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Article

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Pakistan Journal of Commerce and Social Sciences (PJCSS)

Provided in Cooperation with:
Johar Education Society, Pakistan (JESPK)

Suggested Citation: Bakar, Abu Hassan Abu; Muhammad Asim Tufail; Mohamad Nizam Yusof Muhammad Asim Tufail; Virgiyanti, Wiwied (2011) : Implementation of strategic management practices in the Malaysian construction industry, Pakistan Journal of Commerce and Social Sciences (PJCSS), ISSN 2309-8619, Johar Education Society, Pakistan (JESPK), Lahore, Vol. 5, Iss. 1, pp. 140-154

This Version is available at:
https://hdl.handle.net/10419/188020

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Pak. J. Commer. Soc. Sci.
2011 Vol. 5 (1), 140-154

Implementation of Strategic Management Practices in the Malaysian Construction Industry

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Abstract

Strategic Management is a concept that concerns with making decisions and taking corrective actions to achieve long term targets and goals of an organization. The importance of strategic management in a firm can be answered by analyzing relationship between strategic management and organizational performance. Generally strategic management practices can improve efficiency in various organizations. The objective of this paper is to study the practice of strategic management in construction companies in Malaysia. Questionnaires were distributed to 300 large construction companies listed under G7 groups classified by Construction Industry Development Board (CIDB). The response rate of the survey is 26% or that 78 construction companies replied. The findings of the research showed that most of the firms practicing strategic management have a clear objective, a winning strategy to achieve the objective and a sound mission statement to guide the organization towards success.

Keywords: Construction Companies, Construction Industry, Malaysia, Performance, Strategic Management.

1. Introduction

The economic and business planning framework and priorities have shifted from the short term and tactical to the long-term and strategic (Betts and Ofori., 1992), due to various

factors including the particular challenges of the business environment (Benjamin et al., 1984) caused by the increasing global competition in various industries (Levit, 1993). Strategic management practice is an important practice as it gives a strong influence towards firms' success. The importance of strategic management in a firm can be answered by looking at the relationship between strategic management and organizational performance. Strategic management does give positive influence, especially in its profitability to the large firms (David, 1997).

In Japan, Japanese contractors have successfully out-thought construction firms in many markets in various parts of the world because of the attention they give to business strategy (Hasegawa, 1988). US banks show higher return on equity for banks which had both a strategic commitment to planning and provided regular strategic management training. Firms with good performance such as The Body Shop, Sony and Merck effectively exploit visionary strategies. Although, strategic management has until recently been a low-profile activity within many construction firms, it is now becoming more widely used by many large organizations that are allocating substantial resources to the task (Price et al., 2003) and generally strategic management practices can improve efficiency in various organizations.

The application of strategic management in business for various sectors has long been adopted as a response to market demand, variations in clients' taste and changing of technology. The adoption of a clear strategic perspective in organizations is one of the factors that affect the performance of these organizations. Having a good strategy is also one of the important factors that enable the organizations/firms to survive and go further. However, many large construction companies in Malaysia have yet to formalize the strategic process.

This paper investigates the practice of strategic management implementation in business strategies by the construction companies in Malaysia and it relationship with their company's performance.

2. Research Objectives

The objectives of this paper are as follows:

- to study the practices of strategic management in Malaysia construction companies;
- to determine how strategic management is being practiced; and
- to study the impact of strategic management practice in Malaysian construction companies on their company's performance .

3. Strategic Management in General

There are many definitions of strategic defined by various authors and according to Mintzberg et al. (1998) there is no single, universally accepted definition of strategy. The early definition of strategy was provided by the American business historian, Chandler (1962) who defined strategy as determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals. In the context of construction, Channon (1978) defined strategy in term of the extent of diversification, international activity and acquisition policy. Mintzberg (1994) portrays strategy as a plan – a direction, a guide or

course of action into the future – and as a pattern, that is, consistent in behavior over time.

In terms of strategic management, it can be defined as a set of managerial decisions and actions that determine the long-run performance of a corporation. It includes strategy formulation, strategy implementation, and evaluation and control (Wheelen and Hunger, 1984). It also can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, 1997).

Strategic management has evolved into a more sophisticated and potentially more powerful tool (Stoney, 2001). The strategic management process requires competent individuals to ensure its success (Stahl and Grigsby, 1992). The top management of an organization has responsibility to ensure firm success and overcome any competition that occurs. However, to be more effective, Hunger and Wheelen (2003) noted that people at all levels, not just top management, need to be involved in strategic management; scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environment shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques.

4. Strategic Management Process

Strategic management is designed to effectively relate the organization to its environment. The environments include political, social, technological, and economic elements (Sharplin, 1985). Various strategic management models were introduced by Sharplin (1985), Greenley (1989), Certo and Peter (1991), Stahl and Grigsby (1992), David (1997), and also Hunger and Wheelen (2003). Table 1 shows some comparison of strategic management models by various authors. Even though it can be seen that each model of strategic management is different, the actions or activities that are involved are actually similar. Majority of authors have put strategy formulation, implementation of organizational strategy and strategic control focuses in their models. Planning strategy and environmental analysis phase are also important and most of the authors put this phase under formulation phase (Stahl and Grigsby, 1992; David, 1997).

Generally, strategic management process can be divided into three phases, i.e., the formulation phase is a strategy that aims at ensuring that organizations achieve their objectives (Certo and Peter, 1991). David (1997) stated that strategy formulation include deciding which business to pursue, how to allocate resources without hostile takeovers and whether to enter international markets. He also added that strategy formulation phase comprises development of a mission statement, identification of external opportunities and threats, determination of internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing the best strategy to be implemented. Second, is the implementation phase that initiates activities in accordance to strategic plans (Sharplin, 1985). This requires firms to establish objectives, devise policies, motivate employees, and allocate resources to execute formulated strategies. Certo and Peter (1991) stated that without the effective strategy implementation, organizations are unable to reap the benefits of performing an organizational analysis, establishing organizational direction, and formulating organizational strategy. Lastly, is the evaluation and control phase that requires information to be obtained on strategic performance and comparing it with existing standards (Certo and Peter, 1991).

Evaluation is also done by reviewing current strategies, measuring performance and taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow. Success always creates new and different problems; complacent organizations experience demise (David, 1997).

Table 1: Comparisons of Strategic Management Model by Various Authors

Phases	Authors					
	Sharplin, 1985 (Two Phases)	Greenley, 1989 (Four Phases)	Certo and Peter, 1991 (Five Phases)	Stahl and Grigsby, 1992 (Three Phases)	David, 1997 (Three Phases)	Hunger and Wheelen, 2003 (Four Phase)
Environmental		√	√			√
Strategy	√	√	√	√	√	√
Planning Strategy		√	√			
Implementing Organizational	√	√	√	√	√	√
Strategic Control			√	√	√	√

5. Strategic Management in Construction Industry

In construction, many researches were carried out on strategic management practices including studies by Chinowsky and Meredith (2000), Dikmen and Birgonul (2003), Price et al. (2003) and Dansoh (2005). The traditional philosophy of management in construction emphasizes on the ability to plan and execute. According to Abu Bakar (2002) the management of the construction industry is important in order to improve its performance and increase the number of national Gross Domestic Product (GDP), since the construction industry contributes on average between 5 to 9% of GDP in developing countries. Stoner & Wankel (1987) stated that effective management must have a strategy and must operate on the day-to-day level to achieve it. Chinowsky and Meredith (2000) noted that while project management topics receive significant focus from construction professionals, less attention is paid to strategic management. However, according to Dikmen and Birgonul (2003), the need for a strategic perspective for construction companies has long been stressed by many researchers.

From time to time the ability of the construction industry to innovate and manage change has been widely debated by various authors including Lansley (1987), Gale and Fellows (1990), Betts and Ofori (1992) and Yisa et al. (1996). According to Yisa et al. (1996) the construction industry faces a continuous circle of changes in workload, work mix and the method of managing the change. Chinowsky and Meredith (2000) noted that the rapid advance of technology, communication, and market had made the global perspectives of time, distance and spatial boundaries changes. Betts and Ofori (1992) noted that while some construction firms have been very successful in responding to changing needs and opportunities, using technological innovation and contractual development to provide

competitive advantage, others have failed by being static. Yisa et al. (1996) stated that the ability to distinguish between effective and ineffective construction firms in terms of how far management of change by any firm has enhanced the overall capability of the industry has been dependent on the ability of the clients. Furthermore, the desire for the firms to change has become more from a fear of being left behind by competitors than from a belief in the benefits of innovation (Burns and Stalker, 1961).

According to Price and Newson (2003) to be successful, construction companies need to supplement their current short term approaches taken through improving organizational effectiveness with more long term strategic approach. In his observation, Mulcahy (1990) found that successful construction company is the company that applied clear objectives recognizing the markets, wishes to address, services it will provide, risks it will carry, structure it will use, the environment it will operate within, controls it will put in place and returns it wishes to achieve.

6. Research Methodology

This study used survey method for collecting data where questionnaires were distributed as a prime source of getting primary data. The respondents of this study are those at the managerial level from large construction companies listed in G7 group classify under CIDB. Questionnaires were sent to 300 respondents using mail service. From 300 questionnaires disseminated to large construction companies in Malaysia, 78 or 26% of the completed questionnaires returned. Data collected is analyzed by using relevant statistical methods as frequency; cross-tabulation, correlations and regression are carried out to establish findings. Besides that, the data is also analyzed using Relative Important Index (RII) for ranking purpose based on *Equation* (1) (Tam et al., 2000)

$$RII = \frac{\sum w}{An} \qquad (1)$$

Where w is the weight given to each factors by the respondent.

A is the highest weight, in this study A=4

n is the total number of sample.

RII is relative important index, $0 \leq RII \leq 1$.

The questionnaires are divided into 3 main parts as follows:

1) Part 1: *Respondent's Profile.* Questions on the respondent's profile such as the respondent's age, position in the firm and the length of time the respondent has been working in the previous firm.

2) Part 2: *Firm's Profile.* Questions on the firm's profile such as the firm's status, ownership and age, annual work done value, net profit estimation and the respondent's personal opinion on the firm's performance

Part 3: *Strategic Management*. Questions are designed to identify the strategic management practices in local contracting firms. There are seven variables that have been used in these studies including mission statement, external environment, internal environment, objectives, strategies, policies and strategic planning.

7. Analysis

7.1 Respondent's Background

From the analysis, the job designations of respondents are mainly managing director (36%), project manager (19%) and managing officer (9%). In terms of status of firm of respondents, 82% are from private limited, 9% come from partnership and only 6% are from public limited. In terms of value of firm's annual work of respondents, 78% of the respondents are involved in projects worth more than RM 5, 000, 000 and 13% respondents are from projects worth between RM 2, 000, 001 - RM 5, 000, 000.

7.2 Firm's Objective

Objective is an important element to be considered in organization's strategy towards success. It is important because objective provides a clear direction, aids evaluation processes, creates positive competition, identifies priorities, enables coordination and sets a basis for planning, organizing, motivating and controlling activities.

From table 2, majority of respondents (95%) stated that their firm have an objective in running their operations. Only 3% of respondents claim that they do not have an objective and 1% respondents are unsure.

Table 2: Firm's objective

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	74	94	94
	No	2	3	97
	Unsure	2	3	100
	Total	78	100	

7.3 Firm's Strategy

Strategy refers to a complete program used to achieve the long term objectives of an organization. Different strategies are used in different situations and performances of the firm. According to table 3, 77% or 60 respondents state that their firm is equipped with the strategy to achieve its objective, while only 13% respondents stated that they do not have a strategy and 10% respondents are unsure.

Table 3: Firm's strategy

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	60	77	77
	No	10	13	90
	Unsure	8	10	100
	Total	78	100	

7.4 Firm's Mission

Table 4 shows that most of respondents (78%) have mission statement. Only 11 respondents or 14% claim that they do not have mission and 8% respondent were unsure

of their firm's mission. This shows that almost all respondents are aware of the importance of mission in their firm.

It can be seen that the number of firms that have a mission is similar with the number of firms that have strategy, this is probably because the strategy cannot be formed without a proper mission.

Table 4: Mission statement

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	61	78	78
	No	11	14	93
	Unsure	6	8	100
	Total	78	100	

7.5 Written Planning in a Firm

Table 5 shows the number of firms that have and do not have a written form of planning. Majority of respondents (67%) claims that their firm incorporates planning in written form.

It also can be seen that 24 respondents or 30% indicated that they do not have written plan and another 3% respondents are simply unsure. This indicates that 52 respondents performed formal strategic management while the rest performed informal strategic management.

Table 5: Written planning in a firm

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	52	67	67
	No	24	30	97
	Unsure	2	3	100
	Total	78	100	

Table 6 shows the cross tabulation analysis between firm's annual work done and written planning in a firm. From the table it can be seen that among the firms that performed written plan, 45 or 87% of respondents are from projects worth more than RM 5 million. It can also be seen that 6% of respondents that have a written plan involved in project between RM 500,001-2,000,000 and RM 2,000,001-RM 5,000,000. Among the firms which do not have written plan, 16 or 67% of respondents are from projects more than RM 5 million and 21% of respondents are from project 2,000,001-RM 5,000,000. On the whole, firms that practice written plan tend to involve in an annual work done average of more than RM5 million. It can be concluded that a firm that practices strategic management will receive contracts of higher values which can generate higher profit for the firm.

Table 6: Cross tabulation between firm's annual work done and written planning in a firm

			Value of Work Done Annually				Total
			unsure	RM 500,001-RM 2,000,000	RM 2,000,001.00-RM 5,000,000	More than RM 5,000,000	
written planning	Yes	Count	1	3	3	45	52
		% within written planning	2%	6%	6%	87%	100%
		% of Total	1%	4%	4%	58%	67%
	No	Count	3	0	5	16	24
		% within written planning	13%	.0%	21%	67%	100%
		% of Total	4%	.0%	6%	21%	31%
Unsure		Count	0	0	2	0	2
		% within written planning	.0%	.0%	100%	.0%	100%
		% of Total	.0%	.0%	3%	.0%	3%
Total		Count	4	3	10	61	78
		% within written planning	5%	4%	13%	78%	100%
		% of Total	5%	4%	13%	78%	100%

7.6 The Firm Management Planner

Table 7 shows list of people that involve in management planning that can be divided into 4 main categories, which include self-planning, financial planning, employees and others.

Based on table 7, most of respondents (41%) stated that the firm's plan is designed by their own. These respondents hold the position of managing directors and thus are in charge of the firm's planning. Besides that, 26% or 20 respondents stated that the management plan of their firm is designed by financial planning, while 18% of the respondents claim others as planner.

Table 7: The Firm Management Planner

		Frequency	Valid Percent	Cumulative Percent
Valid	Self-planning	31	41	41
	Financial planning	11	15	56
	Employees	20	26	82
	Others	14	18	100
	Total	76	100	
Missing	System	2		
Total		78		

7.7 The Accuracy of Planning with the Firm's Real Operations

To measure the accuracy of planning with the firm's real operations, 4 categories were taken into consideration, that are 100% accurate, more or less 75% accurate, more or less 50% accurate and unsure.

From table 8 it can be seen that most of respondents (64%) stated that the accuracy of their firm's plan with firm's real operation are more or less 75% accurate. This shows that planning in most of the firms is in line with the firm's operations, even though it is not 100% accurate. This is followed by more or less 50% category (28% respondents) and 4% of respondents were unsure. Three respondent or 4% claimed that their planning is 100% accurate with the firm's operations.

Table 8: The Accuracy of Planning with the Firm's Real Operations

		Frequency	Valid Percent	Cumulative Percent
Valid	100% accurate	3	4	4
	More or less 75% accurate	50	64	68
	More or less 50% accurate	22	28	96
	Unsure	3	4	100
	Total	78	100	

7.8 Firm sensitive to changes in its surroundings which creates the need for an internal and external analysis (SWOT)

According to table 9, most of respondents (68%) claimed that their firms are sensitive to the changes in their surroundings and regularly carried out a SWOT analysis. Besides that, 17 respondents or 22% stated that their firms are insensitive to the changes in their

surroundings and do not perform a SWOT analysis, while 8 respondents or 10% were unsure.

Table 9: A firm is sensitive to changes in its surroundings which creates the need for an internal and external analysis (SWOT)

		Frequency	Valid Percent	Cumulative Percent
Valid	Yes	53	68	68
	No	17	22	90
	Unsure	8	10	100.0
	Total	78	100.0	

8. Firm's Strength

Table 10 shows the strength of the firms participated in the survey. By using Relative Important Index (RII), the strengths are ranked accordingly.

In term of importance, good client relationship ranked 1, followed by excellent image and reputation, strong financial position, efficient organization structure and so on, as shown in table 9.

Table 10: Ranking of Firm's Strength

Variables	∑w	RII	Ranking
Good client relationship	230	0.737	1
Excellent image and reputation	218	0.699	2
Strong financial position	207	0.663	3
Efficient organization structure	201	0.644	4
Dynamic management skills	197	0.631	5
High profits	176	0.564	6

From table 11, it can be seen that the correlation for the performance multiplier and identification of the strengths of the firm are positively related to each other. An efficient organization structure and the excellent image and reputation are the strongest factors influencing an organization's strength, compared to other aspects such as dynamic management skills, strong financial plan, high profit as well as good client relationship. Dynamic management skills and efficient organization structure must have a strong link due to the nature of both aspects that largely deal with clients. These two factors recorded a correlation value of 0.684. Besides that, excellent image and good client relationship also have a strong link due to the nature of both aspects that largely deals with employee management, recorded an acceptable correlation value of 0.682

Table 11: Correlation of the firm's performance with the identification of the firm's strength

			Estimate
Strong Financial Plan	<-->	Dynamic Management Skills	.529
Dynamic Management Skills	<-->	Efficient Organization Structure	.684
Efficient Organization Structure	<-->	Excellence Image & Reputation	.570
Excellence Image & Reputation	<-->	Good Client Relationship	.682
Good Client Relationship	<-->	High Profit	.382
Strong Financial Plan	<-->	Excellence Image & Reputation	.571
Strong Financial Plan	<-->	Good Client Relationship	.396
Strong Financial Plan	<-->	High Profit	.567
Excellence Image & Reputation	<-->	High Profit	.440
Efficient Organization Structure	<-->	High Profit	.424
Dynamic Management Skills	<-->	High Profit	.331
Strong Financial Plan	<-->	Efficient Organization Structure	.452
Efficient Organization Structure	<-->	Good Client Relationship	.531
Dynamic Management Skills	<-->	Good Client Relationship	.377
Dynamic Management Skills	<-->	Excellence Image & Reputation	.539

For the purpose of regression, AMOS (Analysis for Moment Structure) software is used (Figure.1), the results show a squared multiple correlation value (R^2) of 0.39, meaning that the model with the selected factors explains 39 percent of the total variance.

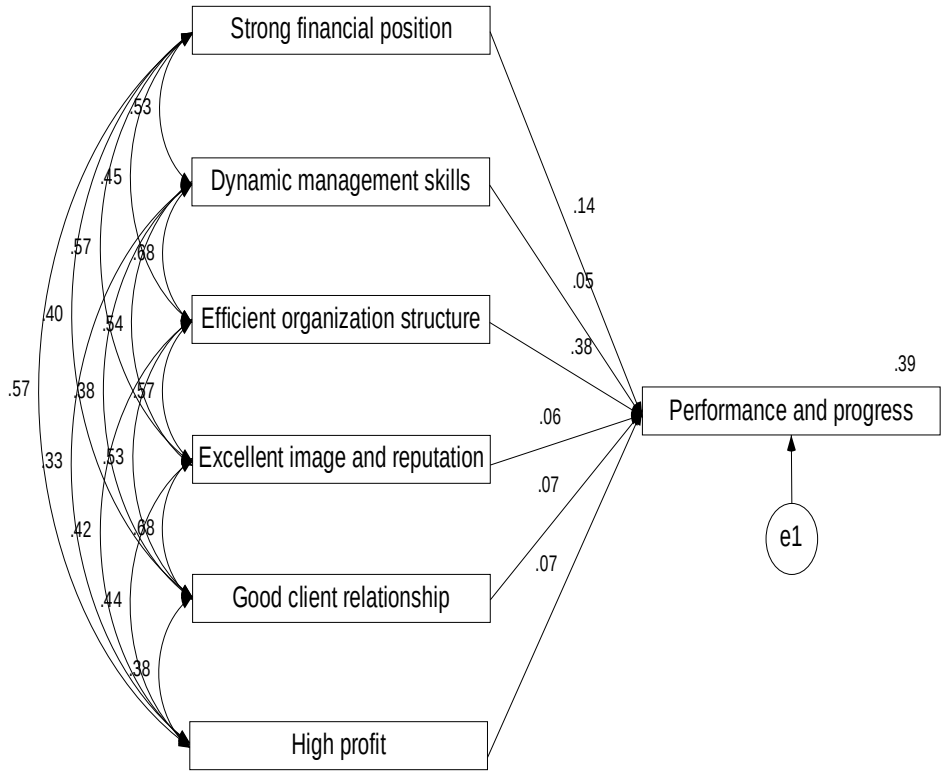

Figure 1. Regression and Correlation of the firm's performance with the identification of the firm's strength using AMOS.

Efficient organization structure has been the only variable significant with the value of P = 0.06 (Table 12). This shows that efficient organization structure is the bed rock on which a firm's performance is founded. Thus, to be efficient in the long run, the efficient structure of an organization plays the vital role.

Table 12. Regression weights of the firm's performance with the identification of the firm's strength

			Estimate	S.E.	C.R.	P	Label
Performance	<---	Strong financial position	.137	.128	1.067	.286	
Performance	<---	Dynamic management skills	.051	.135	.380	.704	
Performance	<---	Efficient organization structure	.410	.149	2.748	.006	
Performance	<---	Excellent image and reputation	.065	.148	.440	.660	
Performance	<---	Good client relationship	.068	.120	.564	.573	
Performance	<---	High profit	.081	.128	.634	.526	

Furthermore, for the purpose of confirmation of regression results, a test to check multi-collinearity is done using SPSS which does not show any sign of multi-collinearity as the values of Variance Inflation Factor (VIF) fall well within the limit of 10 (Table. 13).

Table 13. Multi-collinearity of the firm's performance with the identification of the firm's strength

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.421	.336		1.253	.214		
	Strong financial position	.137	.134	.136	1.024	.309	.497	2.011
	Dynamic management skills	.051	.141	.051	.365	.716	.450	2.222
	Efficient organization structure	.410	.155	.378	2.637	.010	.425	2.355
	Excellent image and reputation	.065	.154	.063	.422	.674	.391	2.555
	Good client relationship	.068	.125	.072	.541	.590	.492	2.034
	High profit	.081	.133	.072	.609	.545	.624	1.604

a Dependent Variable: Performance and progress

9. Findings

There are several findings that have been established in this study. First, the findings of this paper have shown that most of large construction companies in Malaysia are practicing strategic management in one way or the other and majority of these companies have clear objectives, winning strategies to achieve the objectives and a sound mission statement to pilot the organization towards success. Most of large construction companies claims to have some form of written planning system that is mostly formulated by the managing director without the involvement of other employees. Secondly, the study also found that most construction companies in Malaysia are able to identify the strengths and weaknesses of their firms which instigate by management skills, organization structure, client relationship, image and reputation and profit. Thirdly the study also found that the large construction companies that implemented written planning system gained higher performance, which further consolidates the fact that strategic management, is crucial in order to succeed. Even though construction companies that do not practice strategic management are a minority, but these companies generate a lower performance and receive limited contractual works annually. Thus, firms should focus more on efficient organization structure to be competitive in the challenging environment.

10. Conclusion

Strategic management is a management process that was utilized specially to increase the performance of an organization's operations and administration. The application of strategic management practice in organizations can help the organizations to enhance their performance through improved effectiveness, efficiency and flexibility. This study had proved that the effect of strategic management is positive, allowing organizations to

increase profits while accommodating customer needs. However, in order to improve the performance, the implementation of strategic management shall be conducted properly. It shall analyze the external environment to obtain information in term of threats and opportunities, and carry out the internal environment assessment to evaluate the firm's strengths and weaknesses in order to cope with the threats and opportunities. Furthermore, to remain competitive in a long run, efficient organization structure should be focused upon as an strategic management process as it allows the expressed allocation of responsibilities for different functions and processes to different entities and is directly linked with the cooperate culture. In today's dynamic business environment, organizations need to re-structure themselves depending on the changing environmental factors and the organizational business strategy. A change is effected in organizations by organization structure to maximize efficiency and minimize costs under the prevailing circumstances.

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