world wide operations. Learning from own experiences, competitors’ and strategic partners’ practices in international markets will increase their organisational intelligence which is one of the major

sources of competitive advantage in the information era. Systematic global strategic planning will also aid reliable strategic positioning in world markets.

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