

Influence of the Specific Characteristics of the Firm on the Building of Dynamic Capabilities Study of the Example of the Construction Firm

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Abstract: *Building dynamic capabilities in a single firm requires capacity, knowledge, skills, experience of the management, which allow the use of external and internal factors in order to improve organization, management decisions and implementation of new business models. The aim of managers must be not just building a system of dynamic capabilities that have similar, common characteristics, but integrating them in a different, specific way into an overall corporate structure and organization. In the study the author addresses the following several issues: 1) What is the nature and scope of the dynamic capabilities and their relationship with the operational capabilities or functional competencies of the firm?, 2) How does an individual firm build its dynamic capabilities?, 3) What specific methods and approaches do managers apply to build dynamic capabilities in a firm? 4) What is the impact of the organizational characteristics of the firm on this process?*

Keywords: Construction Firm, Dynamic Capabilities, Functional Competencies, Specific Characteristics of the Firm

1. Introduction

Building dynamic capabilities in a single firm requires company capacity, knowledge, skills, experience of the management, which allow the use of external and internal factors in order to improve organization, management decisions and implementation of new business models. The firms (including construction companies) differ in their origin, age, history, value and culture, which implies different strategies, different behaviors and goals. Different characteristics determine different directions of development, and therefore different in scope dynamic capabilities and different functional competences. There is a relationship between the age of the firm (a well-established company with a history or a new, now starting business), the internal organization and the capacity for change (large, medium or small company according to the number of employees, sales of available assets, etc.), which is not right and is difficult to analyze in detail. The age and organization of each company influences its propensity to apply different mechanisms for creation, development and/or change of the dynamic capabilities, and also influences the degree of their change. Significant influence in this regard is the managerial perceptions, propensity to risk, which in general determine the directions of corporate development and the realization of the desired end results.

The development of specific actions for reconfiguring resources (as the last and most important element of the dynamic capabilities chain) and the corresponding change in the organizational and managerial process, taking into account the specific characteristics can allow the successful development of the company. The aim of managers must be not just building a system of dynamic capabilities that have similar, common characteristics, but integrating them in a different, specific way into an overall corporate structure and organization.

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For these reasons, the author first defines the nature and scope of dynamic capabilities and then analyzes the methods that the company can apply in its activities in order to build their system of dynamic capabilities, taking into account the impact of specific firm's characteristics on this process.

2. Theoretical framework to study the influence of the specific characteristics of the firm on the building of dynamic capabilities

In this part of the study, the author's goal is to analyze the nature and scope of dynamic capabilities and to develop a model, which shows the relationships and dependencies between the elements of dynamic capabilities with the development and reconfiguration of functional competencies of the firm.

The starting point for clarifying the nature and scope of dynamic capabilities is the definition given by D. Teece according to which they are: 1) a system of reconfiguration, learning, integration and coordination in the firm [1], and 2) a process of monitoring, evaluating alternatives for development and change, by reconfiguring resources [2]. Therefore, dynamic capabilities reflect, above all, "the ability of a firm to develop its competencies so as to achieve adaptation to a changing business environment" [3], which will allow it to build competitive advantages and performance.

To understand the nature, scope and role of dynamic capabilities, the difference between them and the functional competencies or operational capabilities of the firm must first be clarified. Each company carries out daily activities related to the production and sale of the created product. This daily business activity can be defined as its operational capability, given a specific combination of resources to perform its core functional activities. *The set of market, technological and organizational competencies of a firm can be defined as operational or functional competencies.* Everyday business activity would "always develop on the same scale, the company would always produce the same product, sell it in the same way, to the same customers and markets"[4], which is obviously ineffective and impossible in the conditions of constant dynamics in the external and internal environment, and therefore building of dynamic capabilities are needed.

Dynamic capabilities are related to the ability of the firm to change, to develop its functional competencies in response to changes. From such point of view, functional competencies are defined as zero-order capabilities or capabilities that allow a company to do what it was created for and earn a living, and dynamic capabilities can be defined as higher-level capabilities that aim at "change in product, production, customer relationships, markets where the firm sells"[5]. Therefore, functional activities ensure the operational efficiency of the company, and dynamic capabilities manage their change by expanding, reconfiguring the resource base in response to environmental changes.

Reconfiguring and developing new competencies in response to environmental dynamics is the ultimate goal of dynamic capabilities. The reconfiguration process refers to the expediency [6], timeliness [7], and efficiency [8] of the solutions by which the existing functional competencies of the firm adapt to change. For this purpose, it is necessary for the firm to have a constant process of assimilation, dissemination and integration of new knowledge and technologies based on experience and routine that allow the process of change to be realized. The accumulated knowledge and experience in the company can be a powerful tool for strategic renewal through experimentation, innovation in solving specific problems and finding new paths for development, or through learning. Furthermore, a new organization and management needs to be created to coordinate people and material resources to implement the new solutions.

The most complex problem facing the firm, associated with extremely high risk, is the solution to change and the search for brand new development opportunities and neutralizing threats. A source of information, which can prompt and facilitate the company in making these important decisions to reconfigure functional competencies is the dynamics in the external environment. The main problem for managers is developing an *effective monitoring system, assessing development opportunities and threats, and forecasting expected changes in the external environment through a continuous learning process.*

These three components of dynamic capabilities - monitoring, evaluation of alternatives and learning are directly related to the dynamics of the external environment. These can be defined as higher level, second level dynamic capabilities (or second order) that reconfigure firm's competencies in response to changes in the external environment. The other three components - integration, coordination, and reconfiguration are related to internal organization and can be defined as lower level, first level dynamic capabilities (or first order), that are developing by expanding and improving managerial skills [9]. In their interconnection and dependency, the dynamic capabilities of second and first level help the company to expand, change and reconfigure your existing functional competencies in new ones that respond better to changes in the environment and make more efficient use of existing resources.

From this point of view, the author defines *dynamic capabilities as a complex, multidimensional construction of interrelated and complementary specific activities within the firm, which include its ability to identify and analyze the need for change, to develop its own system of solutions for reconfiguring functional competencies, in response to changes in external and the internal environment, and to takes the necessary actions to adapt to them.* This definition of dynamic capabilities includes:

- 1) The ability of a firm to carry out specific activities in a specific way, function of firm capacity and above all managerial skills, perceptions, which must ensure successful change and adaptation of resources and functional competencies. *The ultimate goal of dynamic capabilities is change, and the reconfiguration of functional competencies is the endpoint in the chain of dynamic capabilities and their core element [10].*
- 2) Specific organizational process related to the selection and creation of new synergistic combinations (reconfiguration) of firm's resources and assets. This process is uniquely embedded in the overall business organization, which makes it difficult to imitate and for substitution, i.e. the firm creates a strategic resource.

The components of the dynamic capabilities in this complex construction are: 1) Monitoring, 2) Evaluating alternatives, 3) Learning, 4) Integration, 5) Coordination, and 6) Reconfiguration.

According to the author, although they cannot be said to be exhaustive, they are recognizable, understandable and basic which can provide reconfiguration of functional competencies. Figure 1. shows relationships and dependencies between the elements of dynamic capabilities with the development and reconfiguration of functional competencies of the firm.

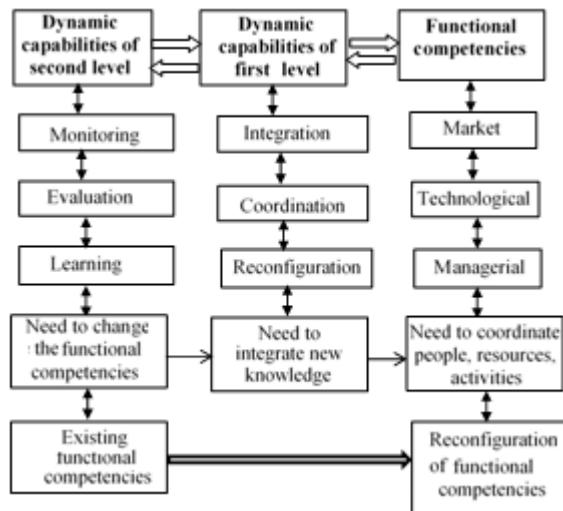


Figure 1: Relationships and dependencies between the elements of dynamic capabilities with the development and reconfiguration of functional competencies of the firm.

Defining dynamic capabilities as a multidimensional construct involving interrelated and complementary activities shows that they have common characteristics, but a specific organizational implementation process, through apply specific analytical procedures and routine actions related to the configuration and reconfiguration of firm's resources and their management that provide predictable results and building competitive advantages [11]. The specifics refer to the organizational changes, skills and perceptions of managers regarding the dynamics of the market and the position of the company, as well as the development of research, development of innovations, both in the product and in the production process. Managerial decisions for strategic change resulting of ability for monitoring, evaluation of alternatives and learning or in short, dynamic capabilities of second level are fundamental to building a complete corporate system of dynamic capabilities, which is a major factor in reconfiguring functional competencies and developing a resource base in response to dynamics in the external environment. The processes of integration, coordination and reconfiguring resources enable the creation of a new combination, the development of a new base, acquiring resources from other companies, and the process of destroying some of the resources used, which do not meet the new requirements, or in short, dynamic capabilities of first level provide a change in functional competence that responds to changes in the environment, greater efficiency and competitive advantage. This change in functional competencies in the next stage has a reverse effect on the development of dynamic capabilities, which provides maintaining competitive advantage in the firm.

Only the building of dynamic capabilities allow constant adaptation, modernization and realization of stable competitive advantages as a result of reconfiguring functional competencies and creating a strategic resource which is a major factor to overcome inertia and development of the firm. This in practice confirms the following particularly important conclusion: dynamic capabilities have no direct, but indirect, link to competitive advantages. Their role is related to influencing, changing the existing resource base and transforming it in such a way as to provide

competitive advantages for the firm. Dynamic capabilities have value for the company, only if they create a valuable resource, who maintains and increases its advantages over competitors - current and potential. The relationship between dynamic capabilities (of second and first level) with building competitive advantage and performance is carried out with the mediating role of functional competencies, the development of which changes the final production result and the position of the firm in response to changes in the environment.

3. Application the model for study the influence of the specific characteristics of the construction firm on the building of dynamic capabilities

In this part of the study, the developed model is applied to analyze and evaluate the specific methods used, approaches to building dynamic capabilities in a large, established construction firm and a firm that is now starting its own business, as well as the influence of organizational characteristics on this process.

3.1. Method and limitations of the study

An empirical study has been conducted through a developed and applied methodology for evaluation the influence of the specific characteristics of the construction firm on the building of dynamic capabilities. The surveyed companies differ in their origin, age, history, value and culture, which implies different strategies and goals. They have different resources and competencies related to production, organization and management, different market positioning and different opportunities to develop and achieve their goals.

The information is collected and processed by publications and analyzes in specialized publications, interviews, shared opinions, evaluations, experience of managers, employees of the surveyed firms. The analysis of the data reveals the causal relationship between four variables: 1) the age (established on the market a firm with a history, or a new firm starting its activity today), 2) the capacity of the company (large, medium or small firm- the number of employees, realized sales, available assets, etc.), 3) used methods, tools, mechanism for building and development of dynamic capabilities and reconfiguration of the resource base, and 4) organizational characteristics of the firm.

3.2. Main results of the study

3.2.1. Specific methods and approaches applied to build dynamic capabilities in the construction firm

When analyzing the mechanism that a construction firm can use to build dynamic capabilities, the first major problem facing researchers is to compare between the development of functional competencies and dynamic capabilities in new construction firm and a well-established construction firm on the market, and how these differences affect the achievement of firm's goals in a dynamic external environment.

Each firm starts its business with little, limited knowledge and resources and over time, they gradually accumulate, expand and develop. Building dynamic capabilities (monitoring, evaluation of alternatives, learning, integration, coordination and reconfiguration) enables the company to develop effective relationships with its partners, to improve its organization, to develop its functional competencies, which increases its productivity and creates conditions for building competitive advantages. The effectiveness of dynamic capabilities depends on the ability of the firm/managers to look for ways for their identification, development and use in response to changes in the external and internal environment. The accumulated knowledge, organizational skills and their growth increases the company's potential for positive results. This is further proof that the impact of dynamic capabilities on the end result is indirectly through the functional competencies and ability of the construction firm to develop and integrate external knowledge and skills in its internal organization. At the same time, with the development and increase of the "age" of the firm, the complexity of the links between resources and knowledge increases, which suggests that the built-in model of relationships, which so far provides good company results, can be easily disturbed as a result of, drastic changes in the environment and losses can be significant.

The main reason, because of which every construction firm, regardless of its specific characteristics (size, age, capacity, market position, etc.) develops its dynamic capabilities, is the constant fear from breaking the existing status quo in a competitive environment and a change in the external environment. In that aspect managers are facing internal conflict - arising from the need to follow planned activities or to develop new ones and improvise. In a well-established firms on the market there is also a problem with regard to priority areas and development activities. Therefore, a common characteristic of all firms, regardless of their age, is the existence of a *conflict of interest* that influences the identification of different development opportunities and the decisions that are made. They are the result of managers' subjective assessment of the dynamics of the competitive environment, market development forecasts, and the company's ability to integrate external and internal resources. Conflict resolution is achieved through a process of integration and coordination (some of the most important components of dynamic capabilities), which include formal and informal discussions, analyzes and solutions to the scope, development guidelines and the necessary resources for this purpose.

The choice of a direction for the development of the construction firm is the result of the joint coordinated efforts and the evaluation of the future potential development of the dynamic capabilities as a function of the dynamics of the environment. On this basis, the necessary new combination is determined of resources and the integration of dynamic capabilities in the common business, which will increase the productivity and efficiency of the firm. However, successful development over time reduces the search for new alternatives to reconfigure functional competencies and develop dynamic capabilities. Repeated use of resources and functional competences in direct business in the same way,

without change, reduces the chances of success in the future. The change and development of functional competences must be carried out constantly, evenly distributed over time, which helps to optimize costs and reduce the risk of any new solution. However, these decisions are a function of knowledge, experience, the courage and the sense of the managers for the necessary change and the accurate assessment of the firm's available capacity to enable the desired reconfiguration of resources.

The management team, especially the younger construction firm faces several basic questions [12]: 1) what opportunities to develop, what elements to integrate into the system of dynamic capabilities, 2) how to develop dynamic capabilities - singly or in combination, 3) what are the most effective dynamic capabilities in the firm, 4) how dynamic capabilities can change the company's resources. Answering these questions requires an objective assessment of the firm's ability to develop and integrate certain capabilities in a way that encourages overall growth.

The main problem facing every manager is determining scope of dynamic capabilities and the relationships between the individual components. The main goal of the construction firm should be creation a unified system of dynamic capabilities and their development through the process of integrating external skills and knowledge with internal resources. Generally start-ups firms have a limited scope focused on several components of the overall dynamic capabilities design. They are seen as a simple complex of rapidly changing capabilities of the company in order to adapt to the dynamics in the external environment. In contrast, in a well-established firms on the market the scope of dynamic capabilities and the focus on them is large and wide enough. These firms have a system of all (or almost all) components of dynamic capabilities with clear links and dependencies between them, which ensures stability and resistance to external changes.

Next, it is especially important to clarify the methods, the means, the mechanism, which can be used by young and well-established construction firm on the market to create and/or develop dynamic capabilities and change the resource base. The development of dynamic capabilities in well-established firm is conscious, gradually, most often as a reaction to the actions of a competing firm, not dramatic, sharply as in new businesses. The large firm carries out a continuous process of knowledge exchange, information and integration of news based on rich experience, history, culture and values. For these reasons, learning is based experience and knowledge, and qualitative changes are focused on building and developing dynamic capabilities of higher level that change functional competencies in a way ensuring the realization of competitive advantages. However, the young construction firm, new on the market is mainly learning from mistakes, every failure is a new chance for development. The decisions that managers make are *unsystematic, unplanned, often impulsive and drastic*. The main task and purpose is to analyze existing gaps in developing dynamic capabilities and developing new ones, which is the basis the gradual building of the design of dynamic capabilities as a complete, unified system, which is a key factor for survival and corporate growth.

Research on the activity of the young construction firm proves that it has one major advantage - a short story, which does not allow the use of the experience gained and which requires a constant search for new information, knowledge and learning [13]. Such a company is more likely to improvise in its business, because it lacks rich resources, experience, and time to think and plan each decision. However, over time, if the young firm survives and stabilizes in the market, it also accumulates experience and resources, which in turn reduces the need for improvisation as a way to develop dynamic capabilities. In other words, *improvisation* is the main way to develop dynamic capabilities in the new, young company, but developing dynamic capabilities (as a result of improvisation) diminishes its role. In addition, the known fact must be added, that the manager of a young, new on the market firm has relatively limited knowledge for ongoing processes in the surrounding reality, their dynamics and the causal relationships within them. Because of that another major mode of action is the „*trial-and-error*“ principle.

The „*trial-and-error*“ principle is fundamental to the development of dynamic capabilities in a new start-up construction firm, because it allows learning and the accumulation of not just knowledge, but a knowledge system. Its application also allows for the accumulation of experience, information on actions and reactions, which can be used at a later stage from the development of the firm for similar solutions, in similar situations. By comparison, practice shows that the decisions made on a „*trial-and-error*“ basis in large, well-established construction firm on the market have a stable relative share, or decreasing trend.

In a new company, *managers make constant, spontaneous decisions to change the combination of resources used*, or take action to create new combinations of resources. In the well-established firm on the market *this process is seriously considered, conscious, planned*, provided with the necessary resources and time, which makes the final results of each decision predictable. These specific differences also determine the next difference in the means used to develop the dynamic capabilities of the “new” and “old” company.

The old, well-established construction firm with experience and knowledge often applies the *experiment method* and makes final decisions based on the comparison of different results obtained under different conditions. The young construction firm due to lack of time, resources and experience learns on the go, but over time, the accumulated information and knowledge allows her to more accurately predict results and to plan different actions and experiments. In this way, managers understand very well "what they know and what they don't know" about the relationships and dependencies in the processes of their environment, which increases their ability to experiment and develop knowledge and provides the desired corporate growth on the experiment method and very little on improvisation and „*trial-and-error*“ principle.

Another important source for building and developing the system of dynamic capabilities for all firms, both young and old, is *imitation*. In practice, most young businesses start

their own businesses with imitation of known, good practices and/or changes in known routine procedures. An effective imitation process is extremely complex and difficult. Every young construction company can use it in a short run as a means of acquiring, absorbing new knowledge, because of its relative inexperience and/or lack of knowledge. A well-established construction firm also often uses the imitation process by applying knowledge that for various reasons has been unsuccessful in other companies or due to institutional constraints imposed before. Imitation is an important tool for developing a firm's dynamic capabilities, because the lack of complete information or the relatively low initial, sunk cost incurred at the start of each activity, subsequently allow the firm to create and develop its unique capabilities and strategic assets.

In general, comparing different approaches, that the construction firm can use to build the complex and multidimensional construction of dynamic capabilities, the conclusion is that the experiment implies and requires a higher level of firm's organization and control than improvisation and „*trial-and-error*“ principle. The application of the experiment method is related with consciously and systematically defining the input variables, evaluating the results in different variations of them, and comparing the results in their different changes. Improvisation requires a change made on the go, without analysis and evaluation of all external and internal factors that influence the company processes and their dynamics. The application of the „*trial-and-error*“ principle is related to decisions, that are taken beyond certain, known limits, which means that these are unplanned activities of the firm, but they allow them to develop and apply the experiment method at a later stage. From this it is also necessary to conclude that the speed and depth of change are greater with less structured knowledge and less experience in the new, young firm, which stimulates their dynamic capacity building. The complex organization in conducting of controlled experiments, limits deep and radical changes and the development of dynamic capabilities in an established firm. *Big, radical, unexpected changes* are more likely to happen in a company that still has a poorly organized structure and that is now learning and changing under the influence of the dynamics of external factors [14]. The planned processes of changing and developing the dynamic capabilities of a large, well-established on the market firm require more time and organization and often these changes are close to the status quo, unlike the situation in young firm, where lack of experience and accumulated knowledge stimulates processes of improvisation and *trial-and-error*, and this often provides dramatic change.

In the conditions of growing uncertainty and instability of the environment in which each construction firm operates, the role and importance of dynamic capabilities in the process of adapting to these dynamics is growing. In a relatively stable environment the basic temptation and error in the activities of the well-established on the market and developed firm with history is the desire to preserve the status quo and neglecting the need for development and change, using the mechanism of improvisation, the "trial-and-error" principle or experiment. Small but evenly distributed changes to existing resource configurations can

provide them with flexibility and stability in the future and readiness to meet expected or unexpected changes in the environment. The implementation of these actions by the company (improvisation, "trial-and-error", etc.) allow the accumulation of new, valuable information and make it easier to build competitive advantages. Success is a function, above all, of the development of functional competencies under the influence of dynamic capabilities that change and reconfigure the resources of the construction firm. The main factor for the achievement of the set goals is the role of the manager and his own skills, knowledge and abilities to see the opportunities for new strategic development.

3.2.2. Influence of the organizational characteristics of the construction firm on the building of dynamic capabilities

The main organizational characteristics of the firm, which are determined by the degree of *centralization/decentralization, routine, specialization and formalization* have a strong influence on the development of the system of dynamic capabilities [15].

Centralization affects how information is collected and used, necessary for decision making and shows the level to which central management units can influence and determine the direction of corporate development. The routine shows the way in which work tasks are realized in a known, accumulated sequence and provide the desired result. Formalization shows the degree, to which various procedures, instructions and communications are known and applied in the business, a specialization allows the firm to distinguish and differentiates its activities. It is essential to analyze the way by which these characteristics affect dynamic capabilities, by hindering or stimulating their building and development.

Centralization narrows the flow of communication and communication channels, increases the time between receiving new information, knowledge, their processing and application by the competent units. Decentralization stimulates the development of dynamic capabilities and increases the propensity of the construction firm and managers to make new decisions that respond to changes in demand, customer needs and technology. Therefore, centralization hinders the process of transforming the news, both top-down and bottom-up, to the various units that have competent staff. Different employees have different competencies, knowledge, different understanding of the same information received, which increases the chances of the firm to develop successfully. Centralization limits these capabilities, but decentralization provides the development of many different alternatives, their evaluation and the choice of one. In centralized structures, a narrow circle of managers receive, process valuable information and decide which part of it to reach the various specialized units. In practice, this greatly limits the number of participants in developing strategies for development and programs for their implementation with specific measures included. Such an organization reduces the motivation of employees to actively participate in the whole process and to develop open innovation.

The centralized organization has a negative impact on the learning process, the exchange of knowledge, creativity and innovation of each individual employee, which is crucial for the overall success. The active participation of everyone in decision-making that determines the directions and future company development stimulates knowledge, and the centralization and isolation of the individual employee from this process reduces the amount and quality of knowledge that the firm can acquire and share. Limiting the functions and autonomy of individuals in making important, strategic company decisions involves fewer individuals in the process of creating new knowledge, disclosing valuable information and thus in the process of building dynamic capabilities. Centralized organization and structure limits the development, transfer of ideas, knowledge and reduces communication between individual units and their members. Under these conditions, the reconfiguration process itself is ineffective because it can be successfully implemented by well-informed, knowledgeable and competent employees about the various problems, relationships and dependencies of the various processes that take place at different levels. This specific knowledge and competence is always higher than the general knowledge and competence of senior managers. The senior management team has limited capabilities to communicate effectively and manage information flows at lower levels, which means inefficient use of human and material corporate resources and imposes a decentralization process. The indisputable conclusion is that *centralization is affecting negatively on the dynamic capabilities of the firm*, limiting their creation and development, because such an organization itself limits the number of persons involved in the scanning and analysis, the evaluation of information from the external environment, the exchange and creation of new knowledge, by integrating exterior and interior are the main, most important element of their construction. Centralization can only help speed up the implementation of decisions already taken and control over the implementation of assigned tasks.

The routine in business is associated with its ability to apply regularly predictable, repetitive patterns, which, however, often lead to inertia and delay in necessary changes. In practice, this means that employees are engaged in a limited range of tasks, which diminishes their incentives to seek and analyze new information, knowledge and linkage that may suggest new directions for development. There are slow reactions to the dynamics in the external environment, which are contrary to the goals set in the process of monitoring, analysis and evaluation. In the construction firm employees are concentrated in performing a narrow range of tasks and solving a narrow range of problems, which does not allow early identification of the need for change and reconfiguration of resources. Regardless of the known "good practices", the success of a company in building dynamic capabilities is related to its ability to apply them in a specific way different from that of competitors, and the routine definitely does not contribute to this process. This leads to the conclusion that the routine also has a negative impact on the development of knowledge and building dynamic capabilities. The realization of the same tasks, applying the same repetitive patterns, restricts employees' incentives to look for alternatives, develop new solutions and implement

them, which reduces the firm's ability to identify potential opportunities and threats from the external environment.

Formalization as a process allows new knowledge to be used and applied more quickly in business. The accumulated knowledge, skills and experience positively influence the development of dynamic capabilities, because they provide easier and faster distribution of the news to all the units and employees of the company without even identifying the source. This is an important factor in reducing internal transaction costs by reducing the time and expense of searching, collecting and processing the information you need. Formalization reduces the uncertainty of individual decisions because it allows for the constant transfer and exchange of knowledge and information. Every interested employee in the construction firm has access to a database created as a result of the accumulation of previous more or less similar situations that have been resolved in a specific way by other colleagues. All this leads to the conclusion that formalization positively influences the most important process - assimilation and analysis of information and knowledge in the company. Different information collected from different persons, from different units specialized in different fields can be analyzed and combined more effectively and at a lower cost. Formalization not only facilitates this process, but also makes it accessible to all employees of the construction firm, which is a major factor in the development of dynamic capabilities, while reducing uncertainty in making complex decisions. The experience and knowledge gained in carrying out complex, interdependent activities facilitates the process of reconfiguring resources, which means that *formalization has a stimulating and positive impact on the building and development of dynamic capabilities.*

In today's environment, research shows that success is for a firm with a high degree of **specialization**, the result of the ability to differentiate its business by developing something distinctive. Specialization means the company's ability to differentiate its offer, product in the eyes of customers. For this purpose, a clearly developed positioning strategy is needed with a developed new, modified, improved product that offers additional facilities for clients (from a specific target market) and solves their problem.

When an industry is successful, growing under the influence of increasing demand, imitation as a business strategy is attractive and successful under the given conditions. However, when demand begins to shrink, profits in the industry decline, imitation is a factor in corporate failure and specialization is needed. For each firm, it is the result of accumulating experience, learning, integrating external and internal knowledge and reconfiguring resources. All these processes make the construction company different from other competing companies and allow building competitive advantages. *Specialization has a positive impact on the building of the complex system of dynamic capabilities*, because it provides easier and faster collection, analysis and evaluation of specialized information, knowledge and their assimilation, accumulation, analysis and dissemination in all firm units and employees. Experience and specialized knowledge are an important factor in reducing the costs of building dynamic capabilities and increasing the company's

return over the long term. Specialization facilitates the development and implementation of new specific approaches and methods for reconfiguring resources and creating distinctive capabilities, which increases the overall business efficiency.

Therefore, formalization and specialization as core company characteristics have a stimulating and positive influence on the creation and development of dynamic capabilities, but centralization and routine definitely do not contribute to this process.

Organizational changes that ensure the development and reconfiguration of functional competencies in the desired direction include:

1) Creation of decentralized structure of the construction firm and development of specialization

The main characteristic of the established structure in large construction firms are centralization and routine in performing operations, which negatively affect the process of building dynamic capabilities. The process of specialization and formalization, which imply the application of „best known practices“ and facilitate building and developing dynamic capabilities. In the conditions of constant changes in the environment, in which they work, managers face one of the biggest challenges - overcoming the accumulated routine that allows the creation of a stable but aging model and its multiple applications, as well as the narrow horizon before them, as a result of established decision-making practices. Leaving the accepted schemes and models of behavior would allow them to find a new interpretation of the ongoing processes, events, facts and on this basis to predict and outline the new directions for development - creating a new product that is sought after by consumers based on the use of new technologies and offering it to new target markets defined on an effective market segmentation process. These decisions must be accompanied by clear assessments and forecasts of the reactions of competitors, customers, suppliers and government institutions that define and control product standards and general game rules.

The centralized structure implies isolation of the top-level managers from the other lower-level units, and inefficient assimilation of new information and knowledge, decision-making that is detached from the real wishes of the clients and they just have to be done by the employees. Therefore, the main tool for achieving the company's goal is to build a multi-divisional structure, which requires a modern organization of team work, simultaneously, rather than sequentially development and implementing innovation, decentralization of collection rights, information analysis and decision-making, flexible allocation of responsibilities and tasks, an effective incentive system for achieving the desired results, and so on. Establishing a decentralized corporate structure and free movement of information from the lower units to the central unit and stimulating the participation of all employees in the process of proposing and discussing ideas for improving the business activity and future development, is an important factor for reducing information asymmetry, which managers have and the opportunity to analyze and evaluate more alternatives. The process of decentralization should be carried out in parallel

with the process of integration, cooperation, which ensures economies of scale and scope. This is a difficult activity, however which provides the necessary basis for developing the dynamic capabilities of the construction firm and performance.

2) Creating the necessary coordination within the construction firm, in order to reduce the contradiction between different entities, and reconciling the different goals of different groups, and of the company as a whole. In modern business organizations this can be realized by building *internal integrated systems for motivation and incentives*, which leads to a decrease in opportunistic behavior and support the creation of a corporate identity, culture and loyalty. The process of learning, assimilation, dissemination and integration of external and internal knowledge is realized through the qualification of the staff, which is the main factor for its stimulation and motivation over a long period. The aim of every company management is to create an excellent team of professionals with experience, knowledge and skills. Every business should strive not just to the learning of personnel and the need to start it before they enter the direct business and participate effectively in the work. Proper selection, learning and development of the necessary competencies of workers and managers, the development of special skills for working in different units, as well as the creation and management of working teams specialized in various functional activities, allows successful completion of tasks and realization of company goals.

The establishment of an effective system for planning, selection, integration, development and management of personnel should be implemented through a targeted policy of hiring highly motivated managers, specialists and workers, proven professionals in various fields. Investments aimed at learning, developing and objectively assessing individual contributions provide high quality results. In the opinion of the surveyed managers, it is especially important to create a modern corporate culture, develop a modern social policy in the construction firm, which includes appropriate methods, monetary and non-monetary measures and incentives for increasing the motivation of the staff to participate in the processes of monitoring, evaluation, learning and integrating external and internal knowledge and information.

All of these actions, combined with the maintenance of permanent links between the firm and universities, research institutes and units, are key factors for stimulating the initiative, innovative thinking that can ensure active participation of everyone and the implementation of any valuable idea in the process of building dynamic capabilities of second- and first level and reconfiguring resources.

Management changes that ensure the development of functional competencies require improving the relationships between management and all company units, which allows for an efficient process of reconfiguring resources. Completing this task requires effective coordination. In a static environment, managerial actions are carried out in direction "top-down". In a dynamic environment, the basis for success is the active involvement of all entities and units

in the construction firm in the direction of "bottom-up", which ensure the adaptation and coordination of internal resources and competences to external changes through the development of intangible assets, which in turn exert a backward influence and develop tangible assets.

The role of the leader in making quality managerial decisions, motivation and creating incentives for the employees in the company in order to achieve the set goals is extremely important. Each management process has two components: 1) monitoring, researching and deciding how to use the company's resources, and 2) thinking, organizing, and developing solutions that do not require resources, and sense and proper management perceptions. In other words, the ability of managers to manage effectively, deliver business growth and build competitive advantage in a given market is a function of their ability to complete the process of integrating, coordinating and reconfiguring the company's resources, which in turn is a function of managerial ability for proper and accurate analysis of environmental dynamics and assessment of development opportunities.

Large construction firms have significant amounts of accumulated assets, with high price and maintenance costs, which logically puts for managers first in their care, protection and efficient use, which in turn reduces the propensity to innovate in new assets and replace the old ones. This often creates obstacles for managers to see the potential opportunities they face through developing new radical innovations, generating new knowledge and changing the business model used. From this point of view, it is logical to conclude that the construction firms with less resource availability have less potential threat of loss and therefore are more courageous in making decisions for development of innovations, creation of complementary products, construction effective vertical links or alliances with other firms, which increases their development opportunities.

Reconfiguration of functional competencies that are directly related to the specific production activity of the firm is the result of the development of dynamic capabilities. *Operational management* implements the activity of order entry, organization of production, distribution, to ensure timely deliveries in the required quantity and quality, payments with suppliers and customers, control over finances, stocks, marketing and advertising activities, which activities are related to the functional competencies of the company.

Despite this wide range of activities, the responsibilities and functions of operational management *exclude the need to monitor and analyze technological and market changes* in the external environment, changes in demand and behavior of competitors, which are the basis for developing an effective company strategy based on the development of product and/or process innovation. Therefore, even if a construction firm has significant assets (resources) and functional competences, if it does not develop its dynamic capabilities, it can only realize short-term competitive advantage based on realized operational efficiency, the result of already gained positions, established reputation in society and customer loyalty, in the face of increasing demand or

with a defense system in place against competitors. Without building dynamic opportunities, the company will work on the same scale, will produce the same product, will sell it in the same way on the same market, to the same customers, which limits its ability to develop and build competitive advantages.

4. Conclusion

In the study, the author aims to analyze the influence of the specific characteristics (age, history, value, culture, capacity and organization) on building dynamic capabilities in a construction firm.

Dynamic capabilities are defined as: 1) the ability of a firm to carry out specific activities in a specific way, function of capacity and above all managerial skills, perceptions, which must ensure successful change and adaptation of resources and functional competencies, 2) specific organizational process related to the selection and creation of new synergistic combinations (reconfiguration) of firm's resources and assets. This process is uniquely embedded in the overall business organization, which makes it difficult to imitate and for substitution, i.e. the firm creates a strategic resource.

The analysis and the conclusions made by the author, allow to develop a model of the dynamic capabilities of the firm, which includes the indicated general characteristics (good practices) and their connections and dependencies with the functional competencies. The starting point in the whole process, common to all companies is the analysis of changes in the environment, assessment of development opportunities, the need to acquire new knowledge, learning, integration and coordination in the firm, which will ensure reaching the end point of this chain - reconfiguration and evaluation of the final results.

These general characteristics of dynamic capabilities are applied specifically in different firms, because they differ in their history, experience, knowledge, routine, specialization and have different organizational characteristics. In each specific company, specific solutions are developed and specific methods, approaches, analytical procedures and routine actions are applied in order to build the system of dynamic capabilities and its integration into the overall organizational structure. The ability of the manager to find the best synthesis and balance of the general characteristics of the dynamic capabilities with the specifics of the firm he manages allows the creation of a strategic resource, difficult to imitate and replace by competitors. This is the condition for maintaining a competitive advantage in the conditions of constant dynamics of the environment in which it operates.

The study shows that large, well-established construction firm have a build system of dynamic capabilities that includes all (or almost) components. The goal of managers is using their experience, knowledge and established analytical procedural system to constantly identify changes in the environment, to analyze possible alternatives for development and to develop competitive solutions with which the company can successfully adapt to change. These decisions are related to the investment, innovation process,

the development of a new product, entering new markets, the process of integration, cooperation with other companies, diversification or deepening of the firm's specialization and more. The implementation of the decisions taken requires searching for new configurations and reconfiguration of existing resources. All these purposeful activities require and impose organizational and managerial changes of the firm, such as creating an effective decentralized structure and coordination. However, the experience, routine, success and good market position lead to complacency or growing anxiety about failure and loss. With drastic changes in the external (as well as internal) environment, this inaction and underestimation of the problems can lead to additional high costs and unpredictable results. It is necessary not only to build a system of dynamic capabilities, but to implement constant and consistent changes, improvements that preserve the competitive advantages.

In new, start-ups construction firm, building a system of dynamic capabilities depends primarily on entrepreneurial skills and management activities that focus on the development of adaptive, absorptive and innovative capacity. Their development allows the absorption and assimilation of new knowledge and information, which is the basis for product development, process, successful positioning and setting strategic goals. All this in general allows the new start-up construction firm to successfully adapt to the dynamics of the external environment, which in practice means building dynamic capabilities. Young companies learn on the go, applying „trial-and-error“, improvisation and imitation. Spontaneous, unplanned decisions of managers, lack of experience and routine, however, can allow them to implement large, radical changes that provide a competitive advantage. Over time, the development of the construction firm allows the accumulation of experience, knowledge, routine, effective relationships with external entities, which expands its functional competencies, resource base and develops its dynamic capabilities.

In general, comparing the different ways, approaches that construction firms use in order to build a complex and multidimensional construction of dynamic capabilities, it can be summarized that the experiment implies and requires a higher level of organization and control compared to improvisation and „trial-and-error“ principle. In a dynamic environment, formalization and specialization as the main company characteristics have a stimulating and positive impact on building and developing dynamic capabilities, and centralization and routine definitely do not contribute to this process.

Building dynamic capabilities in the construction firm should be a long-term goal as a result of constant monitoring of changes in the external environment, evaluation of alternatives for development and learning. The implementation of the decisions taken is carried out through a specific process of integrating and coordinating knowledge and creating a new effective combination of resources that ensure the reconfiguration and adaptation of functional competencies to the new conditions.

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