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Conference or Workshop Item

Published Version

Ulutas Duman, D. and Green, S. D. ORCID:
<https://orcid.org/0000-0003-1660-5592> (2015) Understanding competitiveness in complex and dynamic environments: the case of Turkish contracting. In: 31st Annual ARCOM Conference, 7-9 September 2015, Lincoln, UK. Available at <https://reading-pure-test.eprints-hosting.org/80034/>

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UNDERSTANDING COMPETITIVENESS IN COMPLEX AND DYNAMIC ENVIRONMENTS: THE CASE OF TURKISH CONTRACTING

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The aim of this paper is to explore how international contracting firms maintain their competitive position. The adopted stance is positioned against the positivist and rational perspectives, which currently dominate the construction competitiveness literature. In contrast to previous studies, the focus lies on the interpretations of senior executives within Turkish contractors, which have in recent years competed highly successfully in international markets. Emphasis is given to the dynamic capabilities view (DCV) and the extent to which it provides into the strategy of Turkish contractors. In contrast to other theoretical models, DCV is notable in the (rhetorical) emphasis given to dynamic environments within which firms continually re-position themselves. Static rationalist models of strategy have limited explanatory power in the context of the highly unstable markets within which Turkish contractors operate. An empirical research agenda is outlined together with a proposed set of research methods.

Keywords: competitiveness, dynamic capabilities, process perspective, sense making, international contracting.

INTRODUCTION

It is uncontroversial to suggest that today's dynamic business environment requires more than the rational competitive strategies proposed by the simplistic theoretical models of 80s (e.g Porter, 1980). Market stability can no longer be taken for granted. To be successful in the modern era requires firms to continuously adapt to an uncertain and rapidly changing business environment. Sustained competitiveness arguably depends upon highly developed dynamic capabilities which bridge between internal operating routines and the continuous analysis of an uncertain and ever-shifting external environment (Green *et al*, 2008a). Of particular importance becomes the need to understand the *process* through which contracting organizations enact their competitiveness. This represents a shift from an underling '*being ontology*' which assumes that reality is essentially static, towards a '*becoming ontology*' which privileges a view of reality characterised by continuous and emergent change (Chia, 1995). Such a shift in thinking focuses attention to organisational sense making processes and associated structural re-adjustments.

Numerous previous studies have discussed the concept of construction sector competitiveness. However, the vast majority of such studies give scant attention the *dynamic* and increasingly fractured environments with which firms compete. In consequence, they tend to emphasise the importance of the social, economic, and

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political parameters, which supposedly characterise different markets. What remains relatively under-researched is the way in which competitiveness is enacted and the sense-making processes, which shape strategic trajectories (cf. Pettigrew, 1997). The purpose of the current paper is to focus on Turkish contracting companies, which have achieved remarkable success in international markets, especially in terms of adapting and responding to market shocks and discontinuities.

The paper is structured as follows. First, attention is given to the development of Turkish international contracting sector from the 1940s onwards. The theoretical background of competitiveness studies is then reviewed with reference both to the construction literature and the broader management disciplines. Consideration is given to issues of research methodology, prior to a discussion of the rationale behind the proposed interview questions to be directed at senior managers with Turkish contractors. Given that the research is a part of a PhD study, the paper is specifically positioned to encourage feedback and critical reflection.

TURKISH INTERNATIONAL CONTRACTING FIRMS IN THE CONTEXT OF ECONOMIC AND POLITICAL CHANGE

Turkish contracting companies started to develop an expertise in domestic infrastructure development in the mid-1940s and this internal focus continued up until the mid- 1960s. They benefited from buoyant Turkish domestic market throughout the 1950s and 60s. Infrastructure development in this period was often funded by international capital linked with Turkey's admission to NATO in 1952. Working with foreign partners throughout this period enabled Turkish contractors to increase their technical and managerial capabilities to a level beyond those of other Middle Eastern contractors. In consequence they were then able to follow Western contractors into the expanding markets of the Middle East and North Africa associated with the 1970s oil price boom. While the oil boom created significant international opportunities, paradoxically it had a negative impact on the Turkish economy. Hence, investments in large-scale domestic construction projects came to a standstill and Turkish contractors had little choice other than to expand internationally to maintain turnover (Tayanc, 2011).

International activities thereafter increased rapidly as a result of the liberalization of the Turkish economy and its progressive integration into the global economy throughout the 1980s. For many years the most important overseas market for Turkish contractors was Libya. However, political uncertainties progressively caused Turkish contractors by the 1980s to shift their attention to other Middle Eastern markets such as Saudi Arabia and Iraq. Further opportunities for diversification followed the dissolution of Soviet Union in 1989, especially in former southern republics such as Turkmenistan and Kazakhstan. Turkish firms frequently found themselves operating in markets where Western contractors were unwelcome thereby maximising their competitive advantage. It is also notable that Turkish contractors consistently exploited Turkey's embedded cultural and political connectivity throughout the Middle East. In this respect, there was an historical path dependency with which Western contractors could not compete. The collapse of the Soviet Union dramatically increased Turkey's sphere of influence almost overnight, such that the ruling political classes became increasingly ambivalent about membership of the European Union.

It is clear from the description above that Turkish contractors have been highly successful in continuously adapting their business activities in response to uncertain and unpredictable market conditions. Most notably, they have successfully evolved

their strategic focus over a sustained period in a region characterised by conflict and political uncertainty. The destiny of Turkish contractors has been shaped by *realpolitik* in response to a series of regional crises. But they have also responded to new opportunities created by structural shifts in the international order - not least the collapse of the former Soviet Union. Such seismic changes were entirely unforeseen by the rationalistic approaches to strategy which prevailed in the 1980s. Approaches such as those famously advocated by Porter (1980, 1985) tended to privilege stability over discontinuous change. Hence planning was prioritised over opportunism.

The path followed by Turkish contractors therefore differs starkly from the planned strategies, which tend to be portrayed in the literature. In no small way, the competitive advantage of Turkish contractors rests on their ability to respond to extreme social, economic and political instability. It is contended that these 'big-picture' changes such as the collapse of the Soviet Union and regional conflicts such as the Iraq War are inseparable from the success of Turkish contracting companies. Yet the current literature goes no further than linking their competitive performance to routine analysis of external market forces and industry level discussions around efficiency (e.g. Giritli *et al.*, 1990, Öz, 2001, Özorhon, 2012). Few seem interested in any theoretical engagement with the story of Turkish success in international contracting as presented, or indeed in explaining the processes through which strategy is enacted in such circumstances.

THEORITICAL SHIFTS IN THE COMPETITIVENESS LITERATURE: FROM RATIONAL PLANNING TO DYNAMIC PERSPECTIVES

In many respects, the evolution of Turkish international contracting shadows the shift from a static predictable world to a world characterised by uncertainty, conflict and continuous upheaval. The conceptualization of competitiveness in the literature has followed a similar trajectory. Early theorists such as Porter (1980; 1985) advocated an essentially static analysis of competitive positioning. This progressively gave way to more dynamic perspectives arguably cumulating in the strategy-as-practice approach proposed by Jarzabkowski (2005). In the 1980s the literature tended to discuss competitiveness from a rational perspective with a focus on exogenous factors within different markets (i.e. Porter, 1980; 1985). Such perspectives emphasised industry level analysis; organisations were assigned a relatively passive role in that industry forces in essence shaped their competitive strategies. Strategic planning supposedly shaped decisions in respect of which markets to enter and how best firms could position themselves. Markets were conceptualised as essentially static, and firms were conceptualised as homogenous entities whose actions were determined by rational analysis. In the 1990s, the resource-based view (RBV) emerged as a new perspective and challenged the rational focus on exogenous industry-level factors. The focus of the debate hence moved to an organizational level of analysis with an emphasis on the importance of unique internal resources and capabilities that could not be easily imitated by others (i.e. Barney, 1991). Although the RBV moved the focus of competitiveness research to the organizational level, it tended to neglect the dynamic contexts within which organizations are embedded. Thereafter the dynamic capabilities view (DCV) emerged as an extension to RBV and effectively shifted the focus of research onto the adaptive nature of organizations (Teece *et al.*, 1997). Hence the challenge shifted from 'unique resources' (Barney, 1991) towards designing 'processes to enable responses to dynamic environments'. Teece (2007) is especially

persuasive in terms of the need to 'sense, seize and configure organizational competencies to answer dynamic changes'. Hence dynamic capabilities are defined as "higher level competencies that determine the firm's ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environments" (Teece, 2012:1395).

Although there remains an empirical confusion regarding the precise meaning of 'dynamic capabilities', such a perspective nevertheless points towards the decision-making processes within organisations and the need to respond to dynamic environments. As such, the DCV may provide a meaningful framework for understanding the trajectories of Turkish contractors. DCV further builds on evolutionary economics in recognizing embedded processes of adaptation and reconfiguration in response to external change. More recently, the strategy-as-practice (SaP) perspective stresses the importance of the individual level in the strategizing activity within organizations (Jarzabkowski, 2005). The SaP perspective also privileges the sense-making processes of the individuals involved in the enactment of strategy. But it must also be recognised that there is little theoretical consistency within this broader literature. This is equally true of approaches, which seemingly adhere to the narrow specialism.

Competitiveness Studies in Construction Management Literature

There is of course a large existing literature, which addresses competitiveness in the context of construction. The general tendency is to follow the rational strategies promoted by Michael Porter in the 1980s (e.g. Ofori, 1994, 2003; Öz, 2001; Zhao *et al*, 2009; Lu *et al*, 2013). As commented above, such studies mostly treat the construction sector as homogenous while conceptualising competitiveness as a tangible static value.

There is also much variance in the adopted unit of analysis. Some studies focus on regional contractors (Chiang *et al*, 2008, Ling and Gui, 2009); others on large international conglomerates (Shen *et al*, 2006, Zhao *et al*, 2009, Lu *et al*, 2013). However, such studies routinely underplay the instability of the markets in which the contracting companies operate. There is also an overriding tendency to reify competitiveness as if were something to be possessed (e.g. Flanagan *et al*, 2007). Other studies have adopted more processual and discursive approaches to strategizing (Green, 2008a, 2008b). There is also an increasingly strong emphasis on empirical approaches, which seek to access the interpretations of senior managers (Kao *et al*, 2009). In broad terms there is a gradual shift towards the sense-making processes of senior managers when faced with an ever-changing contextual landscape. The trend in the literature has also shifted away from quantitative surveys towards a more qualitative and critical perspective.

The proposed research is therefore positioned within this emergent perspective, which promotes a focus on the enactment of competitive strategy over time. Such a perspective can be loosely positioned within the broad tradition of 'processual thinking' which focuses on change and transformation with a view to accessing 'reality in flight' (Pettigrew, 1997). What remains empirically elusive are the actual mechanisms through which strategy is enacted. Indeed, such mechanisms are arguably always subject to post-hoc rationalisation such that researchers are almost inevitably constrained in terms of the empirical data, which can meaningfully be collected.

Rather than focus on supposed 'mechanisms' it arguably becomes more useful to focus on accessing multiple narratives of organizational transformation. This is best

achieved through face-to-face interviews with the individual actors who purport to have been involved in key strategic decisions. Hence the research becomes rather less about how strategy was enacted and rather more about narratives of post-hoc rationalisation. This of course does not make the research any less important, because how senior managers make sense of the past inevitably shapes their response to the future - albeit not in an instrumental or easily predictable manner. It is also true that some post-hoc rationalisations are more persuasive than others. There is therefore a need to evaluate the legitimacy of the interpretations offered through a process of validation against known facts and the available grey literature. Some interpretations of course will be idiosyncratic, but other will become institutionalised within the firm to such an extent they become generally accepted as part of the organisation's culture. There remains a paucity of studies that adopt such an interpretative approach to the way senior managers make sense of strategy. One particular point of interest is the extent to which the historical path dependency of Turkish contractors shapes the interpretations of senior managers, and thereby informs future strategic decision.

PROPOSED EMPIRICAL RESEARCH

Research Methodology

The purpose of the proposed research is to explore 'the extent to which the dynamic capabilities view (DCV) can provide meaningful insights into the competitiveness of Turkish international contracting firms. More specifically, it aims to explore the extent to which the core narratives of DCV resonate with those mobilised by senior managers. This study is designed as exploratory research and the discussion below presents the logic of the interview questions that will guide the empirical analysis.

The interview questions are intended to access the ways in which senior managers describe competitive strategy. The questions were primarily informed by the DCV literature in addition to more mainstream approaches to strategy making. Reference was also made to the more descriptive models of international contracting (e.g. Mawhinney, 2001). . The questions aim to catch the 'reality in flight' as advocated by Pettigrew (1997). However, it is important to emphasise that the research focus is to understand the sense-making process of senior managers by accessing post-hoc narratives. With the aim of contextualising the research within a broader geo-political context, the interviews will be complemented by an in-depth analysis of the grey literature together with the time-series analysis of relevant statistics. The exploratory research described is seen to comprise a first step towards explaining the specificity of strategy as pursued by Turkish contractors.

Questions to understand 'how senior managers make sense of competitiveness'

A social constructionist perspective shapes the research with an emphasis on the understanding the way senior managers make sense of strategy making. Such perspective shares common ground with DCV literature, which highlights the role of managers in the enactment of competitiveness. Helfat *et al* (2007) is especially persuasive in arguing that it is important to understand the decision making process as perceived by individuals as a means of understanding broader processes of change. Sense making processes invariably involve a series of interactions with a defined a group of individuals. In the case of Turkish contractors competing in international markets, it will be interesting to explore the extent to such reference groups are contained entirely within the organisation, or if reference is made to external groups in

terms of foreign policy advice. Given that the big Turkish contractors have tended to adopt a common trajectory one suspects that there are receiving similar advice on the risks involving in individual markets. Indeed, the contractors seem to be operating within the conduits of Turkish foreign policy with the Government playing a significant role in negotiating contracts and underpinning the associated risks (c.f. Tayanc, 2011).

According to Weick (1995) how practitioners make sense of reality is shaped by both their individual position and the characteristics of the context within which they operate. Therefore, gathering the information about the interviewee and his/her role in the organization will be an essential starting point for each interview. Interviewees will be encouraged to share their own individual the story about the development path of their organization and the way in which strategy is enacted. The objective is to understand how the practitioners construct meanings, make sense of 'competitiveness' in reality and the process of strategy making. Specific prompts however will be used if necessary to explore areas identified in the literature review. Of particular interest will be the extent to which senior managers allude to the geo-political factors outlined above.

Questions to understand the 'key events' and the impact of 'internal and external context' that shape the strategy making process:

It is important to probe the extent to which the managers make sense of their previous experience. To this end they will be invited to describe the 'key events' that are critical to maintain their competitiveness over an extended time period. This will enable the perceptions of the interviewees to be validated against known facts. Reference will also be made to the available statistics relating to the turnover of Turkish contractors in different markets within different periods. Teece's (2007) categorisation of three sorts of activity –sensing, seizing, transforming- will also be important in interpreting the key events that are stated by interviewees. Such activities supposedly highlight the micro foundations of dynamic capabilities. Whether such categories relate to the perceptions of decision makers within Turkish contractors of course remains to be seen.

Also, as discussed by Pettigrew (1997), there is supposedly a continuous interaction between managerial actions and the 'contextual setting' within which they operate. Hence aspects of the 'broader context' must be questioned and conceptualized as an active part of any analyses. Green *et al* (2008b) similarly argue that local enactments of competitiveness are inevitably formed and shaped by broader contextual issues. Accordingly it becomes very difficult to envisage how the competitiveness of Turkish international contractors could ever be understood in isolation of their dynamic interaction with the broader landscape within which they operate.

It is notable that most of the literature on the competitiveness of construction firms treats the construction sector as a homogenous entity whilst reifying competitiveness as a tangible static concept which lends itself to measurement. However, the intention of this research is to emphasise the socially constructed nature of competitiveness and the impact of idiosyncratic decisions on subsequent strategic actions. The research therefore aims to explore to the extent to which the '*internal context*' of the organization shapes the process of strategy making. Green *et al* (2008b: 433) argue that 'socially constructed knowledge is created and disseminated by groups of individuals with vested interests in the diffusion process.... and the infrastructure within which such groups operate can also be read as a material manifestation of the

broader discourse of competitiveness'. Hence it will be important to understand the processes through which companies organize themselves. Furthermore it will be important to understand which specific aspects of both *external and internal context* are seen to be relevant to the process of strategy making.

Questions to understand the 'managerial and organizational processes' in the enactment of competitiveness:

The competitiveness literature refers to numerous different strategy making perspectives. At one end of the spectrum is the classical perspective, which equates organisations with rational decision makers (Ansoff, 1965; Chandler, 1962). At the other end of the spectrum is the more modern literature, which sees organisations as pluralistic with a focus on the dynamic interaction between the individual agents and context (Teece, 2007; Whittington, 1993; Jarzabkowski, 2005). As described previously, the shift is away from a long-term economic planning perspective towards a behavioral and processual-based perspective, which recognizes the emergent and dynamic nature of strategy making. Green *et al* (2008b) recognise that the sensing activities are often initiated by junior managers, and are only recognised in terms of their strategic significant retrospectively. This of course is unlikely to be the case in terms of the initial decision to enter new international markets. It is further intended to probe the relevance of Teece's (1997) key processes of integration, learning, and reconfiguration and transformation. These are supposedly the means through which organizations form their strategies to sustain their re-alignments. As stressed by Peteraf and Maritan (2007) such processes are an essential part of strategy making. The suspicion is that such concepts are too esoteric to resonate with the naturalised narratives of practitioners. Nevertheless it is important to understand how senior managers make sense of managerial and organizational processes, which provide companies with their point of departure.

Questions to understand the sense-making process on 'market selection' and 'entry mode', and how do such decisions impact the enactment of competitiveness:

The international construction literature emphasizes the importance of market selection and the entry mode for sustained competitive performance. For instance, Mawhinney (2001) argues that the level of competition, host country regulations and requirements, risks associated with host country, and geographical and cultural similarities affect targeted market selection in international contracting. The way that Turkish contractors enter the markets and the extent to which they gained competitive advantage differentiates. However, there is nothing told about the lived narratives associated with such decisions in the case of Turkish contractors. Also, of particular interest is the Turkish propensity for risk, i.e. to operate in regions where Western contractors fear to tread such as Iraq and Afghanistan. However, what remain starkly under-researched are the sense making processes that led Turkish contractors to withdraw from one market and compete in another. Similarly, existing research and theories say nothing about variations across firms and their differentiated performance.

Although some studies discuss the competitiveness of Turkish contracting firms (e.g. Öz, 1991, Özorhon *et al*, 2006, Dikmen and Birgönül, 2004), they have put little attention to explain the lived narratives that shape strategy-making processes related to market selection and entry mode. Therefore, it is important to access narratives of market selection with a view to understanding how Turkish contractors have remained so successful.

Questions to explore how does learning process from ‘past experiences’ impact the strategy making process and the enactment of competitiveness:

The dynamic capabilities view (DCV) emphasizes the importance of path dependencies -established routines and previous business investments and developments- to achieve sustained competitiveness. Teece *et al* (1997) argues that the historical background of the organization shapes the current position of the organization and the possibilities that are available. As such, Green *et al* (2008a) found strong support for the argument that strategic choices that are available for an organization are strongly shaped by the path they have travelled. Therefore, the last part of interview schedule intends to explore the extent to which path dependencies are seen to constrain strategic options. Furthermore, Kao *et al* (2009) pointed towards the importance of the ‘embeddedness’ and ‘localized learning’ in the enactment of competitiveness. It is therefore intended to explore to what extent senior level managers make reference to embeddedness and localized learning in the enactment of competitiveness.

CONCLUSION

The research aims to explore the competitive performance of Turkish international contracting firms. On the basis of an extensive literature review, the dynamic capabilities view (DCV) would seem to offer the most convincing explanatory narrative. The adopted research approach however is essentially interpretive in that the intention is to ascertain the extent to which the narratives mobilised by senior managers align with those of DCV. The focus of the proposed empirical research is not therefore the 'mechanisms' through strategy is achieved, but rather the ways in which senior managers make sense of the enactment of competitiveness. The empirical research is therefore focused on the multiple narratives of organizational transformation revealed through face-to-face interviews with the individual actors who have been involved in key strategic decisions. It is recognised that such narratives inevitably include large elements of post hoc rationalisation, but this does not mean that they are not relevant to the way strategic decisions are made in the future. The interviews will seek to explore the particular path dependencies, which are seen to shape the strategic options of Turkish contractors operating in international markets. The narratives mobilised by the interviewees will be compared to most (supposedly) factual descriptions of the changing market opportunities as found within archival sources and the grey literature.

Such processual perspective will challenge the dominance of positivistic and static competitiveness discussions and recognize the dynamic and changing nature of competitive performance and post hoc realizations in the discussion of construction management competitiveness. Rather, it argues that following an interpretive process with exploring actual mechanisms through which strategy is enacted and meanings are constructed by decision makers could capture the ‘reality in flight’ in terms of construction competitiveness research.

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