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Restructuring Strategy for Construction Companies through RBV Theory

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ABSTRACT: *Recent economic recession has a huge affect on the construction industry, more than many other industries. In response to market conditions, construction companies hit by financially disastrous time and cost overruns. It is imperative for these companies to be prepared in every sense. Thus managements of these construction companies have to search for restructuring strategy for their survival. In order to cope up with prevailing crisis construction companies advocating decrease in their manpower resources. Further, they don't recognize the importance of employee's idiosyncratic capabilities, proprietary construction processes and equipment that cannot be obtained in the factor markets. Even though construction sector is in critical situation it has enormous future growth potential. Reducing employee's strength cannot be a remedy to present crisis. An attempt is made in this paper to develop the restructuring strategy based on theory of Resource Based View. The strategy proposes to exploit manpower capabilities of company to grab the future opportunities. The aim of the paper is to build capacity and a core competency based on Resource Based View that will induce competitive advantage and build market share of the construction companies. Resource Based View approach emphasizes the organizations own set of resources and capabilities' as a determinant of competitive advantage.*

1. INTRODUCTION

The recent recession has affected all crucial sectors of Indian economy. This economic recession has a huge affect on the construction industry, more than many other industries. The construction industry has seen a reduction in the demand for new constructions. The biggest decline was recorded in house building, with the infrastructure and commercial sub-sectors also falling at record levels during 2008. Construction companies are in financial straits, and their stock market prices have crashed.GMR infrastructure lost Rs.94 crore in the April-June quarter. GVK projects lost Rs.64 crore in the same quarter. Hindustan construction suffered a staggering loss of Rs.222 crore in 2011-12. Other construction companies have also suffered. So equity and debt markets have lost faith in Indian construction companies. Economic forecasting Data firm Experian has reported construction output dropped by 4% in 2012 following a 3% drop for 2011. The firm has revised its figures for growth in 2013 down from 5% to 4% between its winter and summer forecasts. In response to market conditions construction companies hit by financially disastrous time and cost overruns. It is the fact that the sustainability of the construction companies is at risk in times of recession. It is imperative for these companies to be prepared in every sense. Thus managements of these construction companies have to search for restructuring strategy for their survival. Many of these construction companies sought reducing their employee's strength as an urgent measure to come out of this strait.

Without highways, ports, airports, rail links, townships and pipelines economy cannot grow. The 12th plan (2012-17) projects a trillion dollars investment in these projects. So even though construction sector is in critical situation it has enormous future growth potential. Reducing employee's strength cannot be a remedy to present crisis. Employees of construction companies have developed many construction processes in house. Some of the best practices in construction are pioneered by manpower which has to face termination. In spite of reduced employee strength and many other costs reducing measures profit margin of most of the construction companies reduced from 25% to -5% during the last three years. Hence restructuring of construction companies is required for not only to withstand present crisis but also for the forthcoming upturn that is inevitable in order to take full advantage of the situation. An attempt is made in this paper to develop the restructuring strategy based on theory of resource based view. The strategy proposes to exploit manpower capabilities of company to grab the future opportunities. The aim of the paper is to build capacity and a core competency based on RBV that will induce competitive advantage and build market share of the construction companies.

2. RESOURCE BASED VIEW (RBV) THEORY

The central theme emerging in the strategic management resource-based literature is that privately held resource is a basic source of advantage in competition [1].The Resource Based View (RBV) theory emphasizes the internal resources of the organization in formulating strategy to achieve a sustainable competitive advantage in its markets [2]. If the organization is seen as made of resources which can be restructured to provide it with competitive advantage then it's perspective does indeed become inside out. In other words its internal capabilities determine the strategic choice it makes in competing in its external environment. In some cases an organization resources may actually allow it to create new markets and value for the customer. In this paper the strategy to restructure the construction companies is proposed in the context of the RBV theory. Strategy proposes how companies can develop resources in pursuit of better performance and competitive advantage. Present strategies adopted by construction companies to sustain recession differ from the RBV theory in several respects. In order to cope up with prevailing recession construction companies advocating decrease in their manpower resources. Further, they don't recognize the importance of employee's idiosyncratic capabilities, proprietary construction processes and equipment that cannot be obtained in the factor markets. Instead, proposed strategy explores the characteristics of successful innovations' impact on performance, and points to an important role for learning, and organizational factors. These concepts are consistent with the RBV emphasis on tacit knowledge and learning as criteria necessary for achieving sustainable competitive advantage.

The RBV first posited in the literature by Wernerfelt [3] is built upon the theory that a company's success is largely determined by the resources it owns and controls. Barney is generally acknowledged as the first to formalize the resource-based literature into a comprehensive theoretical framework [4]. In his 1991 article, Barney argued that firms that possess and exploit resources and capabilities that are valuable and rare will attain a competitive advantage. Barney further reasoned that these advantages will ultimately manifest in improved performance in the short term. The RBV is a way of viewing the firm and in turn of approaching strategy. This theory was further popularized by Hamel and Prahalad in their book "Competing for the Future" [5]. Today, the RBV is considered to be one of the most widely accepted theories of strategic management. RBV has gained, in the last decade, prominent attention in the field of strategic management as well as in economics, organization theory, and even other fields (e.g. intellectual capital).

The resource-based view assumes that resources, are heterogeneously distributed among firms and imperfectly mobile. These assumptions allow not only for the existence of differences in company resource endowments, but also for these differences to persist over time. Based on these assumptions, RBV scholars hypothesize that

(1) If a firm and exploits resources that are both valuable and rare, it will attain a competitive advantage,
(2) If these resources are also both inimitable and non-substitutable, the firm will sustain this advantage, and
(3) the attainment of such advantages will enable the firm to improve its short-term and long-term performance

3. CHARACTERISTICS OF STRATEGIC RESOURCES

The literature argues that firm resources can be important factors of sustainable competitive advantage and superior firm performance only if they posses certain special characteristics. According to Barney (1991), if a resource or capability yields the potential to enable a firm to reduce costs and/or respond to environmental opportunities and threats, it is valuable, and to the extent that a firm is able to effectively deploy such a resource, it will attain a competitive advantage. Barney reasons that firms are unlikely to achieve these ends if the resources and capabilities they exploit are widely held. Instead, competitive advantage likely derives from the exploitation of resources that are rare, or possessed by some number of firms in an industry that is small enough to prohibit perfect competition. He identified the following as the key characteristics for a resource to be strategically important:

• Valuable – There is no point having a resource if it does not deliver value to the firm.

• Rare – Resources that are owned by a large number of firms cannot confer competitive advantage, as they can not deliver a unique strategy vis-à-vis competing firms.

• Inimitable – Resources can only be sources of sustained competitive advantage if firms that do not possess these resources cannot obtain them.

• Non-substitutable – There must be no strategically equivalent valuable resources that are themselves neither rare nor inimitable.

While resources can be purchased, it is generally argued that to achieve strategic advantage from a resource it needs to be developed internally [6]. Internal development of resources, however, can take long periods of time and is often unclear how to proceed. In a sense it is this uncertainty, opaqueness and development duration that adds to the potential sustainability and value of the resource once it is developed. One particular resource that is being increasingly viewed as important strategically is knowledge.

Resources are typically defined as either assets or capabilities. Assets, which may be tangible or intangible, are owned and controlled by the company. Capabilities are intangible bundles of skills and accumulated knowledge exercised through organizational routines. RBV's main prescription holds that only resources that are valuable, rare, inimitable and non-substitutable are capable of generating and sustaining competitive advantage which affords the accrual of superior performance. Such resources are considered to be strategic resources. Some authors make a distinction between resources and capabilities where in capabilities refer to skills based in human competencies and resources refer to all other assets [7]. In this paper the term resources broadly refers to both resources and capabilities.

Resources can be categorized as Tangible resources and Intangible resources. Tangible resource refers to physical assets that an organization posses. These resources include those factors containing financial or physical value as measured by the firm's balance sheet and they are well defined. Intangible resources, on the other hand, include those factors that are non-physical (or non-financial) in nature and are rarely, if at all, included in the firm's balance sheet. Surprisingly, although several classification schemes exist for intangible resources, virtually no theoretical guidance has been offered to determine how to classify intangible resources or why they should be classified or categorized in any certain way. Overall resource portfolios of companies that are likely to contribute more significantly to building Construction Company's success are listed in the table 1.

Table No.1: Typical Resource Portfolio for Construction Company

Resources		**Description**
Tangible Assets	Physical assets	Raised financial capital
		Cash on hand
		Financial investments
		Buildings and Land
Intangible Assets	Intellectual property assets	Held-in-secret technology
		State of art equipment
		Construction Process
		Trademarks
		Designs
		Patents
		Copyrights
	Organizational assets	Contracts
		Operating structure
		Culture
		HRM policies
	Reputational assets	Company reputation
		Customer service reputation
		Product/service reputation

Intangible Skills	Capabilities of employees	Manager expertise
		Employee know-how
		External relationships

Company's competitive advantage is a function not only of the value, inimitability, and non-substitutability of its resources and capabilities (indicative of traditional RBV logic), but also of their durability, appropriability, and superiority. Although the resource-based literature describes resources in terms of various special characteristics, differences in the attainment of success levels between firms are cumulatively attributed to the height of resource position barriers or barriers to duplication. Therefore, to look to the relevant sources of company success—those resources that may resist competitor duplication. It is here argued that the management must turn its attention to resources that are intangible in nature as such resources can be protected from competitor duplication by legal property rights. Intangible assets such as copyrights, patents, registered designs and trademarks are all afforded legal protection through property rights. Such legal protection can create barriers to competitive duplication. Other forms of intellectual property include held-in-secret technology. Held-in-secret technology— technology specifically developed to fit the company's unique strategy and particular business model—can lead to unique, socially complex and context specific assets that may be difficult for competitors to understand let alone duplicate. Given their legally enforceable protection or held-in-secret standing, intellectual property assets are argued to be more difficult to duplicate than tangible resources.

Intangible assets have also been argued to be strong contributors to firm success by virtue of their inimitable properties. Findings in the literature largely confirm that intangibles such as organizational and reputational assets do contribute more significantly to firm success than tangible assets. However, findings in the literature also suggest that tangible assets contributed more to firm success than intellectual property assets.

4. CORE COMPETENCIES

According to RBV theory, if resources can be readily obtained in the factor markets or can be easily imitated by competitors, they cannot represent a meaningful source of economic benefit. Such is the case, according to most (but not all) scholars, with tangible resources [8].If, in theory, tangible resources can be readily purchased by any number of competing firms in the factor markets or can be easily imitated by competitors, it may be expected that resources other than tangible ones will contribute more significantly to firm success and are termed as core competence. Thus core competence can be thought as cluster of attributes that an organization possesses which in turn allows it to achieve competitive advantage. Therefore, construction firms attain those competences that may resist competitor duplication. The manager must turn attention to resources that are intangible in nature to build strategic capability. For the company, three normative implications arise:

1. Organizational assets, such as culture, human resource management policies and corporate structure can significantly impact on a company's success. Such assets should be carefully planned and developed, particularly with respect to their synergistic impact on the development and utilization of firm capabilities.

Organizational assets may also be intangible assets that can resist the duplication efforts of competitors. For example, contracts (e.g. franchise agreements, licensing agreements) can be one of the most important resources for some companies. Because contracts are legally enforceable by law, they may prevent competitors from replicating the benefits derived from such agreements. Likewise, other organizational assets such as culture, human resource management policies and organizational structure may be difficult to duplicate as well. Management must turn its attention to such resources whose accumulation over a period of time represent high levels of asset specificity.

2. Reputational assets are among the most important the company can develop. Logically, a good reputation leads to positive performance, both financially and socially. Strategic efforts aimed towards building and maintaining a good reputation is essential in the management of company's resources.

Marketing scholars have particularly emphasized the impact of the intangible asset reputation on firm success. Largely, reputational assets, in its various forms, "summarize a good deal of information about firms and shape the responses of customers, suppliers, and competitors". Similarly, as signaling theory suggests, reputational assets can inform external constituents about the trustworthiness, credibility and quality of the firm. Therefore, reputational assets can be key drivers of external constituents positive reactions toward a firm vis-à-vis its competitors, thus positively impacting on firm success. Reputation is built, not bought, suggesting that it is a non-tradable intangible asset that may be much more difficult to duplicate than tangible assets.

3. Tangible assets may still have a viable place in the performance of company. Company should able to generate high value-in-use of financial or physical assets which may indeed be able to leverage such assets for competitive advantage while creating barriers to duplication.

Proprietary processes and equipment includes equipment protected by patents as well as unpatented processes and equipment held in secret. It also includes state of-the-art equipment and construction processes that have been developed exclusively by the firm. Focus should be on competitive assessments of production processes of the construction plant as a whole, and the degree to which production processes are proprietary.

5. CAPABILITY AS CORE COMPETENCY

The RBV's main prescription focus on that only resources that meet certain special characteristics are capable of generating and sustaining firm success. Capabilities, for example, are argued to be the highest order and most important of a firm's resources due to their high levels of casual ambiguity and strong barriers to duplication. Capabilities contribute more significantly to firm success than either intangible or tangible assets. Hence proposed strategy suggests that the company actively seeks to develop their knowledge base, both in the development of human capital and the processes and systems that enable the development, management and transference of tacit and explicit knowledge across the organization and with external constituents.

Capabilities are argued to be the preeminent sources of firm success. Here it should be remembered that the success of any firm is solely dependent upon the knowledge, or know-how, of its employees. The generation of firm performance is critically linked and highly related to the skills, expertise and know-how of managers. Know-how generates more durable advantages than any of the other resources of the firm because it is largely complex, specialized and tacit.

Capabilities in functional areas of the company, such as house construction, contribute to the development of deployable resources for the firm. Their positive contribution to performance may also confer advantages compared to competitors, alone or in combination with resources in other functional areas. Defining the concepts necessary for housing process innovations to contribute to competitive advantage when competitors are also engaged in the adoption of similar process innovation is an important issue addressed in this proposed strategy

Other capabilities include the relationships established and maintained with external constituents (e.g. customers, strategic partners), which are largely reflective of the knowledge sharing and learning ability of the firm and the interactions between management and employees and between personnel and tangible assets). Such interactions should comprise of operational routines and should become knowledge- based flows embedded within the company. Routines should carry out tacitly by individuals and across teams and, therefore, should act as a critical facilitator of what the firm does and how it does it. Here it should be remembered that capabilities are tacit in nature because they are inextricably embedded in organizational experience, learning and practice. Therefore, capabilities are said to be the most difficult resources to duplicate due to the highest levels of causal ambiguity. It is here acknowledged that the RBV literature tends to favor capabilities as the highest-order of all resources, and the most important contributor to a firm's success. It is expected that management give top priority to develop capability among employees of company.

6. LEARNING IN STRATEGY DEVELOPMENT

The role of learning and knowledge generation within the construction organization is to generate proprietary construction process and equipment. Proprietary processes and equipment are thus created through a process of path-dependent problem solving and they mediate between learning and performance. Learning, by itself, will not provide superior performance, but must be embedded in a tangible process or equipment for superior performance to occur. Learning is the only source of sustainable competitive advantage. Learning before doing should be the part of strategy. The concept of learning within the organization builds on the RBV focus on privately held knowledge.

Strategy should be focused on internal and external learning in order to create a valuable resource, proprietary processes, and equipment. This line of thinking is extended by examining the ability of company to build idiosyncratic capabilities in construction sector that cannot be easily duplicated and have no ready substitutes. To confer competitive advantage, capabilities must not be possessed by all competing firms, they must be difficult to imitate or duplicate through other means, and contribute positively to performance. Internal

Learning includes the training of multifunctional employees and incorporating employee suggestions into construction process and product development. These practices lead to an adaptable work organization, the performance impact of which is often underestimated. Learning may occur in an unpredictable and sometimes haphazard way that is difficult to codify

The capability to develop proprietary construction processes and equipment through internal and external learning within the company is associated with competitive performance. The development of construction processes in the context of the RBV by explicitly addressing the potential for a firm's processes to differ from competitors and to incorporate incremental, privately developed process innovations should be part of the strategy for company. By pursuing a specific sequence of improvement initiatives construction companies can develop ability in construction processes with an expanding set of capabilities. Capabilities or competencies based on specific construction process innovations have the links to the ability of the organization to achieve low costs, high flexibility, dependability, and quality.

The development of idiosyncratic processes within company, for specific construction project, rather than across the potentially disparate construction processes of an entire business should form strategy. Construction processes can play an important role as a potential resource, and emphasize the role of human and organizational factors in creating competitive advantage. Resources such as proprietary construction processes and equipment may be difficult to imitate in the short term and are subject to causal ambiguity if they result from an iterative process within the firm.

External learning also occurs through long term relational contracting with suppliers. This can take many forms, including supplier input into new product or process design and supplier involvement in quality and in continuous improvement practices and routines. The capabilities inherent in situated learning should result in idiosyncratic construction processes, including proprietary process technology that confers competitive advantage.

Construction practices adopted by imitating world-class construction firms may contribute to competitive parity but not to competitive advantage. Some construction companies may have built a potentially sustainable competitive advantage through building capabilities that generate idiosyncratic learning, and construction processes that lead to a performance advantage. Such learning and processes would not, and indeed by their idiosyncratic nature could not, be prescribed for every construction firm.

7. CONCLUSIONS

In order to cope up with prevailing recession construction companies advocating decrease in its manpower resources. Many companies neglect the role of one of the most important internal resource i.e. their own manpower in restructuring their organization. This paper identifies how construction companies might achieve core competencies and distinctive capabilities through employees based on the philosophy of RBV theory. In literature it is agreed that RBV represents a leap forward in strategic management even though it says very little on the issues of how resources can develop and change over time. It has clear links and complimentary to other theories of strategic management.

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