COMPETITIVE MICRO ENVIRONMENT OF SMALL RESIDENTIAL BUILDING CONTRACTORS

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ABSTRACT

Competitiveness is an evolving concept which gains new meanings in line with the dynamism of economic life. The number of research studies that focus on competitiveness in the Project and Construction Management (PCM) field is increasing steadily. However, only few studies have attempted to analyze the competitive behavior of small and medium-sized enterprises (SMEs), although SMEs constitute the majority in the building construction industry. Understanding their competitive behavior is of particular importance to create an environment with common sustainable practices. Current models, reflecting to a large extent the perspective of large enterprises (LEs), fail to explain the competitive behavior of SMEs which differ from LEs by their managerial, organizational and financial structure and by their oversensitivity to environmental changes. Furthermore, current models are usually based on the production paradigm of the manufacturing industry and they ignore the special product and process characteristics of the building construction industry. This paper attempts to address these gaps and presents the findings of a study which aimed to decipher the characteristics of the competitive micro environment of small residential building contractors using ‘Porter’s five competitive forces’ model. Qualitative data collected from the owner-managers of nine small ‘general contractors’ through face-to-face in-depth interviews were analyzed using content analysis. The findings (i) confirm that competition models of the manufacturing industry should be approached with caution as they cannot be directly applied to the building construction industry without any appropriation; (ii) special characteristics of the residential building market should be taken into account in model building; (iii) the dynamics of small and local markets significantly differ from those of mass markets and these have considerable influence on SMEs’ competitive behavior.

Keywords: Competitiveness, building industry, SMEs, Porter’s five competitive forces model

INTRODUCTION

Competitiveness is a multi-dimensional concept which has many definitions at different levels of analysis. Market share, profitability, growth rate, and the ability to supply low-cost/high quality products or services are among the common measures of competitiveness at the firm level (Ramasamy, 1995; Man et al, 2002; Aldington Report, 1985). D’Cruz (1992) defines competitiveness as “the ability of a firm to design, produce and or market products superior to those offered by competitors, considering the price and non-price qualities”.

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A set of generic developments gave rise to interesting discussions concerning ‘the rules of the game’ in free market economies during the 1990s. Information and communication technologies (ICTs) and their facilitating impacts on economic, political, cultural and technological globalization were at the heart of these discussions, which have often focused on new types of relationships between companies and their clients, be they national or international. A quick review of the relevant literature reveals the paradigm shift: Rational usage of resources was the common strategy to remain competitive in the 1980s’ markets, while more emphasis was put in the 1990s and early 2000s on the multi-dimensional and evolutionary nature of competition. The dynamics of the businesses have become more dependent on knowledge investments and learning ability than on physical capital (European Commission, 2000:10). It is often assumed by the advocates of this ‘new economy’ that only the firms with an ability to transform individual and organizational knowledge resources into strategic skills will achieve competitive advantage and survive (Van Gils ve Zwart, 2004:685).

COMPETITIVENESS AND SMES’ ROLE IN THE CONSTRUCTION INDUSTRY

The 1990s have witnessed a paradigm shift within the construction industry as well, as it became clear that low-cost production alone might be inadequate to survive in highly competitive markets. The internationalization of the construction markets, the increasing emphasis on innovation and client satisfaction, environmental problems and many other developments have influenced the strategic and tactical decisions and the routines of a conservative industry.

Particularly after 1995, the number of publications focusing on competitiveness has significantly increased in the Project and Construction Management (PCM) literature. However, this young and relatively immature literature, where the level of theoretical abstraction is yet very low, is far from addressing all the dimensions of the issue (e.g., the cultural aspects of competitiveness) and it is strongly influenced by the research agenda of the manufacturing industry. As a result, the majority of the existing studies attempt to appropriate the theoretical models of the manufacturing industry, while few researchers fully take into account the special characteristics of the construction business (Oz, 1999). Researchers often focus on the firm-level indicators of competitiveness (see Shen, 2003; Dikmen and Birgönül, 2003; Öz, 2001). The number of studies that investigate competitiveness in a broader context is limited (see Flanagan et al 2004). On the other hand, almost all studies approach the competitiveness issue within the internationalization context and, accordingly, these studies tend to reflect the perspective of large enterprises (LEs). The emphasis put on LEs might be understandable considering the expansion of global capitalism throughout the 1990s. LEs were placed at the center of competitiveness models due to their export potential and ability to stimulate domestic markets. Thus, small and medium-sized enterprises (SMEs), which constitute the majority in almost all countries, were often ignored in these models, despite the fact that understanding SMEs’ competitive behavior is particularly important to create an industry with common sustainable practices.

There are sound reasons to argue that SMEs will keep on dominating the building industry in the near future and that they should receive attention from researchers given that (i) small projects are often more suitable to be undertaken by small firms
(ii) the required level of technical expertise is not high to enter the construction market (WS Atkins, 1993); (iii) in a project-based production environment, ‘smallness’ and organizational flexibility can be advantageous (Edum-Fotwe, 2002:10); and (iv) buildings are durable and costly artifacts, which regularly require maintenance and repair, creating a large second-hand products market often served by small and medium contractors (WS Atkins, 1993). As long as the technological upgrade of existing building stock, as a consequence of either the pressure of technological developments (i.e., the integration of information and communication technologies into the existing building stock) or demand from clients (i.e., demand for more comfort) is a steady business, small contractors will hold important responsibilities within the building industry and they will be part of the research agenda of scholars (Acar, 2005). Given also that building is, to a large extent, a local economic and organizational activity, SMEs will have a considerable impact on local economies as they are major sources of employment. Note that around two thirds of construction expenditures remain at the location where a building is built (Ventre, 1973).

PROBLEM DEFINITION

Competition models that focus on LEs and manufacturing companies cannot be directly applied to explain the competitive behavior of building SMEs, because they are not the scaled-down versions of LEs. SMEs differ from LEs by their managerial, organizational and financial structure and their oversensitivity to environmental changes (Lall, 2000). The majority of the firms operating in the building construction industry are SMEs and understanding their competitive behavior is particularly important to create an environment with common sustainable practices. Current models, often reflecting the perspective of large enterprises (LEs), fail to explain the competitive behavior of SMEs. In addition, current models are strongly influenced by the production paradigm of the manufacturing industry and they do not take into account the product and process characteristics that are specific to the building construction industry. The main stimulus for this paper is the idea that further empirical evidence is needed to understand the micro environment of SMEs and develop models that truly explain their competitive behavior.

RESEARCH DESIGN

Researchers in the SME field have developed various theoretical frameworks to investigate the characteristics of SMEs. One commonly used theoretical framework is based on whether these characteristics are associated with SMEs’ internal environment, external environment, or the characteristics of entrepreneurs (Man et al., 2002). There is a considerable amount of research work focusing on the above mentioned characteristics of SMEs in the context of firm success, growth, potential, and performance; the commonly used indicators of competitiveness (Chasten and Mangel, 1997; O’Farrell and Hitchens, 1988; Covin and Covin, 1990). However, only few studies have attempted to analyze the effects of external environmental characteristics on SMEs competitive behavior.

The external environment of a firm is studied from different perspectives in the PCM field (Langford and Male, 2001, Vanegas and Alarcon, 1997, Lansley, 1979). Although diverse analytical approaches provide various classifications, competitive
environment of a firm is one of the common issues in most of the studies (see table 1).

**Table 1. Classifications of the Environment of a Construction Firm in the Literature**

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Classification of the Environment</th>
<th>Characteristics/Factors of the Competitive Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lansley, 1979</td>
<td>Common Industry/National Environment</td>
<td>Structure of Demand</td>
</tr>
<tr>
<td></td>
<td>Competitive Environment</td>
<td>Competitors</td>
</tr>
<tr>
<td></td>
<td>Operational Environment</td>
<td>Availability of materials and labor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sub-contractors and suppliers</td>
</tr>
<tr>
<td>Langford and Male, 2001</td>
<td>General Environment</td>
<td>Structure of demand</td>
</tr>
<tr>
<td></td>
<td>Common Industry/National Environment</td>
<td>Procurement forms used by clients</td>
</tr>
<tr>
<td></td>
<td>Competitive Environment</td>
<td>Competitors</td>
</tr>
<tr>
<td></td>
<td>Task Environment</td>
<td>Availability of materials</td>
</tr>
<tr>
<td>Vanegas and Alarcon, 1997</td>
<td>Macroeconomic Environment</td>
<td>Number of competitors</td>
</tr>
<tr>
<td></td>
<td>Competitive Environment</td>
<td>Price structure</td>
</tr>
<tr>
<td></td>
<td>Socio-political Environment</td>
<td>Competitive strategies</td>
</tr>
<tr>
<td></td>
<td>Legal Environment</td>
<td>Technological investment</td>
</tr>
<tr>
<td></td>
<td>Technological Environment</td>
<td>Size and growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Differentiation level</td>
</tr>
</tbody>
</table>

By far, the most widely used tool for analyzing the competitive environment of a firm is the “Five Competitive Forces Model” introduced by Porter (1985). In his study, Porter transformed the competitive forces that are imposed by the micro-environment of a firm into an analytical framework. According to Kale and Arditi (2003), this model not only presents a powerful framework for systematically considering the competitive forces exerted on a firm by its environment, but also identifies alternative means to address the challenges presented by these competitive forces and outperform rivals. Besides the extensive use of this model in management science, Porter’s model has also been applied to the construction industry with a few studies, mostly reflecting the perspective of LEs (Langford, 2001; Kale and Arditi, 2003; Dikmen and Birgonul, 2003). However, the competitive environment of construction SMEs, which constitutes the focus of this paper, has yet to be explored. Therefore in this study, Porter’s ‘five competitive forces model’ was chosen to analyze the micro environment of SMEs and its impact on SMEs’ competitive behavior.

Porter’s model and the data collection/analysis processes are summarized below.

**Porter’s Five Competitive Forces Model**

Porter (1985) argues in his model that competition (rivalry) in any industry is influenced by five forces: bargaining power of clients; bargaining power of suppliers; threat of new entrants; threat of substitutes; and the degree of rivalry in the industry. According to Porter, strategic business managers should understand these forces to better read the context in which their firms operate (see Figure 1) (see [www.quickmba.com](http://www.quickmba.com) for a comprehensive summary of the model).
Figure 1. Porter’s Five Competitive Forces Model

**Buyer power**: Buyer power refers to the impact of clients on an industry. The power balance between the producers and clients determines the extent to which firms have ability and freedom to set the product price. For example, few buyers with significant market share might indicate that buyers are powerful in an industry.

**Supplier power**: Porter’s model is based on the assumption that when suppliers are powerful, they can exert pressure on the producers to capture some of the industry’s profits. When the costs of switching from one supplier to another are high, for example, suppliers are assumed to be more powerful in an industry.

**Rivalry**: Porter assumes that competition in real life is not perfect and there are several factors that prevent firms from pursuing competitive advantages. Accordingly, any firm should choose from a set of strategies to be successful in its market. These strategies might be associated with changing product price, improving product differentiation, or innovative methods of using channels of distribution. The intensity of rivalry in any industry is influenced by several factors. A large number of firms in the market; low switching costs of clients (from one firm to another); high fixed costs; existence of exit barriers; and low product differentiation are among the factors that are assumed to increase rivalry.

**Barriers to entry**: There might be barriers in an industry which inhibits the entrance of additional rivals. These barriers might originate from factors such as government regulation; patents and proprietary knowledge; economies of scale, and influence the degree of rivalry in the industry.

**Threat of substitutes**: Substitute products are those which are produced in other industries. A threat of substitute exists when the demand for a product is affected by the price change of a substitute product. Substitute products are assumed to constrain the ability of firms to raise prices in an industry.

**Data Collection and Analysis**

The multiple-case study method was chosen for this study considering that it allows collecting rich data and helps understand phenomena in their real life context (Yin, 1998). Five major questions were directed to the owner-managers of
small general contractors to investigate the characteristics of their micro environment. While the first and second questions are associated with buyer power, the other questions are associated with supplier power (the third question); the threat of new entrants (the fourth question); and the degree of rivalry (the fifth question):

- Can your clients easily substitute your firm’s services?
- Can you easily foresee clients’ needs?
- Can you easily substitute your suppliers?
- Is the entrance of new rivals a threat for you?
- Can you easily foresee your rivals’ behavior?

Data were gathered through face-to-face interviews. A case study protocol guided the researchers throughout the field study. The interview questions were pilot-tested prior to the study. The interviews were digitally recorded and then transcribed. The purposive sampling method was used to withdraw nine small ‘general contractor’ firms centered in Istanbul, Turkey, and which operate primarily in the residential and commercial building construction industries. All firms have an annual production value\(^2\) of less than US$ 3 million per year and their number of employees range from one to 14 (see Table 1). By European standards these firms can be categorized as ‘micro’ and ‘small’ firms. Note, however, that when compared with European markets SMEs have a relatively larger share in the Turkish market and the number of contractors which have less than 10 employees is over the European average (OECD, 2004).

### Table 2. Sample characteristics

<table>
<thead>
<tr>
<th>Case</th>
<th>Field of operation</th>
<th>Number of employees</th>
<th>Age</th>
<th>Volume of production (m(^2))^a</th>
<th>Value of production (US$)^a</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>Residential &amp; commercial</td>
<td>6</td>
<td>12</td>
<td>19,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>002</td>
<td>Residential &amp; industrial</td>
<td>1</td>
<td>26</td>
<td>4,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>003</td>
<td>Residential &amp; commercial</td>
<td>2</td>
<td>13</td>
<td>5,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>004</td>
<td>Residential &amp; commercial</td>
<td>2</td>
<td>14</td>
<td>10,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>005</td>
<td>Residential, commercial &amp; industrial</td>
<td>14</td>
<td>17</td>
<td>33,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td>006</td>
<td>Residential &amp; commercial</td>
<td>6</td>
<td>6</td>
<td>10,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td>007</td>
<td>Residential</td>
<td>5</td>
<td>15</td>
<td>15,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td>008</td>
<td>Residential &amp; commercial</td>
<td>3</td>
<td>-</td>
<td>18,000</td>
<td>6,000,000</td>
</tr>
<tr>
<td>009</td>
<td>Residential &amp; commercial</td>
<td>6</td>
<td>7</td>
<td>12,000</td>
<td>3,500,000</td>
</tr>
</tbody>
</table>

\(^{a}\)Figures represent five-year totals

The content analysis technique was used to analyze the data collected. Content analysis is a set of procedures which are developed to understand and interpret

\(^{2}\) ‘Production value’ is represented by the market value of the projects undertaken by a company. It was calculated for each company by multiplying the total volume of production (square meter area of all projects undertaken and finished within the last 5 years) with the current unit prices of these projects.
textual material. Once the interview data were collected and transcribed, a case study database was instituted.

FINDINGS AND DISCUSSION

Porter’s five forces are discussed below from the perspective of the building construction industry, before the findings associated with the SMEs’ competitive micro environment are presented and discussed.

Bargaining Power of Clients

There are two most common types of clients that the small general contractors serve: (i) the ‘anonymous client’ and (ii) the client with which a contractual relationship is set (‘contractual client’). According to owner-managers, one of the key success factors in a small market is foreseeing the needs of the anonymous clients, when the building-for-sale is the chosen business model. The market in this case can be appropriately called ‘speculative’, because “…decisions on purchase of land, product design and production are made without reference to any customers, who are often found only after the houses have been built” (Roy and Cochrane, 1999:777). Owner-managers take into account the socio-economic status of the clients –in particular, their purchasing power- in the local market and decide, accordingly, the average quality of the materials and systems that will go into the final product. The sales price is then often within the acceptable profit margins of the small contractors. Thus, the anonymous client has only an indirect influence on the product price and characteristics. It can be argued that the bargaining power of the client is relatively low when he/she is anonymous.

When the small builders have a contractual relationship with their clients -this is the case for lump-sum and building-against-flat ownership agreements- the characteristics and the price of the product are determined before the construction phase, as a part of the agreement. The clients have relatively a higher bargaining power in this case, as they directly specify their demands associated with the product. The cost of switching from one contractor to another is low for clients in both cases, as many contractors operate in the same market. Theoretically, the bargaining power of clients should be higher in contractual relationships, as it is negatively associated with the switching cost.

The above summarized framework does not fully characterize, however, the micro environment of small contractors, as evidenced by the interview data. Owner-managers argued that although all of their clients, be they anonymous or contractual, had the power to easily substitute their firms in the market, they often avoided using this power. According to owner-managers, what lies behind the clients’ behavior is trust, which is “the basis of relationships between contractors and clients in small and local markets”. Owner-managers argue that clients can and do easily get information about a contractor in a small market and previously completed works can quickly give an idea about a contractor. This seems typical of the service industries, where “anecdotal evidence on quality of service (good or bad) spread rapidly through word of to potential customers” (Roy and Cochrane, 1999:779), and confirms Sexton and Barrett (2003:628) who argue that “vulnerability to market amplifies the need for careful positioning in markets and development of strong personal client relationships”. Thus, contractors who finish projects on time and within budget; who avoid legal conflicts; and who satisfy
clients not only in terms of technical issues, but also of human issues (i.e., the ability to set and sustain warm relationships) are more likely to earn trust in local markets.

There are also other factors that affect the power balance between the contractors and clients in the building construction industry. The speculative character of the industry; the fluctuating demand; economic crises; fashions; the shifting needs of the society; and the occurrence of natural disasters are some of the generic factors brought up by owner-managers during the interviews. For example, while the economic crises usually increase the bargaining power of clients from higher socioeconomic classes (as they are less affected by economic crises); the 1999 Gölcük earthquake has increased the bargaining power of all clients, as the typical client of the industry became more demanding, and had more questions about the characteristics of buildings that were not of interest to him in the past (e.g., the safety of a foundation system of a building).

**Bargaining Power of Suppliers**

A thorough evaluation of the bargaining power of suppliers in the building industry cannot be made without considering the special characteristics of the product and production. Buildings are complex products that consist of many sub-systems, and building production is a project-based endeavor which requires the temporary coalition of many specialist trades. On the other hand, dissimilar to the manufacturing industry, the clients, with whom a contractual relationship is set, might exert pressure on producers to modify their supply chains, as the technical characteristics (i.e., a new HVAC or facade system) of a project might demand the participation of new specialist trades or individuals. These organizational changes, which are relatively less frequent in the manufacturing industry, are among the distinguishing characteristics of a project-based industry such as building. As a result, it can be argued that the dual power relationship of the producer and supplier in the manufacturing industry transforms into a triple power relationship in the case of the building construction industry, with the indirect involvement of the client, the choices of who have both technical and organizational impacts. Finally, the building construction industry has a fragmented structure both in technical and organizational terms. There are, perhaps, hundreds of alternative suppliers for each sub-system. Theoretically, then, it can be concluded that the bargaining power of contractors should be higher (or the supplier power should be lower) as the switching cost from one supplier to another is relatively low. Interview data in this study appear to confirm this conclusion, as seven (out of nine) owner-managers agreed that they had the power to change easily their suppliers be they materials-systems producers, distributors, designers, or subcontractors. Interestingly, however, only two of the managers declared that they frequently changed suppliers as part of their firm’s policy. The reasons for this policy were either distrust-related or performance-related: Suppliers which have unsatisfactory performance records (i.e., who are unable to meet time and quality constraints), and those who abuse mutual trust (i.e., whose quotations are relatively high) are removed from the supply chain. One of the owner-managers affirmed that he routinely compared his suppliers’ prices with those of other suppliers in the market.
The majority of owner-managers argued that they often avoid taking advantage of their powerful position against suppliers, because of the dynamics of small and local markets: As with their relationships with clients, owner-managers emphasized the importance of trust in their relationships with suppliers. One of the interviewees even used the word “marriage” to describe his relationship with the suppliers. According to this owner-manager, it is typical that such marriages in the construction business continue even when one of the partners is not happy. Interview data suggest that both material benefits (i.e., trade credits) and non-material benefits (i.e., developing a common business culture that enhances speed and quality) motivate owner-managers to continue these marriages.

**Degree of Rivalry**

High degree of rivalry is one of the typical characteristics of the building sector. Low switching costs; low industry concentration (i.e., the percentage of market share held by the four largest firms); relatively low level of product differentiation as a result of well-established functional needs; the project-based nature of production; and the fluctuating demand which makes firms work with lower profit rates to survive; the inelasticity of land supply (Roy and Cochrane, 1999:778), are some of the factors that create a cut-throat competition in the residential building construction market. Interview data show that all owner-managers agreed on the cut-throat nature of competition in the market.

However, seven of the interviewees argued also that they could easily foresee competitors’ behavior in the market, because the clients’ needs and quality expectations are already known well by local contractors in a small market. As one of the owner-managers depicted, “almost everybody promises the same sort of things in a small market”. On the other hand, two owner-managers argued that being able to foresee others’ behavior does not necessarily guarantee success. Unfair competition appears to be a major obstacle: “It is not easy to cope with firms which compete merely on the basis of low-price and that promise illegal modifications on projects”. According to these owner-managers, the problem becomes more complicated especially when such firms are backed by local authorities.

**Threat of New Entrants**

As a result of the easy entry and exit conditions, the building construction industry is often characterized by a high turnover rate of firms. Low capital investment requirements; the existence of a widespread and efficient rental equipment market; the advantages offered by the subcontracting mechanism; the lack of strict legal constraints; and the low level of asset specificity (i.e., the common technology of low-rise buildings) are some of the factors which make it easy for an entrepreneur to enter the building construction industry. The degree of rivalry is thus raised.

The interview data showed however that none of the owner-managers considers the entrance of new competitors into the market as a threat. According to owner-managers, there are three major reasons for this, all associated with the dynamics of small and local markets: First, “Sticking with a small market is more important than the entrance. Given that the profit margins are getting smaller each day, it is not very easy for a new entrant to survive in my market”. Second, mutual trust and warm relationships established with clients are very important in local markets.
According to owner-managers, it is relatively difficult for new entrants to establish such relationships, which require time. Furthermore, as one of the interviewees argued, the failure of each new entrant increases the credibility of older contractors in a local market. Finally, the relationships with local authorities (i.e., the municipalities) appear to be another factor as owner-managers have argued that new entrants encounter also difficulties to establish and sustain relationships with local authorities.

**Threat of Substitutes**

It is argued in this paper that there does not exist a substitute product, in Porter’s sense, in the case of the building construction industry, because no other product can replace, for example, a building that is built for residential purposes. Note, however, that a distinction should be made between ‘product differentiation’ which might refer to the various types and qualities residential buildings, and ‘substitute products’ which, according to Porter’s definition, refer to those products produced in other industries. In a ‘supplier-dominated’ assembly industry such as building construction, the term ‘substitute product’ appears to be more relevant to the sub-systems of a building (i.e., think of making a choice between metal and plastic pipes), than to its final (assembled/integrated) form. Further theoretical debate on this interesting issue is beyond the scope of this paper.

**CONCLUSION**

The findings of this study confirm that competition models of the manufacturing industry should be approached with caution as they cannot be directly applied to the building construction industry without any appropriation. There are major differences between these two industries as evidenced by the in-depth interviews conducted in this study: (i) both the product and the production process are quite complex in the building construction industry. Even the construction of a small building consists of numerous sub-systems, which can be realized only with the help of a complex network of suppliers; (ii) the project-based nature of the building industry means that projects can be realized by means of temporary coalitions of independent organizations; furthermore, these coalitions might change depending on the technical and organizational characteristics of the projects; (iii) unlike the mass consumer of the manufacturing industries, the client in the building construction industry is often very much involved with the production as he specifies his needs before and during the production phase; (iv) dissimilar to the manufacturing industries, where the consumers often have less influence on the producer-supplier relationship, the client in the building construction industry is more likely to affect this relationship as the contractors are to make changes on their supply chains due to the technical characteristics of each building project; and, (v) unlike the manufacturing industry where firms usually serve anonymous clients, contractors serve both anonymous and contractual clients.

This study also supports the argument that the following characteristics that are specific to the residential building construction industry should be taken into consideration in theoretical models that explain the competitive environment of small contractors: (i) Unpredictably fluctuating demand which results in macroeconomic uncertainty; (ii) the fact that functional requirements are relatively well-established especially in residential buildings; and (iii) the oversensitivity of
small contractors to environmental changes are some of the factors that should be considered.

Finally, in-depth interviews with owner-managers have shown that the dynamics of small and local markets significantly differ from those of mass markets and these have considerable influence on SMEs’ competitive behavior: (i) close relationships established with clients, or “client intimacy” (Treacy and Wiersama, 1995) are extremely important for small contractors; (ii) mutual trust is the basis of relationships between contractors and clients in a small and local market; and (iii) small contractors tend to adopt an ‘emotional’ terminology to define their relationships with suppliers (i.e., “marriage”), which is probably a less common attitude in manufacturing industries. Taken together, the above-summarized conclusions might indicate that behavioral models can be as explanatory as rational models in a small and local market. How do SMEs define and perceive competitiveness? Should specific policies and tools be developed or modified to address the needs of the SME community? (i.e., Customer Relations Management-CRM- tools, considering the emphasis put on the relationships with clients). What can we learn from the experiences of SME policy makers in other industries? These are some of the interesting research questions emerging for future work.
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