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Published in:
Procedia Engineering

DOI:
10.1016/j.proeng.2015.11.010

Publication date:
2015

Document Version
Publisher's PDF, also known as Version of record

Link to publication in Heriot-Watt University Research Portal

Citation for published version (APA):
Proactiveness of contractors: A study of Indonesia

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Abstract

High levels of competition are considered to be a major challenge for contractors. In order to be a marketplace leader, a contractor is required to be proactive in seeking opportunities. This study aims to clarify the concept of proactiveness and to explore its implementation particularly in contracting companies. Following a thorough examination of the literature on proactiveness and its related issues, semi-structured interviews were carried out with 19 top managers of contracting companies in Indonesia. The qualitative data collected during the interviews were analyzed using an inductive thematic analysis method, through which themes emerged from the data. The literature review resulted in the clarification of proactiveness and its circumstances, while the qualitative data analysis resulted in an understanding of the practical implementation of proactiveness by contracting companies. This study found various proactive actions being carried out in order to obtain projects including: carrying-out marketing activities; expanding market segment; and looking ahead to construction industry’s future demands. In addition to these actions, contractors also need to pursue business diversification in order to survive in their highly competitive environment. These findings will help contractors to establish the proper strategy to be proactive in pursuing opportunities in order to survive and to expand their businesses.

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Peer-review under responsibility of organizing committee of The 5th International Conference of Euro Asia Civil Engineering Forum (EACEF-5)

Keywords: contractors; business; strategy, proactive, opportunities

1. Introduction

The construction industry is an industry in highly competitive mode; and small to extremely large companies are involved in the industry [1]. In this highly competitive business environment, Chinowsky [2] found that the failure rate of businesses in the construction sector is very high. In the United States, about half of construction companies fail to maintain their business beyond 10 years [1]. In Indonesia, the construction industry has been considered as
one of the most attractive and promising industries [3]. Therefore the construction industry in Indonesia is marked with a large number of indigenous contractors and it has also attracted many foreign contractors. Although the construction industry is developing very fast, the local contractors are not prepared to meet its the needs; a majority of contractors in Indonesia have only a poor to fair performance [4].

In such a highly competitive situation survival is considered as one of the contractors’ major business challenges. In order to survive, contractors need to be proactive in seeking opportunities. However Chinowsky [2] points out that construction companies tend to apply prudent and conventional management in their businesses in many ways.

Contractors have been considered as project based firms (PBFs) that, as suggested, run their businesses by relying on projects [5-9]. As PBFs, contractors undertake projects merely at the specific request of clients; therefore the services they provide are unique for every client [7]. A contracting company is characterized by temporary project organization within a permanent organization [5-9]. In carrying out their activities, contractors need to manage both business and project by considering their different characteristics. Business processes involve repetitive activities while projects usually have temporary and unique activities [5]. Volpe and Volpe [10] identified two main challenges to be successful in contractors’ business: to win the competition to get the project and to deliver the project successfully.

Considering the specific business nature of contractors, the proactiveness of contractors in seeking business opportunities necessary for organisational sustainability should be implemented in a particular way. The aim of this study, therefore, is to clarify the concept of proactiveness, and explore the implementation of proactiveness for contractors in a systematic way.

2. Proactiveness

2.1. Proactiveness as an independent strategy

Proactive is defined in Oxford Advanced Learner’s Dictionary as “(of a person or action) creating or controlling a situation rather than just responding to it after it has happened”. Supporting this definition, proactiveness has been characterized by proactive rather than reactive behaviour and is more relevant to exploration than exploitation [11-13].

In the context of a company, proactiveness has been defined in previous research as being ahead of the competitors, mastering customer demand and looking ahead to market trends’ [14-17]. Hughes and Morgan [16] emphasize that proactive a company is characterized by its management continuously monitoring the development of the environment and then taking ahead action prior to the competitors and never waiting for the emergence of external demands. Miller [14] observed that pursuit of new opportunities is continually needed by the company which is growing in size and in complexity of its activities. In order to successfully seize an opportunity, a company needs to be a pioneer and not only or merely a competitor’s follower in the market. Therefore, the company has to be proactive in its pursuit of new opportunities. Proactiveness has been elaborated in the previous research literature in several aspects such as customer related proactiveness [18], corporate environmental proactiveness [19, 20], proactiveness in family businesses [21], and proactive supply chain risk management [22].

Sandberg [18] examined companies’ proactiveness through their behaviour to generate radical innovation in order to respond to customers’ behaviour which is important for long term survival. Customers’ behaviours can be responded to by a company in three different ways. First, the company waits until a customer’s needs are articulated and then tries to understand and satisfy them. The second is that the company anticipates customers’ future needs and the third is influencing customers’ behaviour both directly or indirectly through several actions such as forming customers’ purchasing criteria, introducing new innovative products to the market, etc. The first response is considered as reactive, while the second and the third responses are proactive. The study found that a proactive response is not always needed at all stages of radical innovation, for example during development stage, the company may behave reactively rather than proactively.

De Massis et al [21] studied the pattern of proactive intensity in family firms along the life cycle of a company in order to identify when the proactive posture is stronger and when it becomes weaker. Their study found that along the life cycle of family firms, proactiveness declines in the initial stage, then increases, and finally decreases again as family firms become mature. The aim of their study was to provide family firm owners and managers, as well as all concerned parties, with a deeper insight into how to perceive and to address proactiveness properly.
2.2. Proactiveness as a part of entrepreneurial orientation

Several studies considered proactiveness as a part of the entrepreneurial orientation (EO) of a company that is trusted as a strategy to achieve business success. EO has been defined in three dimensions: proactiveness, innovativeness and risk taking [14, 23]. On the other hand, Lumpkin and Dess [11] considered that EO consists of five dimensions by adding two additions, competitive aggressiveness and autonomy, to the earlier three dimensions. Lumpkin and Dess [13] found that previous studies often treated proactiveness as equal to competitive aggressiveness or proactiveness was confused with competitive aggressiveness. For example Miller [14] considered beating competitors as a proactive action of a company. However proactiveness and competitive aggressiveness are different in several respects. Lumpkin and Dess [13] referred to proactiveness as an initiative to seize opportunities ahead of competitors in the market place, while competitive aggressiveness referred to the reaction to competitors’ actions in the market place. Proactiveness as a part of EO has been studied in particular contexts such as proactiveness of family business [24], public sector proactiveness [25] and the impact of external factors on proactiveness [26].

Craig [24] explored the relationship of proactiveness and risk taking with innovation output. The exploration was carried out in both family firms and non-family firms. The study found, proactiveness influenced innovation output; however proactiveness in family firms influences innovation output more than non-family firms. Kim [25] examined the impact of public sector entrepreneurial characteristics on organizational performance in order to serve citizens in a better way and responsively and effectively to achieve public values. The entrepreneurial characteristic of the public sector is expected to build an organizational environment which is more competitive and more productive. The study found, compared to risk taking and innovation, proactiveness is the most influential factors for improving public sector performance. The impact of external factors such as national culture on proactiveness has been studied by Kreiser et al. [26]. In their study national culture were represented by four dimensions: uncertainty avoidance, individualism, masculinity and power distance. The result shows less proactive behaviour in a company that is operated based on a culture informed by being uncomfortable with uncertain conditions, more concerned with individual interests than group interests, and which distributes power unequally. The researchers also noted that masculinity does not influence proactive behaviour.

Figure 1 shows proactiveness as an independent strategy and a part of entrepreneurial orientation that influence the company’s performance. In each circumstance, there are antecedents that initiated proactiveness.

2.3. Proactiveness in construction

In an increasingly challenging competitive environment, contractors need to understand the dynamic development of the construction market deeply and well in order to survive. Identifying challenges of external forces and improving the internal strength of the company in order to seek an opportunity are the essential strategies needed to achieve sustainable growth. [27]. So far, contractors’ proactive opportunity seeking actions that were found in the literatures are focused on expanding market into new and different markets [28]. Particularly, several studies focus on firms expanding into international markets. Entering an international market has been considered as a contractors’ strategy to deal with construction market change [29], to avoid domestic market recession [30] and to
counter any dip in the domestic business cycle [31]. The opportunity to expand market, in particular the case of Chinese contractors’ penetration into the Africa market, arises from several reasons. Chen and Orr [32] identified 18 reasons, among these reasons, the most frequent reason is the need for good infrastructure in the country of destination and then it was followed by diplomatic ties between the government of the home country and country of destination. Their study also identified political issues, government regulations and security in the country of destination as the main challenges that need to be considered.

After reviewing the literatures, this study posits that there is very little discussion about proactiveness of contractors in construction literature. There is no study that exploring proactiveness of contractors comprehensively.

3. Research Methods

This study adopted two main research methods as depicted in Figure 2. First, a literature review was carried out to gain a deeper and better understanding about proactiveness strategies in general. Second, semi-structure interviews with the top managers of contractor firms in Indonesia were conducted to identify proactiveness that is particularly appropriate for contractors. However, due to a lack of previous research in the area that is particularly related to construction, the implementation of proactiveness for contractors was examined through an exploratory approach. Data collection and data analysis for the second stage of this study are explained in detail in the following sections.

3.1. Data collection

Data for this study was collected through face to face semi-structured interviews with 19 top managers of contractors in Indonesia from July to September 2013. The interviews are considered as an appropriate source of data because the interviewees are the most knowledgeable persons regarding the condition of their companies, and all strategic information is in their hands or accessible to them. They are intensively involved in planning, developing and implementing regulations, policies and programs for their companies. According to Quinlan [33], this constitutes judgemental sampling which determines the criteria for potential participants by considering the capacity of participants to provide proper and appropriate information related to the issues under investigation. Table 1 shows the profile of the interviewees. The sizes of contracting companies in this study were determined based on the number of permanent employees. As such, they are grouped into four classes: less than 100 employees (small), 100 to 500 employees (medium), 500 to 1000 employees (large) and more than 1000 employees (x-large).

Table 1. Profile of interviewees.

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Prior to the interview, an interview guide was sent to the interviewees by e-mail in order to give them an idea about the interview. The interview guide consists of several questions about the implementation of proactiveness. These questions were explored based on several references such as: four characteristics of proactiveness pattern [34] and entrepreneurial orientation items [16, 35]. During the interviews, the format and sequence of questions did not always expressly follow those outlined on the interview guide. Communication varied depending on the flow of the conversation and extra questions were asked to follow up on issues which appeared to be important and relevant to the topic of the interview. The interviews were controlled by the interviewer to make sure that the focus of discussion was maintained. Interviews lasted between 60 to 90 minutes and each was audio-recorded and then fully transcribed.
3.2. Data Analysis

The data collected was analysed using thematic analysis. Braun and Clarke [36] defined thematic analysis as a method for data analysis in order to identify themes that are related to the research questions. There are two ways to implement thematic analysis: induction and deduction. The first follows ‘bottom up’ approach that is data driven, in which themes are identified mainly based on the data. The second follows a ‘top down’ approach that is driven by the related theory to identify themes.

This study adopted the ‘bottom up’ thematic analysis model because of a lack of previous research in the area. The identified themes are directed to the issues that relate to proactiveness of contractors. The following processes were carried out to analyse the data and identify the key factors.

1. Each transcript was read twice in order to enable the researcher to be familiar with the data and then initial ideas were extracted from the data.
2. The coding process started manually. In this stage, as many phenomena as possible that emerged from interviews were coded.
3. The next coding process was done using NVivo 10 software. In this stage, codes were refined and re-categorized into the appropriate nodes that are considered as important issues related to proactiveness of contractors.
4. The coding process was refined and then the codes were re-allocated into appropriate themes. The issues that arose were continuously reviewed in three rounds using NVivo 10 software to check whether the issues work in relation to the entire data set or not. As a result, some existing issues have been dropped; combined, as well as new issues have been found in each round. Finally several important issues that explained the proactiveness of contracting companies were identified.

4. Proactiveness of contracting companies

This study found that proactive contractors are characterized by certain proactive activities that are mostly directed to seeking a project. This finding is in accordance with the nature of contractors’ business that rely on projects. In addition, business diversification is the only key factor that does not directly associate with the project. Four key factors of contractors’ proactiveness that are found in this study are:

1. carrying out marketing activities
2. expanding market segment
3. looking ahead to the future demands
4. running business diversification

In order to be proactive in capturing projects, contractors need to carry out marketing activities proactively, therefore the marketing division in contracting companies is considered as the second most important division after
the project division. Large contractors usually officially establish their marketing division as one separate department. However marketing activities in small and medium contractors are carried out by staff members who are assigned to a marketing team. Actually, it can be argued that marketing is the duty of every staff in the company; therefore, all members of staff are required to support marketing activities. Marketing activity for contractors is different from other industries. Contractors do not directly sell their products. Rather, they get contract for project, only when it is offered by the client; therefore, direct selling is not an appropriate approach for marketing a contractor. Contractors must direct their marketing activities to obtain information about project availability and then proactively to approach the project owner through several actions, such as sending a company profile and making presentation. Based on this nature of marketing in contractors, the important additional duty of maintaining good relationships with the existing clients is assigned to the marketing department or marketing team.

In addition to carrying out marketing activities in existing markets, contractors must consider market diversity in their business. Contractors should not focus only on a certain segment of the market, for example developer, government or private sector only. It is very risky if contractors focus on a certain market and the market is, or then falls into, decline. Therefore contractors must be active in expanding into new markets. Most contractors mentioned that they prefer focusing on the domestic market rather than international market due to the problems resulting from cultural and regulatory differences in overseas projects.

Another important issue to be successful in contracting business is proactively anticipating future demands and trends in the construction industry because the construction industry expands and changes focus from time to time. For examples, several years ago contractors anticipated the demand and trend of ISO, nowadays construction industry demands and trends have moved to green construction issues. Proactive contractors take the any necessary steps earlier prior to the competitors in order to anticipate the construction industry’s demands. One participant contractor declared that they were the pioneer of ISO certification in Indonesia. Looking ahead to the globalization era, contractors must be prepared to enter global competition. For example, one of the participant contractors had prepared their employees to deal with international work culture. Likewise, rapid progress of construction methods that are driven by the increase of customer demands should be anticipated in advance by continuously generating innovations.

Instead of focusing on projects as a core business, proactive contractors should seek new opportunities and develop new businesses in order to maintain organisational sustainability. One contractor mentioned that, when running the business, contractors must follow the principles of 'do not put all your eggs in one basket'. This contractor mentioned that if they concentrated only in one business area and that business is receding, they will collapse. Therefore business diversification must be considered as a strategy to survive in business. However, most contractors are still interested to run new businesses in the areas that are related to construction rather than moving into different areas. Property development is the most interesting area for most participating contractors when they consider diversification. Some contractors began to expand their business to other areas of activity such as pre-cast concrete, construction equipment, or building materials such as steel, aluminium, and glass. Since business diversification is considered very important for survival and for business expansion, contractors tend to give a chance to all staff to propose new business opportunities based on their experience and network.

5. Conclusions

Emerging from this study, proactiveness has been studied either as an independent strategy or as a part of an entrepreneurial orientation. Proactiveness impacts the performance of a company or an organization in several ways such as generating innovation, gaining competitive advantage and enhancing risk management, etc. Moreover the level of company or organization proactiveness is influenced by external factors such as national culture. In the particular case of contractors, proactiveness translates into carrying-out marketing activities, expanding market segment and looking ahead to the construction industry’s future demands. In addition to these actions, contractors also need to carry out business diversification in order to survive in a highly competitive environment.

The findings of this study provide contractors with ideas of how to set up an appropriate strategy to be proactive, in order to seek opportunities in the market place and then to implement this chosen strategy properly in order to achieve business success. This study also provides new insight about research in construction. Further research can focus on the development of a model for measuring the level of proactiveness of contractors based on its circumstances that is found in this research. Subsequently, the relationship between the level of proactiveness and a
contractor’s performance can be explored further.

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