A CONTINGENCY THEORY APPROACH FOR CONSTRUCTION COMPANIES IN MALAYSIA DURING THE PERIOD OF ECONOMIC CRISIS: SURVIVAL STRATEGIES

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ABSTRACT:
The ability of the construction industry to respond to changes in its environment has always been the subject of debate. There are some organizations that are very successful in responding to changing its outlook and fundamentals but when viewed as a whole the construction industry shows slow response to changes in its environment. Contingency theory is a concept that promotes flexibility in choice of actions to success or survives in an uncertain environment. This theory defines that there is no best way of doing this and that a strategy that is effective in some situations may not be effective and successful in others. This is concept papers which try to establish critical survival practices by local construction companies. The objective of this paper is to determine survival strategies by evaluate the success factor practices by local companies. Reviews of Lansley's and others works will be used to generate factors/variables for further testing. The expected result will come up with the pattern of behavior of local construction companies over a period of time particularly during the two economic down turning 1986 and 1997.

Keywords: Contingency Theory, Strategic Management, Survival Factors, Construction Industry, Construction Companies Malaysia.

1. INTRODUCTION

The construction industry is one of the major driving industries in the world economy (Chinowsky and Meredith, 2000). It is also sometimes referred to as an engine for growth (Abu Bakar, 2002). Construction activities are an index of the economic and social progress of a country (Ogunlana et al, 2003).

In the development of any country, the construction industry plays one of the main and vital roles in transforming the aspirations and the needs of its people into reality by implementing various physical structures (Ahmed, 2002). The construction sector is widely regarded as a catalyst for growth. It often serves as an indicator of economic performance of a nation i.e. brisk construction activities show a booming economy, whereas sluggish construction activities translates to a period of economic depression (CIDB, 2004).

In Malaysia, the growth of other sector of industries is interrelated and actually is dependant on the performance and demands of the construction industry, in terms of buildings and infrastructures project implementation (Siong, 2000). According to Ahmed (2002) Malaysian construction industry supports around other 140 major

industries. It consists of almost 800,000 workforces (MBAM, 2005). Moore (1984) stated that the government uses the construction industry as a regulator to gauge the current economic status - the industry suffers when times are bad from oversupplying with reduced demands and when times are good, they are overloaded.

In the Eighth Malaysian Plan (2000 - 2005), the construction industry recorded a marginal growth of Gross Domestic Product (GDP) at an average of 0.5% per year due to the lessening numbers of construction projects during the second half of the Plan period. The growth however was from continued demands in the property sub sector. Currently, the Ninth Malaysian Plan (2006- 2010) forecasts the construction sector to increase steadily at a 3.5% per annum as there are plenty of infrastructure projects needing implementation and development. Additionally, as Malaysia economy depends highly on trading, studies have suggested that Malaysian economy would continue to expand moderately if not lower; from a GDP of 5.6% in 2006 to possibly 5.8% growth in 2008 (MIER, 2007).

However, those positive forecasts may appear to be too optimistic. Abu Bakar (2006) predicts a terrible economic slump in the year of 2009 - 2010 which may be caused by internal political crisis in Malaysia and another downfall, in the year of 2020- 2024 due to human resources crisis. The rational of his prediction came from observing the past trends of an economic crisis occurrence every 10 years in Malaysia. Since the Independence, Malaysia has witnessed its first economy slump in 1967, followed by the global oil price crisis in 1974- 1975. Ten years later, Malaysia experienced commodities price crisis and recently, in 1997 the Asian economic crisis (Abu Bakar, 2006).

2. THE CONTINGENCY THEORY

Contingency theory in an offshoot of systems theory -- concerned with system design, began in the mid-60s to the 70s. Heyday in early 80's Scott (1981) says, "Contingency theory remains *'the dominant approach to organization design'* as well as the most widely utilized contemporary theoretical approach to the study of organizations". But Pfeffer (1997) says, "With some notable exceptions, structural contingency theory has since virtually faded from the research and managerial literature scene." Meanwhile in strategic management, the general axiom of contingency theory is that no "strategy is universally superior, irrespective of the environmental or firm context" (Venkatraman, 1989).

The theory also begins with Thompson (1967) work where he attempts to reconcile open and closed system schools of thought. He calls attention to environmental factors in shaping firm's action and lays out a series of propositions concerning the actions of rational organizations, proposing that rational organizations centered on "contingency avoidance". Depending on the nature of the environment, contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of their environments will achieve the best adaptation (Scott, 1987). The termed was coined by Lawrence and Lorsch (1967) who argued that the amount of uncertainty and rate of change in an environment impacts the development of internal features in organizations (rapid rates of change vs. stable and placid environment).

A key application of contingency theory is the long standing recognition of the importance of matching information processing to environmental variety (Thompson, 1967). Following Shafritz et al, 1992 contingency theory is a "close cousin" of system theory which views the effectiveness of an action as being dependent on the relationship between the action in question, and other elements of the system, especially the environment with which the system interacts contingency theory recognizes that solutions are situational rather than absolute, and they may become inappropriate under different environmental condition.

On the other hand, the contingency theory recognizes that there too many variables that have bearing on the organizational structure; externally and internally to the organization. Child (1975) suggested that variability in a company's environment refers to the presence of changes which are relatively difficult to predict, which involve important difference from previous conditions, and which are likely therefore to generate an amount of uncertainty.

The variables, in a company's context, can be the environment, size of the company and the technology. Burns and Stalker (1961) have argued that different organizational designs should vary based on the level of stability in the environment. Two different types of firm structures based on Burns and Stalker (1961) are:

- Mechanistic systems- appropriate of stable environment
- Organic systems- required in changing environments (dynamic environment)

In the construction industry, the contingency theory is subjected to be influenced by the pace of technological change in other sectors of the economy (Staynov and

Baumgarter, 1986), uncertain finance market (Nam and Tatum, 1988) and changing client demands following variations in taste, aspiration and purchasing power (Chow, 1990). Dansoh (2005) also discusses that an unstable business environment are characterized by the rapidly changing markets where funding sources shift, government regulations multiply, business cycles alter, competition tightens and inflations eats away the company's capital.

Due to all these changes, it is becomes more difficult to manage the construction business in today's environment (Betts and Ofori, 1992). As traditionally, construction companies tend to neglect strategic planning, and almost expectedly, tremendously suffer during economic slumps or political instability (Langford et al., 1993). Construction companies usually plan more for short term rather than long term, as maximum profit is show prime objectives (Abu Bakar, 1993).

According to Abu Bakar (1993), in order to survive as well as excel in the constantly changing environments, it is prerequisite for any construction company to be highly sensitive to the environmental changes and is able to forecast possible conditions and formulate adaptation strategies. In general the contingency theorists have found that the three contingency elements are; it's size, the technology it uses, and its operating environment which were particularly important in influencing an organization's structure.

3. THE CONTINGENCY THEORY AND ITS APPLICATION

The ability of the construction industry to innovate and to adapt effectively to the environmental changes has always been the subject of controversy and debate for a long time. The construction industry, when viewed as a whole, shows slow response to its changes in its environment, where some organizations have been very successful in responding to changing its outlook and essentials. However, contractors have been known to overcome aggressive in competitive environments (Lansley, 1987).

Despite being known as of one the most contributive sectors in a developing countries economy, there is still lacking of appropriate attention given to the development of the industry and its contractors (Abu Bakar, 2005). Since 1967, the Malaysian construction industry has twice suffered a "V" shape economic downfall and recovered; during the year of 1985- 1988 and next, during the Asian financial crisis in 1997- 1998. During the 1980s economic crisis, many Malaysian

construction companies faced difficulties and had to strategies to other much profitable business. Contractors of the lower grades suffered the most than their higher counterparts which led them to total bankruptcy (Ghani, 1988). In the UK, according to Hakim and Razali (1994), many construction firms were reported to divested from their current business by reducing their size in order to survive due to the very bad economic condition during the recession period 1989- 1992.

In the second half of 1997, Malaysia had severely plummeted in its economic performance in 1998 where the real GDP fell by 7.4%. Nevertheless, the economy did rebound, with a GDP growing at 6.1% in 1999, and 8.5% in 2000. This rebound can be attributed to the fact that Malaysia's trading partners kept their markets open throughout the crisis. Due to the economic crisis, with a large drop in private domestic demands and by lower consumption, the consequences were that the Ringgit fell, inflation doubled and the unemployment rate rose (WTO, 2001).

With the impact of globalization have run deep into many industries, more efficient methods have been introduced and implemented in order to survive the challenging market ahead. Previous researches have encountered several possible problems in formulating and applying indicators for construction industry development. First and foremost, due to the difficult and dynamic nature of the industry itself, it is hard to develop a realistic and an agreed set of indicators (Hillebrandt, 1984; Ofori, 1990; Ofori, 2001). Second, Guy and Kibert (1998) stated that a large numbers of indicators would be necessary to provide a complete picture, and be accurate as well as relevant to the overall result. Third, Lopes (1998) and Turin (1973) believes that the process of acquiring and analyzing raw data relating to the construction industry, in developing countries can be difficult because of the poor information systems; data can be inadequate and inaccurate.

4. SURVIVAL FACTORS

Successful companies that survive and are operating in the national or international arena probably have special characteristics that make them successful. Different companies possess their very own quality that makes them different, but there are factors that can be considered common to all companies.

What make them different are the way in which each company utilizes or combines success factors. From his study, Abu Bakar (1993) found that there are four success factors which is diversify expertise, innovative contractual package, collaboration

with other firms and in-house service are less important among nineteen success factors but these factors are vital to any company which emphasis long term achievement and an advantage factor for success. Furthermore, according to Aziz (1992) most of the successful international construction companies do practice the four factors rigorously.

The ability to anticipate the future is of prime important for firm to be more effective and survive in various different conditions. The survival of the firm: efficiency, effectiveness, reputation, increasing market share, etc., is more important (Abu Bakar, 1993). Hence, it is important for the firm to focus and give high priority on the development of the firm itself to achieve long term goals more effectively (Hisatomi 1990).

An extensive literature survey has been carried out to show the strength of the company by selected critical success factors framework for this paper. Eleven critical success factors developed by researchers have been selected as listed in

Table 1. Analysis of Critical Success Factors

Critical Success Factors	Author's					
	Ansof (1965)	Channon (1978)	Porter (1980)	Peters & Waterman (1982)	Lansley (1987)	Abu Bakar (1993)
Joint Ventures	/		/		/	/
Market Specialization	/	/		/	/	/
Good Company Management			/	/		/
Diversify Expertise	/	/	/	/	/	/
Skill Worker			/	/	/	/
Quality of Product		/	/	/	/	/
Technical Expertise						/
Good Financial Backing						/
Internal efficiency	/		/	/		/
Good Cash Flow Management			/			/
Flexible Structure	/			/		/

Table 1.

In table 1, majority authors agreed that diversify expertise become important success factors to the company. Those companies that diversify into a wide variety of field become less vulnerable to uncertainty. Most of the authors also put market specialization, quality of product, internal efficiency and good company management to be considered.

5. SURVIVAL STRATEGIES

Lansley (1987) had focused on three elements of survival strategies that are skill, structures and styles. According to the author, firm are needed to develop both technical and organizations skill in order to enhance the efficiency producing aspects of their operations. For the structure aspect, Lansley (1987) noted that it is the way companies seek to innovate by set up separate organizations to develop new form of construction service, leaving the existing core business to serve what is leave of traditional market. Therefore, Porter's (1980) models stated to be successful over the long-term, strategy that many constructions were to restrict attention to particular segments of the market and to compete on cost leadership and a focus strategy.

In addition Lansley (1987), for some large contractor's competitive strength was enhanced by vertical integration when companies were confident about market prospects and when securing a source of supply of a key material or service was critical to successfully exploiting that market. Porter (1996) states the value chain concept allows the firm to be disaggregated into a variety of strategically relevant activities which have different economic characteristics. One can use this structure to identify those activities which have a high potential for creating differentiation; and those which are most important in understanding cost behaviors. From this, different strategic courses of action can be derived to develop advantages within competitors (Porter, 1996).

A detailed analysis of the frameworks with respect to corporate strategies is carried out and presented in Table 2. The relevant literature has revealed that most successful construction firms have adopted similar strategy in the form of survival strategies.

Table 2. Analysis of Strategies

Strategies	Author				
	Chandler (1962)	Ansoff (1965,1988)	Porter (1980)	Peters & Waterman (1982)	Lansley (1987)
Professional Management Style	/	/	/	/	/
Diversification Strategy	/	/	/	/	/
Technology Structure	/				/
Acquisition of Resources	/	/	/	/	/
Penetration	/	/			/
Market Development		/			
Product Development		/	/		
Organizational redesign			/		/
Problem Solving Skill				/	/
Quality Improvement			/	/	/
Culture Development	/		/	/	/

As shown in Table 2, revealed that diversification strategy, acquisition of resources allocation and professional management style are the most important from other corporate strategies for construction firms. Furthermore, Lansley (1987) stated that acquisition activity is important to those companies which here yet to gain a full national presence and it's tend to wither on the vine when companies prefer to "stick to the knitting" Peters and Waterman (1982). Successful diversification depends on building a portfolio of businesses that fit with their management style Goold and Luchs (1993). The other corporate strategies are presented in very few frameworks (Table 2).

In addition, any company can outperform rivals only if it can establish a difference of value to customers that can be preserved over times by simply practising the marketing (Porter, 1996). Gerwick and Woolery (1983) discussion without marketing, most construction companies would simply die due to lack of work. Continued survival depends on securing adequate part of the available market and this means good management that refer to market planning Moore (1984). Building the differential advantage is important for a long term survival of a company Kin (2004).

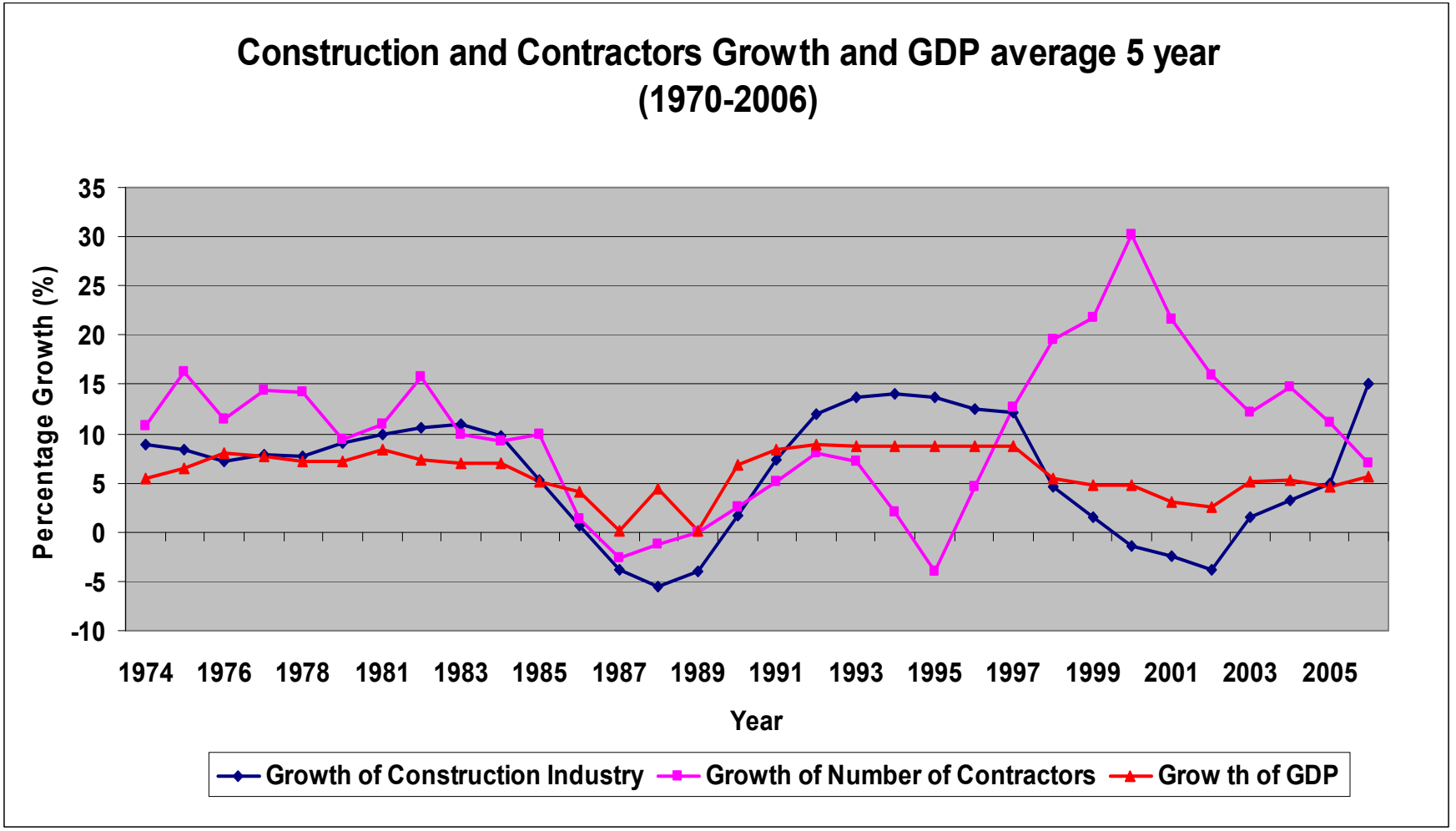
6. THE CONSTRUCTION INDUSTRY IN MALAYSIA

The trend of growth (percent) for the Malaysian construction industry with economic growth (GDP) versus growth of the number of contractors can be seen more

graphically in Figure 1 by taking 5 years moving average since 1970 until 2006. The growth of construction output generally follows the trend of the economy but the peaks and the troughs are more extreme. The output increase when economic growth strengthens and falls even lower when the economy weakens. Construction output is referred to as growth-initiating and growth-dependent (Drewer, 1980).

The construction industry grows at a faster rate than the economy during periods of rapid economic growth as seen in figure 1. During period of economic downturn the industry experience greater declines and remains in recession longer than the economy. This reflects the cumulative interaction of the multiplier and accelerated effects on demand for construction as a result of the changes in the economy. Hence, the construction industry's annual growth rates generally follow the growth trend of the economy, reflecting a positive correlation between construction output and GDP, CIDB (2006). The return of a cyclical downturn in the business cycle is the second contributing factor to the industry's recent performance. While most businesses are subject to the ups and downs of a business cycle, the magnitude of the construction industry's fluctuation is atypical.

The figure also shows the trend in growth of the number of registered contractors in Malaysia. Some of the data for contractors may not reflect the true situation since many firms did not register with the CIDB. The registration of contractors with the CIDB began only in July 1996. Before that, the numbers of contractors were collected by the Department of Statistic. From the table, its can be seen that growth of the contractors was depends and related with construction industry's growth and GDP. For example when construction industry turn ups it can be see that the number of contractors also increase and instead the number will decrease.



*Note: No research in 1980

Source: CIDB 2000, Abu Bakar (1993)

Figure 1: Graph of Construction and Contractor Growth and GDP Average 5 years since 1970-2006 (Malaysia).

Construction activity between the period 1965 and 1970 was mainly brought about by economic development programmes in agriculture, infrastructure, rural development and the growth in capital expenditure on urban and rural housing. While most of the construction work took place in the public sector, there was increased private sector investment towards the end of the sixties, particularly non-residential construction with the establishment of industrial estates following the shift from inward-looking to outward-oriented industrial development Abu Bakar (1993).

The expansion of private sector industrial growth and construction activities associated with manufacturing facilities continued from the late sixties. However, the rapid expansion in construction activities led to an increase in imports of machinery and equipment, and shortages of building materials and labor towards the end of the seventies. This increased the price of residential, commercial and industrial buildings. As a result, there was a stepped decline in the industry's annual growth rate between 1974 and 1978 as shown in figure 1.

The strong growth between 1981 and 1983 was sustained mainly by the public sector's expansion programmes in physical infrastructure and major policy transformations. (Abdullah et al, 2004). In stimulating the economy and revitalizing the construction industry, Abdullah et al (2004) found that the government promoted private sector investment in low-cost housing and revive housing projects which had been abandoned by the private sector during the recession.

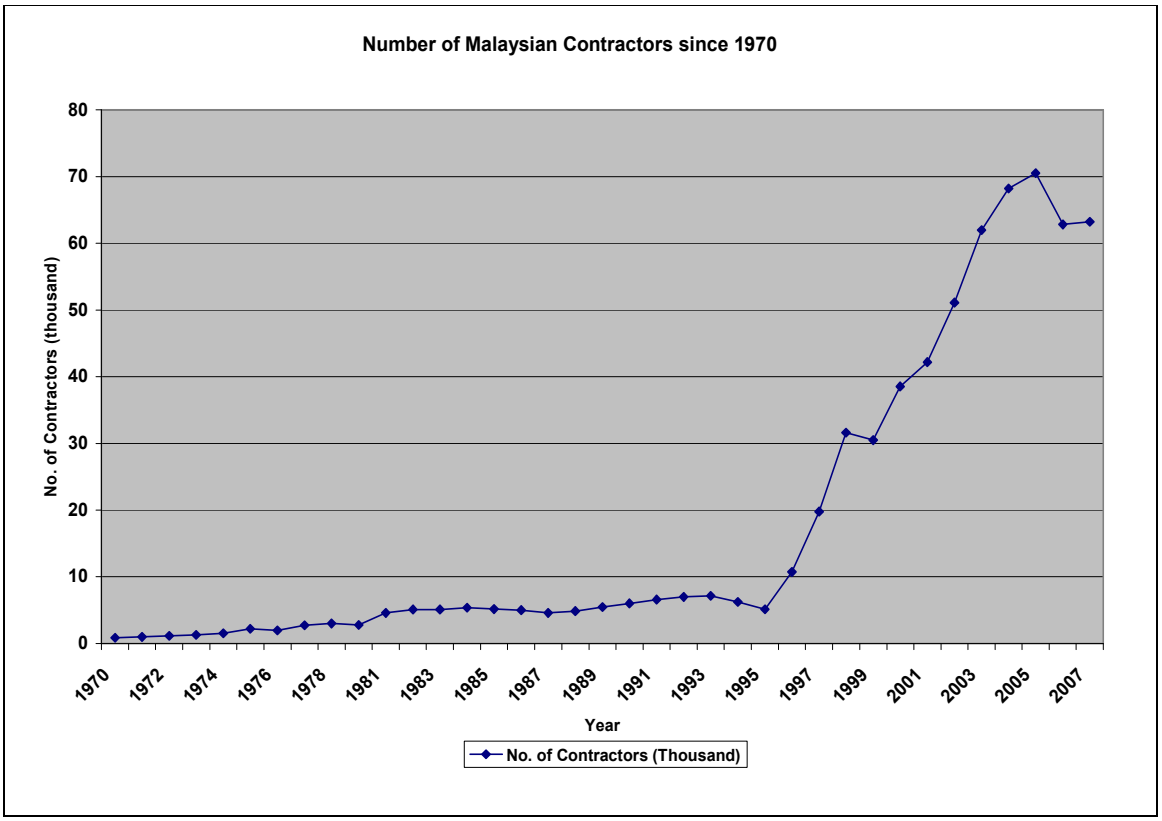
7. MALAYSIAN CONTRACTORS

Ball et al, (2000) concluded that main contractors always consider themselves as a project management firm as they have to manage subcontractors or nominated subcontractors. The same situation also prevails in Malaysia. Siong (2000) found that most of the contractors act as project management firms. These firms will let subcontractors to manage the project implementation stage until it completion. Those advantages can help Malaysian Contractors to be more flexible to adapt to uncertain demand in the industry.

Statistic for 27 years show the number of contractors establishment in Malaysia increases by year as shown in figure 2. According to the Construction Industry Development Board (2001-2002), the total number of contracting firms active in the industry is very important because it determines the industry capacity. Based on figure 2 shows that the number of contractor has rising considerably. It can be seen

that in early 70s there are around 1000 contractors meanwhile in 20 century the number increase about 50000.

From figure 2 also shows decreasing in the number of contractors due to the financial crisis in three economic downturns. For example, in 1999 the number of contractors decrease about -4%. This phenomenon could be due to the effect of financial crisis whereby registered contractors were drop out and bankruptcy and also probably the contractor enter into other sectors.



*Note: No research in 1980

Source: CIDB 2000, Abu Bakar (1993)

Figure 2: Graph of Malaysian Contractors since 1970-2007

8. CONCLUSION

The theory might have been practiced in a more of a strategic management manner and not as much from a contingency perspective. Previous researches show that construction industries thrive with stable and safe surroundings, and perish when its environment is not. Unfortunately, there are little to none; in depth studies for this matter. Therefore, it is crucial to identify and determine the practice of Contingency Theory for construction companies in Malaysia for survivability in times of uncertainties. The expected results of this research will produce the experienced of the local construction companies, action adopted by the local construction companies in respond to the changes, critical survival factors of the successfully survived construction companies and the consistency of the local construction companies with the practices of the Contingency Theory.

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