



# **Applying Strategic Analysis in Business strategy to enhance competition and innovation**

A case study in a small construction company

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<p>Abstract:</p> <p>The thesis is to examine the importance of strategic management and strategic analysis, the concepts of sustained competitive advantage, and to present the most fundamental strategic analysis tools used in business strategy, given the context of the construction industry where there is an identified-lack of strategy research and analysis. Competitive advantage in construction industry can be gained or lost based on how well a construction firm is aware and able to apply different important strategic analytical intelligence knowledge and tools such as Porter’s Five Forces, Value Chain and theories of Core Competencies.</p> <p>The thesis used both secondary sources including published books and online materials and primary sources with semi-structured interview with company key decision-makers in light of theoretical and empirical case study analysis.</p> <p>The findings of the thesis represented the unacknowledged importance of strategic management and analysis in construction industry. The thesis also suggested that strategic analysis intelligence should be facilitated and subjected to more attention that key decision-makers of company can exploit to positively impact company’s strategic management in building, implementing and evaluating a business strategy to enhance its competitiveness and innovations.</p> <p>The thesis strongly focused on strategic analysis and research to gain more understanding of the industry structure, of the other factors that determine the gain or loss of competitive advantage other than creating a strategy or plan for them, since the company is still in</p>	

the early stage of planning and gradually implementing the changes in a stable, innovative and sustainable manner. Therefore, strategy analysis in the thesis have limitations.

The analysis should be considered a valuable approach for enhancing competitiveness and innovation in the company's operation and management aspects. However, it is strongly believed that the company will improve and ensure the viability of their expansion plan if they plan to follow the thesis as a basic guideline in the stage of strategic analysis and supplement insufficient part of the thesis when needed.

Keywords:	Strategic Analysis, Business Strategy, Strategic Business Management, Competitive Intelligence, Competition, Innovation, Construction industry
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# INTRODUCTION

## 1.1 Research Aim

The construction industry is one of the biggest industries in the world economy. In Finland, according to Statistics Finland (Index of turnover of construction), turnover of construction enterprises in 2017 grew by 12.7% in the November to January period and in the corresponding period one year earlier, the growth is 8.3% and more specifically, building construction sector has the biggest growth. Compared to other manufacturing industries, the construction industry is generally focused on the production of projects. The achievement of these projects is gained through the concept of the “project format” (Halpin and Woodhead 1998). In this context, the focus of management is most commonly placed on planning and controlling aspects of resources within the framework of the project. While project management discussions get substantial focus from construction professionals and management level, significantly less attention is paid to **strategic management**. In this focus of the thesis, strategic management addresses the challenges of operating a construction work as a whole organization rather than viewing it as an individual project. Current trends suggest that construction professionals, especially management level may be “behind the curve” in effectively applying the competitive intelligence approach, which is a crucial knowledge in the research and analysis stage in building a business strategy. Due to the great emphasis on project management requirements, little focus is given to the knowledge and requirements of strategic management topics. Specifically, existing literature and research reports provide too fewer tracks for construction professionals to obtain strategic management knowledge (Goodman 1998). In response to address this issue, more current research efforts were undertaken to examine and strategic management intelligence; evaluate its practices and identify important strategic areas that require greater attention by the industry. Effective decision making in construction companies requires the great deployment of various strategies, tactics and tools. Therefore, the purpose of the thesis in this context is to identify central question of the dominant schools of thoughts in business strategy on competitive advantage, reviewing several dominant strategic analysis models and tools and later mapping the company’s current situation for further strategic planning process.

## 1.2 Research Questions

Research questions of this thesis are driven accordingly to the similar context of research aim, which suggests that there is a lack of strategic management awareness and strategy analysis in the small construction firms.

- Why strategic management and strategic analysis is important in construction industry?
- What are the most popular strategic analysis and business strategy tools used to implement the strategic plans and achieve a sustained competitive advantage?
- Can a change in perspective of strategic analysis have impact on the company's business strategy and its implementation?

## 1.3 Company's Information/Background

- Company type & size: a limited liability company, small size
- Industry: construction of residential and other buildings
- Industry description: the company is engaged in construction, property maintenance and renovation, purchase of housing shares and buildings and redevelopment for sales purposes, as well as other activities related to the construction sector, ownership and possession of the shares and securities.
- Location: Kirkkonummi, Finland.
- Personnel: 6-10
- Key issues to apply business reform strategy: Support activities including: Human Resource (HR)/Leadership Management, business operation (technological development).

### Summary of the company:

The company is of small size, has really stable and good profitability in recent 5 years despite the tough time facing the economy and specifically the construction industry even during the financial crisis period. Its turnover or revenue is 1.3M €, which is above average in the industry *Construction of buildings*. Its profit 13.6% is above average for the industry. (see graphs below). ("Oy Kiinteistöpalvelu ETS Fastighetsser-

vice Ab - Company Information - Vainu") & ("Kiinteistöpalvelu ETS Fastighetservice Ab, Oy - Detailed Information - Largestcompanies").

It has lots of potential and currently in the early stage of on-going plan to expand and grow its business size in a stable, innovative and sustainable manner, which requires good strategic planning and achievement to achieve the goals. The writer has gained valuable insights of company's situations through interviews with CEO and HR/Business Developer and additional data/ financial reports from company.

## LITERATURE REVIEW

This part reviews general strategic management theories and concepts including different important schools of thought, theories and past researches on strategy that provide a crucial theoretical foundation for the conceptual business strategy to be constructed later in the empirical part.

Conspicuously, a great number of research has been conducted in the field of strategy and there are certainly different approaches to business strategy (Table 1 below). Strategic management topics often deals with the central question of how to achieve and sustain competitive advantage (Rumelt, Schendel and Teece 1994), and in a simplified word, what are the sources of competitive advantage.

No.	Paradigm	Representative Authors	Nature of Rents	Fundamental Unit of Analysis	Role of industrial structure
1	<b>Competitive Forces</b>	Porter (1980)	Chamberlinean	Industries, Firms, products	Exogenous
2	<b>Strategic Conflict</b>	Saphiro (1986) Ghemawat (1986)	Chamberlinean	Firms, product	Endogenous
3	<b>Resource-based Perspective</b>	Wernerfelt (1984) Barney (1991)	Ricardian	Resources	Endogenous
4	<b>Dynamic Capabilities Perspective</b>	Prahalad & Hamel (1990) Teece (1997)	Schumpeterian	Process, Positions, Paths	Endogenous

Figure 1- Paradigms Strategy (Teece et al., 1997)



The first part will examine several important schools of thought in strategy with strong focus on two considered mainstream approaches which are Competitive Forces and Dynamic Capability Perspective with most dominated models including Porter's (1980) five forces framework and Value Chain analysis, Prahalad and Hamel's (1990) theory of Core Competencies, to combine both internal and external perspectives on strategy.

## **1.4 Why strategy**

The undeniable importance of strategy has been widely stressed in the literature. Strategy work is a "serious business" (Whittington (2003: 177); Barry and Elmes (1997: 430) called it "the most prominent influential and costly stories told in organizations". It is commonly agreed in academia that strategy is of unquestioned importance and therefore demands substantial focus (Knights and Morgan, 1991; Cummings, 2003; cited in Clegg et al. 2004). It is very popular in business schools, especially for MBA degree that strategic management is considered and taught as one of the most central core subject (Petigrew et al 2001; Pfeffer and Fong 2002).

## **1.5 Types of Competitive Advantage**

Basically, strategy is about two things: deciding in which direction the business should follow and how to get there. Hitt, Ireland and Hoskisson (1995) called strategy "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage".

Competitive advantage, as the central object of most corporate strategies, is defined more clearly according to Michael Porter, Competitive Advantage, 1985, p.3:

*"Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for*

*equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.”*

Porter (1985) maintains that the choice of type and scope of competitive advantage (which distinguishes between firms that focus on broad industry segments versus firms that target a narrow segment) defines a firm’s relative position within an industry. Business strategies in general is useful because they characterize firm’s strategic position at the simplest and broadest level, despite the different inherent risks in each generic strategy.

Beside, the concept of competitive advantage is deeply rooted in the logic of value creation and distribution (Porter, 1985). A firm is said to enjoy competitive advantage “when it is able to create more economic value than the marginal competitors” (Peteraf & Barney, 2003, 314). Furthermore, competitiveness level comparing to the competitors is given by important factors such as price, product’s quality, post-selling services quality, the company’s capability to adapt the offers to the market’s demand and technical progress and etc. Similarly, in Michael Porter (1985) ‘s vision, the enterprise ‘s competitive advantage means to assure a reduced cost or to create a distinct product or service that is clearly different through its quality by the competition ‘s offers.

## **1.6 Strategy analysis and tools**

### **1.6.1 Five forces’ framework**

An industry is an arbitrary boundary within which firms compete with each other to produce related or similar products. An industry structure is determined by five major forces. These forces together determine the potential profit of the firm as well as of the industry. Therefore, knowledge of these forces is crucial to understand the competitive environment that the company is operating within (Lansley et al., 1994).

The five forces’ framework developed by Michael Porter (1980) has been dominating the strategy paradigm since then. In the model shown in figure 1, five industry forces

are: (1) “Threat of New Entrants”; (2) “Threat of substitution”; (3) “Bargaining Power of Buyers”; (4) “Bargaining power of suppliers”; and (5) “Rivalry among existing firms”. Basically, the firm should find and develop a position in their industry that they can best defend themselves against competitive forces or influence them in their favour, from which determines whether the firm can achieve competitive advantage or disadvantage. Porter (1985) also noted that the fundamental basis of outperforming competitors and achieving superior profits in the long run is referred to as sustainable competitive advantage.

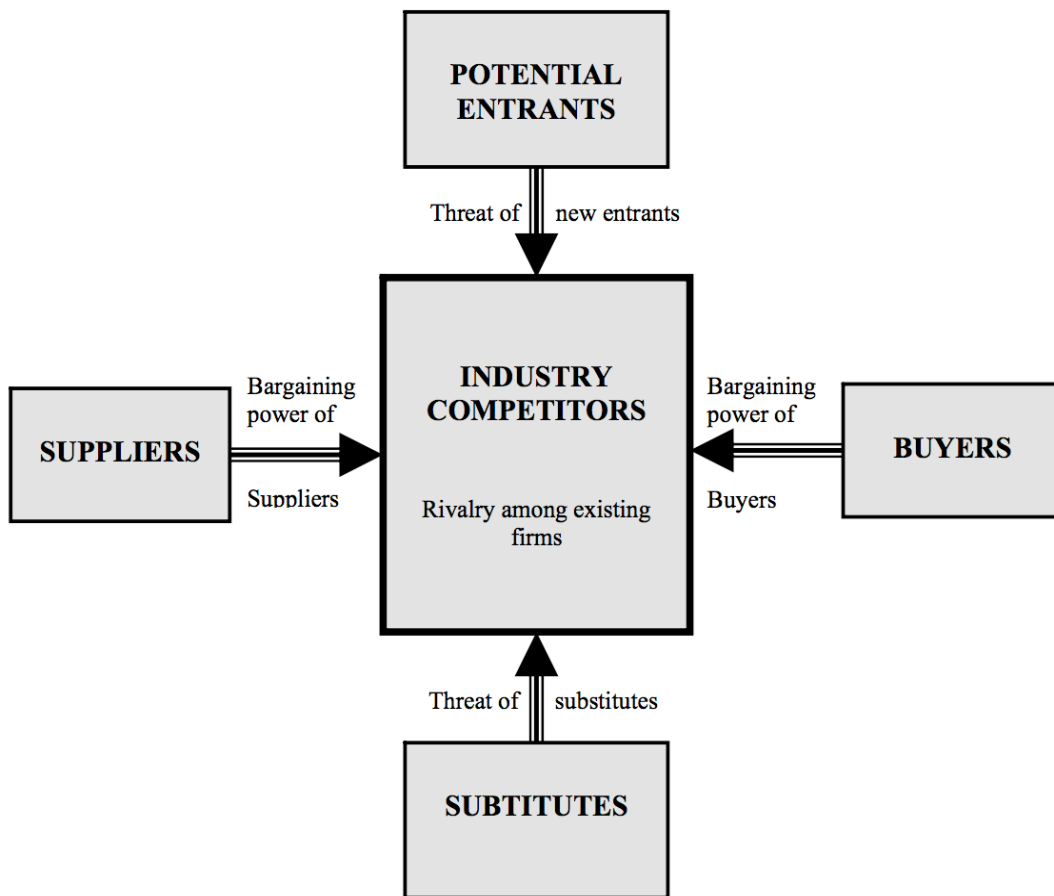


Figure 2- Porter’s Five Forces of Competitive Advantage Framework (Porter, 1980)

Each element of the framework has contributed to the industry and the firm’s profitability.

The first force, “Threat of New Entrants” indicates the decision to enter an industry of new competitors and the desire to gain a piece of total market share, thus potentially lowers level of profits that were gained by existing firms in the industry. Threat of new entrants, whether should be considered serious or not, is determined by the reaction of existing barriers to new entry the industry as well as the reaction that new entrants can possibly expect from existing competitors. Porter (1980) claims that higher barriers to entry results lower seriousness of threat of entrant for the new entrants. Major sources of barriers to entry are: economies of scale, product differentiation, capital requirement, cost advantages regardless of size, access to distribution channels, switching costs, and government policy (Ronan McIvor 2005, p.123).

The second force: “Bargaining Power of Buyers” indicates that customers exert their power on industry through their efforts in lowering prices and making a better bargain either in quality term for higher-quality or in quantity- more services. This consequently places the currently competing firms into tougher competition in the market. This factor depends on certain characteristics of the market conditions and purchases in relative to its overall business.

The third forces “Bargaining power of suppliers” suggests that suppliers affect an industry by potential means including raising prices or reducing the quality of the provided goods and services. Powerful suppliers can thereby achieve higher profitability in the industry from those companies that are unable to recover cost increases by those suppliers in its own pricing structure (Hit et al., 1995).

In the fourth force - “Threats of Substitution”, substitute products such as goods and services that have the similar functions and satisfy the same needs but outside the given industry can limit the potential returns of that industry by placing a ceiling on the prices that firms in the industry can profitably charge (Hit et al., 1995).

The last force is the intensity of rivalry among competitors. In an industry where operating firms are mutually independent, The amount of direct competition among the those within industry is a determinant of the competitive state of most industries and their overall profitability. If firms in the industry exhibit a higher degree of rivalry, then make industry profits to be lower level.

Despite the remarkable work of Porter, there are several criticisms of his five forces framework since the 1990s over the static nature of analysis of the model, the concepts of complements, overemphasizing competition and the different aspects to view sustainable competitive advantage and similar. For example, Prahalad and Hamel (1994) question the reality of business given that markets are not stable and industry structures are all the time going through major transitions. Similarly, additional important source that could be considered the six force as suggested by Gordon (1997) refers to government having the direct impact on the other five forces, whether favorably or unfavorably.

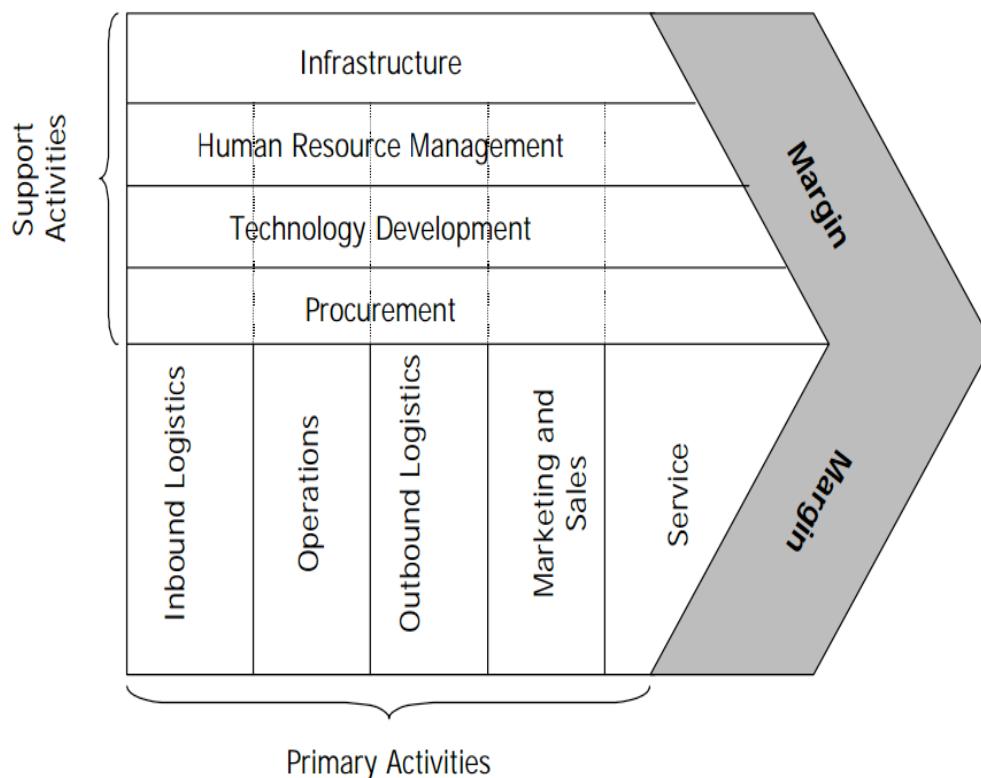
To sum up, in view of the above, Porter's five competitive forces model set the broad context for strategic-thinkers by identifying the attractiveness of industry structure as the main determinant of a firm's profitability. The framework suggests that by carefully analyzing an industry structural forces, the firm will be able to assess and determine its profitability in accordance with industry's profitability especially at the early stage of entering a market, and therefore, find its own defensible competitive position in order to achieve a sustainable competitive advantage.

### **1.6.2 The Value Chain**

The idea of 'Value Chain' was discussed by Michael Porter in his book "Competitive Advantage: Creating and Sustaining Superior Performance" (1985). Basing on the most deep-rooted and fundamental economic logic of the process view of organizations that a company is a collection of distinctive and related activities, the value chain analysis represents a set of the activities the organization performs and links them to the organization's competitive position in delivering a valuable product or service for the market (Porter, 1985). Since the set of activities are within and around a company, there is a strong relation between analysing and linking them to identify the competitive advantage of the company. Therefore, the analysis helps to evaluate which specific value that each particular activity adds to the company products or services. And the more value that a company can create, the more willingly customers are to pay for the price and the more profitability the company can achieve. Porter (1985) suggests that under-

standing and adopting a value chain is a source to identify competitive advantage of a company. Porter also distinguishes more specifically between the set of activities that includes primary activities and support activities. Primary activities are those that relate directly to the creation, sale, maintenance, support or delivery of a product or service. They consist of the following five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

In addition to primary activities, there are those activities that support and improve their effectiveness or efficiency of the primary functions mentioned above. They can be grouped into four main areas of support activities: procurement, technology development (including R&D), human resource management, and infrastructure (systems for planning, finance, quality, information management etc.). The basic model of Porters Value Chain is as follows:



Porter 1985

Figure 3 - Michael Porter's Value Chain Model (1985)

Porter (1985) argues that the ability to co-ordinate these linkages between all activities in the value chain are crucial to the company's success. In general, the linkages are the smooth cooperation between the value chain activities. Hence, together with Porter's Competitive Advantage concept, value chain analysis is a useful strategic management tool that covers the whole value system in which the company operates in order to maximize the value creation of the company.

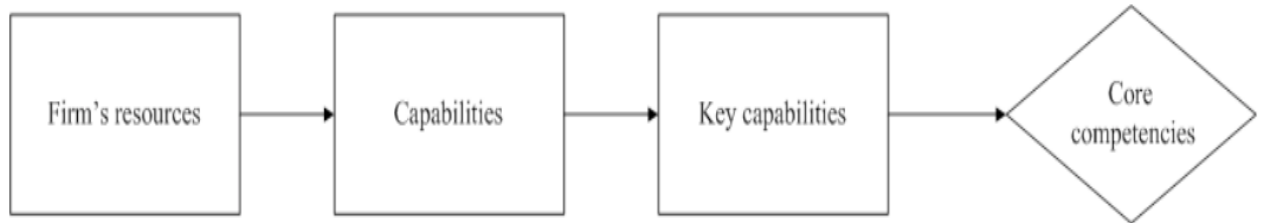
### **1.6.3 Theories of Core Competencies**

Several schools of thoughts and studies suggest that core competencies generate competitive advantage and affect organizational performance according to Alrubaiee (2010). The idea of core competencies was introduced into management literature by C.K. Prahalad and Gary Hamel (1990) which gained great popularities and influences later on:

“Core competencies are the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies...core competence is communication, involvement and a deep commitment to working across organisational boundaries...core competence does not diminish with use. Unlike physical assets, which do deteriorate over time, competencies are enhanced as they are applied and shared.”

Other researchers have elaborated further on this definition of Prahalad and Hamel and described a core competencies as something that allows a firm to satisfy a key-success factor of its business better than its competitors according to Very (1993), p.87, “skills and areas of knowledge that are shared across business units and result from the integration and harmonisation of strategic business unit (SBU) competences” (Javidan, 1998, p.62); “the capabilities that permit the firm to make the best response to market opportunities (Kogut and Kulatilaka, 2001, p.744) and similar. Even though there seems to be no unified explanation of what exactly core competencies are, one thing researchers agree about is core competencies can be a source of competitive advantage of a firm

that set it apart from its competitors. Figure below shows a simplified illustration of how the core competencies of a firm are built up:



*Figure 4 - Structure of a firm's Core Competencies*

Core competencies are not ordinary skills that can be acquired easily by any business organization anywhere. These are set of skills and competencies that are built over a very long period of time. the focus of this approach lies very much in the fact that such competencies are very unique to the particular organization and to the particular industry that the firm operates within. Unlike physical assets, which do deteriorate over time, competencies are skill-based and enhanced as they are applied and shared, it is therefore very difficult or nearly impossible for competitors to copy. This hence gives the firm unbeatable competitive advantage.

To determine whether something is considered a core competence, these three criteria should be met (Hindle, 2012):

- First, a core competence provides potential access to a wide variety of markets.
- Second, a core competence makes a significant contribution to the perceived customer benefits of the end product.
- Third, a core competence is difficult for competitors to imitate because of the inherent complex harmonization of individual technologies and production skills.

It is obvious that awareness of their competencies can help the firm to achieve sustainable competitive advantage. The most challenging part however, is the identification of



the core competencies themselves. The core competence idea is of great use to strategic planning not only for focusing them on the most essentials, the essence of what a company is and does, but also for identifying those things that are not “at the core”, and to evaluate if those non-essential things can be allowed to consume a firm’s valuable resources. (Hindle, 2012).

Managers however cannot lean back after determining their firm’s core competencies, given the current dynamic ever-changing business environment nowadays, these competences have to be managed from time to time so the firm can respond quickly to actual changes in the time of ongoing rapid change and unpredictability. Starting blind on the current core competencies can result in a loss of competitive advantage and the organizational performance.

### **Short Summary:**

Porter’s competitive forces approach – *the market-based view* considers strategy as creating defensible product market position, which are based on exploiting industry’s structural characteristics while *resource-based view (RBV)*, against this market-based view explicitly identifies internal resources as the starting point for sustained competitive advantage; theories of Core Competencies is a continuation of RBV with more emphasis on the identification of specific assets of a firm that provide differentiation from its competitors.

## **1.7 Innovation**

Business environment nowadays is getting incredibly competitive at a rapid speed. Companies face several challenges to meet the complicated requirements from the market and customer needs and expectations, while at the same time, coping with the instant needs to operation more efficient by exploiting modern technology and innovation. Companies face bigger competition in the industry due organizational and environmental obstacles such as globalization, deregulation, increasing global and domestic competition, and new technologies (Akman & Yilmaz, 2008). Therefore, operating a business in a more innovative and sustainable manner is of critical importance and recent re-

searches and studies have been placed more strongly in this aspects (Fartash & Davoudi, 2012). Integrating an innovation approach in business strategy enables the company to achieve competitive advantage over competitors, particularly those that are slow to respond to the changes (Lim, 2010). Innovation in a business involves the development of new products, services, processes or business models and how to use them effectively together with business strategy to achieve the setting goals (Abbing, 2010). Hitt and his colleagues (2001, 484) suggest that innovation is critical to enable firms to enhance their competitiveness in any market. They also suggest that innovation is the key to competition as a company needs to differentiate itself from its competitors in the market and makes it difficult or nearly impossible for them to copy the innovativeness. The question of how to achieve a sustained, long-term competitive advantage is becoming a major concern for key decision-makers in every industry, regardless of company's size. Because innovation is a crucial factor that determines the sources of competitive advantage and a long-term business growth (Gardaker et al., 1998), innovation management should be critically viewed as a major concern in business strategy (Igartua et al., 2010).

## **RESEARCH APPROACHES**

### **1.8 Method**

The writer conducted the thesis using the following methods:

- Secondary sources including published and internet based data such as academic writing books, review, articles, journals and etc.
- Primary sources through semi-structured face-to-face interviews and discussions with decision-maker (business developer/Human Resource Worker) of the company who have deep knowledge of the construction industry as well as thorough understanding about the company's situation.

## **1.9 Data Collection**

The secondary sources are collected through publicly available published data in the form of physical and e-book, online articles and journals; while primary source is done through direct interview and discussion. The writer interviewed both key personnel using a semi-structured method which allows for more flexibility.

## **1.10 Data Analysis and Interpretation**

The data is analysed using an inductive reasoning according to qualitative research approach. With regards to secondary data, there is possibilities that the original data might be incorrect or author can interpret data wrong. Also, interpretation of interview might be subjective.

## **EMPIRICAL STUDY**

The application of the strategic analyzing tools are carried in this section. The analysis use both the company's historical information, data, insights from online source, company's year end report and interviews with key management/ decision-makers of company (CEO and business developer/HR person) for inducing future assumptions. The company is typically a project base construction firm. As a local family business, apart from 5-8 construction workers, key management personnel is: father who takes care of getting more works and actually carrying those tasks; mother that takes care of accounting, book-keeping, and son takes care of mainly the rest such as business development, HR, administration, marketing and related areas. It is common among small firms that they usually do not have or aware of a proper strategy. Therefore, more focus will be placed on a bigger level of Finnish construction industry and later map the relevant points in the company's situation and strategy.

## 1.11 Research Context: Construction Industry Background

Construction undoubtedly represents one of the largest industrial sectors in the world economy (Chinowsky and Meredith 2000; Dainty et al 2007); it is a cornerstone of the economies of most countries (Marceau et al 1999; Gann and Salter 2000; Widen and Hansson 2007; Seaden and Manseau 2001).

Construction is an important sector of the Finnish economy. Finland spends more on it than many other nations. The Finnish construction sector's share of GDP is about 15 percent at nearly EUR 30 billion. In Great Britain, for instance, the share is clearly smaller – only about 6 percent (Aho, 2014). Furthermore, the Finnish construction industry is expected to generate total revenues of .6bn in 2016, representing a compound annual growth rate (CAGR) of 1% between 2012 and 2016 (Business Research Store, 2017).

For several decades, the construction industry is believed to underperform in several areas such as innovation, productivity, quality and that the industry is slow to change and improve (Barlow 2000; Widen and Hansson 2007). Many local construction firms, however, still face serious difficulties, such as poor performance and low competitiveness. Reasons behind this is the business environment that they operate within is unfavourable and also awareness and knowledge about strategic management is limited that makes it more difficult to improve competitiveness and performance. Furthermore, construction is largely based around the actualities of the building project (Chinowsky and Meredith 2000). Although strategic management has recently become widely used by many large construction firms, practical examples and empirical studies related to small local companies remain scarce (Chinowsky and Meredith 2000; Goodman 1998; Björnström 2007). This has potentially become one of the hampering factors for small construction companies.

Furthermore, the significantly limited studies on strategy in construction often draw on existing definitions and concepts of strategy. It is, however, a commonly agreed is that these studies are prescriptive and conceptual rather than descriptive and empirical (Price and Newson 2003; Flanagan et al 2007; Langford and Male 2008). Cheah and Chew

(2005) suggest the reasons behind little focus paid to strategy in construction are related to the fragmented nature of the industry, often portrayed as a “low growth, low tech” industry and the complexities relating to these barriers that hinders the research projects to conduct insightful studies on strategy. Flanagan (2007) also argues that it is harder to apply strategic analysis on the construction industry because of its high level of heterogeneity compared to other more general industries. Concerns are also raised over the changing conditions in the construction industry such as increasing awareness of its environmental impact (Pries and Janzen 1995) and increasing globalized and fluctuating markets (Junnonen, 1998; Langford and Male 2008) which urges the companies to strategically improve business to enhance competition, innovation and sustainability.

Similarly, on a national scale, Finnish construction industry has been facing several same problems such as quality problems, a backward-looking approach, grey economy, lack of transparency and etc.; the productivity of construction has also developed poorly (Juho, 2014).

## **1.12 Company’s Mission statement and Strategy Objective**

### *Mission:*

The mission statement represents the overall aim of the enterprise and its business field and also suggests general guidelines regarding management system in future (Shin, 2016: 57). Considering current situation of the firm and its future outlook, the mission statement of the firm is clarified as growing and expanding the business size by doubling the yearly revenue in the upcoming 3-5 years in a stable, innovative and sustainable manner with strong focus on key areas of both support activities such as information technology development, human resource management, and primary activities such as operations, marketing and sales; while maintaining the current good profitability and providing high quality construction work to customers in a win-win for both company and customers. This requires a comprehensive and viable business strategy including various analysis of both the industry and the company in the stage of conducting strategic research and analysis. However, in fact, the traditional philosophy of management in construction both in academia and industry places significant focus on the ability to plan

and execute projects while strategic management has received less attention in this industry (Chinowsky, 2000).

#### *Vision, Strategy and Plan*

The company's vision is to take a more strategic and innovative approach and to reform the way they have been working and thinking to enhance efficiency, innovative and sustainability. For example, the company is trying to reduce the amount of waste, papers, fuel, employees' sick leaves while improving productivity.

In the office, they want to be able to have everything well under control from a cloud based system and an internal communication portal, which enable workers to work whenever and wherever suitable.

In the construction site, the company is currently investing in new machines, which reduce the time workers need to use to finish the work and improve the safety at work, which will help reduce the sick leaves due to accidents. Old cars and machines that run on gas are replaced to minimize the fuel usage to reduce the pollution during work and save the environment.

#### *On Strategy Objectives*

Admittedly, the company's mission statement and business strategy, even commonly agreed and stated clearly between the managerial line and their workers, used to remain mostly unstructured, undocumented, which shows a sign of unprofessional management practices. When it comes to strategic analysis, the key decision-maker of the company expresses the wish to spend more time and efforts on the research area for gaining necessary knowledge of the industry, analyzing and consequently making better decisions based on those information, and for controlling, evaluating the long term development better. Since they are on the long-term plan to expand the business, planning is of crucial importance and it certainly requires actual numbers, figures and analysis from reliable sources to make the plan sound, realistic and viable. They would prefer to have a bit less focus on daily operations and completing the routinely projects and tasks, which is a very common practice in the construction field. The company agrees that more consciousness and access to strategic business development knowledge and intelligence

will have positive impact on their achievement of the desired setting goals. This unhealthy, unprofessional practice of management also hinders the process of evaluating and controlling the business strategy processes later.

## 1.13 Company's Current Situation Analysis

Expanding requires substantial amount of additional investment as well as strong current financial capability. Hence, it is of great importance to look at financial performance carefully in order to evaluate and judge the situation better.

### 1.13.1 Financial information

#### Summary of key figures

	12/2012	12/2013	12/2014	12/2015	12/2016
Net sales (€ 1,000)	814	1 132	1 268	1 278	1 208
Change in net sales%	5.3%	39,1%	12,0%	0.8%	-5.5%
The operating result (€ 1,000)	47	113	145	174	65
Operating profit%	5.8%	10,0%	11,4%	13,6%	5,4%
Personnel	6	6	7	7	8

Figure 5 - Summary of key figures

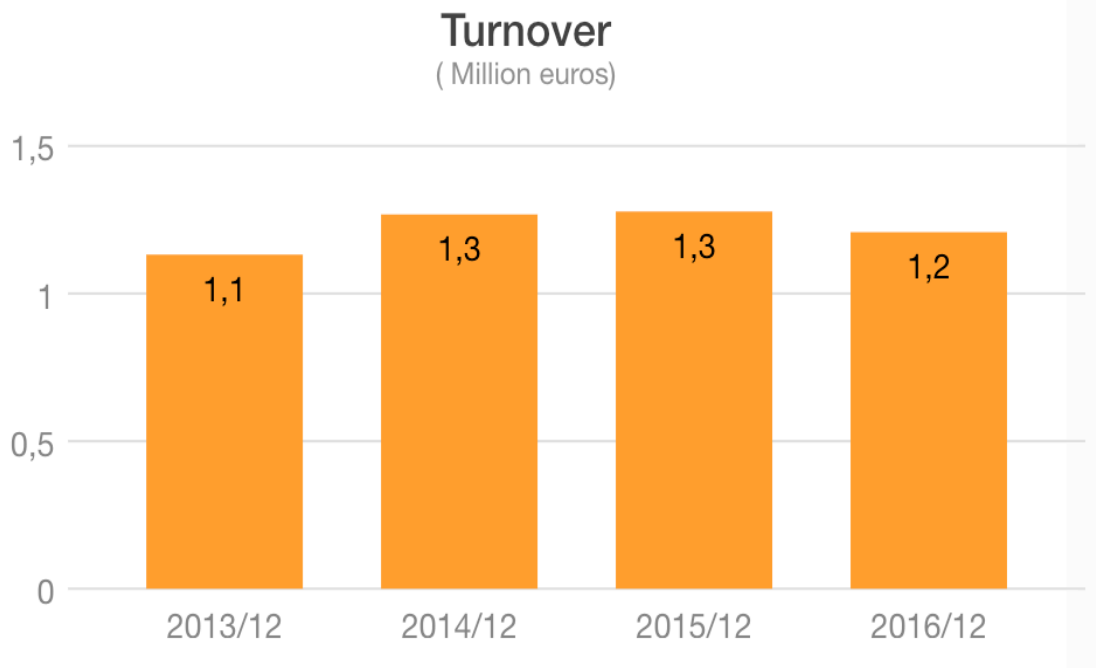


Figure 6 - Turnover bar chart

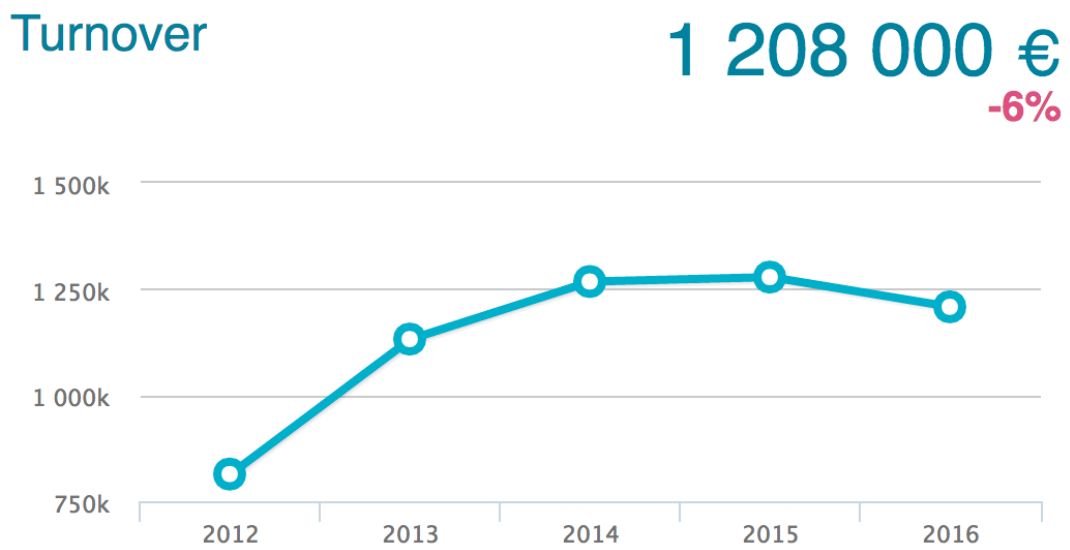


Figure 7 - Turnover line graph



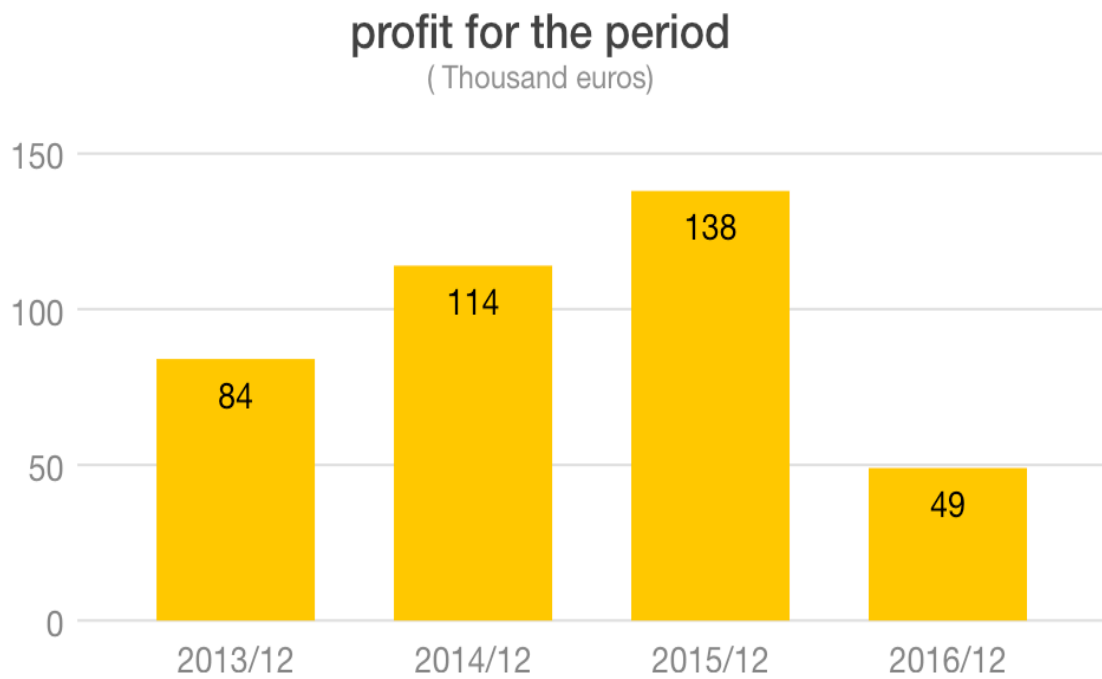


Figure 8 - Profit for the period bar chart

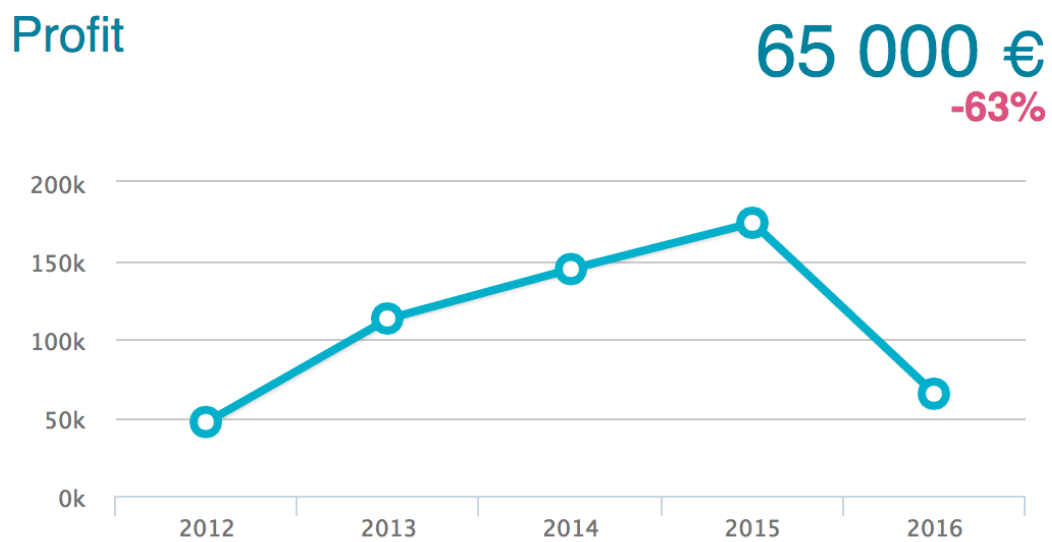


Figure 9 - Profit line graph

# Equity ratio%

**56%**  
7%

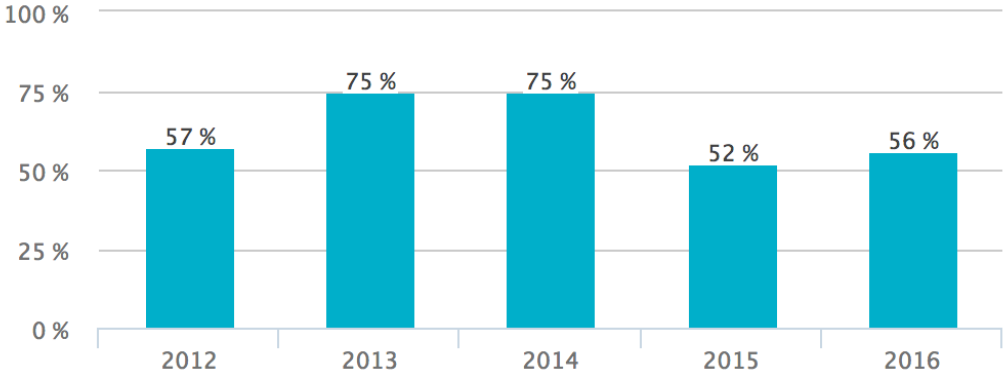


Figure 10 - Equity ratio bar chart

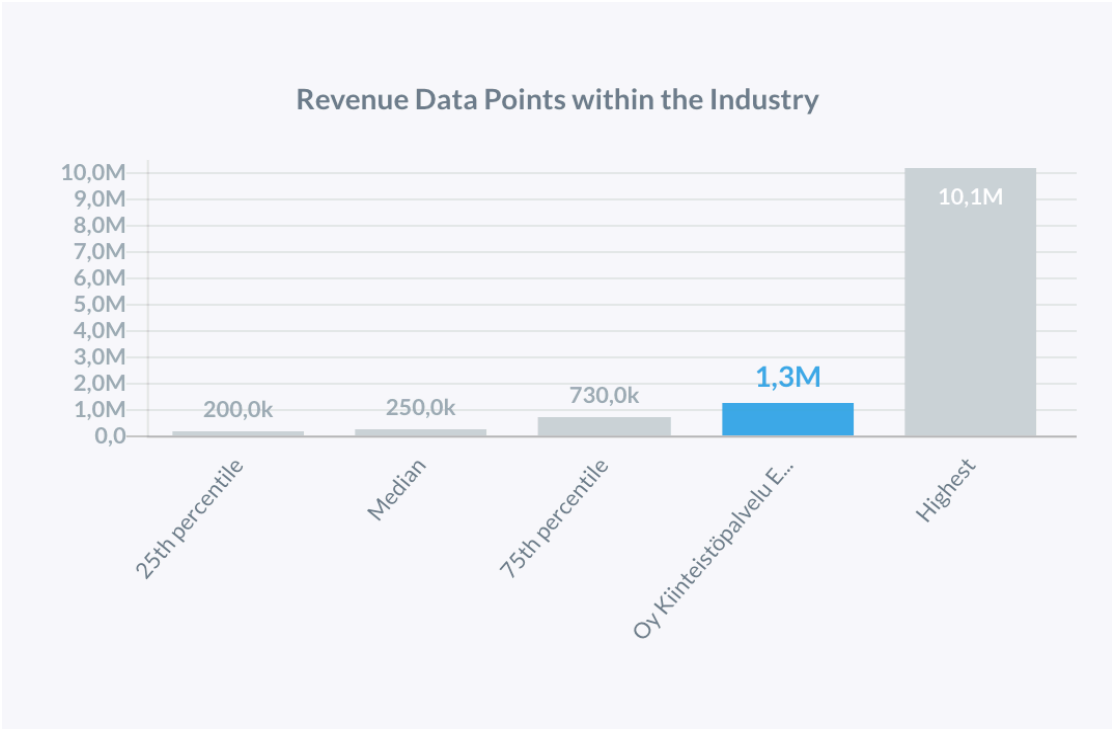


Figure 11 - Revenue Data Points within the Industry

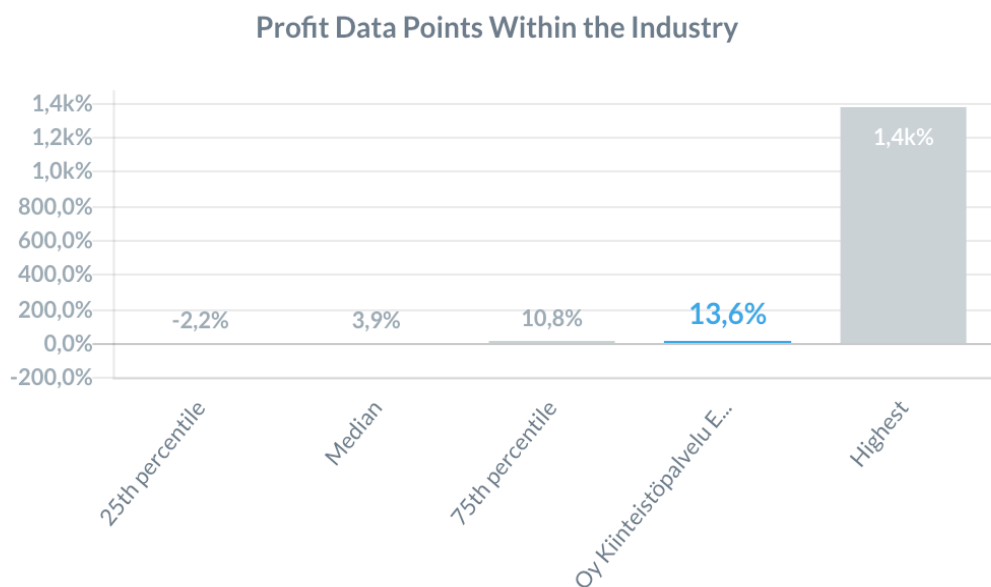


Figure 12 - Profit Data Points within the Industry

### 1.13.2 Financial Performance Analysis

From the financial accounting perspective, all the numbers and figures show that the company is doing really well in recent 5 years. Important factors such as:

#### \* Profitability

- There has been an increase year by year toward the firm's profitability in the last 4 years Profit growth margin is stable from 2012-2015 with upward trend from 10% to 11,4% and 13,6%; much higher than median industry profit margin of 3.9%, and higher than 75% of companies in the construction industry.
- Turnover/revenue is on the similar upward trend with profit margin, remains stable through the 2012-2016 periods from 0.814 M€ to 1.278m€, 5 times higher than the average industry number, also higher than 75% of companies in the construction industry.

#### \* Leverage

An important financial ratio that is worth mentioning is equity ratio (= shareholder equity/ total equity). Debt is often the silent killer of construction companies. This ratio is an investment leverage that measures the amount of assets that are financed by owner's investments by comparing the total equity in the company to the total assets. It reveals the relationship between the stockholders and creditors and whether or not there is a proper investment in fixed assets. In general, for the construction industry, a ratio of 3 or lower is considered acceptable. (*Construction Industry Ratios*). The company's equity ratio of 0.56 or 56% in percentage form is therefore a satisfactory number.

A cause of change in the numbers and ratios:

Profit for the period in the year 2016 of 5.4% - still a positive and higher than average profit margin in the industry, however has experienced a sharp decline compared to the last number 13.6% in 2015. The cause of this decrease resulted from the increasing operating expense in the on-going long-term plan that the company is following to expand and grow the business by making more capital investment including buying more capital assets such as cars, equipment, hiring more employees, upgrading information technology systems and etc. Therefore, the number does not look so nice for now if looked out of context, however the change is actually reasonable, as expected and still well under management control.

Judging briefly from these crucial summary figures, it is clear that the firm has delivered a very good profitability and has great potential to expand its business.

## **1.14 Strategy Analysis**

### **1.14.1 Porter's Five forces framework**

Porter's Five forces analysis is crucial for the company to understand the construction industry structure as well as determine the competitive intensity.

### **Threats of New Entrants: Weak**

- Customers are very loyal, despite the common practices that customers always look for the lowest bid and lowest price. The company has several important clients that use their services 10 years in a row, mostly in public sector such as Kirkkonummi kunta, Espoo kaupunki, and etc.
- Low or little switching costs: 95% of the company's offered work are based on rate per hour service, hence there is little or no switching cost which is quite similar to other companies in the Finnish construction industry.
- Capital requirements for property development depends and varies a lot on different projects, but mostly for the big ones it accounts for 75% of the entire project.
- Degree of riskiness and uncertainties in project management: small risks, especially on the financial perspective, the company chooses the least risky method by sending hourly invoice to customers on a weekly base and most of their main customers are public sector which usually pay the bill on time. Besides, some errors can still happen now and then, but very rarely and well under control.
- Access to inputs such as skilled labour depends on the timing and the type of projects, but usually it is not so easy. However, since the company has been so long in the industry for more than 30 years, they have great advantage in hiring good and skilled labour thanks to the good relationships maintained with partner companies in the area, in which the new entrants do not have advantage over this area.

In the construction industry, big companies that have successfully established good reputation and a long history in the industry are said to enjoy huge advantages compared to new entrants because the construction industry operates differently to other industrial or economic sectors. It often requires huge manpower, plan and equipment, safety and occupational health insurances and especially a good established track record of the work quality to win over big contracts for building huge infrastructure projects. Consequently, these requirements

impose significant barriers to new entrants entering the market. The threat of new entrants therefore, in the important sectors is low. However, in the residential construction area, since more focus is placed on lower bids and cheapest tenders, threat of new entrants can possibly be higher than usual as the clients usually prefer lower costs as compared to loyalty to a long existing and established company. The company also faces the similar problem even from their most loyal clients as they always look for cheapest tenders and consequently force the company to operate at the very low profitability sometimes, however, in the industry that quality of outcome matters much more, the company still manage to balance both sides that can provide customers high quality at the reasonable price as possible without hurting their profitability.

### **Industry Competitors: Weak**

- Construction works are usually familiar in the outcome and companies often have to compete aggressively by offering the lowest price for services to get customers

- There has been an increase in demand for construction projects from Small and Medium sized companies in recently few years and the trend is gradually upwards every year. The reason behind this increase is Finnish economy in general and construction industry to be more specific, is still struggling to get over the financial crisis and slow growth, so the current trend is to build less new projects but more to fix and renovate old ones. Since renovation is the the focus of the company, the company is noticing a good increase in demand recently.

- There is still excess in capacity now and then of course, which is a common problem of expanding the company to be of bigger size and more available workers. However, the company has tried to fix this problem by hiring subcontract workers and temporary labours from their partner companies on a project base if needed.

As explained above, construction sector is very competitive amongst the existing firms, even in a small local area such as the market the company is operating within.

Big contracts of infrastructure work such as building roads, bridges are often occupied by giant construction firms like YIT, therefore big companies are not so relevant to compare with the interviewed companies, but mostly from small and medium sized companies in the town Kirkkonummi and nearby areas such as Espoo.

### **Threats of Substitutes: Strong**

· New emerging innovative methods and processes within construction industry do not have big impacts on the work or widely used lately according to the company experience, at least in the most recent 3 years since the big huge part of construction works still relies on existing plant and equipment that costs huge investment over a long life period, hence it is not so easy to switch between alternatives such as application on devices like in other fast growing industries. However, the company is constantly paying close attention to any new and innovative techniques that can be suitable to be implemented in their operations, depends on the situation and the company's projects.

· The chances that clients switch to lower priced but have the equal features substitute products are low. Clients do not see the need of changing since the difference observed is not so obvious or big enough to make it attractive to go through all procedures to switch for a relatively similar outcome.

Despite the strong threats of substitutes, the company has an established reputation especially on its high quality of work in the local area, therefore can increase its competitiveness.

### **Suppliers Bargaining Power: High**

The bargaining power of the suppliers is high given the shortages of labour and the constantly rising prices of the inputs. Construction project costs themselves and input costs of property investment, plant and equipment, materials and manpower have been always increasing. The constantly rising input prices and the shortages of skilled workers and supervisors in the construction work helps enhance the strong power of the suppliers in adjusting the price. The company therefore has tried to make contracts with crucial suppliers to make it easier

when switching for better deals, and get the the materials straight away from the factory without going through much agency in the middle to reduce additional costs.

### **Buyers Bargaining: Higher**

- There are few amount of construction clients compared to bigger amount of service providers available in the area to deliver projects, especially more competitors coming not only in the local but from Estonia for example, with cheaper price and cheap labour offered, hence the bargaining power of customers is strong.
- Clients can easily switch between companies at little or no cost.
- There is high chances that clients can postpone projects until a later stage when they can secure lower cost of the projects.

### **1.14.2 Value chain Analysis**

The company's recent changes in their strategy involved mainly the technology development aspect in their support activities area.

#### **Technology Development**

While the developments in human resources and markets demand that construction organizations respond to changing circumstances in the employee and customer marketplace, the information revolution is impacting all aspects of the construction profession. One of the big changes in their technology development is switching to paperless system from the previous time that everything, all kinds of financial transactions, working contracts and etc. is basically on paper and notes. Obviously, it is hard to find any company nowadays that still run on that inefficient manual method of recording since this has several drawbacks. After applying the new information technology system, the company has enjoyed lots of benefits such as cost-saving, time-saving, efficiency, productivity and etc.



Besides, the company is currently exploiting modern technologies that provide their construction supervisors and workers with access and ability to work flexibly anytime when suitable through the cloud based system. The workers can log in and out to confirm their work and at the same time, check and locate other co-workers working process. During last 1 year of implementing their own internal communication portal, this access has profound implications for the company in several areas including intra-office communications, client relations, and site management, especially in construction work, it is important to know and locate the co-workers when the work can involve moving around between different construction sites. The technology improvement in the company is similar to the concept of hyperarchical information access and transfer (Evans & Wurster 1997). The concepts basically are breaking and reducing communication barriers by allowing any individual to electronically communicate with any other individual, regardless of title, rank, or office; as well as to access information whenever and wherever they want. Advancements in technologies used in communication are applying these concepts to bring project participants together through multiple portals. Communication, organizational processes management, marketing and branding, human resource management and similar areas are constantly changing at rapid speed, so therefore, companies should place more focus to adopt these technologies and have the vision to make it a crucial element in the company's long-term development. In overall, according to company's management line, the change is proved to positively impact their performance. Technology factor is increasingly important in this industry and the company is trying to stay involved and keep up with the changes of new technology developments and other innovations.

### **Human Resource Management**

The company's ethics Codes and Codes of Conduct is recently revised and improvised between workers. More specific guidelines and rules especially important points are displayed clearly in the office so workers can be easily reminded of those. This is believed to affect positively the commonly agreed way workers behave among colleagues, improve co-workers' relationship, compa-

ny's health and further improve company's performance when linked to its business. Construction workers doing tough jobs usually behave more casually among each others, it sometimes can therefore involve more aggressive attitude easily when it comes to conflicts. Therefore, being aware of this potential problems, the company is trying to change and improve the communication, relationships among workers, enhance and build a better and healthier company's culture.

Besides, since most of the workers share the same interest for the same hockey team, the company has now holding casual hangout after work hour for watching the game together in the office regularly. After few times, the workers said they enjoyed the events quite a lot, and want to have it more in the future, so this proves to have good impact on improving the relationships among co-workers and build stronger bond in the company.

### **Operations & Service**

Despite the small scale of local town that the company is operating within, the company is more aware and trying to increase their work standards, company's policies, improve safety for employees and enhance better services for customers. As mentioned earlier, the changes are applied to important areas both in the office and on the construction site. In the office they want to be able to control everything from a cloud based system, which means they are able to work whenever and wherever depends on each projects and situations.

On the construction side the company is investing in new machines, new cars, which reduce the time their workers need to secure to finish the work. In the same time, they help spare their employees from different kind of pains that can lead to sick leaves. They have also replaced old cars and machines that run on gas to minimise the fuel usage.

Last but not least the company has been paying more attention to safety in work and safety equipment's. Employees are encouraged and registered to regular safety and occupational health classes and training to get both the certificate and

knowledge to work better and safer on the construction site. At the present, all of company's workers have the most necessary certificates that are strictly required to have in the field. Even if this is yet another big investment, the company sees that it will protect their employees and help them to have a better working environment, especially in the long term developments.

### **Marketing and Sales**

The company is recently making several efforts to improve its marketing and sales such as improving its own website, increasing unique brand reputation by having their own images of real workers in the company, real cars and other facilities to be featured in their own page other than just using simple graphic illustrations. This is believed to have positive impact on their brand management and increase the marketing outcomes. Photo-shoots for company's photos used for their website is expected to be carried out soon during this summer.

Besides, the workers start to wear the company's own work uniforms. This is supposed to create a better attractive business image of the company in terms of standardization. It also helps promoting company's brand when employees wear uniforms displaying corporate logos and colours, to differentiate their business in the local area. Other functional benefits like safety from high visibility uniforms can help prevent injuries, flash fires or being struck by motorized vehicles. Their new uniforms also promote a sense of team spirit, fairness, a sense of pride and responsibility of belonging to the company, hence can improve worker productivity. Customer relationships of the company are improved since work uniforms immediately identify company representatives who can be approached for purchasing information, thereby improving overall customer service.

#### **1.14.3 Theories of Core Competencies**

Different type of firms has different approach to core competencies. For Engineering, Procurement and Construction (EPC) firm (Lampel 2001), the compa-

ny's core competencies established are listed accordingly to important criteria as below:

- Entrepreneurial competencies

Customers and markets: This is the strongest point that the company has successfully established and maintained through the years. Based on a mixture of strong, concrete market experience of more than 30 years in the industry and deep understanding of clients' need, and very good relationships with past and current customers, this gives firm the great ability to detect and develop new opportunities, some of those are big clients such as Kirkkonummi kunta, Espoo kaupunki and similar. In the local area, the company has good long reputation of constantly improving and high quality of work, which is a very crucial determining factor that customers consider, therefore, it has great potentials to extend and gain more customers and at the same time, retaining big clients of more than 10 years in a row as those they are having contracts with.

- Technical competencies

Seeing this as a weak area that needs more improvement, the company is in the middle process of investing and implementing more modern technique and software to improve efficiency in key areas such as book-keeping system and internal communication portal. This gives them the ability to use technological assets and know-how, move knowledge quickly from one task to another, and absorb knowledge from external sources.

- Evaluative competencies

Learning and innovation: Company is encouraging and registering their workers on regular safety and occupational health care classes and construction training for better knowledge and safety to work on the construction site. Besides, key management personnel occasionally attend training courses in relevant subjects such as taxation, information technology to improve knowledge and insights in the fields. Better interaction of human judgment and information system gives the firm the ability to evaluate, plan and control project management more efficiently.

- Relational competencies

This criterion is based on social, psychological and cross-cultural skills to manage relationship with clients, suppliers and partners, to avoid and resolve disputes and adjust team dynamics in the face of unforeseen contingencies. The company has so far managed successfully to maintain good relationship with mentioned parties. However, in the company, recent incidents that happened are disputes between manager who is very strong and firm in his leadership style and workers sometimes get too big that leads to the worker walking out or stop. Even though there are several reasons behind that for example the worker has not been very active and committed to the company and his leaving is expected, few changes in manager's leadership style should be still considered to avoid future unnecessary conflicts.

## **DEMARCATIION**

Strategy analysis for the company in this thesis is limited to only the company since it is based accordingly to the firm's current situation and its market position.

The thesis is believed to be conducted with a realistic approach, considering the resources and relevant information of the company from both financial and time perspectives. Any specific and detailed strategy plan will be considered by the CEO and management level to see whether it is applicable to the company.

Most of the literature is written on a holistic view of business strategy, and more specific in Finnish construction industry where applicable, therefore it has been applied to construction industry situation. In some cases, there may be disconnect with the literature and how it is applied tactically and practically in construction industry.

Furthermore, the thesis is written with a focus on the company's long term plan which is increase it size and business growth within next 3-5 years. Therefore, the thesis may be limited regarding the short-term plan with the assumption that the change in their business strategy will not happen all at once and have profound impacts on the company's daily performance but rather observed over a long period of implementation.

## CONCLUSION

The thesis was to examine the importance of strategic management and strategic analysis, the concepts of sustained competitive advantage, and to present the most fundamental strategic analysis tools used in business strategy, given the context of the construction industry where there is an identified-lack of strategy research and analysis. Competitive advantage in construction industry can be gained or lost based on how well a construction firm is aware and able to apply different important strategic analytical tools such as Porter's Five Forces, Value Chain and theories of Core Competencies.

The analysis should be considered a valuable approach for enhancing competitiveness and innovation in the company's operation and management aspects. In addressing to the problems defined in research questions, the findings represented the unacknowledged importance of strategic management and analysis in construction industry. The thesis also suggested that strategic analysis intelligence should be facilitated and subjected to more attention that key decision-makers of company can exploit to positively impact company's strategic management in building, implementing and evaluating a business strategy to enhance its competitiveness and innovations.

The thesis used both secondary sources including published books and online materials and primary sources with semi-structured interview with company key decision-makers in light of theoretical and empirical case study analysis.

The thesis strongly focused on strategic analysis and research to gain more understanding of the industry structure, of the other factors that determine the gain or loss of competitive advantage other than creating a strategy or plan for them, since the company is still in the early stage of planning and gradually implementing the changes in a stable, innovative and sustainable manner. Besides, given the fact that the company studied in the case had no properly structured and documented strategy as well as not being aware of the importance of this strategic intelligence tools and analysis, it is more difficult to analyze and match the company's situation to the strategy analysis process. Therefore, strategy analysis in the thesis have limitations.

The firm can miss out several opportunities in mapping its current situation to industry's characteristics and future trends, enhancing its efficiency and performance of the long-term plan if neglecting this crucial knowledge, which is typically a common practice in the small construction firms. However, it is strongly believed that the company will improve and ensure the viability of their expansion plan if they plan to follow the thesis as a basic guideline in the stage of strategic analysis and supplement insufficient part of the thesis when needed.

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