



27th IPMA World Congress

International Marketing Strategies for Croatian Construction Companies

Lana Lovrenčić Butković^a, Dražen Bošković^b, Mariza Katavić^{a*}

^aUniversity of Zagreb, Faculty of Civil Engineering, Kačićeva 26, 10000 Zagreb, Croatia

^bUniversity of Rijeka, Faculty of Civil Engineering, R. Matejčić 3, 51000 Rijeka, Croatia

Abstract

The rapid trend of globalization and technological changes have made difficult for construction organization to survive in the competitive world. Particularly, the actual global economy crises have the very strong impact on a construction sector, especially in developing countries such as Croatia. A performance of Croatian construction companies at the international markets are very low and represent a serious problem for the entire Croatian economy. So the importance of international marketing operations increasing rapidly. International marketing strategies are not the same as the domestic strategies, but if Croatian construction companies develop and establish a good international marketing strategy, their success at the international markets could be much better. This paper elaborates modes of international strategies and will try to find out which of them are specific for Croatian construction companies.

© 2014 The Authors. Published by Elsevier Ltd. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).
Selection and peer-review under responsibility of the IPMA.

Keywords: Croatian construction, international marketing, marketing strategies

1. Introduction

A moment comes in the work of every company when it begins to examine the possibility of conquering new markets. Motives for the internationalisation of business operations can differ. According to Kotler (1999), they include: the possibility of increasing sales, greater resource accessibility, securing several markets for products sale and resource acquisition.

* Corresponding author. Tel.: +385-1-4639-200; fax: +385-1-4639-200.
E-mail address: llovrencic@grad.hr

Under normal conditions of the equal rights and equality of all countries, internationalisation is a useful way of achieving greater closeness and cooperation among peoples and states; it facilitates traffic and communications, speeds up general development and gives an important impulse to world globalisation and integration (Economic Lexicon, 1995). Internationalisation simply means spreading economic activities outside the boundaries of the home economy, which gives rise to quantitative changes which, in turn, lead to a more extensive geographical organisation of economic activities.

Research into the internationalisation of construction companies is becoming increasingly important, both in the academic community and in construction practice. Existing research results show a variety of problems facing construction companies in the internationalisation of their operations, and potential strategies have been designed for construction companies entering international markets.

David Crosthwaite focused on the process of construction company internationalisation, especially in Great Britain. In his paper Crosthwaite (1998) showed the results of empirical research into the internationalisation of British construction companies between 1990 and 1996, with emphasis on the geographical characteristics of these companies' foreign business activities. He showed that most companies preferred to seek opportunities on developed markets as opposed to developing markets because of the secure environment and low level of corruption on mature markets. In 1996 Ofori developed a conceptual model proposing how international and local construction companies, together with the state administration, may achieve common benefits in various stages of the development of construction activities in particular countries.

Furthermore, Ranko and Crosthwaite (2001) showed that the most attractive construction markets at the beginning of the 21st century are China, USA, Singapore, Germany, Poland and Russia. Chen (2008) researched the influence of host country related factors on the choice of business strategy for entering international construction markets.

The basic characteristic of construction operations is that they are project oriented, and construction companies make a go/no-go decision on the internationalisation of activities on a particular project on a targeted new market (Han and Diekmann, 2001). Once the company management has taken the key decision to enter a foreign market, it faces an even greater problem. This is the choice of the optimal international project management strategy.

2. International Marketing Strategies

Accelerating globalisation and technological changes place great obstacles before companies that want to survive in the competitive world, and this is especially so in the construction industry. It is difficult to face the challenges of today's international construction system unless companies are more agile, adaptable and effective (Drewer, 2001).

Just as construction activities are the moving force of every national economy, so too is international construction an important part of the global economy. International construction operations can be observed through construction projects where a company, seated in one country, performs construction works in another country (Mawhinney, 2001). However, as construction activities are specific and differ from other activities, the definition of international construction is much more complex.

The internationalisation of the construction market went through drastic changes during the last several decades, enabling domestic companies to compete on international markets. Efficient and strategic international project

management enables a company to successfully compete on international markets and is the most comprehensive framework for achieving the basic company aims (Griffin and Pustay, 2007).

The company management chooses the strategy for entering the international market, and this depends on the company product, the technology at its disposal, personnel qualifications, the management itself and other resources (Root, 1987). This choice of strategy is considered the most critical decision of international marketing because it determines how the company will position itself on the international market (Terpstra, 1987).

The company moves forward into conquering foreign markets by defining and implementing one of the possible strategies at its disposal. After making the decision to enter a foreign market, the company may choose between: export (direct or indirect), contractual methods (such as licensing or franchise), direct foreign investment (joint venture or founding a daughter company) (Erramilli and Rao, 1990) or something else.

Previšić and Došen (1999) proposed three basic groups of strategies for entering foreign markets: simple or classical (export and import), medium complex strategies of international business cooperation (licences, assembling, cooperation, contractual production, franchising etc.) and complex strategies (joint or own companies abroad). Kotler (1999) describes how every strategy for entering a particular market also includes different obligations, risks, controls and profit opportunities (Figure 1)

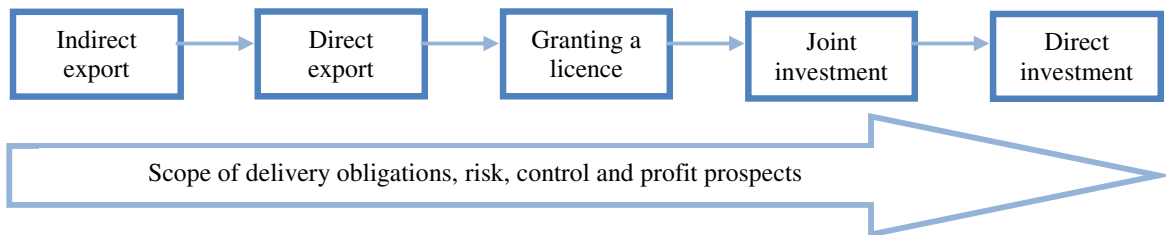


Fig. 1. Five ways of entering foreign markets[†]

Construction is generally known as an activity with many specific features which differs from other industries, whereas most research to date and knowledge about foreign market entry strategies refer to production companies. Only a small number of researchers have touched on the internationalisation of construction companies. For example, Low and Jiang (2003) focused on the internationalisation of Chinese construction companies. They proposed a structural index of 5 factors identifying “truly global” companies: 1) ratio of foreign and total income,

[†] Source: Kotler, P. (1999) “Upravljanje marketingom: Analiza, planiranje, primjena i kontrola” (Marketing Management: Analysis, Planning, Application and Control), *Informator*, Zagreb, p. 522.

2) degree of international distribution, 3) foreign managerial structure, 4) participation in specialised fields and 5) general internationalisation index.

Gunhan (2005) developed a foreign market entry decision model for construction companies, which can also be used for other industries. The model consists of two steps: in the first step the company, on the grounds of a SWOT analysis, makes the decision about whether it is ready to enter foreign markets, and if it finds that it is, it compares the gains and losses. If the gains exceed the potential losses, the company chooses a business strategy for entering foreign markets. Cullen (2002) proposed a decision-making matrix that takes into account all the available foreign market entry strategies.

Construction companies respond to today's extremely competitive environment and increasingly sophisticated demands in construction by using strategies such as acquisitions, mergers, joint ventures, licenses and product/service development (Gunhan, 2005). Presence on foreign markets can be established by founding branches or merging with domestic companies (Low, 1996). According to Gunhan (2005), construction companies find three kinds of strategies the most suitable for entering foreign markets: turnkey contract, joint venture and own daughter-company.

However, it was Chen (2005) who focused most on the choice of strategy for entering international construction markets. On the grounds of a case study of 94 construction companies on the international construction market, he divided strategies in two basic groups: permanent and temporary, and within these two groups he classed seven strategies characteristic of construction companies. These are: joint venture project, solo venture project and BOT (Build-Operate-Transfer) as temporary strategies, and representative office, branch office, joint venture company and solo venture company as permanent strategies.

Table 1. Business strategies for entering international construction markets

Temporary Strategies	Joint venture project	Joint investment on a project basis, also called <i>contractual joint venture</i> . Profit and other obligations are determined by contract for each party and last only for the duration of the project.
	Solo venture project	Own investment on a project basis, the company independently submits a tender or independently undertakes the project in a foreign country.
	BOT (Build-Operate-Transfer)	BOT is a system of financing the construction of infrastructure facilities (<i>Project Finance</i>). Private sponsors take responsibility for financing and constructing, maintaining and managing the infrastructure facility during a determined time period. They cover their investment by charging user services on a concession basis.
Permanent Strategies	Representative office	A formal company that performs business activities in a foreign country in the name of the management.
	Branch office	Part of a domestic company that performs business activities in a foreign country, but does not have legal status.
	Joint venture company	Created by the joint investment of two or more companies, at least one of which is outside the host country of the joint venture.

Solo venture company	A company's own investment in a completely new company in a foreign country. The most complex and most expensive strategy for entering foreign markets.
----------------------	---

3. Croatian Construction Abroad

Construction activities have always been closely connected with the social and economic activities of every country. Thus it was one of the stronger moving forces of economic growth in past years in the Republic of Croatia, in the former countries of Eastern Europe, the former Soviet Union and in lands of the Middle East. Until the late 1980s, Croatian construction companies participated successfully both on the domestic and on foreign markets, especially in the Middle East, but after Croatia gained independence its construction companies are unfortunately no longer accomplishing significant business results on foreign markets.

After the Republic of Croatia became an EU member state, its construction sector became an important part of the global economy. Increasingly the need is being felt for Croatian construction companies to extend their operations to foreign markets. The global economic crisis, which also affected Croatian construction, resulted in the stagnation of the sale of properties, decreased investment in market centres and business premises and cuts in infrastructural projects, and Croatian constructors are not facing an optimistic future. New possibilities could be found in turning to the regional markets where new infrastructural projects are being planned, but data about works carried out abroad so far suggest that this will not be simple.

Croatian construction companies have enough knowledge and experience to carry out the most demanding export projects on foreign markets. According to data of the Croatian Chamber of the Economy for the last five years, exports grew from US\$128 million in 2007 to US\$330 in 2011. Although it is growing continuously, the export of construction projects is still only about 15% of the income Croatian construction made in the times before the crisis. The Croatian Chamber of the Economy assesses that Croatian construction companies should aim to make least 30% of the total value of their works abroad.

Croatian construction companies could realise this goal by opting for some of the international marketing strategies used by construction companies and submit tenders for international projects in the following fields:

- Civil engineering
- High-rise construction
- Water management
- Constructing gas and water supply installations, sewerage and other pipelines
- Making communication and energy transmissions lines
- Water protection and kindred public utility activities

4. Conclusion

A lot has been said about the construction industry and project management in construction. Their specific features and influence on entire national economies are indubitable. The complexity of the construction market, and satisfying the needs and desires of buyers, is a great challenge for all the participants in this activity. An additional

problem is the global crisis, whose effects are still felt in all the segments of the economy, and especially in Croatian construction, whose growth of many years has been stopped.

Through the construction of motorways, bridges and railways, companies were encouraged to carry out most of their work on the domestic market, thus neglecting the much more complex and demanding entry into foreign markets. The great infrastructural projects at home, the construction of motorways, have now ended and work remains on maintenance, repairs, reconstruction of what has been built and small investments in the local infrastructure.

We can, therefore, ask about the positioning of Croatian construction companies on the global construction market? Many of their projects will be affected in the first place by the accession of Croatia to the EU, and also by the entry of European companies on the in any case small Croatian construction market.

However, research carried out in 2009 shows that Croatian construction companies are aware of the need for marketing in the construction industry, and that they would find it easier to enter foreign markets if they used marketing activities (Lovrenčić and Katavić, 2009).

Croatian construction companies should submit tenders in countries in which they could be project bearers and where they could predominantly use their own highly-qualified personnel. For some work on projects, requiring lower complexity, they should plan to employ the local workforce of the host country. Croatian construction export should concentrate on civil engineering projects, more precisely motorways, because of the extremely good business results in the last ten years (HGK, 2012).

Entering foreign markets with a well-defined business strategy and well thought-out marketing strategy should be the essential factor of successful project management by domestic construction companies on the large global market.

References

- Analiza izvoza mogućnosti hrvatskog graditeljstva (Analysis of the export options of Croatian construction), HGK, Zagreb, <http://www.hgk.hr/sektor-centar/sektor-graditeljstvo-komunalno/projekt-izvoz-graditeljstva>, 25 March 2013.
- Chen, C. (2008) "Entry mode selection for international construction markets: the influence of host country related factors", *Construction Management and Economics*, March 2008, p. 26.
- Crosthwaite, D. (1998) "The internationalization of British construction companies 1990-96: an empirical analysis", *Construction Management and Economics*, 16, pp. 389-395.
- Drewer, S. (2001) "A perspective of the international construction system", *Habitat International*, 25 (1), pp. 69-79.
- Erramilli, M. K. i Rao, C. P. (1990) Choice of foreign entry modes by service firms: Role of marketing knowledge, *Management International Review*, 30 (2), str. 135-150.
- Griffin, R. W. and Pustay, M. W. (2007) *International Business*, 5th Edition, Quebecor World-Versailles / Phoenix: Pearson Prentice Hall
- Gunhan, S. (2010) *Foreign Market Entry Decision Model for Construction Companies*, VDM Verlag Dr. Muller, Germany
- Han, S. H.; Diekmann, J. E. (2001) "Approaches for making risk-based go / no-go decision for international projects", *Journal of Construction Engineering and Management*, 127 (4), pp. 300-308.
- HGK (2010) *Hrvatsko graditeljstvo* (Croatian Construction), Sektor za graditeljstvo i komunalno gospodarstvo, Zagreb
- Kotler, P. (1999) *Upravljanje marketingom: Analiza, planiranje, primjena i kontrola* (Marketing Management: Analysis, Planning, Application and Control), Informator, Zagreb
- Low, S. P. and Jiang, H. B. (2003) "Internationalization of Chinese construction enterprises", *Journal of Construction Engineering and Management*, 129 (6), pp. 589-598.
- Lovrenčić, L.; Katavić, M. (2009) "Results of the Survey on Implementation of Marketing Strategy in Business Activities in Croatian

- Construction Companies”, Joint International Symposium W55&W65 *Construction Facing Worldwide Challenges*, Dubrovnik
- Mawhinney, M. (2001) *International Construction*, Blackwell Science Ltd., London
- Ofori, G. (1996) “International contractors and structural changes in host country construction industries: case of Singapore”, *Engineering, Construction and Architectural Management*, 3 (4), pp. 271-288.
- Previšić, J. and Došen, Đ.O. (1999) *Međunarodni marketing* (International Marketing), Masmedia, Zagreb
- Ranko, B. and Crosthwaite, D. (2001) “The future of international construction - some results of 1992-1999 surveys”, *Building Research & Information*, 29 (3), pp. 242-247.
- Root, F. R: (1987) *Foreign Market Entry Strategies*, AMACOM, New York, NY
- Terpstra, V. (1987) *International Marketing*, The Dryden Press, New York, NY