

# The Creation of a Strategic Alliance - A Factor for the Successful Development of a Small Construction Firm

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**Abstract:** *On the construction market work too many, mostly small firms, which usually have no strategy and are ready to do anything to have a job or have more work. One of the most complex and relatively poorly developed problem is related to the development of a strategy for small and medium-sized construction firms- SMEs, which can be adapted to their particularities and successfully implemented in their activities. Successfully solving this problem can provide the small business with the desired specialization and differentiation, stabilize their market positions and build competitive advantage in the face of constant technological and market changes. The aim of the study is: 1) to analyze the perspectives of the small firm, which according to the author are mainly related to the creation of union with other companies; 2) to develop a model for creating a strategic alliance and managerial actions of the small company that allow building competitive advantages and performance in a dynamic external and internal environment.*

**Keywords:** Construction Market, Management Practices, Small and Medium-Sized Firms - SMEs, Strategic Alliance

## 1. Introduction

General characteristic of the construction market is: 1) in this market are too many, mostly small businesses, 2) they have no strategy and are willing to work anything to have jobs or have more work, 3) specific characteristics of a product that combines the characteristics of goods and services, 4) the specific characteristics of the construction market and construction process, 5) higher share of labor-intensive production, relatively low labor productivity, a relatively low share of the added value created and low propensity to invest and 6) construction firm usually focuses on efficacy of individual projects rather than long-term strategies. These are serious challenges for most construction companies, which are mainly small or medium, which means relatively limited technological, market, financial and innovation capabilities. In modern conditions, the prospects for their development are associated mainly with the development of intangible assets - knowledge, technological know-how, innovation. They must be combined effectively with other material resources/assets that can be defined as complementary in the firm and that through effective management and control create new resources and opportunities for company growth and development. In this complex economic situation, a long-term strategy and positioning for competitive advantage should be a key task for the construction company. Successfully solving this problem can provide the small business with the much desired specialization, differentiation and sustainable future development. The stated reasons determine the main problems that are the subject of the research:

- 1) What are the opportunities for the development of small and medium-sized companies in order to realize competitive advantages in the conditions of constant technological and market changes?
- 2) What strategy should SMEs implement?

- 3) What criteria and mechanisms should be used to make a realistic assessment of the results achieved?

## 2. Theoretical Framework of the Study

In this chapter will analyze the prospects for development and will develop a model involving the management actions of a small firm that create the potential for competitive advantage in a dynamic external and internal environment.

### 2.1. Creating a strategic alliance - a major factor for development of small firm

The practice shows that the development of small firm on the basis only of its own, internal resources is ineffective due to limited resources, the risk of duplication of solutions in the development of which has been invested considerable cost. For these reasons, is a growing feeling that small and medium-sized (SMEs) firms have an important opportunity to develop, by combining with other large firms and creating a strategic alliance. They are defined as voluntary alliances between companies based on contractual relations that allow development and change through cooperation in production and development of creating a final product, through the transfer of technology, knowledge and services [1]. Participating firms typically have a long history before the establishment of the union and preserve their relative independence in the time of its existence, i.e. practically excluded and no observed processes of mergers and acquisitions. The voluntary pooling in the union can provide more efficient allocation and use of scarce resources and realize synergistic effect in one or more companies and successfully adapt to external changes, integrate external resources through know-how, exchange of knowledge, information, technologies and products that increase total productivity. These processes allow managers to more efficient use of existing physical, human (experience,

knowledge) and organizational (managerial knowledge, vertical relations, etc.) resources which are the foundation for higher added value. Building of specific, unique relations between firms participants in such alliances, allows the development of their own resources, access to different markets, including territorial, creating new business models for management, which is a factor of competitive advantages, higher reputation and stabilization and/or expand market positions [2]. The policy of such unions restricts access of new firms to information, resources and markets and their opportunities for development, which stabilizes the realized advantage. The creation of strategic alliance raises several basic questions: 1) What firms to participate in them (equivalent to small firms or small firms and a leading company in a market) and how to make a selection of participants? 2) What is the structure of the company union? 3) How to evaluate the results achieved in alliance and for each firm?

## 2.2. Selection of firms participating in the strategic alliance

The decision to participate in a strategic alliance should be the result of a thorough analysis, consideration of the pros and cons and evaluate development perspectives. The created strategic alliances have different organization, management, degree of control and coordination of activities. They can be realized between both companies equal participants and between firms with different market position and potential [3]. If a small firm involved in alliance with the big established company in the market, the question is how it can cooperate with a different resource base and different organizational structure in a way that would provide its development. It is clear that such a union provides access small firms to experience major to "best practice" opportunity to improve internal organization, improvement of its operations, expansion of knowledge and creation of new, that allows initiation of necessary changes. Establishment of the union involving small, medium equivalent firms with limited potential, reduces flexibility to the dynamics of the environment and their future development. A small firm has its chance of success if it participates in a strategic alliance in which other participants have adaptive, absorbing and innovation capability and the potential for technological and market change. Building strategic alliances between small and large companies raises the question: what is the interest of the largest company to participate in it, is there a way it can develop its dynamic capabilities in conditions of limited resources and opportunities for small firms. The answer to this question gives the idea of M. Iansiti and R. Levin [4]. According to them, the economic system should be seen as a biological ecosystem, involving different but related entities with different fates, some better, some worse, but everyone is better together than separately. External shocks and problems in the system are absorbed by the participants, they are a source of opportunities for the firm (not an external threat), which is a condition for the development of new thinking and behavior, factor for greater stability, improve specialization and creation of a heterogeneous structure - business eco-system with different firms that have different roles and that affect different aspects of the stability and

performance. In these structures develops collective organization, apply collective strategy whose choice depends on the participating firms, the complexity of connections and relationships with others in the system, but also the overall level of turbulence in the external environment. Basis for the success of any such business eco-system are: 1) innovation, 2) competition between the participants and 3) intelligence of the participating firms. Within a business ecosystem firms can play three specific roles: 1) Firms identified as key players and their potential can improve the condition of eco-business system and thus increase and its operational performance. 2) The dominant firm that build their relations with others (mainly smaller) firms based on the principles of vertical integration. 3) A large number of small firms specialized in a particular activity, the creation of certain specific product and have their niche market. Therefore, the choice and the decision for the participation of each individual firm in a business system is the result of an assessment of the opportunities, its resource provision (a key player, a dominant or a small company with niche market), goals which placed, and also the dynamics of the market in which work and relationships with other firm-participants.

## 2.3. Structure and relationships in strategic alliance

Outlining the structure and relationships in a business eco-system allow each firm to determine its technological and operational strategies that create competitive advantage. A major factor for the success of the strategic alliance is a clear definition of the external environment (market, technology, etc.), the development of specific assets and competencies of each company in the creation of a common final product/service and on that basis determine the tasks and competences of each participant [5]. This requires building effective internal structure, system of knowledge transfer information from one company to another and successfully business behaviour, which develops adaptive capacity of each company and the union as a whole. The correct integration of internal and external resources ensures the development of effective collective strategies and it maintained in terms of competition between participating firms and flexible reconfiguration of resources in response to the dynamics in the external environment, which provides the desired result. Each union means dependency, but also gives you the opportunity for the development, opening of new opportunities more easily to overcome and eliminate the threats. The participation of small firm in unions facilitates access to new technologies, to specialized knowledge to new equipment and the conversion of own production an integral part of the overall multi-product production. Development of managerial skills to analyze changes in the external environment and adapt to them, absorbing the news, information and their inclusion as a component of accumulated internal, corporate knowledge, create potential for development of innovative capabilities [6]. The competitive advantages the firm are the result of integration, unification and specialization. Each small firm, under these conditions can realize their personal success through learning and development of capabilities on the experience and skills that observed in large companies, key players. If small firms, players in such a system, the result is better business and adoption of "best practices" for the major, key

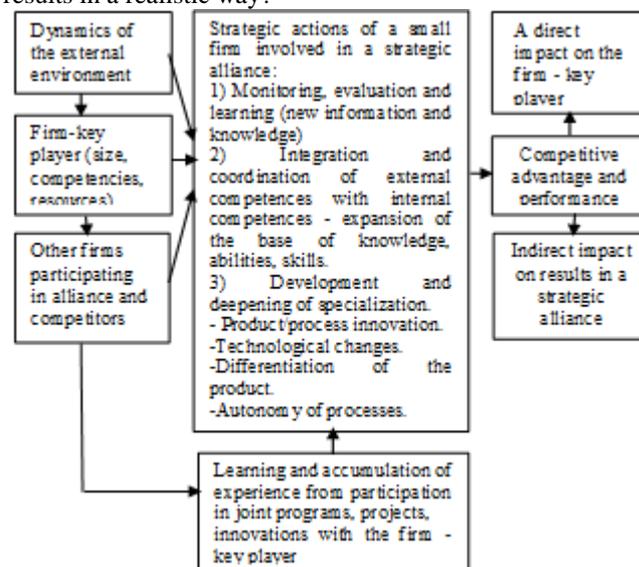
players in building these relationships is an opportunity for economies of scale and/or economies of scope, reduce the switching costs associated with the selection of suppliers and other contractors, which stimulates the development of innovation in product technology and allows the creation of higher added value to customers and therefore realize a higher profit. An important factor for realizing the desired success, greater than the success that can be implemented separately in each firm or taken etc. synergistic effect is the necessary controls and coordination of common action [7]. The development of relations between small firms and key players in each strategic alliance, process of integration of the main competences of key player with internal resources of small businesses is key to building a new dynamic capabilities different from those which the company began its participation and stabilizing market positions and increase profits.

#### 2.4. Criteria and mechanisms for assessing the competitive advantages and business results in union and for each firm

The question for development the criteria and mechanisms for assessing the competitive advantages and business results in union and for each firm is extremely complex. Such an assessment of the activities of the union as a whole is relatively easy to be done, but it is much more difficult to be made for individual companies. The realization of individual company aims is usually asymmetrical insofar as the success achieved by one firm can mean failure for at least another mismatch with set expectations and goals. Each participant with their activity provides the realization of the desired general final result, but it is difficult to prove the individual contribution of each. It is difficult to assess objectively such processes in the union, resulting from the created better organization and which provide effective exchange and development of knowledge, technology, management skills, more effective links between participants, but may be to use an indirect assessment ( the reaction of competitors, clients and society as a whole) for improving the overall performance of a market [8]. Results and assessments of the strategic alliance by all means should be bilateral. Therefore, besides quantitative financial indicators characterizing the overall activity should be used and qualitative indicators such as: flexibility of management decisions, management and resolution of conflicts, increasing the responsibility of individual actors and staff, efficiency of the existing connections in and outside the union, system of information exchange and others. At the same time, it should be taken into account that the assessment of the final result achieved is not a simple sum of individual results and evaluations.

In conclusion, from the analysis of the relationships between the companies participating in a strategic alliance, a model can be developed for building a strategic alliance of a small firm with a firm-key player and other firms (Fig. 1), which shows: 1) What strategy does a small business need to implement in order to gain competitive advantage in the face of ongoing technological and market changes?, 2) What management practices should a small company for monitor the external environment and evaluate development alternatives?, 3) What management practices should a small

business implement in order to successfully integrate internal and external competence and reconfigure resources?, 4) What management practices does a small business need to apply in order to apply the most effective process of specialization and differentiation of its activities?, 5) What criteria and mechanisms should be used to evaluate the results in a realistic way?



**Figure 1:** Model for creating a strategic alliance and managerial actions of the small firm that allow building competitive advantages and performance

### 3. Application of the model of building the strategic alliance of the construction market

In this part of the study, the developed model for creating a strategic alliance is applied to analyze and evaluate the activities and development opportunities of several small construction firms operating in the civil construction market as contractors and subcontractors of objects, executed by three major leading companies (a key player) in the construction market.

#### 3.1. Method and restrictive conditions survey

An empirical study was conducted based on information collected and interviewed, shared experience with managers, employees of the companies surveyed (both in the company - a key player and in small firms). The study seeks evidence about the development opportunities of the small construction company, building competitive advantage and performance in the strategic alliance created. The information collected and processed allows us to answer the questions asked and summarize the results of the study.

The co-operation between different companies and activities carried out by them, in the created a strategic alliance opens new possibilities for new combinations of resources, development of new competences, organizational structures, creating new products, entering new markets, which can be implemented in different ways. Realizing a common objective requires maintenance of formal and informal links between individual firms and personalities based on established common resource through the acquisition of

various assets. A key success factor is the access to information and exchange experience in order to solve current problems. Building effective relationships at all levels, formal and informal, trust between all subjects is critical for any association.

### 3.2. Main results of the study

#### *Strategic behavior of small firm in strategic alliance*

The survey shows that the firm a key player developing its own strategy, which sets the rules of the game, the requirements for product development, entering new markets and more. Development and implementation of a common strategy to solve the various problems in the strategic alliance creates significant opportunities for the development of small firms-participants. The firm - key player takes decisions on future action and directions of development, based on analysis and evaluation of existing capacity in the alliance, develops requirements for standards and rules of procedure and defines the different tasks of the participants within a common system, acting as a single mechanism. Moreover, considering the influence of different variables that can create opportunities or threats to increase business value. According to the managers of small firms, participation and behavior of the company- key player creates stability and predictability and stimulate their development in the following areas: 1) Increased productivity in general business eco-system by creating effective links between all participants, providing for improved outcome. 2) Increase the stability of the system through the development and implementation of technical novelties and innovation. 3) Encouraging the introduction of innovation in small firms and deepening their specialization within the overall framework by creating an effective system of complementary and interrelated production and activities. Within the framework of the key players' common "rules of the game", each small firm can develop its own niche strategy that allows for competitive advantages and efficiency in a dynamic market. It includes three main elements and related managerial actions: 1) identification the needs of key players, and the identification of other smaller firms-participants and their production and links in the union, 2) identification of opportunities for the integration of external resources with internal ones and 3) identification of activities that provide development and specialization of the firm within the general activity. Developing its own strategy determines the necessary management practices (actions and decisions) that must apply a small firm within a strategic alliance to realize its goals.

#### *Managerial actions of the small firm for building competitive advantages and performance*

- Management practices that apply surveyed firms in the market of civil engineering with purpose to monitor (incl. the firm key player and other firms-participants), assessing the external environment and learning:
  - 1) Collection and analysis of information about other participants, their role and strategy in the union and assessment of opportunities for development in the

general conditions of the alliance and the benefits of cooperation.

- 2) Analysis of the strategy of key players and taken strategic decisions that determine the development trends of the union.
  - 3) Assess the opportunities and threats for the development of the market which determined the general conditions for development of small businesses.
  - 4) Evaluating competitors, competing products, and creating a different product that customers want.
  - 5) Decision on participation and investment in markets that can ensure development of the company's product.
  - 6) Development of actions to protect the market positions of other firm participants (incl. and the key player) who might be tempted to attack the positions gained.
- Management practices that apply surveyed firms with purpose successful integration of internal and external competencies and reconfiguration of resources.

Integration of external resources for development and change internal is the main goal and task of each small firm. The main factor for its success within the built strategic alliance is the presence of internal distinctive competencies provided with the necessary physical assets and growing specialization in some stage of total production [9], in accordance with the established standards and product requirements of the company - key player. Under these conditions surveyed firms develop their competences and capabilities within the specified limits and the following management actions:

- 1) Ensuring access to new technologies and their implementation, use in real time.
- 2) Encouraging the exchange of information, knowledge and technologies in the union, which stimulates innovation.
- 3) Development of complementary innovations and create complementary products as an integral part of the overall innovation activity in order to improve quality of the final product and providing better customer service.
- 4) Conclusion of contracts for long-term cooperation with other firms in order to reduce or neutralization the impact of changes in the environment.
- 5) Concentration on the activities that require a joint effort by the participating firms and for which no developed effective solutions.
- 6) Support of own production through integration of complementary activities or other key players and firms, development of new strategic solutions that meet the specific capabilities of the company and ensured its stability and neutralize threats from other participants.

- Management actions that develop the company's distinctive competences and deepen the specialization of a small firm - participating in strategic alliance.

In the context of limited resources, the main direction for the successful development of the small firm's participants is specialization and product differentiation. In strategic alliance creation of the final product is the result of innovative activities and the creation of separate parts of this product in the participating firms. The common organization

of this process can provide the desired success for each one of them with the best combination of changes in the production of changes in the external environment and managerial experience [10].

The creation of a specific, differentiated product as the basis for the realization of the positive performance and strong market positions against current and potential competitors, i.e. realization of advantages, which requires managers take the following decisions:

- 1) Evaluation of its resource base, especially technical and its possibilities for improvement, improvement through cooperation in the union.
  - 2) Development of specific professional solutions, using technical innovations which satisfy customer/investor.
  - 3) Establishment of an effective system of relationships with suppliers, customers, other companies in and outside the union on the principles of honesty, perseverance, permanence, exchange of technical knowledge and experience, which is a guarantee for the success of the company.
  - 4) Development of joint programs with the leading company for learning, exchange of experts, knowledge, technology transfer that create new dynamic capabilities in the company.
  - 5) Creating a better organization, a proper allocation of tasks and selection of the right people to solve them. Improving relations between people in the team and general organizational climate and establishing an effective system of incentives and motivation of staff.
  - 6) Expanding of the firm through the development of marketing, technological and managerial skills resulting from the successful integration of external resources with its distinctive competencies increases the desire and the possibilities for greater autonomy in the development of the principle of open innovation model.
- Evaluation of realized results from the participation of small firms in a strategic alliance with the firm - a key player.

The surveyed firms reported stabilization of financial results, a tendency to cover the obligations good opportunities to cover current operations and greater financial stability. The realization of corporate goals measured by the costs, revenues, used technological innovations and human knowledge and skills embodied in the product creation, evaluation of positions in the market against competitors is proof of the ability of the manager to develop dynamic capabilities and adapt the strategy of a small firm in a way that allows implementation competitive advantages. The success of a manager in no case should not be associated only with the development and implementation in practice of a large project, but must be seen as composed of permanent small organizational and management changes that enable efficient allocation and use of human, technological, physical and financial resources and quickly resolve emerging problems. The final result of participation in a strategic alliance can be summarized as follows:

- 1) Growing reputation in society trust among current and future customers.

- 2) Development of marketing skills and opportunities for entering new markets and expanding positions by specialization, cooperation.
- 3) Development of technological competencies, which allow increasing the quality offered and additional services.
- 4) Improve financial performance, occupying a dominant position on a market niche and becoming a product leader not only of the given segment, but also in the global market.

The overall assessment of the results of the company is an assessment of the built dynamic capabilities and its ability to apply their common characteristics specific way that combines a management, marketing and technical internal capabilities with external ones. For small businesses participating in the strategic alliance, they are a function of its ability to analyze the external environment and adapt to changes in it through managerial abilities and flair for creating an effective organization and use of market opportunities.

#### 4. Conclusion

The study analyzes the prospects for development of small construction firms, offers a model for building the strategic alliance that create potential for competitive advantages. According to the author, in a dynamic environment, the creation of a strategic alliance that includes a key player and small businesses that have limited capacity and resources is a major factor in the development, specialization, differentiation and success of a small firm.

The co-operation between different companies and activities carried out by them, in the created a strategic alliance opens new possibilities for new combinations of resources, development of new competences, organizational structures, creating new products, entering new markets, which can be implemented in different ways. Realizing a common objective requires maintenance of formal and informal links between individual firms and personalities based on established common resource through the acquisition of various assets. A key success factor is the access to information and exchange experience in order to solve current problems. Building effective relationships at all levels, formal and informal, trust between all subjects is critical for any association.

The effectiveness of the functioning of such unions can be compared with the functioning of a biological system where everyone is better with others than alone. Basis for the success of any such "business eco-system" are: 1) innovation, 2) competition between the participants and 3) intelligence of the participating firms. The creation of a strategic alliance for the big firms - key players is an opportunity for economies of scale and/or economies of scope, reduce the switching costs associated with the selection of suppliers and other counterparties, which stimulates the development of innovation in product technology and allows the creation of higher added value to customers and thus realizing higher profits. The aim of any

small, specialized firm is the integration of external to internal resources, transfer of technology, information, knowledge and other specific resources in the union and fast, aggressively adapting to the requirements of key player and external changes.

Absolutization and fully copying foreign experience significantly limits its chances of success. It's not enough participation in the union in order to reach a level of development of the resources and capabilities of other firms but necessary participation which ensure the establishment and development capabilities for a new resource base as a source of competitive advantage. In strategic alliance integrating the resources of all participants is a factor stimulating development of each company and the building of closer ties with other actors within the union and outside it, which creating a competitive advantage. The competitive advantages of the firm are the result of integration, consolidation and specialization.

A major factor in the success of small firms in within the established strategic alliance is the presence of distinctive competencies provided with the necessary physical assets that allow specialization and differentiation of product creation. The creation of a specific, differentiated product from small businesses a participating in the strategic alliance is the basis for the realization of positive performance and strong market positions. On this basis, most firms have good opportunities for development in the future or continued participation and cooperation within the same or other strategic alliance. Of course remains one part of small businesses that just work, implement the decisions of key players, based on existing knowledge and opportunities. However growing requirements to create products imposed by the leading firm established system of relations between the companies involved in the union and those outside impose seeking new directions for improvement, improvement of operations and expansion positions.

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