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Competitive Strategy of Real Estate Development Firm base on the Theory of Structural Contingency

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This article attempts to apply the ideas of competitive strategy and the theory of structural contingency to the different environments that each firm or sub unit is confronting. The combination of these concepts yields an interesting perspective because while competitive strategy focusses on the competency of the firm, structural contingency theory focuses on the adaptation of each part of the firm to changes in its external environment. The article shows that real estate development firms' strategy must be fitted to the cycle of the real estate business as well as its various structures in order to obtain better performance. The paper concludes that a real estate development firm should customize its strategy not only at the level of the whole organization, but also at the level of its constitutent parts. Strategies can be implemented not only in cost leadership or product differentiation, but also in terms of taxonomy of services, innovation and quality.

Keywords: competitive strategy, real estate development, structural contingency

Introduction

Today´s real estate market in Thailand is highly competitive and increasingly globalized. Several factors have impacted real estate development firms, including entry by foreign firms, natural disasters, changes in laws and regulations, government policies, globalization and political instability. These factors do much to influence the strategy of real estate businesses.

To survive and succeed, the real estate development firm must be able to change and adapt to fit the changing environment. As world famous scientist Charles Darwin observed, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." The same is true of real estate development firms. The organisation must confront both internal and external challenges. For a firm to directly control external factors is almost impossible. Instead, the firm must adapt its internal structure to match the situation it faces.

This article explores the role of contingency strategy in the real estate development firm. Both competitive strategy and contingency theory are long established. They can play a crucial role in the strategy of any business, and in particularly real estate development firms. Competitive strategy is concerned with the body of knowledge about how a firm can remain competitive in the marketplace, and is primarily concerned with internal aspects of a firm, rather than external factors. Contingency or structural contingency theory focuses more on how a firm can survive in rapidly changing external environments. Together, the two offers are powerful synthesis which is supported by the studies of Phillips (1999) and Teo and Pian (2003).

In the academic area, little attention has been paid to applying competitive strategy concepts to real estate development firms. Most research has concentrated on Corporate Real Estate Management or CREM, which is not directly related to firms directly involved in the real estate business. Competitive strategy should be applied to development firms as well.

Theoretical Framework

Competitive strategy

Strategy or Competitive strategy has been discussed for many years. The core principles do not vary greatly though there are differences in their application to different organizations or in the points that are focused on. In general, strategy is related to the objectives, mission, vision, and policy of the organization with the aim of supporting long term growth (Cooks, 1985) whilst Wilson and Bates (2003) view strategy in 4 dimensions as shown in Table 1.

The focus is on two main areas which are the market (external factors) and products (internal factors). Depending on the organization's goals and the environment in which it operates, the firm must choose the most appropriate approach.

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Table 1.Wilson and Beits's strategy (product and/ or services).

	Existing product	New product
Existing market	1. Market penetration	2. Product development
New market	3. Market development	4. Diversification

Source: Wilson and Beits (2003).

One of the main studies is Competitive Strategy by Porter (1985) which analysed the strength of each nation narrowed down to an organization level. Competitive strategy will allow a firm to create competitive advantage, which helps it remain competitive and distinctive under intense market pressures. Three generic strategies revealed by Porter are 1) Cost leadership 2) Product differentiation and 3) Focus. Porter claimed that the competitive advantage of firms comes from suitable strategy selection by reviewing both internal and external factors in the so called "Five forced analysis model**.** In other words the concept of "fit" is vital. Competitive strategy is beneficial for customers by helping to save costs or enhance performance. Cost leadership strategy means focusing on how the firm can minimize their costs which allows them to reduce their prices. The firm gains the advantage of higher profit margins as well as keeping prices more stable for the customer than its competitors. Product differentiation strategy is about penetrating niche markets rather than competing in the mass market. The firm can earn higher profit margins for their unique products as well as offering specialty products or services to customers. The final strategy is focus, which may be understood as the strategies of differentiation and cost leadership depending on broad or niche markets which the firm seeks to enter.

Many scholars have studied competitive strategy with results similar to those of Porter. Barney (2002, pp. 233-265) opined that for product differentiation the core idea is to make customers perceive added value of the product. Sometimes, the product can be the same while customer attitudes towards it differ. On the other hand, if the product is differentiated without the customer realizing it, differentiation is meaningless for both producer and consumer. Nevertheless, the two strategies pose a dilemma. Porter asserted that a firm must decide to follow only one strategy at a time. When a firm focusses on cost leadership, it will have to closely control overall budgets and costs, which means that the firm will not be willing to invest much in research and development, which are important sources of differentiation. From this point of view, it is apparent in the real estate development market that different development firms choose different standpoints. Some, for example, attempt to provide the best price to their customers, usually based on techniques of construction such as pre fabrication, precasting, tunnel forming, or adjustable table forming. These techniques enhance the productivity of contractors not only in terms of cost saving but also in time saving, as well as improving quality especially in situations where skilled labor is scarce. In addition, to be a cost leader is not easy and needs lots of accumulated know how. It is therefore difficult for competitors to catch the cost leader in a short period. Product differentiation normally involves the development firms positioning themselves very clearly and distinctly from other firms. For example, a firm that wants to set themself as an Indy (independent) design firm will build a condominium with unique design using brilliant colors or adding special multipurpose areas like galleries. In this case, the developer is obviously targeting a niche market. It can be concluded that cost leadership and product differentiation strategies are tied to the positioning and market target of the firm, which is commonly known as focus. However, these strategies are mostly concerned only with internal organization structures without taking much account of environmental considerations.

In contrast to Porter, Barney (2002) and Hall (1980) argue that two strategies can be applied simultaneously because not only concerning over great margin from product differentiation but firm also has to consider sales volume (cost leadership) as well**.** The significance of applying both concepts is the need for a well-managed organization structure. This leads development firms to separate into sister firms or brands in order to clearly define their separate goals without the confusion of being under the same umbrella. The sister units or sub firms are therefore able to adopt varied approaches in order to capture different market segments. Development firms in Thailand and India, for example, aim not only to catch the high income market, but also the mass market, while the firms do not want to muddy their brand image by following two contrasting ideas. As a result, the firms separate their organization structure into sub branded firms projecting to opposite market targets, which mean they are keen to be both cost leaders as well as differentiating their different units (Strategic Direction, 2010, pp. 9- 10).

Beyond the strategies of cost leadership and differentiation, other strategies are also important. Deal (1991), John (1985) and Singh (1991) agree that competitive strategies are not only concerned with price. Non price factors are very prominent as well in making a firm more sustainable in the long term through such strategies as design, delivery, innovation and quality (Aharoni, 1994). Luxury or high- end products are examples of products for which customers are not concerned about price but are concerned more with quality and the performance of the products.

In many cases concentrating on the factor of lowest cost without satisfying quality considerations is useless. Likewise, there are thousands of real estate business development firms both public and private in Thailand, with each firm seeking to cement its position. This means that each firm attempts to develop its own competitive strategy in order to strengthen the organization. Various strategies have been attempted, with some real estate development firm offering customers design innovation by constructing an intelligent building that can recycle used-water and produce some electricity with solar cells. Another example is the firm that uses the site selection concept as their marketing strategy by finding and buying only land banks located very close to the skytrain (monorail) or subway systems, as well as offering smaller units compared to competitors which means cheaper prices to attract stylish young purchasers.

Competitive strategy is the concept of enhancing the competitive advantage of a firm. Some researchers have viewed competitive strategy as involving not only strategies related to price, but also to non price factors such as quality and innovation as well. There is an argument that pursuing two strategies at one time that may ruin efficiency and effectiveness of the strategies regarding the basic core concept of the ideas.

In the case of the real estate development firm, it can be demonstrated that the characteristics of real estate development firms are different from general firms although the strategy of real estate development firms do not differ much, only the strategy may combine service and product sectors together. However, it is interesting that most development firms are mainly formulating their strategy based only on their vision without much considering a moving environment.

Structural contingency theory

The theory of Structural Contingency has studied by hundreds of academicians over a long period, by well-known thinkers such as Taylor, Fayol and Mayo. The basic principle of the theory is to explain that the environment is dynamic and most organizations are also located in the dynamic scenario. Therefore, making organizational structure fit with the environment will boost the performance of an organization (Ginsberg & Venkatraman, 1985; Mintzberg, 1981, pp. 103- 116; Pertusa- Ortega, Molina-Azorin & Claver –Cortes, 2010).

Strategy is important to an organization that needs to adapt and adjust to fit both internal organizational factors as well as a changing environment. Burn and Stalker (1961, pp.19- 96) studied the organization structure and its environment and found that the organization structure is influenced by moving markets as well as technology. An organization that is surrounded by a static environment will have different organization structures when compared to one that is surrounded by a dynamic environment. Moreover, each part of an organization does not necessarily to confront the same environment.

The study of 3 different organization types by Lawrence and Lorsch (1967, p. 108) declared that the 3 organizations were located in different environments which are highly unstable, moderately unstable, and unstable. In detail, the levels of stability are distinguished by the level of competition in the market and the advance of technology. These different environments have influenced organizations to have different structures in order to encounter each situation. The organization located in a very unstable environment is inclined to be more fragmented in each department in the organization (Table 2).

When analyze the real estate business, it might be claimed that the business is quite sensitive because it is a multidisciplinary business which combines several different businesses into one business therefore, it tends to be impacted by the uncertain environment similarly to the plastic industry while its structure is highly diversified.

Table 2. Environment and organization structure of Lawrence and Lorsch

The Effect of uncertainty on differentiation and integration in three industries			
Variables	Degree of Uncertainty		
	Plastics industry	Food- processing industry	Container industry
Environmental variable Uncertainty(complexity dynamism, richness)	High	Moderate	Low
Structural variable Departmental differentiation	High	Moderate	Low
Cross- functional integration	High	Moderate	Low

Source: Jones and Hill (2001, p, 172).

An unsuccessful organization uses traditional methods to solve novel problems and to attempt to manage various kinds of organizations with a single solution. Consequently, Mintzberg (1981, pp. 103-116) has proposed different kinds of organization structures for different environments. However, Mintzberg (1981) concluded that an organization does not need to force itself to be structured to fit the environment while other internal factors are not ready to be changed. As a result, in some cases, general structure of an organization should be applied better than changing the structure in order to fit an environment immediately without appropriate components. Different strategies must be launched for different environments. Morgan (1997, pp. 56-64) has proposed that contingency factors that need to fit the environment are composed of i) organization strategy ii) technology iii) human and culture iv) structure and v) management as Figure 1.

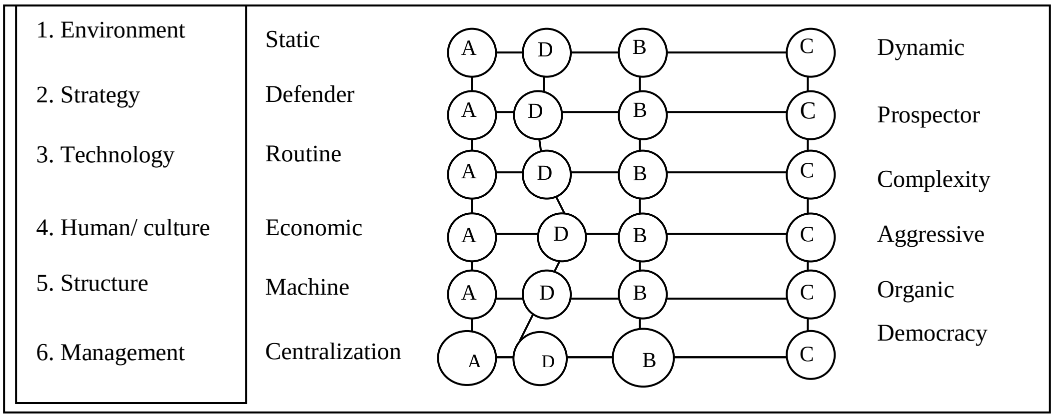

Figure 1. Contingency theory of Morgan , Source: Lorsuwannarat, (2004).

Morgan (1997) illustrates that if an organization is in a dynamic environment (as “C” in Figure 1) a prospector strategy should be considered because the market is so competitive and nearly saturated hence new products or processes are important to enhance the organization capability. In contrast, a defender strategy is a better alternative in case of a static environment (as “A” in Figure 1).

Aligning to the ideas of Morgan (1997), Weiss (2003, pp. 301-314) suggested that in static environments, organizations emphasize improving their processes more than developing their products because they will not be able to get higher profits, while in dynamic environments they are keen to develop new products in order to gain higher market share. In fact, it is necessary both to improve processes and develop products at the same time because once a product launch is needed, new or improved processes must be applied as well in order to support the new product.

The above review shows that no absolute structure or strategy would fit all situations or environments, therefore the strategy that fits an environment must be custom designed and must conform to internal organizational factors. Another interesting point from Lawrence and Lorsch shows that the impact of environment on each firm is not equal; it varies according to different basic components of each firm’s industrial sector. Real estate development firms confront a different environment compared with regular business firms, meaning that the real estate business is unique. For example, buyers in the real estate business lack of product experience and knowledge, most buy or sell real estate only 2-3 times in their lives; the real estate business involves laws and regulations; the real estate business is tangible and intangible assets that are about rights in land and building. Also to define the real estate development process is truly difficult because it is a multi-disciplinary. It involves many different processes from pre-construction to construction stages such as feasibility studies, architectural design, and construction through to post construction stages such as asset management. Therefore, the strategy must be flexible and not only fixed to intra firm factors like branding and positioning but also needs to consider relevant external factors. It is notable that the organic structure of Small and Medium Enterprises (SMEs), offers higher potential compared with big enterprises in terms of flexibility, allowing them to adapt to fit the environment.

Competitive Strategy of Real Estate Development Firm base on the Theory of Structural Contingency

Earlier Universalist approaches did not have to confront the complexity of today’s external factors (Chenevert & Tremblay, 2011). The Contingent approach has been developed with the objective of building organization performance by taking account of both internal and external factors. Similarly, real estate development firms in earlier times were located in a closed system in which the environment was static, with not many players, no politics involved, no natural disaster and no competition from foreign developers while demand was high, Thus in those days, real estate development firms did not need to learn how to strive to survive in dynamic markets. Globalization and advanced technology have made today's real estate market move much faster. Real estate development is harder and tougher. In addition, not only the physical factors have changed but the demands and desires of consumers are also changing every day as well as several aspects of real estate business development.

A single competitive strategy in a real estate development firm may not be sufficient for responding to the various demands and turbulent environment. This challenges the idea of Porter of exploiting one strategy at a time, especially considering that the real estate development firm combines many aspects of the business as narrated. To focus on two or three strategies, firms must clearly separate each strategy as well as developing support facilities which will help sub-units understand their roles. Although each unit or department has a different strategy, at the end these must converge on the mutual goals of the firm. This pattern of structure is often called Strategic Business Unit or SBU in which the units are more independent but working under the same central policy. SBU is usually applied in a big real estate development firm with the aim of solving the weakness of inertia due to size. Another reason to separate as SBU is that each unit confronts a different situation which needs a specific strategy to cope with. For example, in the situation of economic instability, the engineering department may have to apply a strategy of cost leadership in order to minimize the cost of construction, while the marketing department may need a differentiation strategy in order to boost sales volumes in a short period to avoid the crisis of Non Performing Assets or NPAs. It is interesting to note from the study of Pertusa- Ortega, Molina-Azorin and Claver–Cortes 2010 that the relationship between organization structure and strategy can be viewed in different ways, First, strategy is an endogenous factor that shapes structure and second, that structure determines strategy. The results of the study demonstrate that the structure of an organization will significantly effect performance only when strategy is a mediator.

To deal with a complex environment, strategy must be changed to fit external factors as well as internal factors. Most development firms are large-sized real estate enterprises which often exploit one strategy for long periods with less consideration of the changing environment. The strategy is embedded like the brand of the firm. In dynamic environments, firms must differentiate themselves in any way that can help them meet intense market pressures, while in static environments firms have to seek ways to reduce their costs in order to maintain profit margins without raising prices for customers. These can be considered at all points in the value chain from pre construction to post construction as appointed on Figure 2

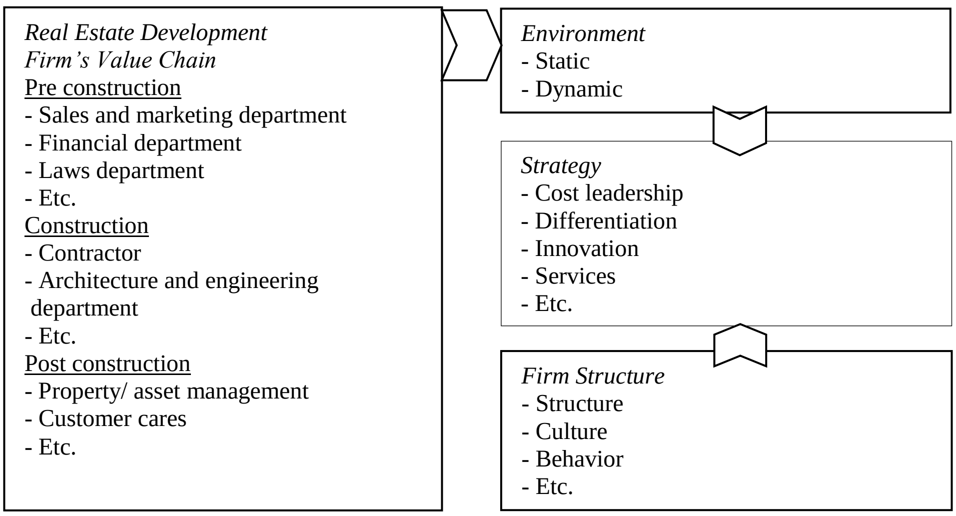

Figure 2 Proposed Conceptual model for real estate development firm

As described, such strategies have many aspects which are not only involve differentiation and cost leadership but other strategies can also be very important. For example one big development player in Thailand achieves success using the strategy of community management. Their clients buy condominiums due to their reputable and reliable community management. During a period of severe flooding in Bangkok, the firm proved that they looked after their communities very closely, which has won the respect of both current as well as potential clients.

In a nutshell, this review and synthesis has indicated 4 essential principles: i) Due to the diversified structure of the real estate development firm, the firm has to formulate strategies that suit the various environments that each department confronts. ii) While each department requires a different strategy, the overall goals of a firm must still be recognized. In order to make the relationship clearer, the firm can separate units officially. iii) Strategy is unique to each firm and cannot be copied without considering suitability therefore, suitable strategies are also diversified. iv) Strategy of the firm needs revolutionizing as well as evolutionizing. As long as the environment is moving, no one single strategy suits every situation.

Conclusions

It is long believed that the most difficult issue about strategy is execution. However, this paper has also proposed the idea of dialectic in formulating proper strategy which is not easy at all especially for a naturally dynamic organization like a real estate development firm. The article showed that real estate development firms' strategy must be fitted to the cycle of the real estate business as well as its various structures in order to obtain better performance.

Therefore, to succeed in doing real estate development today, developers have to understand their differences in order to apply the strategies which are specially crafted for each department and each environment under one umbrella of firm's vision. However, in the real situation, it is rather difficult to overhaul the structure of a large organization to synchronize with its strategy as well as its environment. This may be an advantage for SME development firms with their more flexible structure.

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