

# Institutional Theory and International Construction Market

Subjects: Management

Contributor: Chuan Chen, Igor Martek

International construction market is heavily affected by institutional factors. A variety of clues show that institutional factors have a complex impact on contractors' IMS. This entry extensively collects institutional factors predicted to impact contractors' IMS by literature review, selects 10 specific institutional factors from different perspectives, theoretically deduces their effects on contractor's IMS, and takes international Chinese contractors' IMS practice as the empirical research material and collects data for logistic regression analysis to test the assumptions.

Keywords: construction market ; international market selection (IMS) ; institutional factors

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## 1. Introduction

In the construction market, the production organization is centered on the project location, the main transaction mode is tendering and bidding, governments are often the main purchaser of giant projects, and project participants come from multiple sources. These characteristics determine that the construction market needs more rules and regulations to regulate and restrict the behavior of all participants in the project than other markets based on general production and sales. Thus, the international construction market exhibits unique qualities, characterized by both intense institutional regulation and strong market competition, while the industry stands out as project-based, requiring mobility of the means of production. Moreover, the stages of the construction project—bidding, design, procurement, financing, construction, delivery, maintenance, and concessionaire operations—are all subject to various, sometimes conflicting rules, overseen by a range of ministries and government institutions.

When contractors expand offshore, international market selection (IMS) is the principal problem to be faced and is inevitably predicated on institutional considerations, such as how to obtain local institutional knowledge, whether they can integrate into the local institutional environment, and how to ensure legitimacy in the whole process of project implementation. The 'institution-based view' provides strong theoretical explanatory power regarding the many issues impacting IMS and complements the two other predominant theoretical lenses, the industry-based and resource-based view <sup>[1]</sup>. Researchers have invested a great deal of attention in developing market-entry decision-making models, knitting together influential factors about the economy, technology, geography, culture, etc. However, despite the overwhelming impact institutions have over construction projects, papers in this field tend to cover just one or two institutional factors or even ignore their role. The decision-making quality of IMS affects the long-term development of contractors in the international market. The factors considered as comprehensively as possible in the decision-making model are the basis of success. Institutional factors exist in complex social systems, thus the role of broader institutional factors in a contractor's IMS presents an urgent topic for investigation.

## 2. Institutional Theory and International Market Strategy

Institutional theory can generally be viewed from the perspective of economics and organizational sociology. Institutions are the 'rules of the game' in society, with their major role being to reduce uncertainty, by establishing and maintaining a stable (though not necessarily efficient) structure for the facilitation of human interaction <sup>[2]</sup>. Institutions can be parsed into formal and informal types <sup>[2]</sup>, or regulatory, normative, and cognitive <sup>[3]</sup>. Regulatory institutions constitute formal regimes as they wield incentives while also being able to impose sanctions on individuals or organizations. They emerge out of government or other authorities empowered to regulate and constrain behaviors. On the other hand, normative and cognitive institutions are essentially informal, being typically long-standing social platforms, considered to be objective and naturally formed by stakeholders, rather than artificially developed <sup>[4]</sup>. Formal institutions develop political, judicial, and economic rulings, mandated by the constitution, statute law, common law, or specific bylaws, which ultimately give force to civil contracts <sup>[2]</sup>. However, laws in one country may be vastly different from laws in another, making for the problematic

interpretation of acceptable codes of conduct and professional practice. Institutional distance, therefore, is defined as the difference between the institutional environments of any two countries and remains a matter of great concern in cross-border interactions [5][6].

For multinational enterprises, institutions act as a background against which competition plays out and directly influence which strategies should be invoked to enhance firm competitiveness [4]. The influence of institutional factors on an enterprise's international market strategy can be explained by transaction cost theory [4]. Access to foreign markets requires overcoming the institutional barriers of the host country, such as market entry barriers stipulated by the host country's laws and regulations [7]. Then, having entered, transnational corporations need to adapt and respond to the formal system of laws and regulations of the host country [8][9]. The quality of formal institutions in a country can be differentiated according to the extent to which they contribute to local development [10][11]. High institutional quality signifies a stable and regulated operating environment, which can reduce transaction costs for multinational operators in the host country [10], and confers legitimacy [7][12][13]. Contrarily, institutional differences between countries create a 'liability of foreignness' for transnational operators who lack local institutional knowledge, leading to a handicap in having to undergo a costly learning curve [13][14][15].

Scholars argue that institutional analysis of international market strategies should consider both domestic and host country institutional contexts in order to systematically deconstruct their impact on a company's decision-making [16]. Applications of institutional theory within multinational corporations range from conceptualization of institutional environments to explanations of market strategy choice and organizational practices [17].

### **3. Institutional Theory Applied in the Construction Industry**

Construction is project-based, with practitioners and scholars alike prioritizing the acquisition and implementation of projects [18][19]. This is evidenced by representative journal papers in engineering management, principally reflecting on institutional theory as it applies at the project level [20]. Representative themes are: how to influence construction safety management strategies [21]; how to handle institutional complexity in mega project organizations [22]; how to manage mega projects in the light of institutional environments [23]; how a host country's institutions shape infrastructure projects [24]; and how to understand the mutual constitution and dynamics of projects and institutions [25]. Orr and Scott, for example, investigated how firms engaged in large-scale global projects respond to unforeseen costs after failing to comprehend cognitive-cultural, normative, and/or regulative institutions in an unfamiliar host societal context [14]. Ling and Zhang explored the impact of cultural intelligence on the performance of international construction projects and the moderating effect of institutional distance and compared the differences between Chinese contractors and Korean contractors [26].

Certain studies have applied institutional theory at the enterprise level. Examples include the role of institutional norms in construction partnering [27]; how firms acquire local institutional knowledge during internationalization [28]; and how institutional and task environment relationships influence the performance of construction firms [29]. Broadly, the findings support the perception of strong industry norms promoting partnering [27], while under highly stringent conditions, institutional relations are shown to be associated significantly with performance [29]. Ye and Lu explored the roles of institutional distance and host country contexts on the corporate social responsibility practices of international construction companies [30].

There are also studies examining the role of institutional factors at the construction market and industry levels. Lee and Han evaluated construction market risks across various countries, with consideration given to the institutional environment. They found that countries with advanced institutional systems show relatively low growth rates in the construction market [31]. Stricker and Baruffini estimated the impact of the application of the bilateral agreement of the Free Movement of Persons between Switzerland and the EU-15 countries on the labor market outcomes in the Swiss main construction sector [32].

From the literature, it can be found that the role of institutional factors in international construction exists in a multi-faceted context. However, relevant studies have selected only one or two indicators for research and have not tried to incorporate more comprehensive and multi-dimensional institutional factors.

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